

108TH CONGRESS  
1ST SESSION

# S. 1434

To amend the Internal Revenue Code of 1986 to accelerate the increase in the refundability of the child tax credit, and for other purposes.

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IN THE SENATE OF THE UNITED STATES

JULY 21, 2003

Mr. DASCHLE (for Mrs. LINCOLN) introduced the following bill; which was read the first time

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## A BILL

To amend the Internal Revenue Code of 1986 to accelerate the increase in the refundability of the child tax credit, and for other purposes.

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

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

4 (a) **SHORT TITLE.**—This Act may be cited as the  
5 “Relief for Working Families Tax Act of 2003”.

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.—

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**TITLE I—CHILD TAX CREDIT****SEC. 101. ACCELERATION OF INCREASE IN REFUNDABILITY  
OF THE CHILD TAX CREDIT.**

(a) ACCELERATION OF REFUNDABILITY.—

(1) IN GENERAL.—Section 24(d)(1)(B)(i) (relating to portion of credit refundable) is amended by striking “(10 percent in the case of taxable years beginning before January 1, 2005)”.

(2) ADVANCE PAYMENT.—Subsection (b) of section 6429 (relating to advance payment of portion of increased child credit for 2003) is amended by striking “and” at the end of paragraph (2), by striking the period at the end of paragraph (3) and inserting “, and”, and by adding at the end the following new paragraph:

“(4) section 24(d)(1)(B)(i) applied without regard to the first parenthetical therein.”.

(3) EARNED INCOME INCLUDES COMBAT PAY.—Section 24(d)(1) is amended by adding at the end the following new sentence: “For purposes of subparagraph (B), any amount excluded from gross income by reason of section 112 shall be treated as earned income which is taken into account in computing taxable income for the taxable year.”.

(b) EFFECTIVE DATES.—

1           (1) SUBSECTIONS (a)(1) AND (a)(3).—The  
 2           amendments made by subsections (a)(1) and (a)(3)  
 3           shall apply to taxable years beginning after Decem-  
 4           ber 31, 2002.

5           (2) SUBSECTION (a)(2).—The amendments  
 6           made by subsection (a)(2) shall take effect as if in-  
 7           cluded in the amendments made by section 101(b)  
 8           of the Jobs and Growth Tax Relief Reconciliation  
 9           Act of 2003.

10 **SEC. 102. REDUCTION IN MARRIAGE PENALTY IN CHILD**  
 11 **TAX CREDIT.**

12           (a) IN GENERAL.—Section 24(b)(2) (defining thresh-  
 13           old amount) is amended—

14           (1) by inserting “(\$115,000 for taxable years  
 15           beginning in 2008 or 2009, and \$150,000 for tax-  
 16           able years beginning in 2010)” after “\$110,000”,  
 17           and

18           (2) by striking “\$55,000” in subparagraph (C)  
 19           and inserting “ $\frac{1}{2}$  of the amount in effect under sub-  
 20           paragraph (A)”.

21           (b) EFFECTIVE DATE.—The amendments made by  
 22           this section shall apply to taxable years beginning after  
 23           December 31, 2002.

1 **SEC. 103. APPLICATION OF EGTRRA SUNSET TO THIS SEC-**  
 2 **TION.**

3 Each amendment made by this title shall be subject  
 4 to title IX of the Economic Growth and Tax Relief Rec-  
 5 onciliation Act of 2001 to the same extent and in the same  
 6 manner as the provision of such Act to which such amend-  
 7 ment relates.

8 **TITLE II—UNIFORM DEFINITION**  
 9 **OF CHILD**

10 **SEC. 201. UNIFORM DEFINITION OF CHILD, ETC.**

11 Section 152 is amended to read as follows:

12 **“SEC. 152. DEPENDENT DEFINED.**

13 “(a) IN GENERAL.—For purposes of this subtitle, the  
 14 term ‘dependent’ means—

15 “(1) a qualifying child, or

16 “(2) a qualifying relative.

17 “(b) EXCEPTIONS.—For purposes of this section—

18 “(1) DEPENDENTS INELIGIBLE.—If an indi-  
 19 vidual is a dependent of a taxpayer for any taxable  
 20 year of such taxpayer beginning in a calendar year,  
 21 such individual shall be treated as having no depend-  
 22 ents for any taxable year of such individual begin-  
 23 ning in such calendar year.

24 “(2) MARRIED DEPENDENTS.—An individual  
 25 shall not be treated as a dependent of a taxpayer  
 26 under subsection (a) if such individual has made a

1 joint return with the individual's spouse under sec-  
2 tion 6013 for the taxable year beginning in the cal-  
3 endar year in which the taxable year of the taxpayer  
4 begins.

5 “(3) CITIZENS OR NATIONALS OF OTHER COUN-  
6 TRIES.—

7 “(A) IN GENERAL.—The term ‘dependent’  
8 does not include an individual who is not a cit-  
9 izen or national of the United States unless  
10 such individual is a resident of the United  
11 States or a country contiguous to the United  
12 States.

13 “(B) EXCEPTION FOR ADOPTED CHILD.—  
14 Subparagraph (A) shall not exclude any child of  
15 a taxpayer (within the meaning of subsection  
16 (f)(1)(B)) from the definition of ‘dependent’  
17 if—

18 “(i) for the taxable year of the tax-  
19 payer, the child has the same principal  
20 place of abode as the taxpayer and is a  
21 member of the taxpayer's household, and

22 “(ii) the taxpayer is a citizen or na-  
23 tional of the United States.

24 “(c) QUALIFYING CHILD.—For purposes of this sec-  
25 tion—

1           “(1) IN GENERAL.—The term ‘qualifying child’  
2 means, with respect to any taxpayer for any taxable  
3 year, an individual—

4                   “(A) who bears a relationship to the tax-  
5 payer described in paragraph (2),

6                   “(B) who has the same principal place of  
7 abode as the taxpayer for more than one-half of  
8 such taxable year,

9                   “(C) who meets the age requirements of  
10 paragraph (3), and

11                   “(D) who has not provided over one-half of  
12 such individual’s own support for the calendar  
13 year in which the taxable year of the taxpayer  
14 begins.

15           “(2) RELATIONSHIP.—For purposes of para-  
16 graph (1)(A), an individual bears a relationship to  
17 the taxpayer described in this paragraph if such in-  
18 dividual is—

19                   “(A) a child of the taxpayer or a descend-  
20 ant of such a child, or

21                   “(B) a brother, sister, stepbrother, or step-  
22 sister of the taxpayer or a descendant of any  
23 such relative.

24           “(3) AGE REQUIREMENTS.—

1           “(A) IN GENERAL.—For purposes of para-  
2 graph (1)(C), an individual meets the require-  
3 ments of this paragraph if such individual—

4           “(i) has not attained the age of 19 as  
5 of the close of the calendar year in which  
6 the taxable year of the taxpayer begins, or

7           “(ii) is a student who has not attained  
8 the age of 24 as of the close of such cal-  
9 endar year.

10          “(B) SPECIAL RULE FOR DISABLED.—In  
11 the case of an individual who is permanently  
12 and totally disabled (as defined in section  
13 22(e)(3)) at any time during such calendar  
14 year, the requirements of subparagraph (A)  
15 shall be treated as met with respect to such in-  
16 dividual.

17          “(4) SPECIAL RULE RELATING TO 2 OR MORE  
18 CLAIMING QUALIFYING CHILD.—

19          “(A) IN GENERAL.—Except as provided in  
20 subparagraph (B) and subsection (e), if (but for  
21 this paragraph) an individual may be and is  
22 claimed as a qualifying child by 2 or more tax-  
23 payers for a taxable year beginning in the same  
24 calendar year, such individual shall be treated  
25 as the qualifying child of the taxpayer who is—

1 “(i) a parent of the individual, or

2 “(ii) if clause (i) does not apply, the  
3 taxpayer with the highest adjusted gross  
4 income for such taxable year.

5 “(B) MORE THAN 1 PARENT CLAIMING  
6 QUALIFYING CHILD.—If the parents claiming  
7 any qualifying child do not file a joint return  
8 together, such child shall be treated as the  
9 qualifying child of—

10 “(i) the parent with whom the child  
11 resided for the longest period of time dur-  
12 ing the taxable year, or

13 “(ii) if the child resides with both par-  
14 ents for the same amount of time during  
15 such taxable year, the parent with the  
16 highest adjusted gross income.

17 “(d) QUALIFYING RELATIVE.—For purposes of this  
18 section—

19 “(1) IN GENERAL.—The term ‘qualifying rel-  
20 ative’ means, with respect to any taxpayer for any  
21 taxable year, an individual—

22 “(A) who bears a relationship to the tax-  
23 payer described in paragraph (2),

24 “(B) whose gross income for the calendar  
25 year in which such taxable year begins is less

1 than the exemption amount (as defined in sec-  
2 tion 151(d)),

3 “(C) with respect to whom the taxpayer  
4 provides over one-half of the individual’s sup-  
5 port for the calendar year in which such taxable  
6 year begins, and

7 “(D) who is not a qualifying child of such  
8 taxpayer or of any other taxpayer for any tax-  
9 able year beginning in the calendar year in  
10 which such taxable year begins.

11 “(2) RELATIONSHIP.—For purposes of para-  
12 graph (1)(A), an individual bears a relationship to  
13 the taxpayer described in this paragraph if the indi-  
14 vidual is any of the following with respect to the tax-  
15 payer:

16 “(A) A child or a descendant of a child.

17 “(B) A brother, sister, stepbrother, or  
18 stepsister.

19 “(C) The father or mother, or an ancestor  
20 of either.

21 “(D) A stepfather or stepmother.

22 “(E) A son or daughter of a brother or sis-  
23 ter of the taxpayer.

24 “(F) A brother or sister of the father or  
25 mother of the taxpayer.

1           “(G) A son-in-law, daughter-in-law, father-  
2           in-law, mother-in-law, brother-in-law, or sister-  
3           in-law.

4           “(H) An individual (other than an indi-  
5           vidual who at any time during the taxable year  
6           was the spouse, determined without regard to  
7           section 7703, of the taxpayer) who, for the tax-  
8           able year of the taxpayer, has the same prin-  
9           cipal place of abode as the taxpayer and is a  
10          member of the taxpayer’s household.

11          “(3) SPECIAL RULE RELATING TO MULTIPLE  
12          SUPPORT AGREEMENTS.—For purposes of paragraph  
13          (1)(C), over one-half of the support of an individual  
14          for a calendar year shall be treated as received from  
15          the taxpayer if—

16                 “(A) no one person contributed over one-  
17                 half of such support,

18                 “(B) over one-half of such support was re-  
19                 ceived from 2 or more persons each of whom,  
20                 but for the fact that any such person alone did  
21                 not contribute over one-half of such support,  
22                 would have been entitled to claim such indi-  
23                 vidual as a dependent for a taxable year begin-  
24                 ning in such calendar year,

1           “(C) the taxpayer contributed over 10 per-  
2 cent of such support, and

3           “(D) each person described in subpara-  
4 graph (B) (other than the taxpayer) who con-  
5 tributed over 10 percent of such support files a  
6 written declaration (in such manner and form  
7 as the Secretary may by regulations prescribe)  
8 that such person will not claim such individual  
9 as a dependent for any taxable year beginning  
10 in such calendar year.

11           “(4) SPECIAL RULE RELATING TO INCOME OF  
12 HANDICAPPED DEPENDENTS.—

13           “(A) IN GENERAL.—For purposes of para-  
14 graph (1)(B), the gross income of an individual  
15 who is permanently and totally disabled (as de-  
16 fined in section 22(e)(3)) at any time during  
17 the taxable year shall not include income attrib-  
18 utable to services performed by the individual  
19 at a sheltered workshop if—

20           “(i) the availability of medical care at  
21 such workshop is the principal reason for  
22 the individual’s presence there, and

23           “(ii) the income arises solely from ac-  
24 tivities at such workshop which are inci-  
25 dent to such medical care.

1           “(B) SHELTERED WORKSHOP DEFINED.—

2           For purposes of subparagraph (A), the term

3           ‘sheltered workshop’ means a school—

4                   “(i) which provides special instruction  
5                   or training designed to alleviate the dis-  
6                   ability of the individual, and

7                   “(ii) which is operated by an organi-  
8                   zation described in section 501(c)(3) and  
9                   exempt from tax under section 501(a), or  
10                  by a State, a possession of the United  
11                  States, any political subdivision of any of  
12                  the foregoing, the United States, or the  
13                  District of Columbia.

14           “(5) SPECIAL RULES FOR SUPPORT.—For pur-  
15           poses of this subsection—

16                   “(A) payments to a spouse which are in-  
17                   cludible in the gross income of such spouse  
18                   under section 71 or 682 shall not be treated as  
19                   a payment by the payor spouse for the support  
20                   of any dependent, and

21                   “(B) in the case of the remarriage of a  
22                   parent, support of a child received from the  
23                   parent’s spouse shall be treated as received  
24                   from the parent.

25           “(e) SPECIAL RULE FOR DIVORCED PARENTS.—

1           “(1) IN GENERAL.—Notwithstanding subsection  
2 (c)(4) or (d)(1)(C), if—

3           “(A) a child receives over one-half of the  
4 child’s support during the calendar year from  
5 the child’s parents—

6           “(i) who are divorced or legally sepa-  
7 rated under a decree of divorce or separate  
8 maintenance,

9           “(ii) who are separated under a writ-  
10 ten separation agreement, or

11           “(iii) who live apart at all times dur-  
12 ing the last 6 months of the calendar year,  
13 and

14           “(B) such child is in the custody of 1 or  
15 both of the child’s parents for more than one-  
16 half of the calendar year,

17 such child shall be treated as being the qualifying  
18 child or qualifying relative of the noncustodial par-  
19 ent for a calendar year if the requirements described  
20 in paragraph (2) are met.

21           “(2) REQUIREMENTS.—For purposes of para-  
22 graph (1), the requirements described in this para-  
23 graph are met if—

24           “(A) a decree of divorce or separate main-  
25 tenance or written separation agreement be-

1           tween the parents applicable to the taxable year  
2           beginning in such calendar year provides that—

3                   “(i) the noncustodial parent shall be  
4                   entitled to any deduction allowable under  
5                   section 151 for such child, or

6                   “(ii) the custodial parent will sign a  
7                   written declaration (in such manner and  
8                   form as the Secretary may prescribe) that  
9                   such parent will not claim such child as a  
10                  dependent for such taxable year, or

11                  “(B) in the case of such an agreement exe-  
12                  cuted before January 1, 1985, the noncustodial  
13                  parent provides at least \$600 for the support of  
14                  such child during such calendar year.

15           For purposes of subparagraph (B), amounts ex-  
16           pended for the support of a child or children shall  
17           be treated as received from the noncustodial parent  
18           to the extent that such parent provided amounts for  
19           such support.

20                  “(3) CUSTODIAL PARENT AND NONCUSTODIAL  
21                  PARENT.—For purposes of this subsection—

22                   “(A) CUSTODIAL PARENT.—The term ‘cus-  
23                   todial parent’ means the parent with whom a  
24                   child shared the same principal place of abode  
25                   for the greater portion of the calendar year.

1           “(B) NONCUSTODIAL PARENT.—The term  
2           ‘noncustodial parent’ means the parent who is  
3           not the custodial parent.

4           “(4) EXCEPTION FOR MULTIPLE-SUPPORT  
5           AGREEMENTS.—This subsection shall not apply in  
6           any case where over one-half of the support of the  
7           child is treated as having been received from a tax-  
8           payer under the provision of subsection (d)(3).

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

11           “(1) CHILD DEFINED.—

12           “(A) IN GENERAL.—The term ‘child’  
13           means an individual who is—

14                   “(i) a son, daughter, stepson, or step-  
15                   daughter of the taxpayer, or

16                   “(ii) an eligible foster child of the tax-  
17                   payer.

18           “(B) ADOPTED CHILD.—In determining  
19           whether any of the relationships specified in  
20           subparagraph (A)(i) or paragraph (4) exists, a  
21           legally adopted individual of the taxpayer, or an  
22           individual who is placed with the taxpayer by  
23           an authorized placement agency for adoption by  
24           the taxpayer, shall be treated as a child of such  
25           individual by blood.

1           “(C) ELIGIBLE FOSTER CHILD.—For pur-  
2           poses of subparagraph (A)(ii), the term ‘eligible  
3           foster child’ means an individual who is placed  
4           with the taxpayer by an authorized placement  
5           agency or by judgment, decree, or other order  
6           of any court of competent jurisdiction.

7           “(2) STUDENT DEFINED.—The term ‘student’  
8           means an individual who during each of 5 calendar  
9           months during the calendar year in which the tax-  
10          able year of the taxpayer begins—

11           “(A) is a full-time student at an edu-  
12          cational organization described in section  
13          170(b)(1)(A)(ii), or

14           “(B) is pursuing a full-time course of insti-  
15          tutional on-farm training under the supervision  
16          of an accredited agent of an educational organi-  
17          zation described in section 170(b)(1)(A)(ii) or  
18          of a State or political subdivision of a State.

19           “(3) DETERMINATION OF HOUSEHOLD STA-  
20          TUS.—An individual shall not be treated as a mem-  
21          ber of the taxpayer’s household if at any time during  
22          the taxable year of the taxpayer the relationship be-  
23          tween such individual and the taxpayer is in viola-  
24          tion of local law.

1           “(4) BROTHER AND SISTER.—The terms  
2           ‘brother’ and ‘sister’ include a brother or sister by  
3           the half blood.

4           “(5) SPECIAL SUPPORT TEST IN CASE OF STU-  
5           DENTS.—For purposes of subsections (e)(1)(D) and  
6           (d)(1)(C), in the case of an individual who is—

7                   “(A) a child of the taxpayer, and

8                   “(B) a student,

9           amounts received as scholarships for study at an  
10           educational organization described in section  
11           170(b)(1)(A)(ii) shall not be taken into account.

12           “(6) TREATMENT OF MISSING CHILDREN.—

13                   “(A) IN GENERAL.—Solely for the pur-  
14                   poses referred to in subparagraph (B), a child  
15                   of the taxpayer—

16                           “(i) who is presumed by law enforce-  
17                           ment authorities to have been kidnapped  
18                           by someone who is not a member of the  
19                           family of such child or the taxpayer, and

20                           “(ii) who had, for the taxable year in  
21                           which the kidnapping occurred, the same  
22                           principal place of abode as the taxpayer for  
23                           more than one-half of the portion of such  
24                           year before the date of the kidnapping,

1 shall be treated as meeting the requirement of  
2 subsection (c)(1)(B) with respect to a taxpayer  
3 for all taxable years ending during the period  
4 that the child is kidnapped.

5 “(B) PURPOSES.—Subparagraph (A) shall  
6 apply solely for purposes of determining—

7 “(i) the deduction under section  
8 151(c),

9 “(ii) the credit under section 24 (re-  
10 lating to child tax credit),

11 “(iii) whether an individual is a sur-  
12 viving spouse or a head of a household (as  
13 such terms are defined in section 2), and

14 “(iv) the earned income credit under  
15 section 32.

16 “(C) COMPARABLE TREATMENT OF CER-  
17 TAIN QUALIFYING RELATIVES.—For purposes  
18 of this section, a child of the taxpayer—

19 “(i) who is presumed by law enforce-  
20 ment authorities to have been kidnapped  
21 by someone who is not a member of the  
22 family of such child or the taxpayer, and

23 “(ii) who was (without regard to this  
24 paragraph) a qualifying relative of the tax-

1           payer for the portion of the taxable year  
 2           before the date of the kidnapping,  
 3           shall be treated as a qualifying relative of the  
 4           taxpayer for all taxable years ending during the  
 5           period that the child is kidnapped.

6           “(D) TERMINATION OF TREATMENT.—  
 7           Subparagraphs (A) and (C) shall cease to apply  
 8           as of the first taxable year of the taxpayer be-  
 9           ginning after the calendar year in which there  
 10          is a determination that the child is dead (or, if  
 11          earlier, in which the child would have attained  
 12          age 18).

13          “(7) CROSS REFERENCES.—

**“For provision treating child as dependent of both  
 parents for purposes of certain provisions, see sec-  
 tions 105(b), 132(h)(2)(B), and 213(d)(5).”**

14 **SEC. 202. MODIFICATIONS OF DEFINITION OF HEAD OF**  
 15 **HOUSEHOLD.**

16          (a) HEAD OF HOUSEHOLD.—Clause (i) of section  
 17 2(b)(1)(A) is amended to read as follows:

18                   “(i) a qualifying child of the indi-  
 19                   vidual (as defined in section 152(c), deter-  
 20                   mined without regard to section 152(e)),  
 21                   but not if such child—

22                                   “(I) is married at the close of the  
 23                                   taxpayer’s taxable year, and

1                   “(II) is not a dependent of such  
2                   individual by reason of section  
3                   152(b)(2) or 152(b)(3), or both, or”.

4           (b) CONFORMING AMENDMENTS.—

5           (1) Section 2(b)(2) is amended by striking sub-  
6           paragraph (A) and by redesignating subparagraphs  
7           (B), (C), and (D) as subparagraphs (A), (B), and  
8           (C), respectively.

9           (2) Clauses (i) and (ii) of section 2(b)(3)(B) are  
10           amended to read as follows:

11                   “(i) subparagraph (H) of section  
12                   152(d)(2), or

13                   “(ii) paragraph (3) of section  
14                   152(d).”.

15   **SEC. 203. MODIFICATIONS OF DEPENDENT CARE CREDIT.**

16           (a) IN GENERAL.—Section 21(a)(1) is amended by  
17           striking “In the case of an individual who maintains a  
18           household which includes as a member one or more quali-  
19           fying individuals (as defined in subsection (b)(1))” and in-  
20           serting “In the case of an individual for which there are  
21           1 or more qualifying individuals (as defined in subsection  
22           (b)(1)) with respect to such individual”.

23           (b) QUALIFYING INDIVIDUAL.—Paragraph (1) of sec-  
24           tion 21(b) is amended to read as follows:

1           “(1) QUALIFYING INDIVIDUAL.—The term  
2           ‘qualifying individual’ means—

3                   “(A) a dependent of the taxpayer (as de-  
4                   fined in section 152(a)(1)) who has not attained  
5                   age 13,

6                   “(B) a dependent of the taxpayer who is  
7                   physically or mentally incapable of caring for  
8                   himself or herself and who has the same prin-  
9                   cipal place of abode as the taxpayer for more  
10                  than one-half of such taxable year, or

11                  “(C) the spouse of the taxpayer, if the  
12                  spouse is physically or mentally incapable of  
13                  caring for himself or herself and who has the  
14                  same principal place of abode as the taxpayer  
15                  for more than one-half of such taxable year.”.

16           (c) CONFORMING AMENDMENT.—Paragraph (1) of  
17 section 21(e) is amended to read as follows:

18                   “(1) PLACE OF ABODE.—An individual shall  
19                   not be treated as having the same principal place of  
20                   abode of the taxpayer if at any time during the tax-  
21                   able year of the taxpayer the relationship between  
22                   the individual and the taxpayer is in violation of  
23                   local law.”.

1 **SEC. 204. MODIFICATIONS OF CHILD TAX CREDIT.**

2 (a) IN GENERAL.—Paragraph (1) of section 24(c) is  
3 amended to read as follows:

4 “(1) IN GENERAL.—The term ‘qualifying child’  
5 means a qualifying child of the taxpayer (as defined  
6 in section 152(c)) who has not attained age 17.”.

7 (b) CONFORMING AMENDMENT.—Section 24(c)(2) is  
8 amended by striking “the first sentence of section  
9 152(b)(3)” and inserting “subparagraph (A) of section  
10 152(b)(3)”.

11 **SEC. 205. MODIFICATIONS OF EARNED INCOME CREDIT.**

12 (a) QUALIFYING CHILD.—Paragraph (3) of section  
13 32(c) is amended to read as follows:

14 “(3) QUALIFYING CHILD.—

15 “(A) IN GENERAL.—The term ‘qualifying  
16 child’ means a qualifying child of the taxpayer  
17 (as defined in section 152(c), determined with-  
18 out regard to paragraph (1)(D) thereof and sec-  
19 tion 152(e)).

20 “(B) MARRIED INDIVIDUAL.—The term  
21 ‘qualifying child’ shall not include an individual  
22 who is married as of the close of the taxpayer’s  
23 taxable year unless the taxpayer is entitled to  
24 a deduction under section 151 for such taxable  
25 year with respect to such individual (or would  
26 be so entitled but for section 152(e)).

1           “(C) PLACE OF ABODE.—For purposes of  
2           subparagraph (A), the requirements of section  
3           152(c)(1)(B) shall be met only if the principal  
4           place of abode is in the United States.

5           “(D) IDENTIFICATION REQUIREMENTS.—

6           “(i) IN GENERAL.—A qualifying child  
7           shall not be taken into account under sub-  
8           section (b) unless the taxpayer includes the  
9           name, age, and TIN of the qualifying child  
10          on the return of tax for the taxable year.

11          “(ii) OTHER METHODS.—The Sec-  
12          retary may prescribe other methods for  
13          providing the information described in  
14          clause (i).”.

15          (b) CONFORMING AMENDMENTS.—

16           (1) Section 32(c)(1) is amended by striking  
17           subparagraph (C) and by redesignating subpara-  
18           graphs (D), (E), (F), and (G) as subparagraphs (C),  
19           (D), (E), and (F), respectively.

20           (2) Section 32(c)(4) is amended by striking  
21           “(3)(E)” and inserting “(3)(C)”.

22           (3) Section 32(m) is amended by striking “sub-  
23           sections (c)(1)(F)” and inserting “subsections  
24           (c)(1)(E)”.

1 **SEC. 206. MODIFICATIONS OF DEDUCTION FOR PERSONAL**  
2 **EXEMPTION FOR DEPENDENTS.**

3 Subsection (c) of section 151 is amended to read as  
4 follows:

5 “(c) **ADDITIONAL EXEMPTION FOR DEPENDENTS.**—  
6 An exemption of the exemption amount for each individual  
7 who is a dependent (as defined in section 152) of the tax-  
8 payer for the taxable year.”.

9 **SEC. 207. TECHNICAL AND CONFORMING AMENDMENTS.**

10 (a) Section 2(a)(1)(B)(i) is amended by inserting “,  
11 determined without regard to subsections (b)(1), (b)(2),  
12 and (d)(1)(B) thereof” after “section 152”.

13 (b) Section 21(e)(5) is amended—

14 (1) by striking “paragraph (2) or (4) of” in  
15 subparagraph (A), and

16 (2) by striking “within the meaning of section  
17 152(e)(1)” and inserting “as defined in section  
18 152(e)(3)(A)”.

19 (c) Section 21(e)(6)(B) is amended by striking “sec-  
20 tion 151(c)(3)” and inserting “section 152(f)(1)”.

21 (d) Section 25B(c)(2)(B) is amended by striking  
22 “151(c)(4)” and inserting “152(f)(2)”.

23 (e)(1) Subparagraphs (A) and (B) of section 51(i)(1)  
24 are each amended by striking “paragraphs (1) through (8)  
25 of section 152(a)” both places it appears and inserting  
26 “subparagraphs (A) through (G) of section 152(d)(2)”.

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

3           (f) Section 72(t)(2)(D)(i)(III) is amended by insert-  
4 ing “, determined without regard to subsections (b)(1),  
5 (b)(2), and (d)(1)(B) thereof” after “section 152”.

6           (g) Section 72(t)(7)(A)(iii) is amended by striking  
7 “151(c)(3)” and inserting “152(f)(1)”.

8           (h) Section 42(i)(3)(D)(ii)(I) is amended by inserting  
9 “, determined without regard to subsections (b)(1), (b)(2),  
10 and (d)(1)(B) thereof” after “section 152”.

11          (i) Subsections (b) and (c)(1) of section 105 are  
12 amended by inserting “, determined without regard to  
13 subsections (b)(1), (b)(2), and (d)(1)(B) thereof” after  
14 “section 152”.

15          (j) Section 120(d)(4) is amended by inserting “(de-  
16 termined without regard to subsections (b)(1), (b)(2), and  
17 (d)(1)(B) thereof)” after “section 152”.

18          (k) Section 125(e)(1)(D) is amended by inserting “,  
19 determined without regard to subsections (b)(1), (b)(2),  
20 and (d)(1)(B) thereof” after “section 152”.

21          (l) Section 129(c)(2) is amended by striking  
22 “151(c)(3)” and inserting “152(f)(1)”.

23          (m) The first sentence of section 132(h)(2)(B) is  
24 amended by striking “151(c)(3)” and inserting  
25 “152(f)(1)”.

1 (n) Section 153 is amended by striking paragraph (1)  
2 and by redesignating paragraphs (2), (3), and (4) as para-  
3 graphs (1), (2), and (3), respectively.

4 (o) Section 170(g)(1) is amended by inserting “(de-  
5 termined without regard to subsections (b)(1), (b)(2), and  
6 (d)(1)(B) thereof)” after “section 152”.

7 (p) Section 170(g)(3) is amended by striking “para-  
8 graphs (1) through (8) of section 152(a)” and inserting  
9 “subparagraphs (A) through (G) of section 152(d)(2)”.

10 (q) Section 213(a) is amended by inserting “, deter-  
11 mined without regard to subsections (b)(1), (b)(2), and  
12 (d)(1)(B) thereof” after “section 152”.

13 (r) The second sentence of section 213(d)(11) is  
14 amended by striking “paragraphs (1) through (8) of sec-  
15 tion 152(a)” and inserting “subparagraphs (A) through  
16 (G) of section 152(d)(2)”.

17 (s) Section 220(d)(2)(A) is amended by inserting “,  
18 determined without regard to subsections (b)(1), (b)(2),  
19 and (d)(1)(B) thereof” after “section 152”.

20 (t) Section 221(d)(4) is amended by inserting “(de-  
21 termined without regard to subsections (b)(1), (b)(2), and  
22 (d)(1)(B) thereof)” after “section 152”.

23 (u) Section 529(e)(2)(B) is amended by striking  
24 “paragraphs (1) through (8) of section 152(a)” and in-

1serting “subparagraphs (A) through (G) of section  
2 152(d)(2)”.

3 (v) Section 2032A(c)(7)(D) is amended by striking  
4 “section 151(c)(4)” and inserting “section 152(f)(2)”.

5 (w) Section 2057(d)(2)(B) is amended by inserting  
6 “, determined without regard to subsections (b)(1), (b)(2),  
7 and (d)(1)(B) thereof” after “section 152”.

8 (x) Section 7701(a)(17) is amended by striking  
9 “152(b)(4), 682,” and inserting “682”.

10 (y) Section 7702B(f)(2)(C)(iii) is amended by strik-  
11 ing “paragraphs (1) through (8) of section 152(a)” and  
12 inserting “subparagraphs (A) through (G) of section  
13 152(d)(2)”.

14 (z) Section 7703(b)(1) is amended—

15 (1) by striking “151(c)(3)” and inserting  
16 “152(f)(1)”, and

17 (2) by striking “paragraph (2) or (4) of”.

18 **SEC. 208. EFFECTIVE DATE.**

19 The amendments made by this title shall apply to tax-  
20 able years beginning after December 31, 2003.

1 **TITLE III—IMPROVING TAX EQ-**  
2 **UITY FOR MILITARY PER-**  
3 **SONNEL**

4 **SEC. 301. EXCLUSION OF GAIN FROM SALE OF A PRINCIPAL**  
5 **RESIDENCE BY A MEMBER OF THE UNI-**  
6 **FORMED SERVICES OR THE FOREIGN SERV-**  
7 **ICE.**

8 (a) IN GENERAL.—Subsection (d) of section 121 (re-  
9 lating to exclusion of gain from sale of principal residence)  
10 is amended by redesignating paragraph (9) as paragraph  
11 (10) and by inserting after paragraph (8) the following  
12 new paragraph:

13 “(9) MEMBERS OF UNIFORMED SERVICES AND  
14 FOREIGN SERVICE.—

15 “(A) IN GENERAL.—At the election of an  
16 individual with respect to a property, the run-  
17 ning of the 5-year period described in sub-  
18 sections (a) and (c)(1)(B) and paragraph (7) of  
19 this subsection with respect to such property  
20 shall be suspended during any period that such  
21 individual or such individual’s spouse is serving  
22 on qualified official extended duty as a member  
23 of the uniformed services or of the Foreign  
24 Service of the United States.

1           “(B) MAXIMUM PERIOD OF SUSPENSION.—  
2           The 5-year period described in subsection (a)  
3           shall not be extended more than 10 years by  
4           reason of subparagraph (A).

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

7                   “(i) IN GENERAL.—The term ‘quali-  
8                   fied official extended duty’ means any ex-  
9                   tended duty while serving at a duty station  
10                  which is at least 50 miles from such prop-  
11                  erty or while residing under Government  
12                  orders in Government quarters.

13                  “(ii) UNIFORMED SERVICES.—The  
14                  term ‘uniformed services’ has the meaning  
15                  given such term by section 101(a)(5) of  
16                  title 10, United States Code, as in effect  
17                  on the date of the enactment of this para-  
18                  graph.

19                  “(iii) FOREIGN SERVICE OF THE  
20                  UNITED STATES.—The term ‘member of  
21                  the Foreign Service of the United States’  
22                  has the meaning given the term ‘member  
23                  of the Service’ by paragraph (1), (2), (3),  
24                  (4), or (5) of section 103 of the Foreign

1 Service Act of 1980, as in effect on the  
2 date of the enactment of this paragraph.

3 “(iv) EXTENDED DUTY.—The term  
4 ‘extended duty’ means any period of active  
5 duty pursuant to a call or order to such  
6 duty for a period in excess of 90 days or  
7 for an indefinite period.

8 “(D) SPECIAL RULES RELATING TO ELEC-  
9 TION.—

10 “(i) ELECTION LIMITED TO 1 PROP-  
11 ERTY AT A TIME.—An election under sub-  
12 paragraph (A) with respect to any property  
13 may not be made if such an election is in  
14 effect with respect to any other property.

15 “(ii) REVOCATION OF ELECTION.—An  
16 election under subparagraph (A) may be  
17 revoked at any time.”.

18 (b) EFFECTIVE DATE; SPECIAL RULE.—

19 (1) EFFECTIVE DATE.—The amendments made  
20 by this section shall take effect as if included in the  
21 amendments made by section 312 of the Taxpayer  
22 Relief Act of 1997.

23 (2) WAIVER OF LIMITATIONS.—If refund or  
24 credit of any overpayment of tax resulting from the  
25 amendments made by this section is prevented at

1 any time before the close of the 1-year period begin-  
2 ning on the date of the enactment of this Act by the  
3 operation of any law or rule of law (including res ju-  
4 dicata), such refund or credit may nevertheless be  
5 made or allowed if claim therefor is filed before the  
6 close of such period.

7 **SEC. 302. EXCLUSION FROM GROSS INCOME OF CERTAIN**  
8 **DEATH GRATUITY PAYMENTS.**

9 (a) IN GENERAL.—Subsection (b)(3) of section 134  
10 (relating to certain military benefits) is amended by add-  
11 ing at the end the following new subparagraph:

12 “(C) EXCEPTION FOR DEATH GRATUITY  
13 ADJUSTMENTS MADE BY LAW.—Subparagraph  
14 (A) shall not apply to any adjustment to the  
15 amount of death gratuity payable under chapter  
16 75 of title 10, United States Code, which is  
17 pursuant to a provision of law enacted after  
18 September 9, 1986.”.

19 (b) CONFORMING AMENDMENT.—Subparagraph (A)  
20 of section 134(b)(3) is amended by striking “subpara-  
21 graph (B)” and inserting “subparagraphs (B) and (C)”.

22 (c) EFFECTIVE DATE.—The amendments made by  
23 this section shall apply with respect to deaths occurring  
24 after September 10, 2001.

1 **SEC. 303. EXCLUSION FOR AMOUNTS RECEIVED UNDER DE-**  
2 **PARTMENT OF DEFENSE HOMEOWNERS AS-**  
3 **SISTANCE PROGRAM.**

4 (a) IN GENERAL.—Section 132(a) (relating to the ex-  
5 clusion from gross income of certain fringe benefits) is  
6 amended by striking “or” at the end of paragraph (6),  
7 by striking the period at the end of paragraph (7) and  
8 inserting “, or”, and by adding at the end the following  
9 new paragraph:

10 “(8) qualified military base realignment and  
11 closure fringe.”.

12 (b) QUALIFIED MILITARY BASE REALIGNMENT AND  
13 CLOSURE FRINGE.—Section 132 is amended by redesignig-  
14 nating subsection (n) as subsection (o) and by inserting  
15 after subsection (m) the following new subsection:

16 “(n) QUALIFIED MILITARY BASE REALIGNMENT AND  
17 CLOSURE FRINGE.—For purposes of this section—

18 “(1) IN GENERAL.—The term ‘qualified mili-  
19 tary base realignment and closure fringe’ means 1 or  
20 more payments under the authority of section 1013  
21 of the Demonstration Cities and Metropolitan Devel-  
22 opment Act of 1966 (42 U.S.C. 3374) (as in effect  
23 on the date of the enactment of this subsection) to  
24 offset the adverse effects on housing values as a re-  
25 sult of a military base realignment or closure.

1           “(2) LIMITATION.—With respect to any prop-  
2           erty, such term shall not include any payment re-  
3           ferred to in paragraph (1) to the extent that the  
4           sum of all of such payments related to such property  
5           exceeds the maximum amount described in clause  
6           (1) of subsection (c) of such section (as in effect on  
7           such date).”.

8           (c) EFFECTIVE DATE.—The amendments made by  
9           this section shall apply to payments made after the date  
10          of the enactment of this Act.

11   **SEC. 304. EXPANSION OF COMBAT ZONE FILING RULES TO**  
12                                   **CONTINGENCY OPERATIONS.**

13          (a) IN GENERAL.—Section 7508(a) (relating to time  
14          for performing certain acts postponed by reason of service  
15          in combat zone) is amended—

16                 (1) by inserting “, or when deployed outside the  
17                 United States away from the individual’s permanent  
18                 duty station while participating in an operation des-  
19                 ignated by the Secretary of Defense as a contin-  
20                 gency operation (as defined in section 101(a)(13) of  
21                 title 10, United States Code) or which became such  
22                 a contingency operation by operation of law” after  
23                 “section 112”,

1           (2) by inserting in the first sentence “or at any  
2           time during the period of such contingency oper-  
3           ation” after “for purposes of such section”,

4           (3) by inserting “or operation” after “such an  
5           area”, and

6           (4) by inserting “or operation” after “such  
7           area”.

8           (b) CONFORMING AMENDMENTS.—

9           (1) Section 7508(d) is amended by inserting  
10          “or contingency operation” after “area”.

11          (2) The heading for section 7508 is amended by  
12          inserting “**OR CONTINGENCY OPERATION**” after  
13          “**COMBAT ZONE**”.

14          (3) The item relating to section 7508 in the  
15          table of sections for chapter 77 is amended by in-  
16          serting “or contingency operation” after “combat  
17          zone”.

18          (c) EFFECTIVE DATE.—The amendments made by  
19          this section shall apply to any period for performing an  
20          act which has not expired before the date of the enactment  
21          of this Act.

1 **SEC. 305. MODIFICATION OF MEMBERSHIP REQUIREMENT**  
2 **FOR EXEMPTION FROM TAX FOR CERTAIN**  
3 **VETERANS' ORGANIZATIONS.**

4 (a) IN GENERAL.—Subparagraph (B) of section  
5 501(c)(19) (relating to list of exempt organizations) is  
6 amended by striking “or widowers” and inserting “, wid-  
7 owers, ancestors, or lineal descendants”.

8 (b) EFFECTIVE DATE.—The amendments made by  
9 this section shall apply to taxable years beginning after  
10 the date of the enactment of this Act.

11 **SEC. 306. CLARIFICATION OF THE TREATMENT OF CERTAIN**  
12 **DEPENDENT CARE ASSISTANCE PROGRAMS.**

13 (a) IN GENERAL.—Section 134(b) (defining qualified  
14 military benefit) is amended by adding at the end the fol-  
15 lowing new paragraph:

16 “(4) CLARIFICATION OF CERTAIN BENEFITS.—  
17 For purposes of paragraph (1), such term includes  
18 any dependent care assistance program (as in effect  
19 on the date of the enactment of this paragraph) for  
20 any individual described in paragraph (1)(A).”.

21 (b) CONFORMING AMENDMENTS.—

22 (1) Section 134(b)(3)(A), as amended by sec-  
23 tion 302, is amended by inserting “and paragraph  
24 (4)” after “subparagraphs (B) and (C)”.

25 (2) Section 3121(a)(18) is amended by striking  
26 “or 129” and inserting “, 129, or 134(b)(4)”.

1           (3) Section 3306(b)(13) is amended by striking  
2           “or 129” and inserting “, 129, or 134(b)(4)”.

3           (4) Section 3401(a)(18) is amended by striking  
4           “or 129” and inserting “, 129, or 134(b)(4)”.

5           (c) EFFECTIVE DATE.—The amendments made by  
6 this section shall apply to taxable years beginning after  
7 December 31, 2002.

8           (d) NO INFERENCE.—No inference may be drawn  
9 from the amendments made by this section with respect  
10 to the tax treatment of any amounts under the program  
11 described in section 134(b)(4) of the Internal Revenue  
12 Code of 1986 (as added by this section) for any taxable  
13 year beginning before January 1, 2003.

14 **SEC. 307. CLARIFICATION RELATING TO EXCEPTION FROM**  
15 **ADDITIONAL TAX ON CERTAIN DISTRIBUTIONS FROM QUALIFIED TUITION PRO-**  
16 **GRAMS, ETC. ON ACCOUNT OF ATTENDANCE**  
17 **AT MILITARY ACADEMY.**  
18

19           (a) IN GENERAL.—Subparagraph (B) of section  
20 530(d)(4) (relating to exceptions from additional tax for  
21 distributions not used for educational purposes) is amend-  
22 ed by striking “or” at the end of clause (iii), by redesign-  
23 ating clause (iv) as clause (v), and by inserting after  
24 clause (iii) the following new clause:

1           “(iv) made on account of the attend-  
2           ance of the designated beneficiary at the  
3           United States Military Academy, the  
4           United States Naval Academy, the United  
5           States Air Force Academy, the United  
6           States Coast Guard Academy, or the  
7           United States Merchant Marine Academy,  
8           to the extent that the amount of the pay-  
9           ment or distribution does not exceed the  
10          costs of advanced education (as defined by  
11          section 2005(e)(3) of title 10, United  
12          States Code, as in effect on the date of the  
13          enactment of this section) attributable to  
14          such attendance, or”.

15          (b) EFFECTIVE DATE.—The amendments made by  
16 this section shall apply to taxable years beginning after  
17 December 31, 2002.

18 **SEC. 308. SUSPENSION OF TAX-EXEMPT STATUS OF TER-**  
19 **RORIST ORGANIZATIONS.**

20          (a) IN GENERAL.—Section 501 (relating to exemp-  
21 tion from tax on corporations, certain trusts, etc.) is  
22 amended by redesignating subsection (p) as subsection (q)  
23 and by inserting after subsection (o) the following new  
24 subsection:

1       “(p) SUSPENSION OF TAX-EXEMPT STATUS OF TER-  
2 RORIST ORGANIZATIONS.—

3           “(1) IN GENERAL.—The exemption from tax  
4 under subsection (a) with respect to any organiza-  
5 tion described in paragraph (2), and the eligibility of  
6 any organization described in paragraph (2) to apply  
7 for recognition of exemption under subsection (a),  
8 shall be suspended during the period described in  
9 paragraph (3).

10          “(2) TERRORIST ORGANIZATIONS.—An organi-  
11 zation is described in this paragraph if such organi-  
12 zation is designated or otherwise individually identi-  
13 fied—

14           “(A) under section 212(a)(3)(B)(vi)(II) or  
15 219 of the Immigration and Nationality Act as  
16 a terrorist organization or foreign terrorist or-  
17 ganization,

18           “(B) in or pursuant to an Executive order  
19 which is related to terrorism and issued under  
20 the authority of the International Emergency  
21 Economic Powers Act or section 5 of the  
22 United Nations Participation Act of 1945 for  
23 the purpose of imposing on such organization  
24 an economic or other sanction, or

1           “(C) in or pursuant to an Executive order  
2 issued under the authority of any Federal law  
3 if—

4           “(i) the organization is designated or  
5 otherwise individually identified in or pur-  
6 suant to such Executive order as sup-  
7 porting or engaging in terrorist activity (as  
8 defined in section 212(a)(3)(B) of the Im-  
9 migration and Nationality Act) or sup-  
10 porting terrorism (as defined in section  
11 140(d)(2) of the Foreign Relations Author-  
12 ization Act, Fiscal Years 1988 and 1989);  
13 and

14           “(ii) such Executive order refers to  
15 this subsection.

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

19           “(A) begins on the later of—

20           “(i) the date of the first publication of  
21 a designation or identification described in  
22 paragraph (2) with respect to such organi-  
23 zation, or

24           “(ii) the date of the enactment of this  
25 subsection, and

1           “(B) ends on the first date that all des-  
2           ignations and identifications described in para-  
3           graph (2) with respect to such organization are  
4           rescinded pursuant to the law or Executive  
5           order under which such designation or identi-  
6           fication was made.

7           “(4) DENIAL OF DEDUCTION.—No deduction  
8           shall be allowed under any provision of this title, in-  
9           cluding sections 170, 545(b)(2), 556(b)(2), 642(e),  
10          2055, 2106(a)(2), and 2522, with respect to any  
11          contribution to an organization described in para-  
12          graph (2) during the period described in paragraph  
13          (3).

14          “(5) DENIAL OF ADMINISTRATIVE OR JUDICIAL  
15          CHALLENGE OF SUSPENSION OR DENIAL OF DEDUC-  
16          TION.—Notwithstanding section 7428 or any other  
17          provision of law, no organization or other person  
18          may challenge a suspension under paragraph (1), a  
19          designation or identification described in paragraph  
20          (2), the period of suspension described in paragraph  
21          (3), or a denial of a deduction under paragraph (4)  
22          in any administrative or judicial proceeding relating  
23          to the Federal tax liability of such organization or  
24          other person.

25          “(6) ERRONEOUS DESIGNATION.—

1                   “(A) IN GENERAL.—If—

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

5                   “ (ii) each designation and identifica-  
6                   tion described in paragraph (2) which has  
7                   been made with respect to such organiza-  
8                   tion is determined to be erroneous pursu-  
9                   ant to the law or Executive order under  
10                  which such designation or identification  
11                  was made, and

12                  “ (iii) the erroneous designations and  
13                  identifications result in an overpayment of  
14                  income tax for any taxable year by such  
15                  organization,

16                  credit or refund (with interest) with respect to  
17                  such overpayment shall be made.

18                  “(B) WAIVER OF LIMITATIONS.—If the  
19                  credit or refund of any overpayment of tax de-  
20                  scribed in subparagraph (A)(iii) is prevented at  
21                  any time by the operation of any law or rule of  
22                  law (including res judicata), such credit or re-  
23                  fund may nevertheless be allowed or made if the  
24                  claim therefor is filed before the close of the 1-  
25                  year period beginning on the date of the last

1 determination described in subparagraph  
2 (A)(ii).

3 “(7) NOTICE OF SUSPENSIONS.—If the tax ex-  
4 emption of any organization is suspended under this  
5 subsection, the Internal Revenue Service shall up-  
6 date the listings of tax-exempt organizations and  
7 shall publish appropriate notice to taxpayers of such  
8 suspension and of the fact that contributions to such  
9 organization are not deductible during the period of  
10 such suspension.”.

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

14 **SEC. 309. ABOVE-THE-LINE DEDUCTION FOR OVERNIGHT**  
15 **TRAVEL EXPENSES OF NATIONAL GUARD**  
16 **AND RESERVE MEMBERS.**

17 (a) DEDUCTION ALLOWED.—Section 162 (relating to  
18 certain trade or business expenses) is amended by redesi-  
19 gnating subsection (p) as subsection (q) and inserting after  
20 subsection (o) the following new subsection:

21 “(p) TREATMENT OF EXPENSES OF MEMBERS OF  
22 RESERVE COMPONENT OF ARMED FORCES OF THE  
23 UNITED STATES.—For purposes of subsection (a)(2), in  
24 the case of an individual who performs services as a mem-  
25 ber of a reserve component of the Armed Forces of the

1 United States at any time during the taxable year, such  
2 individual shall be deemed to be away from home in the  
3 pursuit of a trade or business for any period during which  
4 such individual is away from home in connection with such  
5 service.”.

6 (b) DEDUCTION ALLOWED WHETHER OR NOT TAX-  
7 PAYER ELECTS TO ITEMIZE.—Section 62(a)(2) (relating  
8 to certain trade and business deductions of employees) is  
9 amended by adding at the end the following new subpara-  
10 graph:

11 (E) CERTAIN EXPENSES OF MEMBERS OF  
12 RESERVE COMPONENTS OF THE ARMED FORCES  
13 OF THE UNITED STATES.—The deductions al-  
14 lowed by section 162 which consist of expenses,  
15 determined at a rate not in excess of the rates  
16 for travel expenses (including per diem in lieu  
17 of subsistence) authorized for employees of  
18 agencies under subchapter I of chapter 57 of  
19 title 5, United States Code, paid or incurred by  
20 the taxpayer in connection with the perform-  
21 ance of services by such taxpayer as a member  
22 of a reserve component of the Armed Forces of  
23 the United States for any period during which  
24 such individual is more than 100 miles away  
25 from home in connection with such services.”.

1 (c) EFFECTIVE DATE.—The amendments made by  
2 this section shall apply to amounts paid or incurred in tax-  
3 able years beginning after December 31, 2002.

4 **SEC. 310. TAX RELIEF AND ASSISTANCE FOR FAMILIES OF**  
5 **SPACE SHUTTLE COLUMBIA HEROES.**

6 (a) INCOME TAX RELIEF.—

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

12 “(5) RELIEF WITH RESPECT TO ASTRO-  
13 NAUTS.—The provisions of this subsection shall  
14 apply to any astronaut whose death occurs in the  
15 line of duty, except that paragraph (3)(B) shall be  
16 applied by using the date of the death of the astro-  
17 naut rather than September 11, 2001.”.

18 (2) CONFORMING AMENDMENTS.—

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

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

23 (3) CLERICAL AMENDMENTS.—

1 (A) The heading of section 692 is amended  
2 by inserting “, **ASTRONAUTS,**” after  
3 “**FORCES**”.

4 (B) The item relating to section 692 in the  
5 table of sections for part II of subchapter J of  
6 chapter 1 is amended by inserting “, astro-  
7 nauts,” after “Forces”.

8 (4) EFFECTIVE DATE.—The amendments made  
9 by this subsection shall apply with respect to any as-  
10 tronaut whose death occurs after December 31,  
11 2002.

12 (b) DEATH BENEFIT RELIEF.—

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

16 “(4) RELIEF WITH RESPECT TO ASTRO-  
17 NAUTS.—The provisions of this subsection shall  
18 apply to any astronaut whose death occurs in the  
19 line of duty.”.

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

23 (3) EFFECTIVE DATE.—The amendments made  
24 by this subsection shall apply to amounts paid after

1 December 31, 2002, with respect to deaths occurring  
2 after such date.

3 (c) ESTATE TAX RELIEF.—

4 (1) IN GENERAL.—Section 2201(b) (defining  
5 qualified decedent) is amended by striking “and” at  
6 the end of paragraph (1)(B), by striking the period  
7 at the end of paragraph (2) and inserting “, and”,  
8 and by adding at the end the following new para-  
9 graph:

10 “(3) any astronaut whose death occurs in the  
11 line of duty.”.

12 (2) CLERICAL AMENDMENTS.—

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

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

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

1     **TITLE IV—OTHER PROVISIONS**

2     **SEC. 401. EXTENSION OF INTERNAL REVENUE SERVICE**

3                     **USER FEES.**

4             (a) IN GENERAL.—Chapter 77 (relating to miscella-  
5 neous provisions) is amended by adding at the end the  
6 following new section:

7     **“SEC. 7528. INTERNAL REVENUE SERVICE USER FEES.**

8             “(a) GENERAL RULE.—The Secretary shall establish  
9 a program requiring the payment of user fees for—

10                 “(1) requests to the Internal Revenue Service  
11 for ruling letters, opinion letters, and determination  
12 letters, and

13                 “(2) other similar requests.

14             “(b) PROGRAM CRITERIA.—

15                 “(1) IN GENERAL.—The fees charged under the  
16 program required by subsection (a)—

17                     “(A) shall vary according to categories (or  
18 subcategories) established by the Secretary,

19                     “(B) shall be determined after taking into  
20 account the average time for (and difficulty of)  
21 complying with requests in each category (and  
22 subcategory), and

23                     “(C) shall be payable in advance.

24             “(2) EXEMPTIONS, ETC.—

1           “(A) IN GENERAL.—The Secretary shall  
2 provide for such exemptions (and reduced fees)  
3 under such program as the Secretary deter-  
4 mines to be appropriate.

5           “(B) EXEMPTION FOR CERTAIN REQUESTS  
6 REGARDING PENSION PLANS.—The Secretary  
7 shall not require payment of user fees under  
8 such program for requests for determination  
9 letters with respect to the qualified status of a  
10 pension benefit plan maintained solely by 1 or  
11 more eligible employers or any trust which is  
12 part of the plan. The preceding sentence shall  
13 not apply to any request—

14           “(i) made after the later of—

15           “(I) the fifth plan year the pen-  
16 sion benefit plan is in existence, or

17           “(II) the end of any remedial  
18 amendment period with respect to the  
19 plan beginning within the first 5 plan  
20 years, or

21           “(ii) made by the sponsor of any pro-  
22 totype or similar plan which the sponsor  
23 intends to market to participating employ-  
24 ers.

1                   “(C) DEFINITIONS AND SPECIAL RULES.—

2                   For purposes of subparagraph (B)—

3                   “(i) PENSION BENEFIT PLAN.—The  
4                   term ‘pension benefit plan’ means a pen-  
5                   sion, profit-sharing, stock bonus, annuity,  
6                   or employee stock ownership plan.

7                   “(ii) ELIGIBLE EMPLOYER.—The  
8                   term ‘eligible employer’ means an eligible  
9                   employer (as defined in section  
10                  408(p)(2)(C)(i)(I)) which has at least 1  
11                  employee who is not a highly compensated  
12                  employee (as defined in section 414(q))  
13                  and is participating in the plan. The deter-  
14                  mination of whether an employer is an eli-  
15                  gible employer under subparagraph (B)  
16                  shall be made as of the date of the request  
17                  described in such subparagraph.

18                  “(iii) DETERMINATION OF AVERAGE  
19                  FEES CHARGED.—For purposes of any de-  
20                  termination of average fees charged, any  
21                  request to which subparagraph (B) applies  
22                  shall not be taken into account.

23                  “(3) AVERAGE FEE REQUIREMENT.—The aver-  
24                  age fee charged under the program required by sub-

1 section (a) shall not be less than the amount deter-  
 2 mined under the following table:

<b>“Category</b>	<b>Average fee</b>
Employee plan ruling and opinion .....	\$250
Exempt organization ruling .....	\$350
Employee plan determination .....	\$300
Exempt organization determination .....	\$275
Chief counsel ruling .....	\$200.

3 “(c) **TERMINATION.**—No fee shall be imposed under  
 4 this section with respect to requests made after September  
 5 30, 2013.”.

6 (b) **CONFORMING AMENDMENTS.**—

7 (1) The table of sections for chapter 77 is  
 8 amended by adding at the end the following new  
 9 item:

“Sec. 7528. Internal Revenue Service user fees.”.

10 (2) Section 10511 of the Revenue Act of 1987  
 11 is repealed.

12 (3) Section 620 of the Economic Growth and  
 13 Tax Relief Reconciliation Act of 2001 is repealed.

14 (c) **LIMITATIONS.**—Notwithstanding any other provi-  
 15 sion of law, any fees collected pursuant to section 7528  
 16 of the Internal Revenue Code of 1986, as added by sub-  
 17 section (a), shall not be expended by the Internal Revenue  
 18 Service unless provided by an appropriations Act.

19 (d) **EFFECTIVE DATE.**—The amendments made by  
 20 this section shall apply to requests made after the date  
 21 of the enactment of this Act.

1 **SEC. 402. PARTIAL PAYMENT OF TAX LIABILITY IN IN-**  
2 **STALLMENT AGREEMENTS.**

3 (a) IN GENERAL.—

4 (1) Section 6159(a) (relating to authorization  
5 of agreements) is amended—

6 (A) by striking “satisfy liability for pay-  
7 ment of” and inserting “make payment on”,  
8 and

9 (B) by inserting “full or partial” after “fa-  
10 cilitate”.

11 (2) Section 6159(c) (relating to Secretary re-  
12 quired to enter into installment agreements in cer-  
13 tain cases) is amended in the matter preceding para-  
14 graph (1) by inserting “full” before “payment”.

15 (b) REQUIREMENT TO REVIEW PARTIAL PAYMENT  
16 AGREEMENTS EVERY TWO YEARS.—Section 6159 is  
17 amended by redesignating subsections (d) and (e) as sub-  
18 sections (e) and (f), respectively, and inserting after sub-  
19 section (c) the following new subsection:

20 “(d) SECRETARY REQUIRED TO REVIEW INSTALL-  
21 MENT AGREEMENTS FOR PARTIAL COLLECTION EVERY  
22 TWO YEARS.—In the case of an agreement entered into  
23 by the Secretary under subsection (a) for partial collection  
24 of a tax liability, the Secretary shall review the agreement  
25 at least once every 2 years.”.

1           (c) EFFECTIVE DATE.—The amendments made by  
2 this section shall apply to agreements entered into on or  
3 after the date of the enactment of this Act.

4 **SEC. 403. REVISION OF TAX RULES ON EXPATRIATION.**

5           (a) IN GENERAL.—Subpart A of part II of sub-  
6 chapter N of chapter 1 is amended by inserting after sec-  
7 tion 877 the following new section:

8 **“SEC. 877A. TAX RESPONSIBILITIES OF EXPATRIATION.**

9           “(a) GENERAL RULES.—For purposes of this sub-  
10 title—

11                   “(1) MARK TO MARKET.—Except as provided in  
12 subsections (d) and (f), all property of a covered ex-  
13 patriate to whom this section applies shall be treated  
14 as sold on the day before the expatriation date for  
15 its fair market value.

16                   “(2) RECOGNITION OF GAIN OR LOSS.—In the  
17 case of any sale under paragraph (1)—

18                           “(A) notwithstanding any other provision  
19 of this title, any gain arising from such sale  
20 shall be taken into account for the taxable year  
21 of the sale, and

22                           “(B) any loss arising from such sale shall  
23 be taken into account for the taxable year of  
24 the sale to the extent otherwise provided by this

1 title, except that section 1091 shall not apply to  
2 any such loss.

3 Proper adjustment shall be made in the amount of  
4 any gain or loss subsequently realized for gain or  
5 loss taken into account under the preceding sen-  
6 tence.

7 “(3) EXCLUSION FOR CERTAIN GAIN.—

8 “(A) IN GENERAL.—The amount which,  
9 but for this paragraph, would be includible in  
10 the gross income of any individual by reason of  
11 this section shall be reduced (but not below  
12 zero) by \$600,000. For purposes of this para-  
13 graph, allocable expatriation gain taken into ac-  
14 count under subsection (f)(2) shall be treated in  
15 the same manner as an amount required to be  
16 includible in gross income.

17 “(B) COST-OF-LIVING ADJUSTMENT.—

18 “(i) IN GENERAL.—In the case of an  
19 expatriation date occurring in any calendar  
20 year after 2003, the \$600,000 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 such calendar year, determined by  
4                   substituting ‘calendar year 2002’ for  
5                   ‘calendar year 1992’ in subparagraph  
6                   (B) thereof.

7                   “(ii) ROUNDING RULES.—If any  
8                   amount after adjustment under clause (i)  
9                   is not a multiple of \$1,000, such amount  
10                  shall be rounded to the next lower multiple  
11                  of \$1,000.

12                  “(4) ELECTION TO CONTINUE TO BE TAXED AS  
13                  UNITED STATES CITIZEN.—

14                  “(A) IN GENERAL.—If a covered expatriate  
15                  elects the application of this paragraph—

16                         “(i) this section (other than this para-  
17                         graph and subsection (i)) shall not apply to  
18                         the expatriate, but

19                         “(ii) in the case of property to which  
20                         this section would apply but for such elec-  
21                         tion, the expatriate shall be subject to tax  
22                         under this title in the same manner as if  
23                         the individual were a United States citizen.

1           “(B) REQUIREMENTS.—Subparagraph (A)  
2 shall not apply to an individual unless the indi-  
3 vidual—

4           “(i) provides security for payment of  
5 tax in such form and manner, and in such  
6 amount, as the Secretary may require,

7           “(ii) consents to the waiver of any  
8 right of the individual under any treaty of  
9 the United States which would preclude as-  
10 sessment or collection of any tax which  
11 may be imposed by reason of this para-  
12 graph, and

13           “(iii) complies with such other re-  
14 quirements as the Secretary may prescribe.

15           “(C) ELECTION.—An election under sub-  
16 paragraph (A) shall apply to all property to  
17 which this section would apply but for the elec-  
18 tion and, once made, shall be irrevocable. Such  
19 election shall also apply to property the basis of  
20 which is determined in whole or in part by ref-  
21 erence to the property with respect to which the  
22 election was made.

23           “(b) ELECTION TO DEFER TAX.—

24           “(1) IN GENERAL.—If the taxpayer elects the  
25 application of this subsection with respect to any

1 property treated as sold by reason of subsection (a),  
2 the payment of the additional tax attributable to  
3 such property shall be postponed until the due date  
4 of the return for the taxable year in which such  
5 property is disposed of (or, in the case of property  
6 disposed of in a transaction in which gain is not rec-  
7 ognized in whole or in part, until such other date as  
8 the Secretary may prescribe).

9 “(2) DETERMINATION OF TAX WITH RESPECT  
10 TO PROPERTY.—For purposes of paragraph (1), the  
11 additional tax attributable to any property is an  
12 amount which bears the same ratio to the additional  
13 tax imposed by this chapter for the taxable year  
14 solely by reason of subsection (a) as the gain taken  
15 into account under subsection (a) with respect to  
16 such property bears to the total gain taken into ac-  
17 count under subsection (a) with respect to all prop-  
18 erty to which subsection (a) applies.

19 “(3) TERMINATION OF POSTPONEMENT.—No  
20 tax may be postponed under this subsection later  
21 than the due date for the return of tax imposed by  
22 this chapter for the taxable year which includes the  
23 date of death of the expatriate (or, if earlier, the  
24 time that the security provided with respect to the  
25 property fails to meet the requirements of paragraph

1 (4), unless the taxpayer corrects such failure within  
2 the time specified by the Secretary).

3 “(4) SECURITY.—

4 “(A) IN GENERAL.—No election may be  
5 made under paragraph (1) with respect to any  
6 property unless adequate security is provided to  
7 the Secretary with respect to such property.

8 “(B) ADEQUATE SECURITY.—For purposes  
9 of subparagraph (A), security with respect to  
10 any property shall be treated as adequate secu-  
11 rity if—

12 “(i) it is a bond in an amount equal  
13 to the deferred tax amount under para-  
14 graph (2) for the property, or

15 “(ii) the taxpayer otherwise estab-  
16 lishes to the satisfaction of the Secretary  
17 that the security is adequate.

18 “(5) WAIVER OF CERTAIN RIGHTS.—No elec-  
19 tion may be made under paragraph (1) unless the  
20 taxpayer consents to the waiver of any right under  
21 any treaty of the United States which would pre-  
22 clude assessment or collection of any tax imposed by  
23 reason of this section.

24 “(6) ELECTIONS.—An election under paragraph  
25 (1) shall only apply to property described in the elec-

1 tion and, once made, is irrevocable. An election may  
2 be made under paragraph (1) with respect to an in-  
3 terest in a trust with respect to which gain is re-  
4 quired to be recognized under subsection (f)(1).

5 “(7) INTEREST.—For purposes of section  
6 6601—

7 “(A) the last date for the payment of tax  
8 shall be determined without regard to the elec-  
9 tion under this subsection, and

10 “(B) section 6621(a)(2) shall be applied by  
11 substituting ‘5 percentage points’ for ‘3 per-  
12 centage points’ in subparagraph (B) thereof.

13 “(c) COVERED EXPATRIATE.—For purposes of this  
14 section—

15 “(1) IN GENERAL.—Except as provided in para-  
16 graph (2), the term ‘covered expatriate’ means an  
17 expatriate.

18 “(2) EXCEPTIONS.—An individual shall not be  
19 treated as a covered expatriate if—

20 “(A) the individual—

21 “(i) became at birth a citizen of the  
22 United States and a citizen of another  
23 country and, as of the expatriation date,  
24 continues to be a citizen of, and is taxed  
25 as a resident of, such other country, and

1           “(ii) has not been a resident of the  
2           United States (as defined in section  
3           7701(b)(1)(A)(ii)) during the 5 taxable  
4           years ending with the taxable year during  
5           which the expatriation date occurs, or

6           “(B)(i) the individual’s relinquishment of  
7           United States citizenship occurs before such in-  
8           dividual attains age 18½, and

9           “(ii) the individual has been a resident of  
10          the United States (as so defined) for not more  
11          than 5 taxable years before the date of relin-  
12          quishment.

13          “(d) EXEMPT PROPERTY; SPECIAL RULES FOR PEN-  
14          SION PLANS.—

15          “(1) EXEMPT PROPERTY.—This section shall  
16          not apply to the following:

17                 “(A) UNITED STATES REAL PROPERTY IN-  
18                 TERESTS.—Any United States real property in-  
19                 terest (as defined in section 897(c)(1)), other  
20                 than stock of a United States real property  
21                 holding corporation which does not, on the day  
22                 before the expatriation date, meet the require-  
23                 ments of section 897(c)(2).

24                 “(B) SPECIFIED PROPERTY.—Any prop-  
25                 erty or interest in property not described in

1           subparagraph (A) which the Secretary specifies  
2           in regulations.

3           “(2) SPECIAL RULES FOR CERTAIN RETIRE-  
4           MENT PLANS.—

5                   “(A) IN GENERAL.—If a covered expatriate  
6           holds on the day before the expatriation date  
7           any interest in a retirement plan to which this  
8           paragraph applies—

9                           “(i) such interest shall not be treated  
10                           as sold for purposes of subsection (a)(1),  
11                           but

12                                   “(ii) an amount equal to the present  
13                                   value of the expatriate’s nonforfeitable ac-  
14                                   crued benefit shall be treated as having  
15                                   been received by such individual on such  
16                                   date as a distribution under the plan.

17                           “(B) TREATMENT OF SUBSEQUENT DIS-  
18           TRIBUTIONS.—In the case of any distribution  
19           on or after the expatriation date to or on behalf  
20           of the covered expatriate from a plan from  
21           which the expatriate was treated as receiving a  
22           distribution under subparagraph (A), the  
23           amount otherwise includible in gross income by  
24           reason of the subsequent distribution shall be  
25           reduced by the excess of the amount includible

1 in gross income under subparagraph (A) over  
2 any portion of such amount to which this sub-  
3 paragraph previously applied.

4 “(C) TREATMENT OF SUBSEQUENT DIS-  
5 TRIBUTIONS BY PLAN.—For purposes of this  
6 title, a retirement plan to which this paragraph  
7 applies, and any person acting on the plan’s be-  
8 half, shall treat any subsequent distribution de-  
9 scribed in subparagraph (B) in the same man-  
10 ner as such distribution would be treated with-  
11 out regard to this paragraph.

12 “(D) APPLICABLE PLANS.—This para-  
13 graph shall apply to—

14 “(i) any qualified retirement plan (as  
15 defined in section 4974(c)),

16 “(ii) an eligible deferred compensation  
17 plan (as defined in section 457(b)) of an  
18 eligible employer described in section  
19 457(e)(1)(A), and

20 “(iii) to the extent provided in regula-  
21 tions, any foreign pension plan or similar  
22 retirement arrangements or programs.

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

24 “(1) EXPATRIATE.—The term ‘expatriate’  
25 means—

1           “(A) any United States citizen who relin-  
2           quishes citizenship, and

3           “(B) any long-term resident of the United  
4           States who—

5                   “(i) ceases to be a lawful permanent  
6                   resident of the United States (within the  
7                   meaning of section 7701(b)(6)), or

8                   “(ii) commences to be treated as a  
9                   resident of a foreign country under the  
10                  provisions of a tax treaty between the  
11                  United States and the foreign country and  
12                  who does not waive the benefits of such  
13                  treaty applicable to residents of the foreign  
14                  country.

15           “(2) EXPATRIATION DATE.—The term ‘expa-  
16           triation date’ means—

17                   “(A) the date an individual relinquishes  
18                   United States citizenship, or

19                   “(B) in the case of a long-term resident of  
20                   the United States, the date of the event de-  
21                   scribed in clause (i) or (ii) of paragraph (1)(B).

22           “(3) RELINQUISHMENT OF CITIZENSHIP.—A  
23           citizen shall be treated as relinquishing United  
24           States citizenship on the earliest of—

1           “(A) the date the individual renounces  
2 such individual’s United States nationality be-  
3 fore a diplomatic or consular officer of the  
4 United States pursuant to paragraph (5) of sec-  
5 tion 349(a) of the Immigration and Nationality  
6 Act (8 U.S.C. 1481(a)(5)),

7           “(B) the date the individual furnishes to  
8 the United States Department of State a signed  
9 statement of voluntary relinquishment of  
10 United States nationality confirming the per-  
11 formance of an act of expatriation specified in  
12 paragraph (1), (2), (3), or (4) of section 349(a)  
13 of the Immigration and Nationality Act (8  
14 U.S.C. 1481(a)(1)–(4)),

15           “(C) the date the United States Depart-  
16 ment of State issues to the individual a certifi-  
17 cate of loss of nationality, or

18           “(D) the date a court of the United States  
19 cancels a naturalized citizen’s certificate of nat-  
20 uralization.

21 Subparagraph (A) or (B) shall not apply to any indi-  
22 vidual unless the renunciation or voluntary relin-  
23 quishment is subsequently approved by the issuance  
24 to the individual of a certificate of loss of nationality  
25 by the United States Department of State.

1           “(4) LONG-TERM RESIDENT.—The term ‘long-  
2           term resident’ has the meaning given to such term  
3           by section 877(e)(2).

4           “(f) SPECIAL RULES APPLICABLE TO BENE-  
5           FICIARIES’ INTERESTS IN TRUST.—

6           “(1) IN GENERAL.—Except as provided in para-  
7           graph (2), if an individual is determined under para-  
8           graph (3) to hold an interest in a trust on the day  
9           before the expatriation date—

10                   “(A) the individual shall not be treated as  
11                   having sold such interest,

12                   “(B) such interest shall be treated as a  
13                   separate share in the trust, and

14                   “(C)(i) such separate share shall be treat-  
15                   ed as a separate trust consisting of the assets  
16                   allocable to such share,

17                   “(ii) the separate trust shall be treated as  
18                   having sold its assets on the day before the ex-  
19                   patriation date for their fair market value and  
20                   as having distributed all of its assets to the in-  
21                   dividual as of such time, and

22                   “(iii) the individual shall be treated as hav-  
23                   ing recontributed the assets to the separate  
24                   trust.

1 Subsection (a)(2) shall apply to any income, gain, or  
2 loss of the individual arising from a distribution de-  
3 scribed in subparagraph (C)(ii). In determining the  
4 amount of such distribution, proper adjustments  
5 shall be made for liabilities of the trust allocable to  
6 an individual's share in the trust.

7 “(2) SPECIAL RULES FOR INTERESTS IN QUALI-  
8 FIED TRUSTS.—

9 “(A) IN GENERAL.—If the trust interest  
10 described in paragraph (1) is an interest in a  
11 qualified trust—

12 “(i) paragraph (1) and subsection (a)  
13 shall not apply, and

14 “(ii) in addition to any other tax im-  
15 posed by this title, there is hereby imposed  
16 on each distribution with respect to such  
17 interest a tax in the amount determined  
18 under subparagraph (B).

19 “(B) AMOUNT OF TAX.—The amount of  
20 tax under subparagraph (A)(ii) shall be equal to  
21 the lesser of—

22 “(i) the highest rate of tax imposed by  
23 section 1(e) for the taxable year which in-  
24 cludes the day before the expatriation date,

1 multiplied by the amount of the distribu-  
2 tion, or

3 “(ii) the balance in the deferred tax  
4 account immediately before the distribution  
5 determined without regard to any increases  
6 under subparagraph (C)(ii) after the 30th  
7 day preceding the distribution.

8 “(C) DEFERRED TAX ACCOUNT.—For pur-  
9 poses of subparagraph (B)(ii)—

10 “(i) OPENING BALANCE.—The open-  
11 ing balance in a deferred tax account with  
12 respect to any trust interest is an amount  
13 equal to the tax which would have been im-  
14 posed on the allocable expatriation gain  
15 with respect to the trust interest if such  
16 gain had been included in gross income  
17 under subsection (a).

18 “(ii) INCREASE FOR INTEREST.—The  
19 balance in the deferred tax account shall  
20 be increased by the amount of interest de-  
21 termined (on the balance in the account at  
22 the time the interest accrues), for periods  
23 after the 90th day after the expatriation  
24 date, by using the rates and method appli-  
25 cable under section 6621 for underpay-

1           ments of tax for such periods, except that  
2           section 6621(a)(2) shall be applied by sub-  
3           stituting ‘5 percentage points’ for ‘3 per-  
4           centage points’ in subparagraph (B) there-  
5           of.

6           “(iii) DECREASE FOR TAXES PRE-  
7           VIOUSLY PAID.—The balance in the tax de-  
8           ferred account shall be reduced—

9                   “(I) by the amount of taxes im-  
10                   posed by subparagraph (A) on any  
11                   distribution to the person holding the  
12                   trust interest, and

13                   “(II) in the case of a person  
14                   holding a nonvested interest, to the  
15                   extent provided in regulations, by the  
16                   amount of taxes imposed by subpara-  
17                   graph (A) on distributions from the  
18                   trust with respect to nonvested inter-  
19                   ests not held by such person.

20           “(D) ALLOCABLE EXPATRIATION GAIN.—

21           For purposes of this paragraph, the allocable  
22           expatriation gain with respect to any bene-  
23           ficiary’s interest in a trust is the amount of  
24           gain which would be allocable to such bene-  
25           ficiary’s vested and nonvested interests in the

1 trust if the beneficiary held directly all assets  
2 allocable to such interests.

3 “(E) TAX DEDUCTED AND WITHHELD.—

4 “(i) IN GENERAL.—The tax imposed  
5 by subparagraph (A)(ii) shall be deducted  
6 and withheld by the trustees from the dis-  
7 tribution to which it relates.

8 “(ii) EXCEPTION WHERE FAILURE TO  
9 WAIVE TREATY RIGHTS.—If an amount  
10 may not be deducted and withheld under  
11 clause (i) by reason of the distributee fail-  
12 ing to waive any treaty right with respect  
13 to such distribution—

14 “(I) the tax imposed by subpara-  
15 graph (A)(ii) shall be imposed on the  
16 trust and each trustee shall be person-  
17 ally liable for the amount of such tax,  
18 and

19 “(II) any other beneficiary of the  
20 trust shall be entitled to recover from  
21 the distributee the amount of such tax  
22 imposed on the other beneficiary.

23 “(F) DISPOSITION.—If a trust ceases to be  
24 a qualified trust at any time, a covered expa-  
25 triate disposes of an interest in a qualified

1 trust, or a covered expatriate holding an inter-  
 2 est in a qualified trust dies, then, in lieu of the  
 3 tax imposed by subparagraph (A)(ii), there is  
 4 hereby imposed a tax equal to the lesser of—

5 “(i) the tax determined under para-  
 6 graph (1) as if the day before the expatria-  
 7 tion date were the date of such cessation,  
 8 disposition, or death, whichever is applica-  
 9 ble, or

10 “(ii) the balance in the tax deferred  
 11 account immediately before such date.

12 Such tax shall be imposed on the trust and  
 13 each trustee shall be personally liable for the  
 14 amount of such tax and any other beneficiary  
 15 of the trust shall be entitled to recover from the  
 16 covered expatriate or the estate the amount of  
 17 such tax imposed on the other beneficiary.

18 “(G) DEFINITIONS AND SPECIAL RULES.—

19 For purposes of this paragraph—

20 “(i) QUALIFIED TRUST.—The term  
 21 ‘qualified trust’ means a trust which is de-  
 22 scribed in section 7701(a)(30)(E).

23 “(ii) VESTED INTEREST.—The term  
 24 ‘vested interest’ means any interest which,

1 as of the day before the expatriation date,  
2 is vested in the beneficiary.

3 “(iii) NONVESTED INTEREST.—The  
4 term ‘nonvested interest’ means, with re-  
5 spect to any beneficiary, any interest in a  
6 trust which is not a vested interest. Such  
7 interest shall be determined by assuming  
8 the maximum exercise of discretion in  
9 favor of the beneficiary and the occurrence  
10 of all contingencies in favor of the bene-  
11 ficiary.

12 “(iv) ADJUSTMENTS.—The Secretary  
13 may provide for such adjustments to the  
14 bases of assets in a trust or a deferred tax  
15 account, and the timing of such adjust-  
16 ments, in order to ensure that gain is  
17 taxed only once.

18 “(v) COORDINATION WITH RETIRE-  
19 MENT PLAN RULES.—This subsection shall  
20 not apply to an interest in a trust which  
21 is part of a retirement plan to which sub-  
22 section (d)(2) applies.

23 “(3) DETERMINATION OF BENEFICIARIES’ IN-  
24 TEREST IN TRUST.—

1           “(A) DETERMINATIONS UNDER PARA-  
2           GRAPH (1).—For purposes of paragraph (1), a  
3           beneficiary’s interest in a trust shall be based  
4           upon all relevant facts and circumstances, in-  
5           cluding the terms of the trust instrument and  
6           any letter of wishes or similar document, histor-  
7           ical patterns of trust distributions, and the ex-  
8           istence of and functions performed by a trust  
9           protector or any similar adviser.

10           “(B) OTHER DETERMINATIONS.—For pur-  
11           poses of this section—

12           “(i) CONSTRUCTIVE OWNERSHIP.—If  
13           a beneficiary of a trust is a corporation,  
14           partnership, trust, or estate, the share-  
15           holders, partners, or beneficiaries shall be  
16           deemed to be the trust beneficiaries for  
17           purposes of this section.

18           “(ii) TAXPAYER RETURN POSITION.—  
19           A taxpayer shall clearly indicate on its in-  
20           come tax return—

21                   “(I) the methodology used to de-  
22                   termine that taxpayer’s trust interest  
23                   under this section, and

24                   “(II) if the taxpayer knows (or  
25                   has reason to know) that any other

1 beneficiary of such trust is using a  
2 different methodology to determine  
3 such beneficiary's trust interest under  
4 this section.

5 “(g) TERMINATION OF DEFERRALS, ETC.—In the  
6 case of any covered expatriate, notwithstanding any other  
7 provision of this title—

8 “(1) any period during which recognition of in-  
9 come or gain is deferred shall terminate on the day  
10 before the expatriation date, and

11 “(2) any extension of time for payment of tax  
12 shall cease to apply on the day before the expatria-  
13 tion date and the unpaid portion of such tax shall  
14 be due and payable at the time and in the manner  
15 prescribed by the Secretary.

16 “(h) IMPOSITION OF TENTATIVE TAX.—

17 “(1) IN GENERAL.—If an individual is required  
18 to include any amount in gross income under sub-  
19 section (a) for any taxable year, there is hereby im-  
20 posed, immediately before the expatriation date, a  
21 tax in an amount equal to the amount of tax which  
22 would be imposed if the taxable year were a short  
23 taxable year ending on the expatriation date.

1           “(2) DUE DATE.—The due date for any tax im-  
2           posed by paragraph (1) shall be the 90th day after  
3           the expatriation date.

4           “(3) TREATMENT OF TAX.—Any tax paid under  
5           paragraph (1) shall be treated as a payment of the  
6           tax imposed by this chapter for the taxable year to  
7           which subsection (a) applies.

8           “(4) DEFERRAL OF TAX.—The provisions of  
9           subsection (b) shall apply to the tax imposed by this  
10          subsection to the extent attributable to gain includ-  
11          ible in gross income by reason of this section.

12          “(i) SPECIAL LIENS FOR DEFERRED TAX  
13          AMOUNTS.—

14               “(1) IMPOSITION OF LIEN.—

15                   “(A) IN GENERAL.—If a covered expatriate  
16                   makes an election under subsection (a)(4) or  
17                   (b) which results in the deferral of any tax im-  
18                   posed by reason of subsection (a), the deferred  
19                   amount (including any interest, additional  
20                   amount, addition to tax, assessable penalty, and  
21                   costs attributable to the deferred amount) shall  
22                   be a lien in favor of the United States on all  
23                   property of the expatriate located in the United  
24                   States (without regard to whether this section  
25                   applies to the property).

1           “(B) DEFERRED AMOUNT.—For purposes  
2 of this subsection, the deferred amount is the  
3 amount of the increase in the covered expatri-  
4 ate’s income tax which, but for the election  
5 under subsection (a)(4) or (b), would have oc-  
6 curred by reason of this section for the taxable  
7 year including the expatriation date.

8           “(2) PERIOD OF LIEN.—The lien imposed by  
9 this subsection shall arise on the expatriation date  
10 and continue until—

11           “(A) the liability for tax by reason of this  
12 section is satisfied or has become unenforceable  
13 by reason of lapse of time, or

14           “(B) it is established to the satisfaction of  
15 the Secretary that no further tax liability may  
16 arise by reason of this section.

17           “(3) CERTAIN RULES APPLY.—The rules set  
18 forth in paragraphs (1), (3), and (4) of section  
19 6324A(d) shall apply with respect to the lien im-  
20 posed by this subsection as if it were a lien imposed  
21 by section 6324A.

22           “(j) REGULATIONS.—The Secretary shall prescribe  
23 such regulations as may be necessary or appropriate to  
24 carry out the purposes of this section.”.

1 (b) INCLUSION IN INCOME OF GIFTS AND BEQUESTS  
2 RECEIVED BY UNITED STATES CITIZENS AND RESIDENTS  
3 FROM EXPATRIATES.—Section 102 (relating to gifts, etc.  
4 not included in gross income) is amended by adding at  
5 the end the following new subsection:

6 “(d) GIFTS AND INHERITANCES FROM COVERED EX-  
7 PATRIATES.—

8 “(1) IN GENERAL.—Subsection (a) shall not ex-  
9 clude from gross income the value of any property  
10 acquired by gift, bequest, devise, or inheritance from  
11 a covered expatriate after the expatriation date. For  
12 purposes of this subsection, any term used in this  
13 subsection which is also used in section 877A shall  
14 have the same meaning as when used in section  
15 877A.

16 “(2) EXCEPTIONS FOR TRANSFERS OTHERWISE  
17 SUBJECT TO ESTATE OR GIFT TAX.—Paragraph (1)  
18 shall not apply to any property if either—

19 “(A) the gift, bequest, devise, or inherit-  
20 ance is—

21 “(i) shown on a timely filed return of  
22 tax imposed by chapter 12 as a taxable gift  
23 by the covered expatriate, or

24 “(ii) included in the gross estate of  
25 the covered expatriate for purposes of

1 chapter 11 and shown on a timely filed re-  
2 turn of tax imposed by chapter 11 of the  
3 estate of the covered expatriate, or

4 “(B) no such return was timely filed but  
5 no such return would have been required to be  
6 filed even if the covered expatriate were a cit-  
7 izen or long-term resident of the United  
8 States.”.

9 (c) DEFINITION OF TERMINATION OF UNITED  
10 STATES CITIZENSHIP.—Section 7701(a) is amended by  
11 adding at the end the following new paragraph:

12 “(48) TERMINATION OF UNITED STATES CITI-  
13 ZENSHIP.—

14 “(A) IN GENERAL.—An individual shall  
15 not cease to be treated as a United States cit-  
16 izen before the date on which the individual’s  
17 citizenship is treated as relinquished under sec-  
18 tion 877A(e)(3).

19 “(B) DUAL CITIZENS.—Under regulations  
20 prescribed by the Secretary, subparagraph (A)  
21 shall not apply to an individual who became at  
22 birth a citizen of the United States and a cit-  
23 izen of another country.”.

24 (d) INELIGIBILITY FOR VISA OR ADMISSION TO  
25 UNITED STATES.—

1           (1) IN GENERAL.—Section 212(a)(10)(E) of the  
2 Immigration and Nationality Act (8 U.S.C.  
3 1182(a)(10)(E)) is amended to read as follows:

4           “(E) FORMER CITIZENS NOT IN COMPLI-  
5 ANCE WITH EXPATRIATION REVENUE PROVI-  
6 SIONS.—Any alien who is a former citizen of  
7 the United States who relinquishes United  
8 States citizenship (within the meaning of sec-  
9 tion 877A(e)(3) of the Internal Revenue Code  
10 of 1986) and who is not in compliance with sec-  
11 tion 877A of such Code (relating to expatria-  
12 tion).”.

13           (2) AVAILABILITY OF INFORMATION.—

14           (A) IN GENERAL.—Section 6103(l) (relat-  
15 ing to disclosure of returns and return informa-  
16 tion for purposes other than tax administration)  
17 is amended by adding at the end the following  
18 new paragraph:

19           “(19) DISCLOSURE TO DENY VISA OR ADMIS-  
20 SION TO CERTAIN EXPATRIATES.—Upon written re-  
21 quest of the Attorney General or the Attorney Gen-  
22 eral’s delegate, the Secretary shall disclose whether  
23 an individual is in compliance with section 877A  
24 (and if not in compliance, any items of noncompli-  
25 ance) to officers and employees of the Federal agen-

1 cy responsible for administering section  
2 212(a)(10)(E) of the Immigration and Nationality  
3 Act solely for the purpose of, and to the extent nec-  
4 essary in, administering such section  
5 212(a)(10)(E).”.

6 (B) SAFEGUARDS.—

7 (i) TECHNICAL AMENDMENTS.—Para-  
8 graph (4) of section 6103(p), as amended  
9 by section 202(b)(2)(B) of the Trade Act  
10 of 2002 (Public Law 107–210; 116 Stat.  
11 961), is amended by striking “or (17)”  
12 after “any other person described in sub-  
13 section (l)(16)” each place it appears and  
14 inserting “or (18)”.

15 (ii) CONFORMING AMENDMENTS.—  
16 Section 6103(p)(4) (relating to safe-  
17 guards), as amended by clause (i), is  
18 amended by striking “or (18)” after “any  
19 other person described in subsection  
20 (l)(16)” each place it appears and insert-  
21 ing “(18), or (19)”.

22 (3) EFFECTIVE DATES.—

23 (A) IN GENERAL.—Except as provided in  
24 subparagraph (B), the amendments made by  
25 this subsection shall apply to individuals who

1           relinquish United States citizenship on or after  
2           the date of the enactment of this Act.

3           (B) TECHNICAL AMENDMENTS.—The  
4           amendments made by paragraph (2)(B)(i) shall  
5           take effect as if included in the amendments  
6           made by section 202(b)(2)(B) of the Trade Act  
7           of 2002 (Public Law 107–210; 116 Stat. 961).

8           (e) CONFORMING AMENDMENTS.—

9           (1) Section 877 is amended by adding at the  
10          end the following new subsection:

11          “(g) APPLICATION.—This section shall not apply to  
12          an expatriate (as defined in section 877A(e)) whose expa-  
13          triation date (as so defined) occurs on or after February  
14          5, 2003.”.

15          (2) Section 2107 is amended by adding at the  
16          end the following new subsection:

17          “(f) APPLICATION.—This section shall not apply to  
18          any expatriate subject to section 877A.”.

19          (3) Section 2501(a)(3) is amended by adding at  
20          the end the following new subparagraph:

21                  “(F) APPLICATION.—This paragraph shall  
22                  not apply to any expatriate subject to section  
23                  877A.”.

1           (4)(A) Paragraph (1) of section 6039G(d) is  
2 amended by inserting “or 877A” after “section  
3 877”.

4           (B) The second sentence of section 6039G(e) is  
5 amended by inserting “or who relinquishes United  
6 States citizenship (within the meaning of section  
7 877A(e)(3))” after “877(a)”.

8           (C) Section 6039G(f) is amended by inserting  
9 “or 877A(e)(2)(B)” after “877(e)(1)”.

10          (f) CLERICAL AMENDMENT.—The table of sections  
11 for subpart A of part II of subchapter N of chapter 1  
12 is amended by inserting after the item relating to section  
13 877 the following new item:

“Sec. 877A. Tax responsibilities of expatriation.”.

14          (g) EFFECTIVE DATE.—

15           (1) IN GENERAL.—Except as provided in this  
16 subsection, the amendments made by this section  
17 shall apply to expatriates (within the meaning of  
18 section 877A(e) of the Internal Revenue Code of  
19 1986, as added by this section) whose expatriation  
20 date (as so defined) occurs on or after February 5,  
21 2003.

22           (2) GIFTS AND BEQUESTS.—Section 102(d) of  
23 the Internal Revenue Code of 1986 (as added by  
24 subsection (b)) shall apply to gifts and bequests re-  
25 ceived on or after February 5, 2003, from an indi-

1       vidual or the estate of an individual whose expatria-  
2       tion date (as so defined) occurs after such date.

3               (3) DUE DATE FOR TENTATIVE TAX.—The due  
4       date under section 877A(h)(2) of the Internal Rev-  
5       enue Code of 1986, as added by this section, shall  
6       in no event occur before the 90th day after the date  
7       of the enactment of this Act.

8       **SEC. 404. EXTENSION OF CUSTOMS USER FEES.**

9       Section 13031(j)(3) of the Consolidated Omnibus  
10      Budget Reconciliation Act of 1985 (19 U.S.C. 58c(j)(3))  
11      is amended by striking “September 30, 2003” and insert-  
12      ing “March 31, 2010”.

○