

Public Law 100-647
100th Congress

An Act

Nov. 10, 1988
[H.R. 4333]

To make technical corrections relating to the Tax Reform Act of 1986, and for other purposes.

Be it enacted by the Senate and House of Representatives of the United States of America in Congress assembled,

Technical and
Miscellaneous
Revenue Act of
1988.
26 USC 1 note.

SECTION 1. SHORT TITLE; ETC.

(a) **SHORT TITLE.**—This Act may be cited as the “Technical and Miscellaneous Revenue Act of 1988”.

(b) **DEFINITIONS.**—For purposes of this Act—

(1) **1986 CODE.**—The term “1986 Code” means the Internal Revenue Code of 1986.

(2) **REFORM ACT.**—Except where incompatible with the intent, the term “Reform Act” means the Tax Reform Act of 1986.

(c) **CLERICAL AMENDMENT.**—Paragraph (29) of section 7701(a) of the 1986 Code is amended by striking out “of 1954” and inserting in lieu thereof “of 1986”.

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TITLE I—TECHNICAL CORRECTIONS TO TAX REFORM ACT OF 1986

Corporations.
Securities.

SEC. 1001. AMENDMENTS RELATED TO TITLE I OF THE REFORM ACT.

(a) AMENDMENTS RELATED TO SECTION 101 OF THE REFORM ACT.—

(1) Paragraph (2) of section 6867(b) of the 1986 Code is amended by striking out “at a 50-percent rate” and inserting in lieu thereof “at the highest rate of tax specified in section 1”.

(2)(A) Section 531 of the 1986 Code is amended to read as follows:

“SEC. 531. IMPOSITION OF ACCUMULATED EARNINGS TAX.

“In addition to other taxes imposed by this chapter, there is hereby imposed for each taxable year on the accumulated taxable income (as defined in section 535) of each corporation described in section 532, an accumulated earnings tax equal to 28 percent of the accumulated taxable income.”

(B) The amendment made by subparagraph (A) shall apply to taxable years beginning after December 31, 1987. Such amendment shall not be treated as a change in a rate of tax for purposes of section 15 of the 1986 Code.

26 USC 531 note.

(3) The last sentence of section 1(g)(2) of the 1986 Code is amended by inserting before the period at the end thereof the following: “and subparagraph (B) shall be applied as if a deduction for a personal exemption were allowable under section 151 to such individual for such individual’s spouse.”

(b) AMENDMENTS RELATED TO SECTION 102 OF THE REFORM ACT.—

(1) Paragraph (5) of section 63(c) of the 1986 Code is amended—

(A) by striking out “the standard deduction applicable” and inserting in lieu thereof “the basic standard deduction applicable”, and

(B) by striking out “STANDARD DEDUCTION” in the paragraph heading and inserting in lieu thereof “BASIC STANDARD DEDUCTION”.

(2) Subclause (I) of section 6012(a)(1)(C)(i) of the 1986 Code is amended to read as follows:

“(I) income (other than earned income) in excess of the sum of the amount in effect under section 63(c)(5)(A) plus the additional standard deduction (if any) to which the individual is entitled, or”.

(3)(A) Subparagraph (A) of section 62(a)(2) of the 1986 Code is amended by adding at the end thereof the following new sentence: “The fact that the reimbursement may be provided by a third party shall not be determinative of whether or not the preceding sentence applies.”

(B) Paragraph (2) of section 527(e) of the 1986 Code (defining exempt function) is amended by adding at the end thereof the following new sentence: “Such term includes the making of expenditures relating to an office described in the preceding sentence which, if incurred by the individual, would be allowable as a deduction under section 162(a).”

(c) AMENDMENT RELATED TO SECTION 111 OF THE REFORM ACT.— Paragraph (3) of section 32(i) of the 1986 Code is amended to read as follows:

“(3) ROUNDING.—If any dollar amount after being increased under paragraph (1) is not a multiple of \$10, such dollar amount shall be rounded to the nearest multiple of \$10 (or, if such dollar amount is a multiple of \$5, such dollar amount shall be increased to the next higher multiple of \$10).”

Fellowships and
scholarships.
Schools and
colleges.

(d) AMENDMENTS RELATED TO SECTION 123 OF THE REFORM ACT.— (1)(A) Clause (ii) of section 4941(d)(2)(G) of the 1986 Code is amended to read as follows:

“(ii) scholarships and fellowship grants which would be subject to the provisions of section 117(a) (as in effect on the day before the date of the enactment of the Tax Reform Act of 1986) and are to be used for study at an educational organization described in section 170(b)(1)(A)(ii).”

(B) Paragraph (1) of section 4945(g) of the 1986 Code is amended to read as follows:

“(1) the grant constitutes a scholarship or fellowship grant which would be subject to the provisions of section 117(a) (as in effect on the day before the date of the enactment of the Tax Reform Act of 1986) and is to be used for study at an educational organization described in section 170(b)(1)(A)(ii).”

Aliens.

(2)(A) The second sentence of section 1441(b) of the 1986 Code is amended to read as follows: “The items of income referred to in subsection (a) from which tax shall be deducted and withheld at the rate of 14 percent are amounts which are received by a nonresident alien individual who is temporarily present in the United States as a nonimmigrant under subparagraph (F), (J), or (M) of section 101(a)(15) of the Immigration and Nationality Act and which are—

“(1) incident to a qualified scholarship to which section 117(a) applies, but only to the extent includible in gross income; or

“(2) in the case of an individual who is not a candidate for a degree at an educational organization described in 170(b)(1)(A)(ii), granted by—

“(A) an organization described in section 501(c)(3) which is exempt from tax under section 501(a),

“(B) a foreign government,

“(C) an international organization, or a binational or multinational educational and cultural foundation or commission created or continued pursuant to the Mutual Educational and Cultural Exchange Act of 1961, or

“(D) the United States, or an instrumentality or agency thereof, or a State, or a possession of the United States, or any political subdivision thereof, or the District of Columbia,

as a scholarship or fellowship for study, training, or research in the United States.”

(B) Subsection (c) of section 871 of the 1986 Code is amended—

(i) by striking out “section 1441(b)(1) or (2)” and inserting in lieu thereof “the second sentence of section 1441(b)”; and

(ii) by striking out “(F) or (J)” each place it appears and inserting in lieu thereof “(F), (J), or (M)”.

(C) The following provisions of the 1986 Code are each amended by striking out “(F) or (J)” each place it appears and inserting in lieu thereof “(F), (J), or (M)”:

- (i) Section 3121(b)(19).
- (ii) Section 3231(e)(1).
- (iii) Section 3306(c)(19).

(D) Clause (i)(I) of section 7701(b)(5)(D) of the 1986 Code is amended by striking out “subparagraph (F)” and inserting in lieu thereof “subparagraph (F) or (M)”.

(E) Section 210(a)(19) of the Social Security Act is amended by striking out “(F) or (J)” each place it appears and inserting in lieu thereof “(F), (J), or (M)”.

42 USC 410.

(e) AMENDMENT RELATED TO SECTION 131 OF THE REFORM ACT.—Subsection (f) of section 86 of the 1986 Code is amended by inserting “and” at the end of paragraph (3), by striking out paragraph (4), and by redesignating paragraph (5) as paragraph (4).

(f) AMENDMENTS RELATED TO SECTION 132 OF THE REFORM ACT.—

(1) Section 67 of the 1986 Code is amended by adding at the end thereof the following new subsection:

“(f) COORDINATION WITH OTHER LIMITATION.—This section shall be applied before the application of the dollar limitation of the last sentence of section 162(a) (relating to trade or business expenses).”

(2) Paragraph (4) of section 67(b) of the 1986 Code is amended—

(A) by striking out “deduction” and inserting in lieu thereof “deductions”, and

(B) by inserting before the comma at the end thereof “and section 642(c) (relating to deduction for amounts paid or permanently set aside for a charitable purpose)”.

(3) Subsection (e) of section 67 of the 1986 Code is amended to read as follows:

“(e) DETERMINATION OF ADJUSTED GROSS INCOME IN CASE OF ESTATES AND TRUSTS.—For purposes of this section, the adjusted gross income of an estate or trust shall be computed in the same manner as in the case of an individual, except that—

“(1) the deductions for costs which are paid or incurred in connection with the administration of the estate or trust and which would not have been incurred if the property were not held in such trust or estate, and

“(2) the deductions allowable under sections 642(b), 651, and 661,

shall be treated as allowable in arriving at adjusted gross income. Under regulations, appropriate adjustments shall be made in the application of part I of subchapter J of this chapter to take into account the provisions of this section.”

(4) Subsection (c) of section 67 of the 1986 Code is amended by striking out the last sentence and inserting in lieu thereof the following: “The preceding sentence shall not apply—

“(1) with respect to cooperatives and real estate investment trusts, and

“(2) except as provided in regulations, with respect to estates and trusts.”

(g) AMENDMENTS RELATED TO SECTION 142 OF THE REFORM ACT.—

(1) Subparagraph (A) of section 274(n)(2) of the 1986 Code is amended to read as follows:

“(A) such expense is described in paragraph (2), (3), (4), (7), (8), or (9) of subsection (e).”

(2) Paragraph (2) of section 274(k) of the 1986 Code is amended to read as follows:

“(2) EXCEPTIONS.—Paragraph (1) shall not apply to—

“(A) any expense described in paragraph (2), (3), (4), (7), (8), or (9) of subsection (e), and

“(B) any other expense to the extent provided in regulations.”

(3) Clause (ii) of section 274(m)(1)(B) of the 1986 Code is amended to read as follows:

“(ii) any expense described in paragraph (2), (3), (4), (7), (8), or (9) of subsection (e).”

(4)(A) Paragraph (2) of section 274(n) of the 1986 Code is amended—

(i) by striking “or” at the end of subparagraph (C),

(ii) by striking the period at the end of subparagraph (D) and inserting “, or”, and

(iii) by adding at the end thereof the following:

“(E) in the case of an employer who pays or reimburses moving expenses of an employee, such expenses are includible in the income of the employee under section 82.

In the case of the employee, the exception of subparagraph (A) shall not apply to expenses described in subparagraph (E).”

(B) The following provisions of the 1986 Code are each amended by striking out “section 217” and inserting in lieu thereof “section 217 (determined without regard to section 274(n))”:

(i) Section 3121(a)(11).

(ii) Section 3306(b)(9).

(iii) Section 3401(a)(15).

42 USC 409.

(C) Section 209(k) of the Social Security Act is amended by striking out “section 217 of the Internal Revenue Code of 1954” and inserting in lieu thereof “section 217 of the Internal Revenue Code of 1986 (determined without regard to section 274(n) of such Code)”.

(5) Paragraphs (1) and (2) of section 274(h) of the 1986 Code are each amended by striking out “trade or business that” and inserting in lieu thereof “trade or business and that”.

Housing.

(h) AMENDMENTS RELATED TO SECTION 143 OF THE REFORM ACT.—

(1) Paragraph (5) of section 280A(c) of the 1986 Code amended by adding at the end thereof the following new sentence: “Any amount taken into account for any taxable year under the preceding sentence shall be subject to the limitation of the 1st sentence of this paragraph whether or not the dwelling unit is used as a residence during such taxable year.”

(2) Clause (ii) of section 280A(c)(5)(B) of the 1986 Code is amended by striking out “trade or business” and inserting in lieu thereof “trade or business (or rental activity)”.

(3) Section 183(e)(2) of the 1986 Code is amended by striking out “2” and inserting in lieu thereof “3 (or 2 if applicable)”.

SEC. 1002. AMENDMENTS RELATED TO TITLE II OF THE REFORM ACT.

(a) AMENDMENTS RELATED TO SECTION 201 OF THE REFORM ACT.—

(1) Subsection (d) of section 1250 of the 1986 Code is amended by striking out paragraph (11).

26 USC 7701.

(2) Subparagraph (B) of section 201(d)(14) of the Reform Act is amended by striking out “section 168(c)(2)(F)” and inserting in lieu thereof “within the meaning of section 168(c)(2)(F)”.

(3) Paragraph (4) of section 312(k) of the 1986 Code is amended by striking out "paragraphs (1) and (3)" and inserting in lieu thereof "paragraph (1)".

(4) Paragraph (4) of section 46(e) of the 1986 Code is amended—

(A) by striking out "168(j)(6)" in subparagraph (B) and inserting in lieu thereof "168(i)(3)",

(B) by striking out "paragraphs (8) and (9) of section 168(j)" in subparagraph (D) and inserting in lieu thereof "paragraphs (5) and (6) of section 168(h)",

(C) by striking out "168(j)" in subparagraph (E) and inserting in lieu thereof "168(h)", and

(D) by striking out "168(j)(4)" in subparagraph (E) and inserting in lieu thereof "168(h)(2)".

(5) Clause (i) of section 168(d)(3)(A) of the 1986 Code is amended by striking out "and which are".

(6)(A) Subparagraph (B) of section 168(f)(5) of the 1986 Code is amended—

(i) by striking out "1st full taxable year" in clause (ii) and inserting in lieu thereof "1st taxable year", and

(ii) by striking out "or" at the end of clause (i), by striking out the period at the end of clause (ii) and inserting in lieu thereof ", or", and by adding at the end thereof the following new clause:

"(iii) any property to which this section (as amended by the Tax Reform Act of 1986) applied in the hands of the transferor."

(B) Paragraph (5) of section 168(f) of the 1986 Code is amended by adding at the end thereof the following new subparagraph:

"(C) SPECIAL RULE.—In the case of any property to which this section would apply but for this paragraph, the depreciation deduction under section 167 shall be determined under the provisions of this section as in effect before the amendments made by section 201 of the Tax Reform Act of 1986."

(7)(A) Subparagraph (A) of section 168(i)(7) of the 1986 Code is amended by adding at the end thereof the following new sentence: "In any case where this section as in effect before the amendments made by section 201 of the Tax Reform Act of 1986 applied to the property in the hands of the transferor, the reference in the preceding sentence to this section shall be treated as a reference to this section as so in effect."

(B) Subparagraph (B) of section 168(i)(7) of the 1986 Code is amended to read as follows:

"(B) TRANSACTIONS COVERED.—The transactions described in this subparagraph are—

"(i) any transaction described in section 332, 351, 361, 371(a), 374(a), 721, or 731, and

"(ii) any transaction between members of the same affiliated group during any taxable year for which a consolidated return is made by such group.

Subparagraph (A) shall not apply in the case of a termination of a partnership under section 708(b)(1)(B)."

(C) Subparagraph (D) of section 168(i)(7) of the 1986 Code is hereby repealed.

(8) Subparagraph (B) of section 168(h)(2) of the 1986 Code is amended to read as follows:

“(B) EXCEPTION FOR CERTAIN PROPERTY SUBJECT TO UNITED STATES TAX AND USED BY FOREIGN PERSON OR ENTITY.— Clause (iii) of subparagraph (A) shall not apply with respect to any property if more than 50 percent of the gross income for the taxable year derived by the foreign person or entity from the use of such property is—

“(i) subject to tax under this chapter, or

“(ii) included under section 951 in the gross income of a United States shareholder for the taxable year with or within which ends the taxable year of the controlled foreign corporation in which such income was derived.

For purposes of the preceding sentence, any exclusion or exemption shall not apply for purposes of determining the amount of the gross income so derived, but shall apply for purposes of determining the portion of such gross income subject to tax under this chapter.”

(9) Subsection (a) of section 178 of the 1986 Code is amended by striking out “the deduction allowable to a lessee of a lease for any taxable year for amortization under section 167, 169, 179, 185, 190, 193, or 194” and inserting in lieu thereof “the deduction allowable to a lessee for exhaustion, wear and tear, obsolescence, or amortization”.

(10) Subparagraph (A) of section 280F(d)(3) of the 1986 Code is amended by striking out “any recovery deduction” and inserting in lieu thereof “any depreciation deduction”.

(11)(A) Paragraph (2) of section 168(b) of the 1986 Code is amended to read as follows:

“(2) 150 PERCENT DECLINING BALANCE METHOD IN CERTAIN CASES.—Paragraph (1) shall be applied by substituting ‘150 percent’ for ‘200 percent’ in the case of—

“(A) any 15-year or 20-year property, or

“(B) any property (other than property described in paragraph (3)) with respect to which the taxpayer elects under paragraph (5) to have the provisions of this paragraph apply.”

(B) Paragraph (5) of section 168(b) of the 1986 Code is amended by striking out “under paragraph (3)(C)” and inserting in lieu thereof “under paragraph (2)(B) or (3)(C)”.

(C) Subsection (c) of section 168 of the 1986 Code is amended to read as follows:

“(c) APPLICABLE RECOVERY PERIOD.—For purposes of this section—

“(1) IN GENERAL.—Except as provided in paragraph (2), the applicable recovery period shall be determined in accordance with the following table:

| “In the case of: | The applicable recovery period is: |
|-----------------------------------|------------------------------------|
| 3-year property..... | 3 years |
| 5-year property..... | 5 years |
| 7-year property..... | 7 years |
| 10-year property..... | 10 years |
| 15-year property..... | 15 years |
| 20-year property..... | 20 years |
| Residential rental property..... | 27.5 years |
| Nonresidential real property..... | 31.5 years. |

“(2) PROPERTY FOR WHICH 150 PERCENT METHOD ELECTED.—In the case of property to which an election under subsection (b)(2)(B) applies, the applicable recovery period shall be determined under the table contained in subsection (g)(2)(C).”

(12) Clause (i) of section 56(a)(1)(C) of the 1986 Code is amended by striking out “do not apply” and inserting in lieu thereof “do not apply by reason of section 203, 204, or 251(d) of such Act”.

(13) The heading of paragraph (24) of section 381(c) of the 1986 Code is amended by striking out “RECOVERY ALLOWANCE FOR RECOVERY PROPERTY” and inserting in lieu thereof “DEPRECIATION DEDUCTION”.

(14) Paragraph (5) of section 48(a) of the 1986 Code is amended—

(A) by striking out “168(j)(4)(C)” and inserting in lieu thereof “168(h)(2)(C)”,

(B) by striking out “168(j)(4)(A)(iii)” and inserting in lieu thereof “168(h)(2)(A)(iii)”,

(C) by striking out “168(j)(4)(B)” and inserting in lieu thereof “168(h)(2)(B)”,

(D) by striking out “168(j)(6)” and inserting in lieu thereof “168(i)(3)”,

(E) by striking out “168(j)(3)(C)(ii)” and inserting in lieu thereof “168(h)(1)(C)(ii)”,

(F) by striking out “paragraphs (8) and (9) of section 168(j)” and inserting in lieu thereof “paragraphs (5) and (6) of section 168(h)”, and

(G) by striking out subparagraph (E) and inserting in lieu thereof the following:

“(E) CROSS REFERENCE.—

“For provision providing special rules for the application of this paragraph and paragraph (4), see section 168(h).”

(15) The last sentence of section 46(e)(3) of the 1986 Code is amended—

(A) by striking out “recovery property (within the meaning of section 168)” and inserting in lieu thereof “property to which section 168 applies”,

(B) by striking out “present class life” and inserting in lieu thereof “class life”, and

(C) by striking out “168(g)(2)” and inserting in lieu thereof “168(i)(1)”.

(16)(A) Subsection (s) of section 48 of the 1986 Code is amended by adding at the end thereof the following new paragraph:

“(9) TERMINATION.—This subsection shall not apply to any property placed in service after December 31, 1985, unless such property is transition property (as defined in section 49(e)(1)).”

(B) Paragraph (4) of section 168(f) of the 1986 Code is amended to read as follows:

“(4) SOUND RECORDINGS.—Any works which result from the fixation of a series of musical, spoken, or other sounds, regardless of the nature of the material (such as discs, tapes, or other phonorecordings) in which such sounds are embodied.”

(17) Paragraph (7) of section 46(c) of the 1986 Code is amended—

(A) by striking out “recovery property” and inserting in lieu thereof “property to which section 168 applies”,

(B) by striking out “168(c)” each place it appears and inserting in lieu thereof “168(e)”,

(C) by striking out “168(f)(3)(B)” and inserting in lieu thereof “168(f)(3)(B) (as in effect on the day before the date of the enactment of the Tax Reform Act of 1986)”, and

(D) by striking out “RECOVERY PROPERTY” in the paragraph heading and inserting in lieu thereof “PROPERTY TO WHICH SECTION 168 APPLIES”.

(18) Paragraph (1) of section 47(d) of the 1986 Code is amended by striking out “section 48(c)(8)(C)” and inserting in lieu thereof “section 46(c)(8)(C)”.

(19) Paragraph (1) of section 179(d) of the 1986 Code is amended by striking out “recovery property” and inserting in lieu thereof “tangible property (to which section 168 applies)”.

(20) Section 48 of the 1986 Code is amended by redesignating the subsection (s) relating to cross references as subsection (t).

(21) Clause (v) of section 168(e)(3)(B) of the 1986 Code is amended by striking out “any property” and inserting in lieu thereof “any section 1245 property”.

(22) The last sentence of section 167(l)(3)(G) of the 1986 Code is amended by striking out “section 168(e)(3)(C)” and inserting in lieu thereof “section 168(i)(9)(B)”.

(23)(A) Subparagraph (B) of section 168(d)(3) of the 1986 Code is amended to read as follows:

“(B) CERTAIN PROPERTY NOT TAKEN INTO ACCOUNT.—For purposes of subparagraph (A), there shall not be taken into account—

“(i) any nonresidential real property and residential rental property, and

“(ii) any other property placed in service and disposed of during the same taxable year.”

(B) Clause (ii) of section 168(d)(3)(B) of the 1986 Code (as added by subparagraph (A)) shall apply to taxable years beginning after March 31, 1988, unless the taxpayer elects, at such time and in such manner as the Secretary of the Treasury or his delegate may prescribe, to have such clause apply to taxable years beginning on or before such date.

(24) Subsection (a) of section 167 of the 1986 Code is amended by striking out the last sentence.

(25) Subparagraph (B) of section 46(d)(1) of the 1986 Code is amended—

(A) by striking out “recovery property (within the meaning of section 168)” in clause (i) and inserting in lieu thereof “property to which section 168 applies”, and

(B) by striking out “which is not recovery property (within the meaning of section 168)” in clause (ii) and inserting in lieu thereof “to which section 168 does not apply”.

(26)(A) Subparagraph (E) of section 47(a)(5) of the 1986 Code is amended by adding at the end thereof the following new clause:

“(v) TREATMENT AS RECOVERY PROPERTY.—Any reference in this paragraph to recovery property shall be treated as including a reference to any property to which section 168 (as amended by the Tax Reform Act of 1986) applies.”

(B) Subparagraph (D) of section 47(a)(5) of the 1986 Code is amended by striking out the last sentence.

(C) Clause (iii) of section 47(a)(5)(E) of the 1986 Code is amended by striking out "section 168(c)" and inserting in lieu thereof "section 168(e)".

(27) Subparagraph (A) of section 47(a)(9) of the 1986 Code is amended by striking out "section 168(j)(4)(C)" and inserting in lieu thereof "section 168(h)(2)".

(28) Clause (i) of section 47(d)(3)(C) of the 1986 Code is amended—

(A) by striking out "present class life (as defined in section 168(g)(2))" and inserting in lieu thereof "class life (as defined in section 168(i)(1))", and

(B) by striking out "no present class life" and inserting in lieu thereof "no class life".

(29) Paragraph (1) of section 48(a) of the 1986 Code is amended by striking out "recovery property (within the meaning of section 168)" in the material following subparagraph (G) and inserting in lieu thereof "property to which section 168 applies".

(30) Subparagraph (C) of section 48(l)(2) of the 1986 Code is amended by striking out "which is recovery property (within the meaning of section 168)" and inserting in lieu thereof "to which section 168 applies".

(31) Subsection (d) of section 167 of the 1986 Code is amended by striking out "recovery property defined in section 168" and inserting in lieu thereof "property to which section 168 applies".

(b) AMENDMENTS RELATED TO SECTION 202 OF THE REFORM ACT.—

(1) Paragraph (3) of section 179(b) of the 1986 Code is amended to read as follows:

"(3) LIMITATION BASED ON INCOME FROM TRADE OR BUSINESS.—

"(A) IN GENERAL.—The amount allowed as a deduction under subsection (a) for any taxable year (determined after the application of paragraphs (1) and (2)) shall not exceed the aggregate amount of taxable income of the taxpayer for such taxable year which is derived from the active conduct by the taxpayer of any trade or business during such taxable year.

"(B) CARRYOVER OF DISALLOWED DEDUCTION.—The amount allowable as a deduction under subsection (a) for any taxable year shall be increased by the lesser of—

"(i) the aggregate amount disallowed under subparagraph (A) for all prior taxable years (to the extent not previously allowed as a deduction by reason of this subparagraph), or

"(ii) the excess (if any) of—

"(I) the limitation of paragraphs (1) and (2) (or if lesser, the aggregate amount of taxable income referred to in subparagraph (A)), over

"(II) the amount allowable as a deduction under subsection (a) for such taxable year without regard to this subparagraph.

"(C) COMPUTATION OF TAXABLE INCOME.—For purposes of this paragraph, taxable income derived from the conduct of a trade or business shall be computed without regard to the deduction allowable under this section."

(2) Paragraph (1) of section 280F(d) of the 1986 Code is amended by striking out "subsections (a) and (b)" and inserting in lieu thereof "subsections (a) and (b), and the limitation of paragraph (3) of this subsection,".

Real property.
26 USC 168 note.

(c) AMENDMENTS RELATED TO SECTION 203 OF THE REFORM ACT.—

(1) Subparagraph (B) of section 203(a)(1) of the Reform Act is amended by adding at the end thereof the following new sentence: "No election may be made under this subparagraph with respect to property to which section 168 of the Internal Revenue Code of 1986 would not apply by reason of section 168(f)(5) of such Code if such property were placed in service after December 31, 1986."

(2) Subsection (d) of section 203 of the Reform Act is amended—

(A) by striking out "the case of any taxable year" and inserting in lieu thereof "the case of any taxable year beginning before October 1, 1987", and

(B) by adding at the end thereof the following new sentence: "The preceding sentence shall only apply to property which would be taken into account if such amendments did apply."

26 USC 168 note.

(3) Notwithstanding section 203 of the Reform Act, the amendments made by section 201 of the Reform Act shall apply to any real property which was acquired before January 1, 1987, and was converted on or after such date from personal use to a use for which depreciation is allowable.

(4) Paragraph (1) of section 203(b) of the Reform Act is amended by adding at the end thereof the following new sentence:

"For purposes of this paragraph, all members of the same affiliated group of corporations (within the meaning of section 1504 of the Internal Revenue Code of 1986) filing a consolidated return shall be treated as one taxpayer."

(5) Paragraph (1) of section 203(c) of the Reform Act is amended by striking out "Subparagraph" and inserting in lieu thereof "Except as otherwise provided in this subsection or section 204, subparagraph".

(6) Clause (i) of section 203(b)(2)(C) of the Reform Act is amended by striking out "shall be the class life" and inserting in lieu thereof "applies shall be the class life".

(7) Paragraph (3) of section 203(b) of the Reform Act is amended—

(A) by inserting before the comma at the end of subparagraph (A) "(or would have met such requirements if placed in service by such person)", and

(B) by inserting ", or is leased to such person," before "not later than".

(8) Paragraph (2) of section 203(a) of the Reform Act is amended to read as follows:

"(2) SECTION 202.—

"(A) IN GENERAL.—The amendments made by section 202 shall apply to property placed in service after December 31, 1986, in taxable years ending after such date.

"(B) SPECIAL RULE FOR FISCAL YEARS INCLUDING JANUARY 1, 1987.—In the case of any taxable year (other than a calendar year) which includes January 1, 1987, for purposes of applying the amendments made by section 202 to property placed in service during such taxable year and after December 31, 1986—

"(i) the limitation of section 179(b)(1) of the Internal Revenue Code of 1986 (as amended by section 202) shall

be reduced by the aggregate deduction under section 179 (as in effect on the day before the date of the enactment of the Tax Reform Act of 1986) for section 179 property placed in service during such taxable year and before January 1, 1987,

“(ii) the limitation of section 179(b)(2) of such Code (as so amended) shall be applied by taking into account the cost of all section 179 property placed in service during such taxable year, and

“(iii) the limitation of section 179(b)(3) of such Code shall be applied by taking into account the taxable income for the entire taxable year reduced by the amount of any deduction under section 179 of such Code for property placed in service during such taxable year and before January 1, 1987.”

(d) AMENDMENTS RELATED TO SECTION 204 OF THE REFORM ACT.—

(1) Subparagraph (B) of section 204(a)(1) of the Reform Act is amended by striking out “and” at the end of clause (ii), by striking out the period at the end of clause (iii) and inserting in lieu thereof “, and”, and by inserting after clause (iii) the following new clause:

“(iv) described in subparagraph (F) or (H).”

(2) Subparagraph (C) of section 204(a)(1) of the Reform Act is amended by striking out the last sentence and inserting in lieu thereof the following:

“For purposes of this subparagraph, section 203(b)(2) shall be applied by substituting ‘January 1, 1994’ for ‘January 1, 1991’ each place it appears.”

(3) Subparagraph (E) of section 204(a)(1) of the Reform Act is amended by striking out the last sentence and inserting in lieu thereof the following: “For purposes of this subparagraph, section 203(b)(2) shall be applied by substituting ‘January 1, 1998’ for ‘January 1, 1991’ each place it appears.”

(4) Subparagraph (F) of section 204(a)(1) of the Reform Act is amended—

(A) by striking out “paragraph” and inserting in lieu thereof “subparagraph”,

(B) by striking out “, or” at the end of clause (iii) and inserting in lieu thereof a period, and

(C) by striking out so much of clause (iv) as precedes subclause (I) thereof and inserting in lieu thereof the following:

“A project is also described in this subparagraph if it is a mixed-use development which is—”.

(5) The last sentence of section 204(a)(1)(F) of the Reform Act is amended—

(A) by striking out “subsection (b)(2)” and inserting in lieu thereof “section 203(b)(2)”, and

(B) by striking out “1993” and inserting in lieu thereof “1998”.

(6) Subparagraph (H) of section 204(a)(1) of the Reform Act is amended by striking out “July 1, 1986” and inserting in lieu thereof “June 30, 1986”.

(7)(A) Paragraph (4) of section 204(a) of the Reform Act is amended to read as follows:

“(4) PROPERTY TREATED UNDER PRIOR TAX ACTS.—The amendments made by section 201 shall not apply—

26 USC 168 note.

“(A) to property described in section 12(c)(2) (as amended by the Technical and Miscellaneous Revenue Act of 1988), 31(g)(5), or 31(g)(17)(J) of the Tax Reform Act of 1984,

“(B) to property described in section 209(d)(1)(B) of the Tax Equity and Fiscal Responsibility Act of 1982, as amended by the Tax Reform Act of 1984, and

“(C) to property described in section 216(b)(3) of the Tax Equity and Fiscal Responsibility Act of 1982.”

26 USC 168 note.

(B) Paragraph (2) of section 12(c) of the Tax Reform Act of 1984 is amended by striking out “which is placed in service before January 1, 1988”.

26 USC 168 note.

(8) Subparagraph (K) of section 204(a)(5) of the Reform Act is amended—

(A) by striking out “either” in the matter preceding clause (i),

(B) by striking out “super calendar” in clause (i) and inserting in lieu thereof “supercalendered”,

(C) by striking out “were incurred” in clause (i) and inserting in lieu thereof “was incurred”, and

(D) by inserting “the project” before “involves” in clause (v).

(9) Paragraph (5) of section 204(a) of the Reform Act is amended by adding at the end thereof the following new subparagraph:

Communications
and tele-
communications.
Minnesota.
Wisconsin.

“(Z) A project is described in this subparagraph if—

“(i) such project involves a fiber optic network of at least 475 miles, passing through Minnesota and Wisconsin; and

“(ii) before January 1, 1986, at least \$15,000,000 was expended or committed for electronic equipment or fiber optic cable to be used in constructing the network.”

(10)(A) Paragraph (8) of section 204(a) of the Reform Act is amended by striking out the period at the end of subparagraph (C) and inserting in lieu thereof a comma, and by adding at the end thereof the following new subparagraphs:

Tennessee.

“(D) a bond volume carryforward election was made for the facility and the facility is for Chattanooga, Knoxville, or Kingsport, Tennessee, or

Massachusetts.

“(E) such facility is to serve Haverhill, Massachusetts.”

(B) Paragraph (8) of section 204(a) of the Reform Act is amended by striking out “, and section 203(c).”.

(11) Paragraph (10) of section 204(a) of the Reform Act is amended—

South Carolina.

(A) by striking out “either” in the material preceding subparagraph (A),

(B) by striking out “wastewater treatment facility” in subparagraph (C) and inserting in lieu thereof “wastewater treatment facility serving Greenville, South Carolina”, and

(C) by striking out “the letter of intent and service agreement described in subparagraph (A)(2) of this paragraph” in subparagraph (D) and inserting in lieu thereof “such letter of intent and service agreement”.

(12) Paragraph (11) of section 204(a) of the Reform Act is amended—

(A) by striking out "Kansas, Florida, Georgia, or Texas" in subparagraph (A) and inserting in lieu thereof "the United States",

(B) by striking out "the purchase" in subparagraph (C) and inserting in lieu thereof "the purchaser", and

(C) by striking out the last sentence.

(13) Paragraph (14) of section 204(a) of the Reform Act is amended by striking out the period at the end of subparagraph (E) and inserting in lieu thereof a comma, and by inserting after subparagraph (E) the following:

"(F) the project has a planned scheduled capacity of approximately 38,000 kilowatts, the project property is placed in service before January 1, 1991, and the project is operated, established, or constructed pursuant to certain agreements, the negotiation of which began before 1986, with public or municipal utilities conducting business in Massachusetts, or

"(G) the Board of Regents of Oklahoma State University took official action on July 25, 1986, with respect to the project.

In the case of the project described in subparagraph (F), section 203(b)(2)(A) shall be applied by substituting 'January 1, 1991' for 'January 1, 1989'."

(14) Paragraph (15) of section 204(a) of the Reform Act is amended—

(A) by adding "located in New Mexico" after "to a project",

(B) by striking out "\$72,000" and inserting in lieu thereof "\$72,000,000", and

(C) by striking out the last sentence and inserting in lieu thereof the following:

"For purposes of this paragraph, section 203(b)(2) shall be applied by substituting 'January 1, 1996' for 'January 1, 1991' each place it appears."

(15) Paragraph (24) of section 204(a) of the Reform Act is amended by adding at the end thereof the following new subparagraphs:

"(E) The amendments made by section 201 shall not apply to the Muskegon, Michigan, Cross-Lake Ferry project having a projected cost of approximately \$7,200,000.

"(F) The amendments made by section 201 shall not apply to a new automobile carrier vessel, the contract price for which is no greater than \$28,000,000, and which will be constructed for and placed in service by OSG Car Carriers, Inc., to transport, under the United States flag and with an American crew, foreign automobiles to North America in a case where negotiations for such transportation arrangements commenced in 1985, and definitive transportation contracts were awarded before June 1986."

(16) Paragraph (25) of section 204(a) of the Reform Act is amended by striking out "wood energy products" and inserting in lieu thereof "wood energy projects".

(17) Paragraph (27) of section 204(a) of the Reform Act is amended—

(A) in subparagraph (B), by striking out "525,000" and inserting in lieu thereof "540,000",

(B) in subparagraph (C)—

(i) by striking out "\$32,000,000" and inserting in lieu thereof "\$22,000,000", and

(ii) by striking out "before" and inserting in lieu thereof "on",

(C) in subparagraph (D), by striking out "and 7th Avenue", and

(D) in subparagraph (H), by striking out "\$62,000" and inserting in lieu thereof "\$62,600,000".

26 USC 168 note.

(18) Paragraph (27) of section 204(a) of the Reform Act is amended by adding at the end thereof the following:

"(I) A 600,000 square foot mixed use building known as Flushing Center with respect to which a letter of intent was executed on March 26, 1986.

In the case of the building described in subparagraph (I), section 203(b)(2)(A) shall be applied by substituting 'January 1, 1993' for the applicable date which would otherwise apply."

(19) Paragraph (31) of section 204(a) of the Reform Act is amended by striking out "\$10,200,000" and inserting in lieu thereof "\$10,500,000".

(20) Paragraph (32) of section 204(a) of the Reform Act is amended—

(A) in subparagraph (A)—

(i) by striking out "July 30, 1984" and inserting in lieu thereof "December 26, 1985",

(ii) by striking out "February 28, 1985" and inserting in lieu thereof "July 2, 1986", and

(iii) by striking out "on June 17, 1985" and inserting in lieu thereof "in May 1985",

(B) in subparagraph (B)—

(i) by striking out "August 30, 1984" and inserting in lieu thereof "December 26, 1985",

(ii) by striking out "May 4, 1985" and inserting in lieu thereof "July 2, 1986", and

(iii) by striking out "on July 3, 1985" and inserting in lieu thereof "in July 1985",

(C) in subparagraph (E)—

(i) by striking out "\$2,200,000" and inserting in lieu thereof "\$5,000,000",

(ii) by striking out "on January 27, 1986" and inserting "in 1986", and

(iii) by inserting "in Masontown, Pennsylvania," after "plant",

(D) by amending subparagraph (K) to read as follows:

"(K) A 250 megawatt coal-fired electric plant in north-eastern Nevada estimated to cost \$600,000,000 and known as the Thousand Springs project, on which the Sierra Pacific Power Company, a subsidiary of Sierra Pacific Resources, began in 1980 work to design, finance, construct, and operate (and section 203(b)(2) shall be applied with respect to such plant by substituting 'January 1, 1995' for 'January 1, 1991'),",

(E) in subparagraph (L), by inserting "in connection with" after "housing",

(F) by amending subparagraph (M) to read as follows:

"(M) property which is part of the Kenosha Downtown Redevelopment Project and which is financed with the proceeds of bonds issued pursuant to section 1317(6)(W)",

Pennsylvania.

Energy.
Nevada.

(G) in subparagraph (O), by striking out "New Orleans, Louisiana" and inserting in lieu thereof "Pensacola, Florida", and

(H) in subparagraph (S)—

- (i) by inserting "to be" before "placed",
- (ii) by inserting "Coal" before "Company",
- (iii) by inserting "(or any subsidiary thereof)" after "Company", and
- (iv) by striking out "on December 31, 1985" and inserting in lieu thereof "by December 31, 1985".

(21) Subparagraph (T) of section 204(a)(32) of the Reform Act is amended to read as follows: 26 USC 168 note.

"(T) a portion of a fiber optics network placed in service by LDX NET after December 31, 1988, but only to the extent the cost of such portion does not exceed \$25,000,000."

(22) Subparagraph (U) of section 204(a)(32) of the Reform Act is amended by striking out "placed in service" and inserting in lieu thereof "constructed".

(23) Subparagraph (X) of section 204(a)(32) of the Reform Act is amended by striking out "the home rule city and the State housing finance agency adopted inducement resolutions on December 20, 1985" and inserting in lieu thereof "the home rule city on December 4, 1985, and the State housing finance agency on December 20, 1985, adopted inducement resolutions".

(24) Subparagraph (C) of paragraph (33) of section 204(a) of the Reform Act is amended to read as follows:

"(C)(i) a waste-to-energy project in Derry, New Hampshire, costing approximately \$60,000,000, and

"(ii) a waste-to-energy project in Manchester, New Hampshire, costing approximately \$60,000,000,".

(25) Paragraph (33) of section 204(a) of the Reform Act is amended by striking out "and" at the end of subparagraph (J), by striking out the period at the end of subparagraph (K) and inserting in lieu thereof ", and", and by inserting after subparagraph (K) the following:

"(L) a cogeneration facility to be built at a paper company in Turners Falls, Massachusetts, with respect to which a letter of intent was executed on behalf of the paper company on September 26, 1985."

(26) Subsection (a) of section 204 of the Reform Act is amended by adding at the end thereof the following new paragraphs:

"(34) The amendments made by section 201 shall not apply to an approximately 240,000 square foot beverage container manufacturing plant located in Batesville, Mississippi, or plant equipment used exclusively on the plant premises if—

"(A) a 2-year supply contract was signed by the taxpayer and a customer on November 1, 1985,

"(B) such contract further obligated the customer to purchase beverage containers for an additional 5-year period if physical signs of construction of the plant are present before September 1986,

"(C) ground clearing for such plant began before August 1986, and

"(D) construction is completed, the equipment is installed, and operations are commenced before July 1, 1987.

Florida.

26 USC 168 note.

Energy.
New Hampshire.

Massachusetts.

“(35) The amendments made by section 201 shall not apply to any property which is part of the multifamily housing at the Columbia Point Project in Boston, Massachusetts. A project shall be treated as not described in the preceding sentence and as not described in section 252(f)(1)(D) unless such project includes at substantially all times throughout the compliance period (within the meaning of section 42(i)(1) of the Internal Revenue Code of 1986), a facility which provides health services to the residents of such project for fees commensurate with the ability of such individuals to pay for such services.

“(36) The amendments made by section 201 shall not apply to any ethanol facility located in Blair, Nebraska, if—

“(A) in July of 1984 an initial binding construction contract was entered into for such facility,

“(B) in June of 1986, certain Department of Energy recommended contract changes required a change of contractor, and

“(C) in September of 1986, a new contract to construct such facility, consistent with such recommended changes, was entered into.

“(37) The amendments made by section 201 shall not apply to any property which is part of a sewage treatment facility if, prior to January 1, 1986, the City of Conyers, Georgia, selected a privatizer to construct such facility, received a guaranteed maximum price bid for the construction of such facility, signed a letter of intent and began substantial negotiations of a service agreement with respect to such facility.

“(38) The amendments made by section 201 shall not apply to—

“(A) a \$28,000,000 wood resource complex for which construction was authorized by the Board of Directors on August 9, 1985,

“(B) an electrical cogeneration plant in Bethel, Maine which is to generate 2 megawatts of electricity from the burning of wood residues, with respect to which a contract was entered into on July 10, 1984, and with respect to which \$200,000 of the expected \$2,000,000 cost had been committed before June 15, 1986,

“(C) a mixed income housing project in Portland, Maine which is known as the Back Bay Tower and which is expected to cost \$17,300,000,

“(D) the Eastman Place project and office building in Rochester, New York, which is projected to cost \$20,000,000, with respect to which an inducement resolution was adopted in December 1986, and for which a binding contract of \$500,000 was entered into on April 30, 1986,

“(E) the Marquis Two project in Atlanta, Georgia which has a total budget of \$72,000,000 and the construction phase of which began under a contract entered into on March 26, 1986,

“(F) a 166-unit continuing care retirement center in New Orleans, Louisiana, the construction contract for which was signed on February 12, 1986, and is for a maximum amount not to exceed \$8,500,000,

“(G) the expansion of the capacity of an oil refining facility in Rosemont, Minnesota from 137,000 to 207,000

barrels per day which is expected to be completed by December 31, 1990, and

“(H) a project in Ransom, Pennsylvania which will burn coal waste (known as ‘culm’) with an approximate cost of \$64,000,000 and for which a certification from the Federal Energy Regulatory Commission was received on March 11, 1986.

“(39) The amendments made by section 201 shall not apply to any facility for the manufacture of an improved particle board if a binding contract to purchase such equipment was executed March 3, 1986, such equipment will be placed in service by January 1, 1988, and such facility is located in or near Moncure, North Carolina.”

(27) Subsection (b) of section 204 of the Reform Act is amended by inserting “(as amended by the Tax Reform Act of 1984)” immediately before the period at the end thereof.

26 USC 168 note.

(28) Subparagraph (A) of section 204(c)(1) of the Reform Act is amended by inserting “located in Pennsylvania and” before “constructed pursuant”.

Pennsylvania.

(29) Paragraph (3) of section 204(c) of the Reform Act is amended—

(A) by striking out “for the applicable date” and inserting in lieu thereof “(or, in the case of a project described in subparagraph (B), by substituting ‘April 1, 1992’) for the applicable date”,

(B) by striking out “before April 1, 1986” in subparagraph (A) and inserting in lieu thereof “on or before April 1, 1986”, and

(C) by adding at the end thereof the following:

“In the case of an aircraft described in subparagraph (A), section 203(b)(1)(A) shall be applied by substituting ‘April 1, 1986’ for ‘March 1, 1986’ and section 49(e)(1)(B) of the Internal Revenue Code of 1986 shall not apply.”

(30)(A) Paragraph (4) of section 204(c) of the Reform Act is amended by striking out all that precedes subparagraph (L) and inserting in lieu thereof the following:

“(4) The amendments made by section 201 shall not apply to a limited amount of the following property or a limited amount of property set forth in a submission before September 16, 1986, by the following taxpayers:

“(A) Arena project, Michigan, but only with respect to \$78,000,000 of investments.

“(B) Campbell Soup Company, Pennsylvania, California, North Carolina, Ohio, Maryland, Florida, Nebraska, Michigan, South Carolina, Texas, New Jersey, and Delaware, but only with respect to \$9,329,000 of regular investment tax credits.

“(C) The Southeast Overtown/Park West development, Florida, but only with respect to \$200,000,000 of investments.

“(D) Equipment placed in service and operated by Leggett and Platt before July 1, 1987, but only with respect to \$2,000,000 of regular investment tax credits, and subsections (c) and (d) of section 49 of the Internal Revenue Code of 1986 shall not apply to such equipment.

“(E) East Bank Housing Project.

“(F) \$1,561,215 of investments by Standard Telephone Company.

“(G) Five aircraft placed in service before January 1, 1987, by Presidential Air.

“(H) A rehabilitation project by Ann Arbor Railroad, but only with respect to \$2,900,000 of investments.

“(I) Property that is part of a cogeneration project located in Ada, Michigan, but only with respect to \$30,000,000 of investments.

“(J) Anchor Store Project, Michigan, but only with respect to \$21,000,000 of investments.

“(K) A waste-fired electrical generating facility of Biogen Power, but only with respect to \$34,000,000 of investments.”

26 USC 168 note.

(B) Paragraph (4) of section 204(c) of the Reform Act is amended by striking out all that follows subparagraph (L) and inserting in lieu thereof the following:

“(M) Interests of Samuel A. Hardage (whether owned individually or in partnership form).

“(N) Two aircraft of Mesa Airlines with an aggregate cost of \$5,723,484.

“(O) Yarn-spinning equipment used at Spray Cotton Mills, but only with respect to \$3,000,000 of investments.

“(P) 328 units of low-income housing at Angelus Plaza, but only with respect to \$20,500,000 of investments.

“(Q) One aircraft of Continental Aviation Services with a cost of approximately \$15,000,000 that was purchased pursuant to a contract entered into during March of 1983 and that is placed in service by December 31, 1988.”

(31) Paragraph (29) of section 204(a) of the Reform Act is amended—

(A) by striking out “January 18” in subparagraph (A) and inserting in lieu thereof “January 25”, and

(B) by striking out “law suits filed on June 22, 1984, and November 21, 1985” in subparagraph (B) and inserting in lieu thereof “a law suit filed on October 25, 1985”.

(32) Subparagraph (J) of section 204(a)(33) of the Reform Act, as amended by paragraph (25), is amended to read as follows:

“(J) A 25.85 megawatt alternative energy facility located in Deblois, Maine, with respect to which certification by the Federal Energy Regulatory Commission was made on April 3, 1986.”

(33) Paragraph (3) of section 204(c) of the Reform Act is amended—

(A) by inserting “and” at the end of subparagraph (B),

(B) by striking out subparagraph (C), and

(C) by redesignating subparagraph (D) as subparagraph (C).

(34) Subclause (II) of section 204(a)(5)(J)(ii) of the Reform Act is amended to read as follows:

“(II) the Board of Directors of an automobile manufacturer approved a written plan for the conversion of existing facilities to produce new models of a vehicle not currently produced in the United States, such facilities will be placed in service by July 1, 1987, and such Board action occurred in July 1985 with respect to a \$602,000,000 expendi-

ture, a \$438,000,000 expenditure, and a \$321,000,000 expenditure.”

(35) Subparagraph (T) of section 204(a)(5) of the Reform Act is amended to read as follows:

“(T) A project is described in this subparagraph if it is a plant facility on Alaska’s North Slope which is placed in service before January 1, 1988, and—

“(i) the approximate cost of which is \$675,000,000, of which approximately \$400,000,000 was spent on off-site construction,

“(ii) the approximate cost of which is \$445,000,000, of which approximately \$400,000,000 was spent on off-site construction and more than 50 percent of the project cost was spent prior to December 31, 1985, or

“(iii) the approximate cost of which is \$375,000,000, of which approximately \$260,000,000 was spent on off-site construction.”

(e) AMENDMENTS RELATING TO SECTION 211 OF THE REFORM ACT.—

(1) Paragraph (1) of section 49(d) of the 1986 Code is amended to read as follows:

“(1) IN GENERAL.—In the case of periods after December 31, 1985, with respect to so much of the credit determined under section 46(a) with respect to transition property as is attributable to the regular investment credit (as defined in subsection (c)(5)(B))—

“(A) paragraphs (1), (2), and (7) of section 48(q) and section 48(d)(5) shall be applied by substituting ‘100 percent’ for ‘50 percent’ each place it appears, and

“(B) sections 48(q)(4) and 196(d) shall not apply.”

(2) Subparagraph (B) of section 49(c)(4) of the 1986 Code is amended to read as follows:

“(B) NO CARRYBACK FOR YEARS STRADDLING JULY 1, 1987; GROSS UP OF CARRYFORWARDS.—In any case to which paragraph (3) applies—

“(i) the amount of the reduction under paragraph (3) may not be carried back to any taxable year, but

“(ii) there shall be added to the carryforwards from the taxable year (before applying paragraph (2)) an amount equal to the amount which bears the same ratio to the carryforwards from such taxable year (determined without regard to this clause) as—

“(I) the applicable percentage, bears to

“(II) 1 minus the applicable percentage.”

(3) Clause (i) of section 49(c)(5)(B) of the 1986 Code is amended to read as follows:

“(i) IN GENERAL.—The term ‘regular investment credit’ means the credit determined under section 46(a) to the extent attributable to the regular percentage.”

(4) Paragraph (1) of section 211(e) of the Reform Act is amended by adding at the end thereof the following new sentence: “Section 49(c) of the Internal Revenue Code of 1986 (as added by subsection (a)) shall apply to taxable years ending after June 30, 1987, and to amounts carried to such taxable years.”

(5) Paragraph (4)(A) of section 211(e) of the Reform Act is amended—

(A) by striking out "Paragraphs (c) and (d) of section 49 of the Internal Revenue Code of 1954" and inserting in lieu thereof "Subsections (c) and (d) of section 49 of the Internal Revenue Code of 1986", and

(B) by striking out "1935" and inserting in lieu thereof "1985".

26 USC 49 note.

(6) Paragraph (4)(B) of section 211(e) of the Reform Act is amended by striking out "shall be treated as transition property" and inserting in lieu thereof "shall be treated as transition property and subsections (c) and (d) of section 49 of such Code shall not apply to such property".

(7) Paragraph (4) of section 211(e) of the Reform Act is amended by adding at the end thereof the following new subparagraphs:

Waste disposal.
Minnesota.

"(C) Any solid waste disposal facility which will process and incinerate solid waste of one or more public or private entities including Dakota County, Minnesota, and with respect to which a bond carryforward from 1985 was elected in an amount equal to \$12,500,000 shall be treated as transition property within the meaning of section 49(e) of the Internal Revenue Code of 1986.

Maritime affairs.

"(D) For purposes of section 49 of such Code, the following property shall be treated as transition property:

Washington.

"(i) 2 catamarans built by a shipbuilder incorporated in the State of Washington in 1964, the contracts for which were signed on April 22, 1986 and November 12, 1985, and 1 barge built by such shipbuilder the contract for which was signed on August 7, 1985.

"(ii) 2 large passenger ocean-going United States flag cruise ships with a passenger rated capacity of up to 250 which are built by the shipbuilder described in clause (i), which are the first such ships built in the United States since 1952, and which were designed at the request of a Pacific Coast cruise line pursuant to a contract entered into in October 1985. This clause shall apply only to that portion of the cost of each ship which does not exceed \$40,000,000.

Minnesota.

"(iii) Property placed in service during 1986 by Satellite Industries, Inc., with headquarters in Minneapolis, Minnesota, to the extent that the cost of such property does not exceed \$1,950,000.

"(E) Subsections (c) and (d) of section 49 of such Code shall not apply to property described in section 204(a)(4) of this Act."

(8)(A) Subsection (d) of section 38 is amended to read as follows:

"(d) ORDERING RULES.—For purposes of sections 46(f), 47(a), 196(a), and any other provision of this title where it is necessary to ascertain the extent to which the credits determined under any section referred to in subsection (b) are used in a taxable year or as a carryback or carryforward—

"(1) IN GENERAL.—The order in which such credits are used shall be determined on the basis of the order in which they are listed in subsection (b) as of the close of the taxable year in which the credit is used.

"(2) COMPONENTS OF INVESTMENT CREDIT.—The order in which credits attributable to a percentage referred to in section 46(a)

are used shall be determined on the basis of the order in which such percentages are listed in section 46(a) as of the close of the taxable year in which the credit is used.

“(3) CREDITS NO LONGER LISTED.—For purposes of this subsection—

“(A) the credit allowable by section 40, as in effect on the day before the date of the enactment of the Tax Reform Act of 1984, (relating to expenses of work incentive programs) and the credit allowable by section 41(a), as in effect on the day before the date of the enactment of the Tax Reform Act of 1986, (relating to employee stock ownership credit) shall be treated as referred to in that order after the last paragraph of subsection (b), and

“(B) the employee plan percentage (as defined in section 46(a)(2)(E), as in effect on the day before the date of the enactment of the Tax Reform Act of 1984) shall be treated as referred to after section 46(a)(2).”

(B) Subparagraph (C) of section 49(c)(5) of the 1986 Code is hereby repealed.

(C) The amendments made by this paragraph shall apply to taxable years beginning after December 31, 1983, and to carrybacks from such years.

26 USC 38 note.

(f) AMENDMENTS RELATED TO SECTION 212 OF THE REFORM ACT.—

(1) Paragraph (2) of section 212(f) of the Reform Act is amended by striking out so much of such paragraph as precedes subparagraph (A) and insert in lieu thereof the following:

26 USC 38 note.

“(2) SPECIAL RULE.—In the case of the LTV Corporation, in lieu of the requirements of paragraph (1)—”

(2) Subclause (I) of section 212(f)(2)(B)(i) of the Reform Act is amended by striking out “such involvement begins” and inserting in lieu thereof “when the corporation receives the refund”.

(3) Subsection (g) of section 212 of the Reform Act is amended by adding at the end thereof the following new paragraph:

“(3) SPECIAL RULE FOR RESTRUCTURING.—In the case of any corporation, any restructuring shall not limit, increase, or otherwise affect the benefits which would have been available under this section but for such restructuring.”

(4) Section 212 of the Reform Act is amended by adding at the end thereof the following new subsection:

“(h) TENTATIVE REFUNDS.—Rules similar to the rules of section 6425 of the Internal Revenue Code of 1986 shall apply to any overpayment resulting from the application of this section.”

(5) Subparagraph (B) of section 212(g)(2) of the Reform Act is amended by striking out “determined under” and inserting in lieu thereof “determined for periods before January 1, 1986, under”.

(6) Section 212(f) of the Reform Act is amended by adding at the end thereof the following new paragraph:

“(3) In the case of a qualified corporation, no offset to any refund under this section may be made by reason of any tax imposed by section 4971 of the Internal Revenue Code of 1986 (or any interest or penalty attributable to any such tax), and the date on which any such refund is to be paid shall be determined without regard to such corporation’s status under title 11, United States Code.”

(g) AMENDMENT RELATED TO SECTION 213 OF THE REFORM ACT.—Subparagraph (B) of section 213(e)(2) of the Reform Act is amended

26 USC 38 note.

by striking out "determined under" and inserting in lieu thereof "determined for periods before January 1, 1986, under".

(h) AMENDMENTS RELATED TO SECTION 231 OF THE REFORM ACT.—

(1) Subsection (g) of section 41 of the 1986 Code is amended by adding at the end thereof the following new sentence: "If the amount determined under subsection (a) for any taxable year exceeds the limitation of the preceding sentence, such amount may be carried to other taxable years under the rules of section 39; except that the limitation of the preceding sentence shall be taken into account in lieu of the limitation of section 38(c) in applying section 39."

(2) Subsection (c) of section 6411 of the 1986 Code is amended by striking out "unused research credit,".

(3) Section 936(h)(5)(C)(i)(IV)(c) of the 1986 Code is amended—

(A) by striking out "section 30" and inserting in lieu thereof "section 41", and

(B) by striking out "section 30(f)" and inserting in lieu thereof "section 41(f)".

(i) AMENDMENTS RELATED TO SECTIONS 241 AND 242 OF THE REFORM ACT.—

(1) Section 167 of the 1986 Code is amended by redesignating subsection (r) as subsection (s) and by inserting after subsection (q) the following new subsection:

"(r) TRADEMARK OR TRADE NAME EXPENDITURES NOT DEPRECIABLE.—

"(1) IN GENERAL.—No depreciation deduction shall be allowable under this section (and no depreciation or amortization deduction shall be allowable under any other provision of this subtitle) with respect to any trademark or trade name expenditure.

"(2) TRADEMARK OR TRADE NAME EXPENDITURE.—For purposes of this subsection, the term 'trademark or trade name expenditure' means any expenditure which is directly connected with the acquisition, protection, expansion, registration (Federal, State, or foreign), or defense of a trademark or trade name."

(2)(A) Paragraph (1) of section 168(c) of the 1986 Code (as amended by section 102(a)) is amended by adding at the end thereof the following new item:

"Any railroad grading or tunnel bore 50 years."

(B)(i) Paragraph (3) of section 168(b) of the 1986 Code is amended by redesignating subparagraph (C) as subparagraph (D) and by inserting after subparagraph (B) the following new subparagraph:

"(C) Any railroad grading or tunnel bore."

(ii) Paragraph (5) of section 168(b) of the 1986 Code (as amended by section 102(a)) is amended by striking out "(3)(C)" and inserting in lieu thereof "(3)(D)".

(C) Subsection (e) of section 168 of the 1986 Code is amended by adding at the end thereof the following new paragraph:

"(4) RAILROAD GRADING OR TUNNEL BORE.—The term 'railroad grading or tunnel bore' means all improvements resulting from excavations (including tunneling), construction of embankments, clearings, diversions of roads and streams, sodding of slopes, and from similar work necessary to provide, construct, reconstruct, alter, protect, improve, replace, or restore a roadbed or right-of-way for railroad track."

(D) Paragraph (2) of section 168(d) of the 1986 Code is amended by striking out "and" at the end of subparagraph (A), by inserting "and" at the end of subparagraph (B), and by inserting after subparagraph (B) the following new subparagraph:

"(C) any railroad grading or tunnel bore,"

(E) Clause (i) of section 168(d)(3)(B) of the 1986 Code (as amended by section 102(a)) is amended by striking out "and residential rental property" and inserting in lieu thereof "residential rental property, and railroad grading or tunnel bore".

(F) The table contained in paragraph (2)(C) of section 168(g) of the 1986 Code is amended by adding at the end thereof the following new item:

"(iv) Any railroad grading or tunnel bore 50 years."

(G) Subparagraph (E) of section 168(i)(1) of the 1986 Code is amended by adding at the end thereof the following new clause:

"(iii) SPECIAL RULE FOR RAILROAD GRADING OR TUNNEL BORES.—In the case of any property which is a railroad grading or tunnel bore—

"(I) such property shall be treated as an assigned property,

"(II) the recovery period applicable to such property shall be treated as an assigned item, and

"(III) clause (ii) of subparagraph (D) shall not apply."

(H) The table contained in subparagraph (A) of section 467(e)(3) of the 1986 Code is amended by adding at the end thereof the following new item:

"Any railroad grading or tunnel bore 50 years."

(I) Paragraph (3) of section 1245(a) of the 1986 Code is amended by striking out "or" at the end of subparagraph (D), by striking out the period at the end of subparagraph (E), and inserting in lieu thereof ", or", and by adding at the end thereof the following new subparagraph:

"(F) any railroad grading or tunnel bore (as defined in section 168(e)(4))."

(j) AMENDMENTS RELATED TO SECTION 243 OF THE REFORM ACT.—

(1) Section 243 of the Reform Act (related to deduction of bus and freight forwarder operating authority) is amended by redesignating subsection (d) as subsection (e) and by inserting after subsection (c) the following new subsection:

26 USC 165 note.

"(d) APPLICATION OF SECTION 334(b)(2).—For purposes of subsections (a) and (b), the reference to section 334(b)(2) in section 266(c)(2)(A)(ii) of the Economic Recovery Tax Act of 1981 shall be a reference to such section as in effect before its repeal."

(2) The heading of subparagraph (A) of section 243(b)(2) of the Reform Act is amended by striking out "TO BEGIN IN 1987".

(k) AMENDMENTS RELATED TO SECTION 251 OF THE REFORM ACT.—

(1) Paragraph (2)(B) of section 251(d) of the Reform Act is amended by striking out clause (i) and redesignating clauses (ii) and (iii) as clauses (i) and (ii), respectively.

26 USC 46 note.

(2) Subparagraph (P) of section 251(d)(3) of the Reform Act is amended by striking out "San Francisco" and inserting in lieu thereof "San Jose, California".

California.

(3) Paragraph (4) of section 251(d) of the Reform Act is amended—

(A) by striking out "Lakeland marbel Arcade" in subparagraph (K) and inserting in lieu thereof "Marble Arcade office building",

(B) by striking out "and" at the end of subparagraph (Y), and

(C) by striking out subparagraph (Z) and inserting in lieu thereof the following:

State listing.

"(Z) the Bigelow-Hartford Carpet Mill in Enfield, Connecticut,

"(AA) properties abutting 125th street in New York County from 7th Avenue west to Morningside and the pier area on the Hudson River at the end of such 125th Street,

"(BB) the City of Los Angeles Central Library project pursuant to an agreement dated December 28, 1983,

"(CC) the Warehouse Row project in Chattanooga, Tennessee,

"(DD) any project described in section 204(a)(1)(F) of this Act,

"(EE) the Wood Street Commons project in Pittsburgh, Pennsylvania,

"(FF) any project described in section 803(d)(6) of this Act,

"(GG) Union Station, Indianapolis, Indiana,

"(HH) the Mattress Factory project in Pittsburgh, Pennsylvania,

"(II) Union Station in Providence, Rhode Island,

"(JJ) South Pack Plaza, Asheville, North Carolina,

"(KK) Old Louisville Trust Project, Louisville, Kentucky,

"(LL) Stewarts Rehabilitation Project, Louisville, Kentucky,

"(MM) Bernheim Officenter, Louisville, Kentucky,

"(NN) Springville Mill Project, Rockville, Connecticut, and

"(OO) the D.J. Stewart Company Building, State and Main Streets, Rockford, Illinois."

26 USC 46 note.

(4) Subsection (d) of section 251 of the Reform Act is amended by striking out paragraph (6) and inserting in lieu thereof the following:

"(6) EXPENSING OF REHABILITATION EXPENSES FOR THE FRANKFORD ARSENAL.—In the case of any expenditures paid or incurred in connection with improvements (including repairs and maintenance) of the Frankford Arsenal pursuant to a contract and partnership agreement during the 8-year period specified in the contract or agreement, all such expenditures to be made during the period 1986 through and including 1993 shall—

"(A) be treated as made (and allowable as a deduction) during 1986,

"(B) be treated as qualified rehabilitation expenditures made during 1986, and

"(C) be allocated in accordance with the partnership agreement regardless of when the interest in the partnership was acquired, except that—

"(i) if the taxpayer is not the original holder of such interest, no person (other than the taxpayer) had claimed any benefits by reason of this paragraph,

“(ii) no interest under section 6611 of the 1986 Code on any refund of income taxes which is solely attributable to this paragraph shall be paid for the period—

“(I) beginning on the date which is 45 days after the later of April 15, 1987, or the date on which the return for such taxes was filed, and

“(II) ending on the date the taxpayer acquired the interest in the partnership, and

“(iii) if the expenditures to be made under this provision are not paid or incurred before January 1, 1994, then the tax imposed by chapter 1 of such Code for the taxpayer’s last taxable year beginning in 1993 shall be increased by the amount of the tax benefits by reason of this paragraph which are attributable to the expenditures not so paid or incurred.

“(7) SPECIAL RULE.—In the case of the rehabilitation of the Willard Hotel in Washington, D.C., section 205(c)(1)(B)(ii) of the Tax Equity and Fiscal Responsibility Act of 1982 shall be applied by substituting ‘1987’ for ‘1986.’”

District of Columbia.

(5) Subparagraph (B) of section 251(d)(3) of the Reform Act is amended by striking out “Pontalba” and inserting in lieu thereof “Pontalba”.

26 USC 46 note.

(6) Subparagraph (T) of section 251(d)(4) of the Reform Act is amended by striking out “Louisville” and inserting in lieu thereof “Covington”.

(I) AMENDMENTS RELATED TO SECTION 252 OF THE REFORM ACT.—

Housing.
Contracts.

(1)(A) Subparagraph (A) of section 42(b)(2) of the 1986 Code is amended by striking out “for the month” and all that follows and inserting in lieu thereof “for the earlier of—

“(i) the month in which such building is placed in service, or

“(ii) at the election of the taxpayer—

“(I) the month in which the taxpayer and the housing credit agency enter into an agreement with respect to such building (which is binding on such agency, the taxpayer, and all successors in interest) as to the housing credit dollar amount to be allocated to such building, or

“(II) in the case of any building to which subsection (h)(4)(B) applies, the month in which the tax-exempt obligations are issued.

A month may be elected under clause (ii) only if the election is made not later than the 5th day after the close of such month. Such an election, once made, shall be irrevocable.”

(B) Clause (ii) of section 42(b)(2)(C) of the 1986 Code is amended by striking out “the month in which the building was placed in service” and inserting in lieu thereof “the month applicable under clause (i) or (ii) of subparagraph (A)”.

(2)(A) Subparagraph (A) of section 42(c)(2) of the 1986 Code (defining qualified low-income building) is amended to read as follows:

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“(A) which is part of a qualified low-income housing project at all times during the period—

“(i) beginning on the 1st day in the compliance period on which such building is part of such a project, and

“(ii) ending on the last day of the compliance period with respect to such building, and”.

(B) Paragraph (1) of section 42(f) of the 1986 Code (defining credit period) is amended by striking out "beginning with" and all that follows and inserting in lieu thereof "beginning with—

"(A) the taxable year in which the building is placed in service, or

"(B) at the election of the taxpayer, the succeeding taxable year,

but only if the building is a qualified low-income building as of the close of the 1st year of such period. The election under subparagraph (B), once made, shall be irrevocable."

(3) Clause (ii) of section 42(d)(2)(D) of the 1986 Code is amended to read as follows:

"(ii) **SPECIAL RULES FOR CERTAIN TRANSFERS.**—For purposes of determining under subparagraph (B)(ii) when a building was last placed in service, there shall not be taken into account any placement in service—

"(I) in connection with the acquisition of the building in a transaction in which the basis of the building in the hands of the person acquiring it is determined in whole or in part by reference to the adjusted basis of such building in the hands of the person from whom acquired,

"(II) by a person whose basis in such building is determined under section 1014(a) (relating to property acquired from a decedent),

"(III) by any governmental unit or qualified non-profit organization (as defined in subsection (h)(5)) if the requirements of subparagraph (B)(ii) are met with respect to the placement in service by such unit or organization and all the income from such property is exempt from Federal income taxation, or

"(IV) by any person who acquired such building by foreclosure (or by instrument in lieu of foreclosure) of any purchase-money security interest held by such person if the requirements of subparagraph (B)(ii) are met with respect to the placement in service by such person and such building is resold within 12 months after the date such building is placed in service by such person after such foreclosure."

(4) Paragraph (3) of section 42(d) of the 1986 Code is amended to read as follows:

"(3) **ELIGIBLE BASIS REDUCED WHERE DISPROPORTIONATE STANDARDS FOR UNITS.**—

"(A) **IN GENERAL.**—Except as provided in subparagraph (B), the eligible basis of any building shall be reduced by an amount equal to the portion of the adjusted basis of the building which is attributable to residential rental units in the building which are not low-income units and which are above the average quality standard of the low-income units in the building.

"(B) **EXCEPTION WHERE TAXPAYER ELECTS TO EXCLUDE EXCESS COSTS.**—

"(i) **IN GENERAL.**—Subparagraph (A) shall not apply with respect to a residential rental unit in a building which is not a low-income unit if—

“(I) the excess described in clause (ii) with respect to such unit is not greater than 15 percent of the cost described in clause (ii)(II), and

“(II) the taxpayer elects to exclude from the eligible basis of such building the excess described in clause (ii) with respect to such unit.

“(ii) EXCESS.—The excess described in this clause with respect to any unit is the excess of—

“(I) the cost of such unit, over

“(II) the amount which would be the cost of such unit if the average cost per square foot of low-income units in the building were substituted for the cost per square foot of such unit.

The Secretary may by regulation provide for the determination of the excess under this clause on a basis other than square foot costs.”

(5) Subparagraph (A) of section 42(d)(5) of the 1986 Code is amended by inserting before the period “(increased, in the case of an existing building which meets the requirements of paragraph (2)(B), by the amounts described in paragraph (2)(A)(i)(II))”.

(6)(A) Paragraph (5) of section 42(d) of the 1986 Code is amended by adding at the end thereof the following new subparagraph:

“(C) ELIGIBLE BASIS NOT TO INCLUDE EXPENDITURES WHERE 167(k) ELECTED.—The eligible basis of any building shall not include any portion of its adjusted basis which is attributable to amounts with respect to which an election is made under section 167(k).”

(B) Subparagraph (A) of section 42(d)(5) of the 1986 Code is amended by striking out “subparagraph (B)” and inserting in lieu thereof “subparagraphs (B) and (C)”.

(7) Subparagraph (A) of section 42(d)(6) of the 1986 Code is amended by inserting “or” at the end of clause (i), by striking out “, or” at the end of clause (ii) and inserting in lieu thereof a period, and by striking out clause (iii).

(8) Clause (ii) of section 42(d)(6)(B) of the 1986 Code (defining federally assisted building) is amended by striking out “of 1934”.

(9)(A) Paragraph (3) of section 42(f) of the 1986 Code is amended to read as follows:

“(3) DETERMINATION OF APPLICABLE PERCENTAGE WITH RESPECT TO INCREASES IN QUALIFIED BASIS AFTER 1ST YEAR OF CREDIT PERIOD.—

“(A) IN GENERAL.—In the case of any building which was a qualified low-income building as of the close of the 1st year of the credit period, if—

“(i) as of the close of any taxable year in the compliance period (after the 1st year of the credit period) the qualified basis of such building exceeds

“(ii) the qualified basis of such building as of the close of the 1st year of the credit period,

the applicable percentage which shall apply under subsection (a) for the taxable year to such excess shall be the percentage equal to $\frac{2}{3}$ of the applicable percentage which (after the application of subsection (h)) would but for this paragraph apply to such basis.

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“(B) 1ST YEAR COMPUTATION APPLIES.—A rule similar to the rule of paragraph (2)(A) shall apply to any increase in qualified basis to which subparagraph (A) applies for the 1st year of such increase.”

(B) Paragraph (3) of section 42(b) of the 1986 Code is amended to read as follows:

“(3) CROSS REFERENCES.—

“(A) For treatment of certain rehabilitation expenditures as separate new buildings, see subsection (e).

“(B) For determination of applicable percentage for increases in qualified basis after the 1st year of the credit period, see subsection (f)(3).

“(C) For authority of housing credit agency to limit applicable percentage and qualified basis which may be taken into account under this section with respect to any building, see subsection (h)(6).”

(10) Subparagraph (B) of section 42(g)(2) of the 1986 Code (defining gross rent) is amended by striking out “Federal rental assistance” and inserting in lieu thereof “rental assistance”.

(11) Paragraph (2) of section 42(g) of the 1986 Code is amended by adding at the end thereof the following new subparagraph:

“(C) UNITS WHERE FEDERAL RENTAL ASSISTANCE IS REDUCED AS TENANT'S INCOME INCREASES.—If the gross rent with respect to a residential unit exceeds the limitation under subparagraph (A) by reason of the fact that the income of the occupants thereof exceeds the income limitation applicable under paragraph (1), such unit shall, nevertheless, be treated as a rent-restricted unit for purposes of paragraph (1) if—

“(i) a Federal rental assistance payment described in subparagraph (B)(i) is made with respect to such unit or its occupants, and

“(ii) the sum of such payment and the gross rent with respect to such unit does not exceed the sum of the amount of such payment which would be made and the gross rent which would be payable with respect to such unit if—

“(I) the income of the occupants thereof did not exceed the income limitation applicable under paragraph (1), and

“(II) such units were rent-restricted within the meaning of subparagraph (A).

The preceding sentence shall apply to any unit only if the result described in clause (ii) is required by Federal statute as of the date of the enactment of this subparagraph and as of the date the Federal rental assistance payment is made.”

(12) Paragraph (3) of section 42(g) of the 1986 Code is amended to read as follows:

“(3) DATE FOR MEETING REQUIREMENTS.—

“(A) IN GENERAL.—Except as otherwise provided in this paragraph, a building shall be treated as a qualified low-income building only if the project (of which such building is a part) meets the requirements of paragraph (1) not later than the close of the 12-month period beginning on the date the building is placed in service.

“(B) BUILDINGS WHICH RELY ON LATER BUILDINGS FOR QUALIFICATION.—

“(i) IN GENERAL.—In determining whether a building (hereinafter in this subparagraph referred to as the

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'prior building') is a qualified low-income building, the taxpayer may take into account 1 or more additional buildings placed in service during the 12-month period described in subparagraph (A) with respect to the prior building only if the taxpayer elects to apply clause (ii) with respect to each additional building taken into account.

"(ii) TREATMENT OF ELECTED BUILDINGS.—In the case of a building which the taxpayer elects to take into account under clause (i), the period under subparagraph (A) for such building shall end at the close of the 12-month period applicable to the prior building.

"(iii) DATE PRIOR BUILDING IS TREATED AS PLACED IN SERVICE.—For purposes of determining the credit period and the compliance period for the prior building, the prior building shall be treated for purposes of this section as placed in service on the most recent date any additional building elected by the taxpayer (with respect to such prior building) was placed in service.

"(C) SPECIAL RULE.—A building—

"(i) other than the 1st building placed in service as part of a project, and

"(ii) other than a building which is placed in service during the 12-month period described in subparagraph (A) with respect to a prior building which becomes a qualified low-income building,

shall in no event be treated as a qualified low-income building unless the project is a qualified low-income housing project (without regard to such building) on the date such building is placed in service."

(13) Paragraph (4) of section 42(g) of the 1986 Code is amended by inserting before the period "; except that, in applying such provisions (other than section 142(d)(4)(B)(iii)) for such purposes, the term 'gross rent' shall have the meaning given such term by paragraph (2)(B) of this subsection".

(14)(A) Paragraph (1) of section 42(h) of the 1986 Code is amended to read as follows:

"(1) CREDIT MAY NOT EXCEED CREDIT AMOUNT ALLOCATED TO BUILDING.—

"(A) IN GENERAL.—The amount of the credit determined under this section for any taxable year with respect to any building shall not exceed the housing credit dollar amount allocated to such building under this subsection.

"(B) TIME FOR MAKING ALLOCATION.—Except in the case of an allocation which meets the requirements of subparagraph (C) or (D), an allocation shall be taken into account under subparagraph (A) only if it is made not later than the close of the calendar year in which the building is placed in service.

"(C) EXCEPTION WHERE BINDING COMMITMENT.—An allocation meets the requirements of this subparagraph if there is a binding commitment (not later than the close of the calendar year in which the building is placed in service) by the housing credit agency to allocate a specified housing credit dollar amount to such building beginning in a specified later taxable year.

"(D) EXCEPTION WHERE INCREASE IN QUALIFIED BASIS.—

“(i) **IN GENERAL.**—An allocation meets the requirements of this subparagraph if such allocation is made not later than the close of the calendar year in which ends the taxable year to which it will 1st apply but only to the extent the amount of such allocation does not exceed the limitation under clause (ii).

“(ii) **LIMITATION.**—The limitation under this clause is the amount of credit allowable under this section (without regard to this subsection) for a taxable year with respect to an increase in the qualified basis of the building equal to the excess of—

“(I) the qualified basis of such building as of the close of the 1st taxable year to which such allocation will apply, over

“(II) the qualified basis of such building as of the close of the 1st taxable year to which the most recent prior housing credit allocation with respect to such building applied.

“(iii) **HOUSING CREDIT DOLLAR AMOUNT REDUCED BY FULL ALLOCATION.**—Notwithstanding clause (i), the full amount of the allocation shall be taken into account under paragraph (2).”

(B) Clause (ii) of section 42(h)(6)(B) of the 1986 Code is hereby repealed.

(15) Subparagraph (A) of section 42(h)(4) of the 1986 Code is amended by striking out “financed” and all that follows and inserting in lieu thereof “financed by any obligation the interest on which is exempt from tax under section 103 if—

“(i) such obligation is taken into account under section 146, and

“(ii) principal payments on such financing are applied within a reasonable period to redeem obligations the proceeds of which were used to provide such financing.”

(16) Paragraph (5) of section 42(h) of the 1986 Code is amended by redesignating subparagraph (D) as subparagraph (E) and by inserting after subparagraph (C) the following new subparagraph:

“(D) **TREATMENT OF CERTAIN SUBSIDIARIES.**—

“(i) **IN GENERAL.**—For purposes of this paragraph, a qualified nonprofit organization shall be treated as satisfying the material participation test of subparagraph (B) if any qualified corporation in which such organization holds stock satisfies such test.

“(ii) **QUALIFIED CORPORATION.**—For purposes of clause (i), the term ‘qualified corporation’ means any corporation if 100 percent of the stock of such corporation is held by 1 or more qualified nonprofit organizations at all times during the period such corporation is in existence.”

(17) Subparagraph (D) of section 42(h)(6) of the 1986 Code is amended to read as follows:

“(D) **CREDIT REDUCED IF ALLOCATED CREDIT DOLLAR AMOUNT IS LESS THAN CREDIT WHICH WOULD BE ALLOWABLE WITHOUT REGARD TO PLACED IN SERVICE CONVENTION, ETC.**—

“(i) **IN GENERAL.**—The amount of the credit determined under this section with respect to any building

shall not exceed the clause (ii) percentage of the amount of the credit which would (but for this subparagraph) be determined under this section with respect to such building.

“(ii) DETERMINATION OF PERCENTAGE.—For purposes of clause (i), the clause (ii) percentage with respect to any building is the percentage which—

“(I) the housing credit dollar amount allocated to such building bears to

“(II) the credit amount determined in accordance with clause (iii).

“(iii) DETERMINATION OF CREDIT AMOUNT.—The credit amount determined in accordance with this clause is the amount of the credit which would (but for this subparagraph) be determined under this section with respect to the building if—

“(I) this section were applied without regard to paragraphs (2)(A) and (3)(B) of subsection (f), and

“(II) subsection (f)(3)(A) were applied without regard to ‘the percentage equal to $\frac{2}{3}$ of.’”

(18) Paragraph (6) of section 42(h) of the 1986 Code is amended by adding at the end thereof the following new subparagraph:

“(E) HOUSING CREDIT AGENCY TO SPECIFY APPLICABLE PERCENTAGE AND MAXIMUM QUALIFIED BASIS.—In allocating a housing credit dollar amount to any building, the housing credit agency shall specify the applicable percentage and the maximum qualified basis which may be taken into account under this section with respect to such building. The applicable percentage and maximum qualified basis so specified shall not exceed the applicable percentage and qualified basis determined under this section without regard to this subsection.”

(19)(A) Subparagraph (A) of section 42(i)(2) of the 1986 Code is amended—

(i) by inserting “or any prior taxable year” after “such taxable year”,

(ii) by striking out “there is outstanding” and inserting in lieu thereof “there is or was outstanding”, and

(iii) by striking out “are used” and inserting in lieu thereof “are or were used”.

(B) Subparagraph (B) of section 42(i)(2) of the 1986 Code is amended to read as follows:

“(B) ELECTION TO REDUCE ELIGIBLE BASIS BY BALANCE OF LOAN OR PROCEEDS OF OBLIGATIONS.—A loan or tax-exempt obligation shall not be taken into account under subparagraph (A) if the taxpayer elects to exclude from the eligible basis of the building for purposes of subsection (d)—

“(i) in the case of a loan, the principal amount of such loan, and

“(ii) in the case of a tax-exempt obligation, the proceeds of such obligation.”

(C) Paragraph (2) of section 42(i) of the 1986 Code is amended by redesignating subparagraph (C) as subparagraph (D) and by inserting after subparagraph (B) the following new subparagraph:

“(C) SPECIAL RULE FOR SUBSIDIZED CONSTRUCTION FINANCING.—Subparagraph (A) shall not apply to any tax-exempt

obligation or below market Federal loan used to provide construction financing for any building if—

“(i) such obligation or loan (when issued or made) identified the building for which the proceeds of such obligation or loan would be used, and

“(ii) such obligation is redeemed, and such loan is repaid, before such building is placed in service.”

(D) Subparagraph (D) of section 42(i)(2) of the 1986 Code is amended by striking out “subparagraph (A)” and inserting in lieu thereof “this paragraph”.

(20) Paragraph (4) of section 42(j) of the 1986 Code is amended by adding at the end thereof the following new subparagraph:

“(F) NO RECAPTURE WHERE DE MINIMIS CHANGES IN FLOOR SPACE.—The Secretary may provide that the increase in tax under this subsection shall not apply with respect to any building if—

“(i) such increase results from a de minimis change in the floor space fraction under subsection (c)(1), and

“(ii) the building is a qualified low-income building after such change.”

(21) Clause (i) of section 42(j)(5)(B) of the 1986 Code is amended to read as follows:

“(i) more than ½ the capital interests, and more than ½ the profit interests, in which are owned by a group of 35 or more partners each of whom is a natural person or an estate, and”.

(22) Paragraph (6) of section 42(j) of the 1986 Code is amended—

(A) by inserting “(OR INTEREST THEREIN)” after “BUILDING” in the heading, and

(B) by inserting “or an interest therein” after “disposition of a building” in the text.

(23) Subparagraph (B) of section 42(k)(2) of the 1986 Code is amended by inserting before the period at the end thereof the following: “, except that this subparagraph shall not apply in the case of a federally assisted building described in subsection (d)(6)(B) if—

“(i) a security interest in such building is not permitted by a Federal agency holding or insuring the mortgage secured by such building, and

“(ii) the proceeds from the financing (if any) are applied to acquire or improve such building.”

(24)(A) Subsection (l) of section 42 of the 1986 Code is amended by redesignating paragraph (2) as paragraph (3) and by inserting after paragraph (1) the following new paragraph:

“(2) ANNUAL REPORTS TO THE SECRETARY.—The Secretary may require taxpayers to submit an information return (at such time and in such form and manner as the Secretary prescribes) for each taxable year setting forth—

“(A) the qualified basis for the taxable year of each qualified low-income building of the taxpayer,

“(B) the information described in paragraph (1)(C) for the taxable year, and

“(C) such other information as the Secretary may require.

The penalty under section 6652(j) shall apply to any failure to submit the return required by the Secretary under the preceding sentence on the date prescribed therefor.”

(B) The subsection heading of subsection (l) of section 42 is amended to read as follows:

“(l) CERTIFICATIONS AND OTHER REPORTS TO SECRETARY.—”

(25) Paragraph (1) of section 42(n) of the 1986 Code is amended by inserting before the period at the end thereof the following: “, and, except for any building described in paragraph (2)(B), subsection (h)(4) shall not apply to any building placed in service after 1989”.

(26) Subsection (d) of section 39 of the 1986 Code is amended by adding at the end thereof the following new paragraph:

“(4) NO CARRYBACK OF LOW-INCOME HOUSING CREDIT BEFORE 1987.—No portion of the unused business credit for any taxable year which is attributable to the credit determined under section 42 (relating to low-income housing credit) may be carried back to a taxable year ending before January 1, 1987.”

(27) Paragraph (1) of section 55(c) of the 1986 Code (defining regular tax) is amended by striking out “section 42(j)” and inserting in lieu thereof “subsection (j) or (k) of section 42”.

(28) Subparagraph (A) of section 252(f)(1) of the Reform Act is amended by striking out “and” at the end of clause (i), by striking out the period at the end of clause (ii) and inserting in lieu thereof a comma, and by inserting after clause (ii) the following new clauses:

“(iii) the eligible basis of such building shall be treated, for purposes of section 42(h)(4)(A) of such Code, as if it were financed by an obligation the interest on which is exempt from tax under section 103 of such Code and which is taken into account under section 146 of such Code, and

“(iv) the amendments made by section 803 shall not apply.”

(29) Subparagraph (E) of section 252(f)(1) of the Reform Act is amended by striking out “maximum annual additional credit” and inserting in lieu thereof “maximum present value of additional credits”.

(30) Subparagraph (E) of section 252(f)(2) of the Reform Act is amended by adding at the end thereof the following new sentence: “The preceding sentence shall apply to any building only to the extent of the portion of the additional housing credit dollar amount (allocated to such agency under subparagraph (A)) allocated to such building.”

(31) Subsection (f) of section 252 of the Reform Act is amended by adding at the end thereof the following new paragraph:

“(5) TRANSITIONAL RULE.—In the case of any rehabilitation expenditures incurred with respect to units located in the neighborhood strategy area within the community development block grant program in Ft. Wayne, Indiana—

“(A) the amendments made by this section shall not apply, and

“(B) paragraph (1) of section 167(k) of the Internal Revenue Code of 1986, shall be applied as if it did not contain the phrase ‘and before January 1, 1987’.

The number of units to which the preceding sentence applies shall not exceed 150.”

(32) Subsection (g) of section 42 of the 1986 Code is amended by adding at the end thereof the following new paragraph:

26 USC 42 note.

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“(6) SPECIAL RULE WHERE DE MINIMIS EQUITY CONTRIBUTION.—Property shall not be treated as failing to be residential rental property for purposes of this section merely because the occupant of a residential unit in the project pays (on a voluntary basis) to the lessor a de minimis amount to be held toward the purchase by such occupant of a residential unit in such project if—

“(A) all amounts so paid are refunded to the occupant on the cessation of his occupancy of a unit in the project, and

“(B) the purchase of the unit is not permitted until after the close of the compliance period with respect to the building in which the unit is located.

Any amount paid to the lessor as described in the preceding sentence shall be included in gross rent under paragraph (2) for purposes of determining whether the unit is rent-restricted.”

(m) AMENDMENTS RELATED TO SECTION 261 OF THE REFORM ACT.—

(1) Subparagraph (A) of section 7518(g)(6) of the 1986 Code, is amended by striking out “section 1(i)” and inserting in lieu thereof “section 1(j)”.

(2) Subparagraph (A) of section 607(h)(6) of the Merchant Marine Act, 1936 is amended by striking out “section 1(i)” and inserting in lieu thereof “section 1(j)”.

46 USC app.
1177.

SEC. 1003. AMENDMENTS RELATED TO TITLE III OF THE REFORM ACT.

(a) AMENDMENTS RELATED TO SECTION 301 OF THE REFORM ACT.—

(1) Subparagraph (B) of section 172(d)(4) of the 1986 Code is amended by striking out “, (2)(B),”.

(2) Paragraph (1) of section 3402(m) of the 1986 Code is amended by striking out “section 62) (other than paragraph (13) thereof)” and inserting in lieu thereof “section 62(a) (other than paragraph (10) thereof)”.

(3) Paragraph (2) of section 1212(b) of the 1986 Code is amended to read as follows:

“(2) TREATMENT OF AMOUNTS ALLOWED UNDER SECTION 1211 (b)

(1) OR (2).—

“(A) IN GENERAL.—For purposes of determining the excess referred to in subparagraph (A) or (B) of paragraph (1), there shall be treated as a short-term capital gain in the taxable year an amount equal to the lesser of—

“(i) the amount allowed for the taxable year under paragraph (1) or (2) of section 1211(b), or

“(ii) the adjusted taxable income for such taxable year.

“(B) ADJUSTED TAXABLE INCOME.—For purposes of subparagraph (A), the term ‘adjusted taxable income’ means taxable income increased by the sum of—

“(i) the amount allowed for the taxable year under paragraph (1) or (2) of section 1211(b), and

“(ii) the deduction allowed for such year under section 151 or any deduction in lieu thereof.

For purposes of the preceding sentence, any excess of the deductions allowed for the taxable year over the gross income for such year shall be taken into account as negative taxable income.”

(b) AMENDMENTS RELATED TO SECTION 302 OF THE REFORM ACT.—

(1) Section 302 of the Reform Act is amended by striking out subsection (c).

26 USC 1 note.

(2)(A) Paragraph (2) of section 904(b) of the 1986 Code is amended to read as follows:

“(2) CAPITAL GAINS.—For purposes of this section—

“(A) IN GENERAL.—Taxable income from sources outside the United States shall include gain from the sale or exchange of capital assets only to the extent of foreign source capital gain net income.

“(B) SPECIAL RULES WHERE CAPITAL GAIN RATE DIFFERENTIAL.—In the case of any taxable year for which there is a capital gain rate differential—

“(i) in lieu of applying subparagraph (A), the taxable income from sources outside the United States shall include gain from the sale or exchange of capital assets only in an amount equal to foreign source capital gain net income reduced by the rate differential portion of foreign source net capital gain,

“(ii) the entire taxable income shall include gain from the sale or exchange of capital assets only in an amount equal to capital gain net income reduced by the rate differential portion of net capital gain, and

“(iii) for purposes of determining taxable income from sources outside the United States, any net capital loss (and any amount which is a short-term capital loss under section 1212(a)) from sources outside the United States to the extent taken into account in determining capital gain net income for the taxable year shall be reduced by an amount equal to the rate differential portion of the excess of net capital gain from sources within the United States over net capital gain.”

(B) Paragraph (3) of section 904(b) of the 1986 Code is amended by striking out subparagraph (D) and inserting in lieu thereof the following new subparagraphs:

“(D) CAPITAL GAIN RATE DIFFERENTIAL.—There is a capital gain rate differential for any taxable year if—

“(i) in the case of a taxpayer other than a corporation, subsection (j) of section 1 applies to such taxable year, or

“(ii) in the case of a corporation, any rate of tax imposed by section 11, 511, or 831 (a) or (b) (whichever applies) exceeds the alternative rate of tax under section 1201(a) (determined without regard to the last sentence of section 11(b)).

“(E) RATE DIFFERENTIAL PORTION.—

“(i) IN GENERAL.—The rate differential portion of foreign source net capital gain, net capital gain, or the excess of net capital gain from sources within the United States over net capital gain, as the case may be, is the same proportion of such amount as—

“(I) the excess of the highest applicable tax rate over the alternative tax rate, bears to

“(II) the highest applicable tax rate.

“(ii) HIGHEST APPLICABLE TAX RATE.—For purposes of clause (i), the term ‘highest applicable tax rate’ means—

“(I) in the case of a taxpayer other than a corporation, the highest rate of tax set forth in subsec-

tion (a), (b), (c), (d), or (e) of section 1 (whichever applies), or

“(II) in the case of a corporation, the highest rate of tax specified in section 11(b).

“(iii) ALTERNATIVE TAX RATE.—For purposes of clause (i), the term ‘alternative tax rate’ means—

“(I) in the case of a taxpayer other than a corporation, the alternative rate of tax determined under section 1(j), or

“(II) in the case of a corporation, the alternative rate of tax under section 1201(a).”

(3) Effective for taxable years beginning after December 31, 1987, paragraph (1) of section 1445(e) of the 1986 Code is amended by striking out “34 percent” and inserting in lieu thereof “34 percent (or, to the extent provided in regulations, 28 percent)”.

(c) AMENDMENTS RELATED TO SECTION 311 OF THE REFORM ACT.—

(1) Subsection (a) of section 1201 of the 1986 Code is amended by striking out “831(a)” and inserting in lieu thereof “831 (a) or (b)”.

(2) Subsection (c) of section 311 of the Reform Act is amended by inserting before the period at the end thereof the following: “; except that the amendment made by subsection (b)(4) shall apply to payments made after December 31, 1986”.

(3) Subparagraph (D) of section 593(b)(2) of the 1986 Code is amended by striking out “and” at the end of clause (iii), by striking out the period at the end of clause (iv) and inserting in lieu thereof “, and”, and by adding at the end thereof the following new clause:

“(v) if there is a capital gain rate differential (as defined in section 904(b)(3)(D)) for the taxable year, by excluding from gross income the rate differential portion (within the meaning of section 904(b)(3)(E)) of the lesser of—

“(I) the net long-term capital gain for the taxable year, or

“(II) the net long-term capital gain for the taxable year from the sale or exchange of property other than property described in clause (iii).”

(d) AMENDMENT RELATED TO SECTION 321 OF THE REFORM ACT.—

(1)(A) Subsection (b) of section 422A of the 1986 Code is amended by adding at the end thereof the following new sentence:

“Such term shall not include any option if (as of the time the option is granted) the terms of such option provide that it will not be treated as an incentive stock option.”

(B) In the case of an option granted after December 31, 1986, and on or before the date of the enactment of this Act, such option shall not be treated as an incentive stock option if the terms of such option are amended before the date 90 days after such date of enactment to provide that such option will not be treated as an incentive stock option.

(2)(A) Section 422A of the 1986 Code is amended by adding at the end thereof the following new subsection:

“(d) \$100,000 PER YEAR LIMITATION.—

“(1) IN GENERAL.—To the extent that the aggregate fair market value of stock with respect to which incentive stock

26 USC 1201
note.

26 USC 422A
note.

options (determined without regard to this subsection) are exercisable for the 1st time by any individual during any calendar year (under all plans of the individual's employer corporation and its parent and subsidiary corporations) exceeds \$100,000, such options shall be treated as options which are not incentive stock options.

"(2) ORDERING RULE.—Paragraph (1) shall be applied by taking options into account in the order in which they were granted.

"(3) DETERMINATION OF FAIR MARKET VALUE.—For purposes of paragraph (1), the fair market value of any stock shall be determined as of the time the option with respect to such stock is granted."

(B) Subsection (b) of section 422A of the 1986 Code is amended by adding "and" at the end of paragraph (5), by striking out "; and" at the end of paragraph (6) and inserting in lieu thereof a period, and by striking out paragraph (7).

(C) Paragraph (1) of section 422A(c) of the 1986 Code is amended by striking out "paragraph (7) of subsection (b)" and inserting in lieu thereof "subsection (d)".

SEC 1004. AMENDMENTS RELATED TO TITLE IV OF THE REFORM ACT.

Agriculture and
agricultural
commodities.

(a) AMENDMENTS RELATED TO SECTION 405 OF THE REFORM ACT.—

(1) Paragraph (1) of section 108(a) of the 1986 Code is amended by striking out "or" at the end of subparagraph (A), by striking out the period at the end of subparagraph (B) and inserting in lieu thereof ", or" and by adding at the end thereof the following new subparagraph:

"(C) the indebtedness discharged is qualified farm indebtedness."

(2) Paragraph (2) of section 108(a) of the 1986 Code is amended to read as follows:

"(2) COORDINATION OF EXCLUSIONS.—

"(A) TITLE 11 EXCLUSION TAKES PRECEDENCE.—Subparagraphs (B) and (C) of paragraph (1) shall not apply to a discharge which occurs in a title 11 case.

"(B) INSOLVENCY EXCLUSION TAKES PRECEDENCE OVER QUALIFIED FARM EXCLUSION.—Subparagraph (C) of paragraph (1) shall not apply to a discharge to the extent the taxpayer is insolvent."

(3) Subsection (b) of section 108 of the 1986 Code is amended—

(A) by striking out "subparagraph (A) or (B)" in paragraph (1) and inserting in lieu thereof "subparagraph (A), (B), or (C)", and

(B) by striking out "IN TITLE 11 CASE OR INSOLVENCY" in the subsection heading.

(4) Subsection (g) of section 108 of the 1986 Code is amended to read as follows:

"(g) SPECIAL RULES FOR DISCHARGE OF QUALIFIED FARM INDEBTEDNESS.—

"(1) DISCHARGE MUST BE BY QUALIFIED PERSON.—

"(A) IN GENERAL.—Subparagraph (C) of subsection (a)(1) shall apply only if the discharge is by a qualified person.

"(B) QUALIFIED PERSON.—For purposes of subparagraph (A), the term 'qualified person' has the meaning given to such term by section 46(c)(8)(D)(iv); except that such term

shall include any Federal, State, or local government or agency or instrumentality thereof.

“(2) **QUALIFIED FARM INDEBTEDNESS.**—For purposes of this section, indebtedness of a taxpayer shall be treated as qualified farm indebtedness if—

“(A) such indebtedness was incurred directly in connection with the operation by the taxpayer of the trade or business of farming, and

“(B) 50 percent or more of the aggregate gross receipts of the taxpayer for the 3 taxable years preceding the taxable year in which the discharge of such indebtedness occurs is attributable to the trade or business of farming.

“(3) **AMOUNT EXCLUDED CANNOT EXCEED SUM OF TAX ATTRIBUTES AND BUSINESS AND INVESTMENT ASSETS.**—

“(A) **IN GENERAL.**—The amount excluded under subparagraph (C) of subsection (a)(1) shall not exceed the sum of—

“(i) the adjusted tax attributes of the taxpayer, and

“(ii) the aggregate adjusted bases of qualified property held by the taxpayer as of the beginning of the taxable year following the taxable year in which the discharge occurs.

“(B) **ADJUSTED TAX ATTRIBUTES.**—For purposes of subparagraph (A), the term ‘adjusted tax attributes’ means the sum of the tax attributes described in subparagraphs (A), (B), (C), and (E) of subsection (b)(2) determined by taking into account \$3 for each \$1 of the attributes described in subparagraphs (B) and (E) of subsection (b)(2).

“(C) **QUALIFIED PROPERTY.**—For purposes of this paragraph, the term ‘qualified property’ means any property which is used or is held for use in a trade or business or for the production of income.

“(D) **COORDINATION WITH INSOLVENCY EXCLUSION.**—For purposes of this paragraph, the adjusted basis of any qualified property and the amount of the adjusted tax attributes shall be determined after any reduction under subsection (b) by reason of amounts excluded from gross income under subsection (a)(1)(B).”

(5) Paragraph (4) of section 1017(b) of the 1986 Code is amended to read as follows:

“(4) **SPECIAL RULES FOR QUALIFIED FARM INDEBTEDNESS.**—

“(A) **IN GENERAL.**—Any amount which under subsection (b)(2)(D) of section 108 is to be applied to reduce basis and which is attributable to an amount excluded under subsection (a)(1)(C) of section 108—

“(i) shall be applied only to reduce the basis of qualified property held by the taxpayer, and

“(ii) shall be applied to reduce the basis of qualified property in the following order:

“(I) First the basis of qualified property which is depreciable property.

“(II) Second the basis of qualified property which is land used or held for use in the trade or business of farming.

“(III) Then the basis of other qualified property.

“(B) **QUALIFIED PROPERTY.**—For purposes of this paragraph, the term ‘qualified property’ has the meaning given to such term by section 108(g)(3)(C).

“(C) CERTAIN RULES MADE APPLICABLE.—Rules similar to the rules of subparagraph (C), (D), and (E) of paragraph (3) shall apply for purposes of this paragraph and section 108(g).”

(6)(A) Paragraphs (6) and (7) of section 108(d) of the 1986 Code are each amended by striking out “subsections (a) and (b)” and inserting in lieu thereof “subsections (a), (b), and (g)”.

(B) The subsection heading for section 108(d) of the 1986 Code is amended by striking out “SUBSECTIONS (a), AND (b)” and inserting in lieu thereof “SUBSECTIONS (a), (b), AND (g)”.

(C) The headings for paragraphs (6) and (7)(A) of section 108(d) of the 1986 Code are each amended by striking out “SUBSECTIONS (a) AND (b)” and inserting in lieu thereof “SUBSECTIONS (a), (b), AND (g)”.

(b) AMENDMENT RELATED TO SECTION 406 OF THE REFORM ACT.—Section 406 of the Reform Act is amended—

(1) by inserting “before October 1, 1987,” after “from the sale”, and

(2) by striking out “to the extent such gain” and all that follows down through the period at the end thereof and inserting in lieu thereof “to the extent such gain is properly taken into account under the taxpayer’s method of accounting during 1987.”

(c) AMENDMENT RELATED TO SECTION 413 OF THE REFORM ACT.—Subsection (a) of section 1254 of the 1986 Code is amended by adding at the end thereof the following new paragraph:

“(4) ADJUSTMENT FOR AMOUNTS INCLUDED IN GROSS INCOME UNDER SECTION 617 (b) (1) (A).—The amount of the expenditures referred to in paragraph (1)(A)(i) shall be properly adjusted for amounts included in gross income under section 617(b)(1)(A).”

SEC. 1005. AMENDMENTS RELATED TO TITLE V OF THE REFORM ACT.

(a) AMENDMENTS RELATED TO SECTION 501 OF THE REFORM ACT.—

(1) Clause (ii) of section 469(e)(1)(A) of the 1986 Code (relating to certain income not treated as income from passive activity) is amended by inserting “not derived in the ordinary course of a trade or business which is” after “gain or loss”.

(2)(A) Subparagraph (A) of section 469(g)(1) of the 1986 Code (relating to disposition of interests in passive activities in fully taxable transactions) is amended to read as follows:

“(A) IN GENERAL.—If all gain or loss realized on such disposition is recognized, the excess of—

“(i) the sum of—

“(I) any loss from such activity for such taxable year (determined after application of subsection (b)), plus

“(II) any loss realized on such disposition, over

“(ii) net income or gain for such taxable year from all passive activities (determined without regard to losses described in clause (i)),

shall be treated as a loss which is not from a passive activity.”

(B) Subparagraph (C) of section 469(g)(1) of the 1986 Code is amended to read as follows:

“(C) INCOME FROM PRIOR YEARS.—To the extent provided in regulations, income or gain from the activity for preceding taxable years shall be taken into account under

26 USC 1202
note.

subparagraph (A)(ii) for the taxable year to the extent necessary to prevent the avoidance of this section.”

(3) Subparagraph (A) of section 469(g)(2) of the 1986 Code is amended—

(A) by striking out “paragraph (1)” and inserting in lieu thereof “paragraph (1)(A)”; and

(B) by striking out “such losses” the first place it appears and inserting in lieu thereof “losses described in paragraph (1)(A)”.

(4) Section 469(g)(3) of the 1986 Code is amended—

(A) by striking out “realized (or to be realized)” and inserting in lieu thereof “(realized or to be realized)”, and

(B) by inserting a closing parenthesis after “completed”.

(5) Paragraph (4) of section 469(h) of the 1986 Code (relating to certain closely held C corporations and personal service corporations) is amended by inserting “only” before “if”.

(6) Paragraph (1) of section 469(i) of the 1986 Code (relating to \$25,000 offset for rental real estate activities) is amended by striking out “in the taxable year in which such portion of such loss or credit arose” and inserting in lieu thereof “in such taxable year (and if any portion of such loss or credit arose in another taxable year, in such other taxable year)”.

(7) Subparagraph (C) of section 469(i)(6) of the 1986 Code (relating to interest as a limited partner) is amended by striking out “No” and inserting in lieu thereof “Except as provided in regulations, no”.

(8) Subparagraph (A) of section 469(j)(6) of the 1986 Code (relating to special rule for gifts) is amended by inserting “with respect to which a deduction has not been allowed by reason of subsection (a)” before “, and”.

(9) Section 469(j) of the 1986 Code (relating to definitions and special rules) is amended by adding at the end thereof the following new paragraphs:

“(10) COORDINATION WITH SECTION 280A.—If a passive activity involves the use of a dwelling unit to which section 280A(c)(5) applies for any taxable year, any income, deduction, gain, or loss allocable to such use shall not be taken into account for purposes of this section for such taxable year.

“(11) AGGREGATION OF MEMBERS OF AFFILIATED GROUPS.—Except as provided in regulations, all members of an affiliated group which files a consolidated return shall be treated as 1 corporation.”

(10) Section 501(c) of the Reform Act is amended by adding at the end thereof the following new paragraph:

“(4) INCOME FROM SALES OF PASSIVE ACTIVITIES IN TAXABLE YEARS BEGINNING BEFORE JANUARY 1, 1987.—If—

“(A) gain is recognized in a taxable year beginning after December 31, 1986, from a sale or exchange of an interest in an activity in a taxable year beginning before January 1, 1987, and

“(B) such gain would have been treated as gain from a passive activity had section 469 of the Internal Revenue Code of 1986 (as added by this section) been in effect for the taxable year in which the sale or exchange occurred and for all succeeding taxable years,

then such gain shall be treated as gain from a passive activity for purposes of such section.”

(11) Subsection (j) of section 469 of the 1986 Code is amended by adding at the end thereof the following new paragraph:

“(12) SPECIAL RULE FOR DISTRIBUTIONS BY ESTATES OR TRUSTS.—If any interest in a passive activity is distributed by an estate or trust—

“(A) the basis of such interest immediately before such distribution shall be increased by the amount of any passive activity losses allocable to such interest, and

“(B) such losses shall not be allowable as a deduction for any taxable year.”

(12) Subsection (m) of section 469 of the 1986 Code, as redesignated by section 10211 of the Revenue Act of 1987, is amended by striking all that precedes subparagraph (B) of paragraph (3) thereof and inserting in lieu thereof the following:

“(m) PHASE-IN OF DISALLOWANCE OF LOSSES AND CREDITS FOR INTEREST HELD BEFORE DATE OF ENACTMENT.—

“(1) IN GENERAL.—In the case of any passive activity loss or passive activity credit for any taxable year beginning in calendar years 1987 through 1990, subsection (a) shall not apply to the applicable percentage of that portion of such loss (or such credit) which is attributable to pre-enactment interests.

“(2) APPLICABLE PERCENTAGE.—For purposes of this subsection, the applicable percentage shall be determined in accordance with the following table:

| “In the case of taxable years beginning in: | The applicable percentage is: |
|---|-------------------------------|
| 1987..... | 65 |
| 1988..... | 40 |
| 1989..... | 20 |
| 1990..... | 10. |

“(3) PORTION OF LOSS OR CREDIT ATTRIBUTABLE TO PRE-ENACTMENT INTERESTS.—For purposes of this subsection—

“(A) IN GENERAL.—The portion of the passive activity loss (or passive activity credit) for any taxable year which is attributable to pre-enactment interests is the lesser of—

“(i) the amount of the passive activity loss (or passive activity credit) which is disallowed for the taxable year under subsection (a) (without regard to this subsection), or

“(ii) the amount of the passive activity loss (or passive activity credit) which would be disallowed for the taxable year (without regard to this subsection and without regard to any amount allocable to an activity for the taxable year under subsection (b)) taking into account only pre-enactment interests.”

(b) AMENDMENTS RELATED TO SECTION 502 OF THE REFORM ACT.—

(1) Subparagraph (A) of section 502(d)(1) of the Reform Act (defining qualified investor) is amended to read as follows:

“(A) if—

“(i) in the case of a project placed in service on or before August 16, 1986, such person held an interest in such project on August 16, 1986, and such person made his initial investment after December 31, 1983, or

“(ii) in the case of a project placed in service after August 16, 1986, such person made his initial investment after December 31, 1983, and such person held an interest in such project on December 31, 1986, and”.

26 USC 469 note.

(2) Subsection (d) of section 502 of the Reform Act (defining qualified investor) is amended by adding after paragraph (2) the following new paragraph:

“(3) SPECIAL RULE FOR CERTAIN PARTNERSHIPS.—In the case of any property which is held by a partnership—

“(A) which placed such property in service on or after December 31, 1985, and before August 17, 1986, and continuously held such property through the close of the taxable year for which the determination is being made, and

“(B) which was not treated as a new partnership or as terminated at any time on or after the date on which such property was placed in service and through the close of the taxable year for which the determination is being made, paragraph (1)(A)(i) shall be applied by substituting ‘December 31, 1988’ for ‘August 16, 1986’ the 2nd place it appears.”

(3) The subsection (d) of section 502 of the Reform Act which relates to special rules is redesignated as subsection (e).

(c) AMENDMENTS RELATED TO SECTION 511 OF THE REFORM ACT.—

(1) Subparagraph (A) of section 163(d)(3) of the 1986 Code (defining investment interest) is amended by striking out “incurred or continued to purchase or carry” and inserting in lieu thereof “properly allocable to”.

(2) Subparagraph (B) of section 163(d)(4) of the 1986 Code is amended to read as follows:

“(B) INVESTMENT INCOME.—The term ‘investment income’ means the sum of—

“(i) gross income (other than gain taken into account under clause (ii)) from property held for investment, and

“(ii) any net gain attributable to the disposition of property held for investment.”

(3) Subparagraph (A) of section 163(d)(6) of the 1986 Code is amended to read as follows:

“(A) IN GENERAL.—The amount of interest paid or accrued during any such taxable year which is disallowed under this subsection shall not exceed the sum of—

“(i) the amount which would be disallowed under this subsection if—

“(I) paragraph (1) were applied by substituting ‘the sum of the ceiling amount and the net investment income’ for ‘the net investment income’, and

“(II) paragraphs (4)(E) and (5)(A)(ii) did not apply, and

“(ii) the applicable percentage of the excess of—

“(I) the amount which (without regard to this paragraph) is not allowable as a deduction under this subsection for the taxable year, over

“(II) the amount described in clause (i).

The preceding sentence shall not apply to any interest treated as paid or accrued during the taxable year under paragraph (2).”

(4) Subparagraph (A) of section 163(h)(2) of the 1986 Code is amended by striking out “incurred or continued in connection with the conduct of” and inserting in lieu thereof “properly allocable to”.

(5) Subparagraph (C) of section 163(h)(3) of the 1986 Code (defining qualified residence interest) is amended to read as follows:

“(C) COST NOT LESS THAN BALANCE OF INDEBTEDNESS INCURRED ON OR BEFORE AUGUST 16, 1986.—

“(i) IN GENERAL.—The amount under subparagraph (B)(ii)(I) at any time after August 16, 1986, shall not be less than the outstanding principal amount (as of such time) of indebtedness—

“(I) which was incurred on or before August 16, 1986, and which was secured by the qualified residence on August 16, 1986, or

“(II) which is secured by the qualified residence and was incurred after August 16, 1986, to refinance indebtedness described in subclause (I) (or refinanced indebtedness meeting the requirements of this subclause) to the extent (immediately after the refinancing) the principal amount of the indebtedness resulting from the refinancing does not exceed the principal amount of the refinanced indebtedness (immediately before the refinancing).

“(ii) LIMITATION ON PERIOD OF REFINANCING.—Subclause (II) of clause (i) shall not apply to any indebtedness after—

“(I) the expiration of the term of the indebtedness described in clause (i)(I), or

“(II) if the principal of the indebtedness described in clause (i)(I) is not amortized over its term, the expiration of the term of the 1st refinancing of such indebtedness (or if earlier, the date which is 30 years after the date of such refinancing).”

(6)(A) The heading for section 163(h)(5) of the 1986 Code is amended to read as follows:

“(5) OTHER DEFINITIONS AND SPECIAL RULES.—For purposes of this subsection—”

(B) Paragraph (5) of section 163(h) of the 1986 Code is amended—

(i) by striking out “For purposes of this subsection—” in subparagraph (A), and

(ii) by striking out “For purposes of this paragraph, any” in subparagraph (B) and inserting in lieu thereof “Any”.

(7) Clause (iii) of section 163(h)(5)(A) of the 1986 Code is amended by striking out “USED OR” in the heading thereof and by striking out “or use”.

(8) Section 163(h)(5) of the 1986 Code is amended by adding at the end thereof the following new subparagraphs:

“(C) UNENFORCEABLE SECURITY INTERESTS.—Indebtedness shall not fail to be treated as secured by any property solely because, under any applicable State or local homestead or other debtor protection law in effect on August 16, 1986, the security interest is ineffective or the enforceability of the security interest is restricted.

“(D) SPECIAL RULES FOR ESTATES AND TRUSTS.—For purposes of determining whether any interest paid or accrued by an estate or trust is qualified residence interest, any residence held by such estate or trust shall be treated as a

qualified residence of such estate or trust if such estate or trust establishes that such residence is a qualified residence of a beneficiary who has a present interest in such estate or trust or an interest in the residuary of such estate or trust."

(9) Paragraph (6) of section 163(h) of the 1986 Code is amended by striking out "subsection" the 3rd place it appears and inserting in lieu thereof "paragraph".

(10) Paragraph (2)(A) of section 511(d) of the Reform Act is amended to read as follows:

"(2)(A) Sections 467(c)(5) and 1255(b)(2) are each amended by striking out '163(d),'"

26 USC 469 note.

(11) If—

(A) any amount was disallowed as a deduction under section 163(d) of the Internal Revenue Code of 1954 (as in effect on the day before the date of the enactment of the Reform Act),

(B) such amount would (but for this paragraph) be treated as investment interest paid or accrued by the taxpayer in the taxpayer's first taxable year beginning after December 31, 1986, and

(C) the taxpayer makes an election under this paragraph at such time and in such manner as the Secretary of the Treasury or his delegate shall prescribe,

to the extent such amount is attributable to an activity subject to the limitations of section 469 of the 1986 Code, such amount shall not be treated as investment interest but shall be treated as a deduction allocable to such activity for such first taxable year. Subsection (m) of section 469 of the 1986 Code and section 501(c)(2) of the Reform Act shall not apply to any amount so treated.

(12) Subparagraph (E) of section 163(h)(2) of the 1986 Code is amended by inserting before the period "or under section 6166A (as in effect before its repeal by the Economic Recovery Tax Act of 1981)".

26 USC 163 note.

(13) For purposes of applying the amendments made by this subsection and the amendments made by section 10102 of the Revenue Act of 1987, the provisions of this subsection shall be treated as having been enacted immediately before the enactment of the Revenue Act of 1987.

26 USC 163 note.

(14)(A) For purposes of applying section 163(h) of the 1986 Code to any taxable year beginning during 1987, if, incident to a divorce or legal separation—

(i) an individual acquires the interest of a spouse or former spouse in a qualified residence in a transfer to which section 1041 of the 1986 Code applies, and

(ii) such individual incurs indebtedness which is secured by such qualified residence,

the amount determined under paragraph (3)(B)(ii)(I) of section 163(h) of the 1986 Code (as in effect before the amendments made by the Revenue Act of 1987) with respect to such qualified residence shall be increased by the amount determined under subparagraph (B).

(B) The amount determined under this subparagraph shall be equal to the excess (if any) of—

(i) the lesser of the amount of the indebtedness described in subparagraph (A)(ii), or the fair market value of the

spouse's or former spouse's interest in the qualified residence as of the time of the transfer, over

(ii) the basis of the spouse or former spouse in such interest in such residence (adjusted only by the cost of any improvements to such residence).

(15) Clause (i) of section 7872(d)(1)(E) of the 1986 Code is amended by striking out "section 163(d)(3)" and inserting in lieu thereof "section 163(d)(4)".

SEC. 1006. AMENDMENTS RELATED TO TITLE VI OF THE REFORM ACT.

(a) **AMENDMENT RELATED TO SECTION 601 OF THE REFORM ACT.**—Section 15 of the 1986 Code is amended by adding at the end thereof the following new subsection:

"(e) **REFERENCES TO HIGHEST RATE.**—If the change referred to in subsection (a) involves a change in the highest rate of tax imposed by section 1 or 11(b), any reference in this chapter to such highest rate (other than in a provision imposing a tax by reference to such rate) shall be treated as a reference to the weighted average of the highest rates before and after the change determined on the basis of the respective portions of the taxable year before the date of the change and on or after the date of the change."

(b) **AMENDMENTS RELATED TO SECTIONS 611 AND 612 OF THE REFORM ACT.**—

26 USC 245 note.

(1) In the case of dividends received or accrued during 1987—

(A) subparagraph (B) of section 245(c)(1) of the 1986 Code shall be applied by substituting "80 percent" for the percentage specified therein, and

(B) subparagraph (B) of section 861(a)(2) of the 1986 Code shall be applied by substituting " $\frac{100}{80}$ ths" for the fraction specified therein.

(2) Paragraph (3) of section 854(b) of the 1986 Code is amended to read as follows:

"(3) **AGGREGATE DIVIDENDS.**—For purposes of this subsection—

"(A) **IN GENERAL.**—In computing the amount of aggregate dividends received, there shall only be taken into account dividends received from domestic corporations.

"(B) **DIVIDENDS.**—For purposes of subparagraph (A), the term 'dividend' shall not include any distribution from—

"(i) a corporation which, for the taxable year of the corporation in which the distribution is made, or for the next preceding taxable year of the corporation, is a corporation exempt from tax under section 501 (relating to certain charitable, etc., organizations) or section 521 (relating to farmers' cooperative associations), or

"(ii) a real estate investment trust which, for the taxable year of the trust in which the dividend is paid, qualifies under part II of subchapter M (section 856 and following).

"(C) **LIMITATIONS ON DIVIDENDS FROM REGULATED INVESTMENT COMPANIES.**—In determining the amount of any dividend for purposes of this paragraph, a dividend received from a regulated investment company shall be subject to the limitations prescribed in this section."

(c) **AMENDMENTS RELATED TO SECTION 614 OF THE REFORM ACT.**—

(1) Section 1059(d) of the 1986 Code (relating to extension to certain property distributions) is amended by striking out para-

graph (5) and redesignating paragraphs (6) and (7) as paragraphs (5) and (6), respectively.

(2) Section 1059(d)(5) of the 1986 Code (defining dividend announcement date), as redesignated by paragraph (1), is amended by inserting "amount or" before "payment".

(3) Section 1059(d)(6) of the 1986 Code (relating to exception where stock held during entire existence of corporation), as redesignated by paragraph (1), is amended to read as follows:

"(6) EXCEPTION WHERE STOCK HELD DURING ENTIRE EXISTENCE OF CORPORATION.—

"(A) IN GENERAL.—Subsection (a) shall not apply to any extraordinary dividend with respect to any share of stock of a corporation if—

"(i) such stock was held by the taxpayer during the entire period such corporation was in existence, and

"(ii) except as provided in regulations, no earnings and profits of such corporation were attributable to transfers of property from (or earnings and profits of) a corporation which is not a qualified corporation.

"(B) QUALIFIED CORPORATION.—For purposes of subparagraph (A), the term 'qualified corporation' means any corporation (including a predecessor corporation)—

"(i) with respect to which the taxpayer holds directly or indirectly during the entire period of such corporation's existence at least the same ownership interest as the taxpayer holds in the corporation distributing the extraordinary dividend, and

"(ii) which has no earnings and profits—

"(I) which were earned by, or

"(II) which are attributable to gain on property which accrued during a period the corporation holding the property was,

a corporation not described in clause (i).

"(C) APPLICATION OF PARAGRAPH.—This paragraph shall not apply to any extraordinary dividend to the extent such application is inconsistent with the purposes of this section."

(4) Paragraph (1) of section 1059(e) of the 1986 Code (relating to treatment of partial liquidation) is amended by striking out "for purposes of this section (without regard to the holding period of the stock)" and inserting in lieu thereof: "to which paragraphs (1) and (2) of subsection (a) apply without regard to the period the taxpayer held such stock".

(5) Paragraph (2) of section 1059(e) of the 1986 Code (relating to qualifying dividends) is amended to read as follows:

"(2) QUALIFYING DIVIDENDS.—

"(A) IN GENERAL.—Except as provided in regulations, the term 'extraordinary dividend' does not include any qualifying dividend (within the meaning of section 243).

"(B) EXCEPTION.—Subparagraph (A) shall not apply to any portion of a dividend which is attributable to earnings and profits which—

"(i) were earned by a corporation during a period it was not a member of the affiliated group, or

"(ii) are attributable to gain on property which accrued during a period the corporation holding the property was not a member of the affiliated group."

(6) Subparagraph (A) of section 1059(e)(3) of the 1986 Code (relating to qualified preferred dividends) is amended to read as follows:

“(A) IN GENERAL.—In the case of 1 or more qualified preferred dividends with respect to any share of stock—

“(i) this section shall not apply to such dividends if the taxpayer holds such stock for more than 5 years, and

“(ii) if the taxpayer disposes of such stock before it has been held for more than 5 years, the aggregate reduction under subsection (a)(1) with respect to such dividends shall not be greater than the excess (if any) of—

“(I) the qualified preferred dividends paid with respect to such stock during the period the taxpayer held such stock, over

“(II) the qualified preferred dividends which would have been paid during such period on the basis of the stated rate of return.”

(7) Clause (i) of section 1059(e)(3)(C) of the 1986 Code is amended—

(A) by striking out “any dividend payable” and inserting in lieu thereof “any fixed dividend payable”, and

(B) by adding at the end thereof the following new sentence:

“Such term shall not include any dividend payable with respect to any share of stock if the actual rate of return on such stock exceeds 15 percent.”

(8) Subparagraph (B) of section 1059(e)(3) of the 1986 Code is amended—

(A) by striking out “subparagraph (A)” and the material preceding clause (i) and inserting in lieu thereof “this paragraph”, and

(B) by striking out “subparagraph (B)(i)(II)” in clause (ii) and inserting in lieu thereof “clause (i)(II)”.

(9) Subsection (f) of section 1059 of the 1986 Code is amended by inserting before the period at the end thereof the following: “and in the case of stock held by pass-thru entities”.

(d) AMENDMENTS RELATED TO SECTION 621 OF THE REFORM ACT.—

(1)(A) Section 382(e)(2) of the 1986 Code is amended—

(i) by inserting “or other corporate contraction” after “redemption” each place it appears, and

(ii) by inserting “OR OTHER CORPORATE CONTRACTION” after “REDEMPTION” in the heading thereof.

(B) Clause (ii) of section 382(h)(3)(A) of the 1986 Code is amended—

(i) by inserting “or other corporate contraction” after “redemption” each place it appears, and

(ii) by inserting “OR OTHER CORPORATE CONTRACTIONS” after “REDEMPTIONS” in the heading thereof.

(C) Section 382(m) of the 1986 Code is amended by inserting “and” at the end of paragraph (3), by striking out paragraph (4), and by redesignating paragraph (5) as paragraph (4).

(D) The amendments made by this paragraph shall apply with respect to ownership changes after June 10, 1987.

(2) Section 382(g)(4)(C) of the 1986 Code is amended by inserting “rules similar to” before “the rules”.

(3)(A) Section 382(h)(1)(C) of the 1986 Code is amended to read as follows:

“(C) SPECIAL RULES FOR CERTAIN SECTION 338 GAINS.—If an election under section 338 is made in connection with an ownership change and the net unrealized built-in gain is zero by reason of paragraph (3)(B), then, with respect to such change, the section 382 limitation for the post-change year in which gain is recognized by reason of such election shall be increased by the lesser of—

“(i) the recognized built-in gains by reason of such election, or

“(ii) the net unrealized built-in gain (determined without regard to paragraph (3)(B)).”

(B) Paragraph (5) of section 382(h) of the 1986 Code is amended by striking out “recognized built-in gains and losses” and inserting in lieu thereof “recognized built-in gains to the extent such gains increased the section 382 limitation for the year (or recognized built-in losses to the extent such losses are treated as pre-change losses)”.

(4) Section 382(i)(3) of the 1986 Code is amended—

(A) by inserting “the earlier of” before “the 1st day”, and

(B) by inserting “or the taxable year in which the transaction being tested occurs” after “1st post-change year”.

(5)(A) Section 382(k)(1) of the 1986 Code is amended by inserting “or having a net operating loss for the taxable year in which the ownership change occurs” after “carryover”.

(B) Section 382(k)(2) of the 1986 Code is amended to read as follows:

“(2) OLD LOSS CORPORATION.—The term ‘old loss corporation’ means any corporation—

“(A) with respect to which there is an ownership change, and

“(B) which (before the ownership change) was a loss corporation.”

(6) Section 382(l)(3)(A) of the 1986 Code is amended by striking out “and” at the end of clause (iii), and by striking out clause (iv) and inserting in lieu thereof the following new clauses:

“(iv) except to the extent provided in regulations, an option to acquire stock shall be treated as exercised if such exercise results in an ownership change, and

“(v) in attributing stock from an entity under paragraph (2) of section 318(a), there shall not be taken into account—

“(I) in the case of attribution from a corporation, stock which is not treated as stock for purposes of this section, or

“(II) in the case of attribution from another entity, an interest in such entity similar to stock described in subclause (I).”

(7) Clause (ii) of section 382(l)(5)(A) of the 1986 Code is amended by striking out “immediately after such ownership change” and inserting in lieu thereof “after such ownership change and as a result of being shareholders or creditors immediately before such change”.

(8) Section 382(l)(5)(F) of the 1986 Code is amended—

(A) by inserting “‘1504(a)(2)(B)’ for ‘1504(a)(2)’ and” after “substituting” in clause (i)(I), and

(B) by striking out "deposits described in subclause (II)" in clause (ii)(III) and inserting in lieu thereof "the amount of deposits in the new loss corporation immediately after the change".

(9) Paragraph (6) of section 382(l) of the 1986 Code is amended by striking out "shall be the value of the new loss corporation immediately after the ownership change" and inserting in lieu thereof "shall reflect the increase (if any) in value of the old loss corporation resulting from any surrender or cancellation of creditors' claims in the transaction".

(10) Section 382(l) of the 1986 Code is amended by adding at the end thereof the following new paragraph:

"(8) PREDECESSOR AND SUCCESSOR ENTITIES.—Except as provided in regulations, any entity and any predecessor or successor entities of such entity shall be treated as 1 entity."

(11) Paragraph (1) of section 621(f) of the Reform Act is amended to read as follows:

26 USC 382 note.

"(1) AMENDMENTS MADE BY SUBSECTIONS (a), (b), and (c).—

"(A) IN GENERAL.—

"(i) CHANGES AFTER 1986.—The amendments made by subsections (a), (b), and (c) shall apply to any ownership change after December 31, 1986.

"(ii) PLANS OF REORGANIZATION ADOPTED BEFORE 1987.—For purposes of clause (i), any equity structure shift pursuant to a plan of reorganization adopted before January 1, 1987, shall be treated as occurring when such plan was adopted.

"(B) TERMINATION OF OLD SECTION 382.—Except in a case described in any of the following paragraphs—

"(i) section 382(a) of the Internal Revenue Code of 1954 (as in effect before the amendment made by subsection (a) and the amendments made by section 806 of the Tax Reform Act of 1976) shall not apply to any increase in percentage points occurring after December 31, 1988, and

"(ii) section 382(b) of such Code (as so in effect) shall not apply to any reorganization occurring pursuant to a plan of reorganization adopted after December 31, 1986.

In no event shall sections 382 (a) and (b) of such Code (as so in effect) apply to any ownership change described in subparagraph (A).

"(C) COORDINATION WITH SECTION 382 (i).—For purposes of section 382(i) of the Internal Revenue Code of 1986 (as added by this section), any equity structure shift pursuant to a plan of reorganization adopted before January 1, 1987, shall be treated as occurring when such plan was adopted."

(12)(A) Section 621(f)(2)(C) of the Reform Act is amended by inserting "and reincorporated in Delaware in 1987," after "1924,".

(B) Clause (ii) of section 621(f)(2)(C) of the Reform Act is amended to read as follows:

"(ii) the amendments made by subsections (e) and (f) of section 806 of the Tax Reform Act of 1976 shall not apply to such debt restructuring, except that the amendment treated as part of such subsections under section 59(b) of the Tax Reform Act of 1984 (relating

to qualified workouts) shall apply to such debt restructuring.”

26 USC 382 note.

(13) Subparagraph (D) of section 621(f)(2) of the Reform Act is amended—

(A) by striking out “or reorganization”, and

(B) by adding at the end thereof the following new sentence: “For purposes of the preceding sentence, in applying section 382 (as so in effect), if a person has a warrant to acquire stock, such stock shall be considered as owned by such person.”

(14) Section 621(f)(3) of the Reform Act is amended by striking out “after December 31, 1986”.

(15) Paragraph (4) of section 621(f) of the Reform Act is amended by striking out the last sentence and inserting in lieu thereof the following:

“Any regulations prescribed under section 382 of the Internal Revenue Code of 1986 (as added by subsection (a)) which have the effect of treating a group of shareholders as a separate 5-percent shareholder by reason of a public offering shall not apply to any public offering before January 1, 1989, for the benefit of institutions described in section 591 of such Code. Unless the corporation otherwise elects, an underwriter of any offering of stock in a corporation before September 19, 1986 (January 1, 1989, in the case of an offering for the benefit of an institution described in the preceding sentence), shall not be treated as acquiring any stock of such corporation by reason of a firm commitment underwriting to the extent the stock is disposed of pursuant to the offering (but in no event later than 60 days after the initial offering).”

(16) Subparagraph (A) of section 621(f)(7) of the Reform Act is amended by striking out “the parent corporation referred to in section 203(d)(13)(B)” and inserting in lieu thereof “a parent corporation incorporated in March 1980 under the laws of Delaware”.

(17)(A) Subsection (e) of section 382 of the 1986 Code is amended by adding at the end thereof the following new paragraph:

“(3) TREATMENT OF FOREIGN CORPORATIONS.—Except as otherwise provided in regulations, in determining the value of any old loss corporation which is a foreign corporation, there shall be taken into account only items treated as connected with the conduct of a trade or business in the United States.”

26 USC 382 note.

(B) The amendment made by subparagraph (A) shall apply to any ownership change after June 10, 1987. For purposes of the preceding sentence, any equity structure shift pursuant to a plan of reorganization adopted on or before June 10, 1987, shall be treated as occurring when such plan was adopted.

(18) Subparagraph (C) of section 382(l)(5) of the 1986 Code is amended to read as follows:

“(C) REDUCTION OF TAX ATTRIBUTES WHERE DISCHARGE OF INDEBTEDNESS.—

“(i) IN GENERAL.—In any case to which subparagraph (A) applies, 50 percent of the amount which, but for the application of section 108(e)(10)(B), would have been applied to reduce tax attributes under section 108(b) shall be so applied.

“(ii) CLARIFICATION WITH SUBPARAGRAPH (B).—In applying clause (i), there shall not be taken into account any indebtedness for interest described in subparagraph (B).”

(19) Subparagraph (E) of section 382(l)(5) of the 1986 Code is amended by striking out so much of such subparagraph as precedes clause (i) thereof and inserting in lieu thereof the following:

“(E) ONLY CERTAIN STOCK TAKEN INTO ACCOUNT.—For purposes of subparagraph (A)(ii), stock transferred to a creditor shall be taken into account only to the extent such stock is transferred in satisfaction of indebtedness and only if such indebtedness—”

(20) Paragraph (4) of section 382(h) of the 1986 Code is amended—

(A) by inserting before the comma at the end of subparagraph (A) the following: “(or to the extent the amount so disallowed is attributable to capital losses, under rules similar to the rules for the carrying forward of net capital losses)”, and

(B) by striking out “TREATED AS A NET OPERATING LOSS” in the paragraph heading and inserting in lieu thereof “ALLOWED AS A CARRYFORWARD”.

(21) Paragraph (1) of section 382(g) of the 1986 Code is amended—

(A) by striking out “new loss corporation” and inserting in lieu thereof “loss corporation”, and

(B) by striking out “old loss corporation” and inserting in lieu thereof “loss corporation”.

(22) Paragraph (6) of section 382(h) of the 1986 Code is amended to read as follows:

“(6) TREATMENT OF CERTAIN BUILT-IN ITEMS.—

“(A) INCOME ITEMS.—Any item of income which is properly taken into account during the recognition period but which is attributable to periods before the change date shall be treated as a recognized built-in gain for the taxable year in which it is properly taken into account.

“(B) DEDUCTION ITEMS.—Any amount which is allowable as a deduction during the recognition period but which is attributable to periods before the change date shall be treated as a recognized built-in loss for the taxable year for which it is allowable as a deduction.

“(C) ADJUSTMENTS.—The amount of the net unrealized built-in gain or loss shall be properly adjusted for amounts treated as recognized built-in gains or losses under this paragraph.”

(23) Paragraph (9) of section 382(h) of the 1986 Code is amended by striking out “is transferred” and inserting in lieu thereof “was acquired (or is subsequently transferred)”.

(24) Subsection (m) of section 382 of the 1986 Code (as amended by paragraph (1)) is amended by striking out “and” at the end of paragraph (3), by striking out the period at the end of paragraph (4) and inserting in lieu thereof “, and”, and by adding at the end thereof the following:

“(5) providing, in the case of any group of corporations described in section 1563(a) (determined by substituting ‘50 percent’ for ‘80 percent’ each place it appears and determined

without regard to paragraph (4) thereof), appropriate adjustments to value, built-in gain or loss, and other items so that items are not omitted or taken into account more than once.”

(25) Clause (ii) of section 382(1)(5)(A) of the 1986 Code is amended by striking out “stock of controlling corporation” and inserting in lieu thereof “stock of a controlling corporation”.

(26) Clause (ii) of section 382(h)(3)(B) of the 1986 Code is amended by striking out “there shall not” and inserting in lieu thereof “except as provided in regulations, there shall not”.

(27) Subparagraph (B) of section 382(1)(5) of the 1986 Code is amended by striking out “the net operating loss deduction under section 172(a) for any post-change year shall be determined” and inserting in lieu thereof “the pre-change losses and excess credits (within the meaning of section 383(a)(2)) which may be carried to a post-change year shall be computed”.

(28)(A) Clause (ii) of section 382(h)(3)(A) of the 1986 Code is amended by striking out “determinations under clause (i)” and inserting in lieu thereof “to the extent provided in regulations, determinations under clause (i)”.

(B) The amendment made by subparagraph (A) shall apply in the case of ownership changes on or after June 21, 1988.

(29) Subclause (I) of section 382(1)(5)(F)(iii) of the 1986 Code is amended by striking out “section 368(a)(D)(ii)” and inserting in lieu thereof “section 368(a)(3)(D)(ii)”.

(e) AMENDMENTS RELATED TO SECTION 631 OF THE REFORM ACT.—

(1) Clause (ii) of section 336(d)(2)(B) of the 1986 Code is amended to read as follows:

“(ii) CERTAIN ACQUISITIONS TREATED AS PART OF PLAN.—For purposes of clause (i), any property described in clause (i)(I) acquired by the liquidated corporation after the date 2 years before the date of the adoption of the plan of complete liquidation shall, except as provided in regulations, be treated as acquired as part of a plan described in clause (i)(II).”

(2) Paragraph (3) of section 336(d) of the 1986 Code is amended by adding at the end thereof the following new sentence: “The preceding sentence shall apply to any distribution to the 80-percent distributee only if subsection (a) or (b)(1) of section 337 applies to such distribution.”

(3) Subsection (e) of section 336 of the 1986 Code is amended by striking out “such corporation may elect” and inserting in lieu thereof “an election may be made”.

(4) Subparagraph (B) of section 337(b)(2) of the 1986 Code is amended—

(A) by striking out “or 511(b)(2)” in clause (i),

(B) by striking out “in an unrelated trade or business (as defined in section 513)” in clause (i) and inserting in lieu thereof “in an activity the income from which is subject to tax under section 511(a)”, and

(C) by striking out “an unrelated trade or business of such organization” in clause (ii) and inserting in lieu thereof “an activity referred to in clause (i)”.

(5)(A) Subsection (d) of section 337 of the 1986 Code is amended—

(i) by striking out “made to this subpart by the Tax Reform Act of 1986” and inserting in lieu thereof “made by subtitle D of title VI of the Tax Reform Act of 1986”, and

(ii) by inserting "or through the use of a regulated investment company, real estate investment trust, or tax-exempt entity" after "subchapter)" in paragraph (1).

(B) The amendment made by subparagraph (A)(ii) shall not apply to any reorganization if before June 10, 1987—

(i) the board of directors of a party to the reorganization adopted a resolution to solicit shareholder approval for the transaction, or

(ii) the shareholders or the board of directors of a party to the reorganization approved the transaction.

(6) Subsection (b) of section 334 of the 1986 Code is amended to read as follows:

"(b) LIQUIDATION OF SUBSIDIARY.—

"(1) IN GENERAL.—If property is received by a corporate distributee in a distribution in a complete liquidation to which section 332(a) applies (or in a transfer described in section 337(b)(1)), the basis of such property in the hands of such distributee shall be the same as it would be in the hands of the transferor; except that, in any case in which gain or loss is recognized by the liquidating corporation with respect to such property, the basis of such property in the hands of such distributee shall be the fair market value of the property at the time of the distribution.

"(2) CORPORATE DISTRIBUTE.—For purposes of this subsection, the term 'corporate distributee' means only the corporation which meets the stock ownership requirements specified in section 332(b)."

(7)(A) Subparagraph (B) of section 453(h)(1) of the 1986 Code is amended by striking out "to one person" and inserting in lieu thereof "to 1 person in 1 transaction".

(B) Subparagraph (E) of section 453(h)(1) of the 1986 Code is amended by striking out "section 368(c)(1)" and inserting in lieu thereof "section 368(c)".

(8)(A) Part VII of subchapter C of chapter 1 of the 1986 Code is hereby repealed.

(B) Subsection (b) of section 311 of the 1986 Code is amended by adding at the end thereof the following new paragraph:

"(3) SPECIAL RULE FOR CERTAIN DISTRIBUTIONS OF PARTNERSHIP OR TRUST INTERESTS.—If the property distributed consists of an interest in a partnership or trust, the Secretary may by regulations provide that the amount of the gain recognized under paragraph (1) shall be computed without regard to any loss attributable to property contributed to the partnership or trust for the principal purpose of recognizing such loss on the distribution."

(C) The table of parts for subchapter C of chapter 1 of the 1986 Code is amended by striking out the item relating to part VII.

(9) Paragraph (1) of section 267(a) of the 1986 Code is amended—

(A) by striking out "(other than a loss in case of a distribution in corporate liquidation)", and

(B) by adding at the end thereof the following new sentence: "The preceding sentence shall not apply to any loss of the distributing corporation (or the distributee) in the case of a distribution in complete liquidation."

(10) Paragraph (1) of section 301(b) of the 1986 Code is amended to read as follows:

"(1) GENERAL RULE.—For purposes of this section, the amount of any distribution shall be the amount of money received, plus the fair market value of the other property received."

(11) Subsection (d) of section 301 of the 1986 Code is amended to read as follows:

"(d) BASIS.—The basis of property received in a distribution to which subsection (a) applies shall be the fair market value of such property."

(12) Section 301 of the 1986 Code is amended by striking out subsection (e) and by redesignating subsections (f) and (g) as subsections (e) and (f), respectively.

(13)(A) Subsection (a) of section 367 of the 1986 Code is amended by redesignating paragraph (5) as paragraph (6) and by inserting after paragraph (4) the following new paragraph:

"(5) PARAGRAPHS (2) AND (3) NOT TO APPLY TO CERTAIN SECTION 361 TRANSACTIONS.—Paragraphs (2) and (3) shall not apply in the case of an exchange described in section 361. Subject to such basis adjustments and such other conditions as shall be provided in regulations, the preceding sentence shall not apply if the transferor corporation is controlled (within the meaning of section 368(c)) by 5 or fewer domestic corporations. For purposes of the preceding sentence, all members of the same affiliated group (within the meaning of section 1504) shall be treated as 1 corporation."

26 USC 367 note.

(B) The amendment made by subparagraph (A) shall apply to exchanges on or after June 21, 1988, except that such amendment shall not apply to any exchange pursuant to any reorganization for which a plan of reorganization was adopted before June 21, 1988.

(C) Section 367(e)(2) of the 1986 Code (as amended by the Reform Act) shall not apply in the case of any corporation completely liquidated before June 10, 1987, into a corporation organized in a country which has an income tax treaty with the United States.

(14)(A) Subsection (d) of section 1248 of the 1986 Code is amended by striking out paragraph (2).

(B) Subparagraph (B) of section 1248(f)(1) of the 1986 Code is amended to read as follows:

"(B) such domestic corporation distributes stock of such foreign corporation in a distribution to which section 311(a), 337, or 361(c)(1) applies,"

(C) Paragraph (1) of section 1248(f) of the 1986 Code is amended by striking out "distribution, sale, or exchange" in the last sentence and inserting in lieu thereof "distribution".

(D) Subsection (f) of section 1248 of the 1986 Code is amended by striking out paragraph (3) and by redesignating paragraph (4) as paragraph (3).

(E) The subsection heading for section 1248(f) of the 1986 Code is amended by striking out "SECTION 311, 336, OR 337 TRANSACTIONS" and inserting in lieu thereof "NONRECOGNITION TRANSACTIONS".

(15) Paragraph (1) of section 995(c) of the 1986 Code is amended by inserting "or" at the end of subparagraph (A), by striking out ", or" at the end of subparagraph (B) and inserting in lieu thereof a period, and by striking out subparagraph (C) and the sentence following subparagraph (C).

(16) Subsection (d) of section 245 of the 1986 Code is hereby repealed.

(17) Paragraph (14) of section 1223 of the 1986 Code is amended to read as follows:

“(14) CROSS REFERENCE.—

“For special holding period provision relating to certain partnership distributions, see section 735(b).”

(18) Clause (ii) of section 341(e)(1)(C) of the 1986 Code is amended—

(A) by striking out “sale or exchange” the first place it appears and inserting in lieu thereof “liquidating sale or exchange”, and

(B) by striking out “, gain or loss on which was not recognized to such other corporation under section 337(a).”.

(19) Subsection (l) of section 897 of the 1986 Code is hereby repealed.

(20) Paragraph (7) of section 338(h) of the 1986 Code is hereby repealed.

(21)(A) The heading of subsection (b) of section 336 of the 1986 Code is amended by striking out “IN EXCESS OF BASIS”.

(B) The heading of paragraph (2) of section 311(b) of the 1986 Code is amended by striking out “IN EXCESS OF BASIS”.

(22) Section 453B of the 1986 Code is amended by adding at the end thereof the following new subsection:

“(h) CERTAIN LIQUIDATING DISTRIBUTIONS BY S CORPORATIONS.—

If—

“(1) an installment obligation is distributed by an S corporation in a complete liquidation, and

“(2) receipt of the obligation is not treated as payment for the stock by reason of section 453(h)(1),

then, except for purposes of any tax imposed by subchapter S, no gain or loss with respect to the distribution of the obligation shall be recognized by the distributing corporation. Under regulations prescribed by the Secretary, the character of the gain or loss to the shareholder shall be determined in accordance with the principles of section 1366(b).”

(f) AMENDMENTS RELATED TO SECTION 632 OF THE REFORM ACT.—

(1) Subsection (a) of section 1374 of the 1986 Code is amended by striking out “a recognized built-in gain” and inserting in lieu thereof “a net recognized built-in gain”.

(2) Subsection (b) of section 1374 of the 1986 Code is amended by striking out paragraphs (1) and (2) and inserting in lieu thereof the following:

“(1) IN GENERAL.—The amount of the tax imposed by subsection (a) shall be computed by applying the highest rate of tax specified in section 11(b) to the net recognized built-in gain of the S corporation for the taxable year.

“(2) NET OPERATING LOSS CARRYFORWARDS FROM C YEARS ALLOWED.—Notwithstanding section 1371(b)(1), any net operating loss carryforward arising in a taxable year for which the corporation was a C corporation shall be allowed for purposes of this section as a deduction against the net recognized built-in gain of the S corporation for the taxable year. For purposes of determining the amount of any such loss which may be carried to subsequent taxable years, the amount of the net recognized built-in gain shall be treated as taxable income. Rules similar to

the rules of the preceding sentences of this paragraph shall apply in the case of a capital loss carryforward arising in a taxable year for which the corporation was a C corporation."

(3) Subparagraph (B) of section 1374(b)(4) of the 1986 Code is amended to read as follows:

"(B) the amount of the net recognized built-in gain shall be treated as the taxable income."

(4) Paragraph (2) of section 1374(c) of the 1986 Code is amended by striking out "recognized built-in gains" each place it appears and inserting in lieu thereof "net recognized built-in gain".

(5)(A) Section 1374 of the 1986 Code is amended by striking out all that follows paragraph (1) of subsection (d) and inserting in lieu thereof the following:

"(2) NET RECOGNIZED BUILT-IN GAIN.—

"(A) IN GENERAL.—The term 'net recognized built-in gain' means, with respect to any taxable year in the recognition period, the lesser of—

"(i) the amount which would be the taxable income of the S corporation for such taxable year if (except as provided in subsection (b)(2)) only recognized built-in gains and recognized built-in losses were taken into account, or

"(ii) such corporation's taxable income for such taxable year (determined as provided in section 1375(b)(1)(B)).

"(B) CARRYOVER.—If, for any taxable year, the amount referred to in clause (i) of subparagraph (A) exceeds the amount referred to in clause (ii) of subparagraph (A), such excess shall be treated as a recognized built-in gain in the succeeding taxable year. The preceding sentence shall apply only in the case of a corporation treated as an S corporation by reason of an election made on or after March 31, 1988.

"(3) RECOGNIZED BUILT-IN GAIN.—The term 'recognized built-in gain' means any gain recognized during the recognition period on the disposition of any asset except to the extent that the S corporation establishes that—

"(A) such asset was not held by the S corporation as of the beginning of the 1st taxable year for which it was an S corporation, or

"(B) such gain exceeds the excess (if any) of—

"(i) the fair market value of such asset as of the beginning of such 1st taxable year, over

"(ii) the adjusted basis of the asset as of such time.

"(4) RECOGNIZED BUILT-IN LOSSES.—The term 'recognized built-in loss' means any loss recognized during the recognition period on the disposition of any asset to the extent that the S corporation establishes that—

"(A) such asset was held by the S corporation as of the beginning of the 1st taxable year referred to in paragraph (3), and

"(B) such loss does not exceed the excess of—

"(i) the adjusted basis of such asset as of the beginning of such 1st taxable year, over

"(ii) the fair market value of such asset as of such time.

“(5) TREATMENT OF CERTAIN BUILT-IN ITEMS.—

“(A) INCOME ITEMS.—Any item of income which is properly taken into account during the recognition period but which is attributable to periods before the 1st taxable year for which the corporation was an S corporation shall be treated as a recognized built-in gain for the taxable year in which it is properly taken into account.

“(B) DEDUCTION ITEMS.—Any amount which is allowable as a deduction during the recognition period but which is attributable to periods before the 1st taxable year referred to in subparagraph (A) shall be treated as a recognized built-in loss for the taxable year for which it is allowable as a deduction.

“(C) ADJUSTMENT TO NET UNREALIZED BUILT-IN GAIN.—The amount of the net unrealized built-in gain shall be properly adjusted for amounts treated as recognized built-in gains or losses under this paragraph.

“(6) TREATMENT OF CERTAIN PROPERTY.—If the adjusted basis of any asset is determined (in whole or in part) by reference to the adjusted basis of any other asset held by the S corporation as of the beginning of the 1st taxable year referred to in paragraph (3)—

“(A) such asset shall be treated as held by the S corporation as of the beginning of such 1st taxable year, and

“(B) any determination under paragraph (3)(B) or (4)(B) with respect to such asset shall be made by reference to the fair market value and adjusted basis of such other asset as of the beginning of such 1st taxable year.

“(7) RECOGNITION PERIOD.—The term ‘recognition period’ means the 10-year period beginning with the 1st day of the 1st taxable year for which the corporation was an S corporation.

“(8) TREATMENT OF TRANSFER OF ASSETS FROM C CORPORATION TO S CORPORATION.—

“(A) IN GENERAL.—Except to the extent provided in regulations, if—

“(i) an S corporation acquires any asset, and

“(ii) the S corporation’s basis in such asset is determined (in whole or in part) by reference to the basis of such asset (or any other property) in the hands of a C corporation,

then a tax is hereby imposed on any net recognized built-in gain attributable to any such assets for any taxable year beginning in the recognition period. The amount of such tax shall be determined under the rules of this section as modified by subparagraph (B).

“(B) MODIFICATIONS.—For purposes of this paragraph, the modifications of this subparagraph are as follows:

“(i) IN GENERAL.—The preceding paragraphs of this subsection shall be applied by taking into account the day on which the assets were acquired by the S corporation in lieu of the beginning of the 1st taxable year for which the corporation was an S corporation.

“(ii) SUBSECTION (C) (1) NOT TO APPLY.—Subsection (c)(1) shall not apply.

“(9) REFERENCE TO 1ST TAXABLE YEAR.—Any reference in this section to the 1st taxable year for which the corporation was an S corporation shall be treated as a reference to the 1st taxable

year for which the corporation was an S corporation pursuant to its most recent election under section 1362.

“(e) REGULATIONS.—The Secretary shall prescribe such regulations as may be necessary to carry out the purposes of this section including regulations providing for the appropriate treatment of successor corporations.”

(B) Subparagraph (B) of section 1375(b)(1) of the 1986 Code is amended to read as follows:

“(B) LIMITATION.—The amount of the excess net passive income for any taxable year shall not exceed the amount of the corporation’s taxable income for such taxable year as determined under section 63(a)—

“(i) without regard to the deductions allowed by part VIII of subchapter B (other than the deduction allowed by section 248, relating to organization expenditures), and

“(ii) without regard to the deduction under section 172.”

(C) Subsection (b) of section 1375 of the 1986 Code is amended by adding at the end thereof the following new paragraph:

“(4) COORDINATION WITH SECTION 1374.—Notwithstanding paragraph (3), the amount of passive investment income shall be determined by not taking into account any recognized built-in gain or loss of the S corporation for any taxable year in the recognition period. Terms used in the preceding sentence shall have the same respective meanings as when used in section 1374.”

(D) Subsection (c) of section 1375 of the 1986 Code is amended to read as follows:

“(c) CREDITS NOT ALLOWABLE.—No credit shall be allowed under part IV of subchapter A of this chapter (other than section 34) against the tax imposed by subsection (a).”

(E) Paragraph (2) of section 1366(f) of the 1986 Code is amended by striking out “as defined in section 1374(d)(2)” and inserting in lieu thereof “within the meaning of section 1374”.

(6) Paragraph (3) of section 1362(d) of the 1986 Code is amended—

(A) by striking out clause (v) of subparagraph (D), and
(B) by adding at the end thereof the following new subparagraph:

“(E) SPECIAL RULE FOR OPTIONS AND COMMODITY DEALINGS.—

“(i) IN GENERAL.—In the case of any options dealer or commodities dealer, passive investment income shall be determined by not taking into account any gain or loss (in the normal course of the taxpayer’s activity of dealing in or trading section 1256 contracts) from any section 1256 contract or property related to such a contract.

“(ii) DEFINITIONS.—For purposes of this subparagraph—

“(I) OPTIONS DEALER.—The term ‘options dealer’ has the meaning given such term by section 1256(g)(8).

“(II) COMMODITIES DEALER.—The term ‘commodities dealer’ means a person who is actively engaged in trading section 1256 contracts and is

registered with a domestic board of trade which is designated as a contract market by the Commodities Futures Trading Commission.

“(III) SECTION 1256 CONTRACT.—The term ‘section 1256 contract’ has the meaning given to such term by section 1256(b).”

(7) The subsection (d) of section 1363 of the 1986 Code which relates to distributions of appreciated property, and subsection (e) of section 1363 of the 1986 Code, are hereby repealed.

(g) AMENDMENTS RELATED TO SECTION 633 OF THE REFORM ACT.—

(1) Subsection (b) of section 633 of the Reform Act is amended to read as follows:

26 USC 336 note.

“(b) BUILT-IN GAINS OF S CORPORATIONS.—

“(1) IN GENERAL.—The amendments made by section 632 (other than subsection (b) thereof) shall apply to taxable years beginning after December 31, 1986, but only in cases where the return for the taxable year is filed pursuant to an S election made after December 31, 1986.

“(2) APPLICATION OF PRIOR LAW.—In the case of any taxable year of an S corporation which begins after December 31, 1986, and to which the amendments made by section 632 (other than subsection (b) thereof) do not apply, paragraph (1) of section 1374(b) of the Internal Revenue Code of 1954 (as in effect on the date before the date of the enactment of this Act) shall be applied as if it read as follows:

“(1) an amount equal to 34 percent of the amount by which the net capital gain of the corporation for the taxable year exceeds \$25,000, or’ ”

(2) Subparagraph (B) of section 633(c)(1) of the Reform Act is amended by striking out “50 percent or more” and inserting in lieu thereof “more than 50 percent”.

(3) Paragraph (1) of section 633(d) of the Reform Act is amended—

(A) by striking out “this section” and inserting in lieu thereof “this subtitle”;

(B) by striking out “would be recognized and inserting in lieu thereof “would be recognized by the liquidating corporation”, and

(C) by adding at the end thereof the following new sentence: “Section 333 of the Internal Revenue Code of 1954 (as in effect on the day before the date of the enactment of this Act) shall continue to apply to any complete liquidation described in the preceding sentence.”

(4) Subparagraph (C) of section 633(d)(2) of the Reform Act is amended to read as follows:

“(C) any gain on an asset acquired by the qualified corporation if—

“(i) the basis of such asset in the hands of the qualified corporation is determined (in whole or in part) by reference to the basis of such asset in the hands of the person from whom acquired, and

“(ii) a principal purpose for the transfer of such asset to the qualified corporation was to secure the benefits of this subsection.”

(5)(A) Subparagraph (A) of section 633(d)(5) of the Reform Act is amended by striking out “10 or fewer qualified persons” and inserting in lieu thereof “a qualified group”.

26 USC 336 note.

(B) Paragraph (6) of section 633(d) of the Reform Act is amended to read as follows:

“(6) DEFINITIONS AND SPECIAL RULES.—For purposes of this subsection—

“(A) QUALIFIED GROUP.—

“(i) IN GENERAL.—Except as provided in clause (ii), the term ‘qualified group’ means any group of 10 or fewer qualified persons who at all times during the 5-year period ending on the date of the adoption of the plan of complete liquidation (or, if shorter, the period during which the corporation or any predecessor was in existence) owned (or was treated as owning under the rules of subparagraph (C)) more than 50 percent (by value) of the stock in such corporation.

“(ii) 5-YEAR OWNERSHIP REQUIREMENT NOT TO APPLY IN CERTAIN CASES.—In the case of—

“(I) any complete liquidation pursuant to a plan of liquidation adopted before March 31, 1988,

“(II) any distribution not in liquidation made before March 31, 1988,

“(III) an election to be an S corporation filed before March 31, 1988, or

“(IV) a transaction described in section 338 of the Internal Revenue Code of 1986 where the acquisition date (within the meaning of such section 338) is before March 31, 1988,

the term ‘qualified group’ means any group of 10 or fewer qualified persons.

“(B) QUALIFIED PERSON.—The term ‘qualified person’ means—

“(i) an individual,

“(ii) an estate, or

“(iii) any trust described in clause (ii) or clause (iii) of section 1361(c)(2)(A) of the Internal Revenue Code of 1986.

“(C) ATTRIBUTION RULES.—

“(i) IN GENERAL.—Any stock owned by a corporation, trust (other than a trust referred to in subparagraph (B)(iii)), or partnership shall be treated as owned proportionately by its shareholders, beneficiaries, or partners, and shall not be treated as owned by such corporation, trust, or partnership. Stock considered to be owned by a person by reason of the application of the preceding sentence shall, for purposes of applying such sentence, be treated as actually owned by such person.

“(ii) FAMILY MEMBERS.—Stock owned (or treated as owned) by members of the same family (within the meaning of section 318(a)(1) of the Internal Revenue Code of 1986) shall be treated as owned by 1 person, and shall be treated as owned by such 1 person for any period during which it was owned (or treated as owned) by any such member.

“(iii) TREATMENT OF CERTAIN TRUSTS.—Stock owned (or treated as owned) by the estate of any decedent or by any trust referred to in subparagraph (B)(iii) with respect to such decedent shall be treated as owned by 1 person and shall be treated as owned by such 1 person

for the period during which it was owned (or treated as owned) by such estate or any such trust or by the decedent.

“(D) SPECIAL HOLDING PERIOD RULES.—Any property acquired by reason of the death of an individual shall be treated as owned at all times during which such property was owned (or treated as owned) by the decedent.

Real property.

“(E) CONTROLLED GROUP OF CORPORATIONS.—All members of the same controlled group (as defined in section 267(f)(1) of such Code) shall be treated as 1 corporation for purposes of determining whether any of such corporations met the requirement of paragraph (5)(B) and for purposes of determining the applicable percentage with respect to any of such corporations. For purposes of the preceding sentence, an S corporation shall not be treated as a member of a controlled group unless such corporation was a C corporation for its taxable year which includes August 1, 1986, or it was not described for such taxable year in paragraph (1) or (2) of section 1374(c) of such Code (as in effect on the day before the date of the enactment of this Act).”

(6) Subsection (d) of section 633 of the Reform Act is amended by adding at the end thereof the following new paragraph:

26 USC 336 note.

“(9) APPLICATION TO NONLIQUIDATING DISTRIBUTIONS.—The provisions of this subsection shall also apply in the case of any distribution (not in complete liquidation) made by a qualified corporation before January 1, 1989, without regard to whether such corporation is completely liquidated.”

(7) Paragraph (8) of the section 633(d) of the Reform Act is amended by striking out “becomes an S corporation for a taxable year beginning before January 1, 1989” and inserting in lieu thereof “makes an election to be an S corporation under section 1362 of such Code before January 1, 1989, without regard to whether such corporation is completely liquidated”.

(8) Section 633 of the Reform Act is amended by redesignating the subsections following the first subsection (d) as subsections (e), (f), and (g), respectively.

(9) Subsection (f)(2) of section 633 of the Reform Act (as so redesignated) is amended by striking out “May 9, 1929” and inserting in lieu thereof “May 9, 1929 (or any direct or indirect subsidiary of such corporation)”.

(10) Paragraph (3) of section 633(f) of the Reform Act (as so redesignated) is amended by striking out “of such Code” in the last sentence thereof and inserting in lieu thereof “of such Code”.

(11) Subclause (I) of section 633(f)(4)(A)(i) of the Reform Act (as so redesignated) is amended by striking out “binding on the selling corporation to sell substantially all its assets” and inserting in lieu thereof “to sell substantially all of the assets of a selling corporation organized under the laws of Massachusetts on October 20, 1976.”

Massachusetts.

(12) Subparagraph (A) of section 633(f)(5) of the Reform Act (as so redesignated) is amended to read as follows:

“(A) a voting trust established not later than December 31, 1987, shall qualify as a trust permitted as a shareholder of an S corporation and shall be treated as only 1 shareholder if the holders of beneficial interests in such voting trust are—

“(i) employees or retirees of such corporation, or
 “(ii) in the case of stock or voting trust certificates acquired from an employee or retiree of such corporation, the spouse, child, or estate of such employee or retiree or a trust created by such employee or retiree which is described in section 1361(c)(2) of the Internal Revenue Code of 1986 (or treated as described in such section by reason of section 1361(d) of such Code), and”.

(h) AMENDMENTS RELATED TO SECTION 641 OF THE REFORM ACT.—
 (1) Paragraph (3) of section 1060(b) of the 1986 Code is amended by striking out “the Secretary may find necessary” and inserting in lieu thereof “the Secretary deems necessary”.

(2) Section 1060 of the 1986 Code is amended by adding at the end thereof the following new subsection:

“(d) TREATMENT OF CERTAIN PARTNERSHIP TRANSACTIONS.—In the case of a distribution of partnership property or a transfer of an interest in a partnership—

“(1) the rules of subsection (a) shall apply but only for purposes of determining the value of goodwill or going concern value (or similar items) for purposes of applying section 755, and

“(2) if section 755 applies, such distribution or transfer (as the case may be) shall be treated as an applicable asset acquisition for purposes of subsection (b).”

(3)(A) Subparagraph (B) of section 6724(d)(1) of the 1986 Code (defining information return) is amended by striking out “or” at the end of clause (ix), by striking out the period at the end of clause (x) and inserting in lieu thereof “, or”, and by adding at the end thereof the following new clause:

“(xi) section 1060(b) (relating to reporting requirements of transferors and transferees in certain asset acquisitions).”

(B) Section 1060 of the 1986 Code is amended by adding at the end thereof the following new subsection:

“(e) CROSS REFERENCE.—

“For provisions relating to penalties for failure to file a return required by this section, see section 6721.”

(i) AMENDMENTS RELATED TO SECTION 642 OF THE REFORM ACT.—

(1) Paragraph (1) of section 453(g) of the 1986 Code is amended by striking out subparagraphs (A) and (B) and inserting in lieu thereof the following:

“(A) subsection (a) shall not apply,

“(B) for purposes of this title—

“(i) except as provided in clause (ii), all payments to be received shall be treated as received in the year of the disposition, and

“(ii) in the case of any payments which are contingent as to the amount but with respect to which the fair market value may not be reasonably ascertained, the basis shall be recovered ratably, and

“(C) the purchaser may not increase the basis of any property acquired in such sale by any amount before the time such amount is includible in the gross income of the seller.”

(2)(A) Section 453(g) of the 1986 Code is amended by adding at the end thereof the following new paragraph:

“(3) RELATED PERSONS.—For purposes of this subsection, the term ‘related persons’ has the meaning given to such term by section 1239(b), except that such term shall include 2 or more partnerships having a relationship to each other described in section 707(b)(1)(B).”

(B) Section 453(g)(1) of the 1986 Code is amended by striking out “(within the meaning of section 1239(b))”.

(3) The heading of paragraph (2) of section 642(c) of the Reform Act is amended by striking out “TRADITIONAL” and inserting in lieu thereof “TRANSITIONAL”.

(j) AMENDMENTS RELATED TO SECTION 643 OF THE REFORM ACT.—

(1)(A) Subsection (e) of section 171 of the 1986 Code is amended to read as follows:

“(e) TREATMENT AS OFFSET TO INTEREST PAYMENTS.—Except as provided in regulations, in the case of any taxable bond—

“(1) the amount of any bond premium shall be allocated among the interest payments on the bond under rules similar to the rules of subsection (b)(3), and

“(2) in lieu of any deduction under subsection (a), the amount of any premium so allocated to any interest payment shall be applied against (and operate to reduce) the amount of such interest payment.

For purposes of the preceding sentence, the term ‘taxable bond’ means any bond the interest of which is not excludable from gross income.”

(B) Paragraph (5) of section 1016(a) of the 1986 Code is amended by striking out “allowable pursuant to section 171(a)(1)” and inserting in lieu thereof “allowable pursuant to section 171(a)(1) (or the amount applied to reduce interest payments under section 171(e)(2))”.

(C) The amendments made by this paragraph shall apply in the case of obligations acquired after December 31, 1987; except that the taxpayer may elect to have such amendment apply to obligations acquired after October 22, 1986.

(2) Paragraph (2) of section 643(b) of the Reform Act is amended by striking out “issued after” and inserting in lieu thereof “acquired after”.

(k) AMENDMENTS RELATED TO SECTION 646 OF THE REFORM ACT.—

(1) Paragraph (2) of section 646(b) of the Reform Act is amended to read as follows:

“(2) such entity is exclusively engaged in the leasing of mineral property and activities incidental thereto, and”.

(2) Paragraph (3) of section 646(b) of the Reform Act is amended by inserting “as of October 22, 1986,” after “publicly traded”.

(3) Subparagraph (A) of section 646(c)(1) of the Reform Act is amended by inserting “before January 1, 1991” after “entity”.

(4) Paragraph (2) of section 646(c) of the Reform Act is amended to read as follows:

“(2) AGREEMENT.—

“(A) IN GENERAL.—The agreement described in this paragraph is a written agreement signed by the board of trustees of the entity which provides that the entity will not acquire any additional property other than property described in subparagraph (B).

“(B) PERMISSIBLE ACQUISITIONS.—Property is described in this paragraph if it is—

26 USC 171 note.

26 USC 171 note.

26 USC 671 note.

Minerals and mining.

Real property.
Minerals
and mining.

“(i) surface rights to property the acquisition of which—

“(I) is necessary to mine mineral rights held on October 22, 1986, and

“(II) is required by a written binding agreement between the entity and an unrelated person entered into on or before October 22, 1986,

“(ii) surface rights to property which are not described in clause (i) and which—

“(I) are acquired in an exchange to which section 1031 applies, and

“(II) are necessary to mine mineral rights held on October 22, 1986,

“(iii) tangible personal property incidental to the leasing of mineral property and activities incidental thereto, or

“(iv) part of any required reserves of the entity.”

(5) Paragraph (1) of section 646(d) of the Reform Act is amended by striking out subparagraph (B) and inserting in lieu thereof:

“(B) for purposes of section 333 of such Code (as so in effect)—

“(i) any person holding an income interest in such entity as of such time shall be treated as a qualified electing shareholder, and

“(ii) the earnings and profits, and the value of money or stock or securities, of such entity shall be apportioned ratably among persons described in clause (i).

The amendments made by subtitle D of this title and section 1804 of this Act shall not apply to any liquidation under this paragraph.”

(6)(A) Paragraph (2) of section 646(d) of the Reform Act is amended to read as follows:

“(2) TERMINATION OF ELECTION.—If an entity ceases to be described in subsection (b) or violates any term of the agreement described in subsection (c)(2), the entity shall, for purposes of the Internal Revenue Code of 1986, be treated as a corporation for the taxable year in which such cessation or violation occurs and for all subsequent taxable years.”

(B) Paragraph (3) of section 646(c) of the Reform Act is amended to read as follows:

“(3) BEGINNING OF PERIOD FOR WHICH ELECTION IS IN EFFECT.—The period during which an election is in effect under this subsection shall begin on the 1st day of the 1st taxable year beginning after the date of the enactment of this Act and following the taxable year in which the election is made.”

(7)(A) Subsection (e) of section 646 of the Reform Act is amended to read as follows:

“(e) SPECIAL RULE FOR PERSONS HOLDING INCOME INTERESTS.—In applying subpart E of part I of subchapter J of chapter 1 of the Internal Revenue Code of 1986 to any entity to which this section applies—

“(1) a reversionary interest shall not be taken into account until it comes into possession, and

“(2) all items of income, gain, loss, deduction, and credit shall be allocated to persons holding income interests for the period of the allocation.”

Gifts and property.

26 USC 671 note.

(B) Section 646(d)(3) of the Reform Act is amended by striking out “or by reason of subsection (e)”. 26 USC 671 note.

(1) AMENDMENTS RELATED TO SECTION 651 OF THE REFORM ACT.—

(1)(A) Paragraph (6) of section 852(b) of the 1986 Code (as added by section 651(b)(1)(A) of the Reform Act) is redesignated as paragraph (7).

(B) Subsection (b) of section 855 of the 1986 Code is amended by striking out “section 852(b)(6)” and inserting in lieu thereof “section 852(b)(7)”.

(2) Paragraph (2) of section 4982(e) of the 1986 Code is amended to read as follows:

“(2) CAPITAL GAIN NET INCOME.—

“(A) IN GENERAL.—Except as provided in subparagraph (B), the term ‘capital gain net income’ has the meaning given such term by section 1222(9) (determined by treating the 1-year period ending on October 31 of any calendar year as the company’s taxable year).

“(B) REDUCTION BY NET ORDINARY LOSS FOR CALENDAR YEAR.—The amount determined under subparagraph (A) shall be reduced (but not below the net capital gain) by the amount of the company’s net ordinary loss for the calendar year.

“(C) DEFINITIONS.—For purposes of this paragraph—

“(i) NET CAPITAL GAIN.—The term ‘net capital gain’ has the meaning given such term by section 1222(11) (determined by treating the 1-year period ending on October 31 of the calendar year as the company’s taxable year).

“(ii) NET ORDINARY LOSS.—The net ordinary loss for the calendar year is the amount which would be the net operating loss of the company for the calendar year if the amount of such loss were determined in the same manner as ordinary income is determined under paragraph (1).”

(3) Paragraph (2) of section 852(c) of the 1986 Code is amended to read as follows:

“(2) COORDINATION WITH TAX ON UNDISTRIBUTED INCOME.—For purposes of applying this chapter to distributions made by a regulated investment company with respect to any calendar year, the earnings and profits of such company shall be determined without regard to any net capital loss (or net foreign currency loss) attributable to transactions after October 31 of such year and with such other adjustments as the Secretary may by regulations prescribe. The preceding sentence shall apply—

“(A) only to the extent that the amount distributed by the company with respect to the calendar year does not exceed the required distribution for such calendar year (as determined under section 4982 by substituting ‘100 percent’ for each percentage set forth in section 4982(b)(1)), and

“(B) except as provided in regulations, only if an election under section 4982(e)(4) is not in effect with respect to such company.”

(4) Subparagraph (C) of section 852(b)(3) of the 1986 Code is amended—

(A) by striking out "net capital loss" each place it appears in the 3rd sentence and inserting in lieu thereof "net capital loss or net long-term capital loss", and

(B) by striking out "regulated investment company taxable income" in the last sentence and inserting in lieu thereof "the taxable income of the regulated investment company".

(5) Subsection (e) of section 4982 of the 1936 Code is amended by adding at the end thereof the following new paragraph:

"(5) TREATMENT OF FOREIGN CURRENCY GAINS AND LOSSES AFTER OCTOBER 31 OF CALENDAR YEAR.—Any foreign currency gain or loss which is attributable to a section 988 transaction and which is properly taken into account for the portion of the calendar year after October 31 shall not be taken into account in determining the amount of the ordinary income of the regulated investment company for such calendar year but shall be taken into account in determining the ordinary income of the investment company for the following calendar year. In the case of any company making an election under paragraph (4), the preceding sentence shall be applied by substituting the last day of the company's taxable year for October 31."

(6) Section 4982 of the 1986 Code is amended by adding at the end thereof the following new subsection:

"(f) EXCEPTION FOR CERTAIN REGULATED INVESTMENT COMPANIES.—This section shall not apply to any regulated investment company for any calendar year if at all times during such calendar year each shareholder in such company was either—

"(1) a trust described in section 401(a) and exempt from tax under section 501(a), or

"(2) a segregated asset account of a life insurance company held in connection with variable contracts (as defined in section 817(d)).

For purposes of the preceding sentence, any shares attributable to an investment in the regulated investment company (not exceeding \$250,000) made in connection with the organization of such company shall not be taken into account."

(7) Subsection (b) of section 852 of the 1986 Code is amended by adding at the end thereof the following new paragraph:

"(8) SPECIAL RULE FOR TREATMENT OF CERTAIN FOREIGN CURRENCY LOSSES.—To the extent provided in regulations, the taxable income of a regulated investment company (other than a company to which an election under section 4982(e)(4) applies) shall be computed without regard to any net foreign currency loss attributable to transactions after October 31 of such year, and any such net foreign currency loss shall be treated as arising on the 1st day of the following taxable year."

(8) Subsection (a) of section 852 of the 1986 Code is amended by adding at the end thereof the following new sentence:

"The Secretary may waive the requirements of paragraph (1) for any taxable year if the regulated investment company establishes to the satisfaction of the Secretary that it was unable to meet such requirements by reason of distributions previously made to meet the requirements of section 4982."

(9) Effective with respect to dividends declared in 1988 and subsequent calendar years, paragraph (7) of section 852(b) of the 1986 Code (as redesignated by paragraph (1)) is amended—

(A) by striking out "in December" and inserting in lieu thereof "in October, November, or December",

(B) by striking out "in such month" and inserting in lieu thereof "in such a month",

(C) by striking out "on such date" in subparagraphs (A) and (B) and inserting in lieu thereof "on December 31 of such calendar year", and

(D) by striking out "before February 1" and inserting in lieu thereof "during January".

(10) Paragraph (1) of section 852(e) of the 1986 Code is amended by striking out "subsection (a)(3)" and inserting in lieu thereof "subsection (a)(2)".

(m) AMENDMENTS RELATED TO SECTION 652 OF THE REFORM ACT.—

(1) Paragraph (1) of section 851(a) of the 1986 Code is amended to read as follows:

"(1) which, at all times during the taxable year—

"(A) is registered under the Investment Company Act of 1940, as amended (15 U.S.C. 80a-1 to 80b-2) as a management company or unit investment trust, or

"(B) has in effect an election under such Act to be treated as a business development company, or".

(2) Paragraph (1) of section 851(e) of the 1986 Code is amended by striking out "a registered management company or registered business development company" and inserting in lieu thereof "a management company or a business development company described in subsection (a)(1)".

(n) AMENDMENTS RELATED TO SECTION 653 OF THE REFORM ACT.—

(1) Subsection (b) of section 851 of the 1986 Code is amended by adding at the end thereof the following new sentence: "Income derived from a partnership or trust shall be treated as described in paragraph (2) only to the extent such income is attributable to items of income of the partnership or trust (as the case may be) which would be described in paragraph (2) if realized by the regulated investment company in the same manner as realized by the partnership or trust."

(2)(A) Paragraph (3) of section 851(b) of the 1986 Code is amended to read as follows:

"(3) less than 30 percent of its gross income is derived from the sale or disposition of any of the following which was held for less than 3 months:

"(A) stock or securities (as defined in section 2(a)(36) of the Investment Company Act of 1940, as amended),

"(B) options, futures, or forward contracts (other than options, futures, or forward contracts on foreign currencies), or

"(C) foreign currencies (or options, futures, or forward contracts on foreign currencies) but only if such currencies (or options, futures, or forward contracts) are not directly related to the company's principal business of investing in stock or securities (or options and futures with respect to stocks or securities), and".

(B) Subsection (b) of section 851 of the 1986 Code is amended by striking out "which are not ancillary" in the material following paragraph (4), and inserting in lieu thereof "which are not directly related".

(C) Subparagraph (C) of section 851(b)(3) of the 1986 Code (as amended by subparagraph (A)), and the amendment made by

subparagraph (B), shall apply to taxable years beginning after the date of the enactment of this Act.

(4) Clause (i) of section 851(g)(2)(A) of the 1986 Code (defining designated hedge) is amended by striking out "contractual option" and inserting in lieu thereof "contractual obligation"

(5) Subsection (b) of section 851 of the 1986 Code is amended by adding at the end thereof the following new sentence: "In the case of the taxable year in which a regulated investment company is completely liquidated, there shall not be taken into account under paragraph (3) any gain from the sale, exchange, or distribution of any property after the adoption of the plan of complete liquidation."

(o) AMENDMENTS RELATED TO SECTION 654 OF THE REFORM ACT.— Subsection (q) of section 851 of the 1986 Code (as added by section 654 of the Reform Act)—

(1) is redesignated as subsection (h), and

(2) is amended by adding at the end thereof the following new paragraph:

"(3) SPECIAL RULE FOR ABNORMAL REDEMPTIONS.—

"(A) IN GENERAL.—Any fund treated as a separate corporation under paragraph (1) shall not be disqualified under subsection (b)(3) for any taxable year by reason of sales resulting from abnormal redemptions on any day and occurring before the close of the 5th business day after such day if—

"(i) the sum of the percentages determined under subparagraph (B) for the abnormal redemptions on such day and for abnormal redemptions on prior days during such taxable year exceeds 30 percent; and

"(ii) the regulated investment company of which such fund is a part would meet the requirements of subsection (b)(3) for such taxable year if all the funds which are part of such company were treated as a single company.

"(B) ABNORMAL REDEMPTIONS.—For purposes of subparagraph (A), the term 'abnormal redemptions' means redemptions occurring on any day if the net redemptions on such day exceed 1 percent of the fund's net asset value.

"(C) DETERMINATION OF NET ASSET VALUE.—For purposes of this paragraph, net asset value for any day shall be determined as of the close of the preceding day.

"(D) LIMITATION.—For purposes of subparagraph (A), any sale or other disposition of stock or securities held less than 3 months occurring during any day shall be deemed to result from abnormal redemptions until the cumulative proceeds from such sales or dispositions occurring during such day, plus the cumulative net positive cash flow of the fund for preceding business days (if any) following the day with abnormal redemptions, exceed the amount of net redemptions on the day with abnormal redemptions."

(p) AMENDMENTS RELATED TO SECTION 662 OF THE REFORM ACT.—

(1) Subclause (I) of section 856(c)(6)(D)(i) of the 1986 Code (as added by section 662 of the Reform Act) is amended by striking out "debt instrument" and inserting in lieu thereof "debt instrument (within the meaning of section 1275(a)(1))".

(2) Notwithstanding section 669 of the Reform Act, the amendment made by section 662(c) of the Reform Act shall

apply to taxable years beginning after December 31, 1986, but only in the case of obligations acquired after October 22, 1986.

(3) Subsection (c) of section 856 of the 1986 Code is amended by adding at the end thereof the following new paragraph:

“(8) **TREATMENT OF LIQUIDATING GAINS.**—In the case of the taxable year in which a real estate investment trust is completely liquidated, there shall not be taken into account under paragraph (4) any gain from the sale, exchange, or distribution of any property after the adoption of the plan of complete liquidation.”

(4)(A) Paragraph (6) of section 856(c) of the 1986 Code is amended by adding at the end thereof the following new subparagraph:

“(G) **TREATMENT OF CERTAIN INTEREST RATE AGREEMENTS.**—Except to the extent provided by regulations, any—

Real property.

“(i) payment to a real estate investment trust under a bona fide interest rate swap or cap agreement entered into by the real estate investment trust to hedge any variable rate indebtedness of such trust incurred or to be incurred to acquire or carry real estate assets, and

“(ii) any gain from the sale or other disposition of such agreement, shall be treated as income qualifying under paragraph (2) and such agreement shall be treated as a security for purposes of paragraph (4)(A).”

(B) The amendment made by subparagraph (A) shall apply to taxable years ending after the date of the enactment of this Act.

26 USC 856 note.

(5) Subclause (I) of section 856(c)(6)(D)(ii) of the 1986 Code (as added by section 662 of the Reform Act) is amended by striking out “stock in” and inserting in lieu thereof “stock (or certificates of beneficial interests) in”.

(q) **AMENDMENTS RELATED TO SECTION 663 OF THE REFORM ACT.**—

Real property.

(1) Subparagraph (A) of section 856(d)(6) of the 1986 Code is amended to read as follows:

“(A) **IN GENERAL.**—If—

“(i) a real estate investment trust receives or accrues, with respect to real or personal property, amounts from a tenant which derives substantially all of its income with respect to such property from the subleasing of substantially all of such property, and

“(ii) a portion of the amount such tenant receives or accrues, directly or indirectly, from subtenants consists of qualified rents,

then the amounts which the trust receives or accrues from the tenant shall not be excluded from the term ‘rents from real property’ by reason of being based on the income or profits of such tenant to the extent the amounts so received or accrued are attributable to qualified rents received or accrued by such tenant.”

(2) Subsection (f) of section 856 of the 1986 Code is amended to read as follows:

“(f) **INTEREST.**—

“(1) **IN GENERAL.**—For purposes of paragraphs (2)(B) and (3)(B) of subsection (c), the term ‘interest’ does not include any amount received or accrued, directly or indirectly, if the deter-

mination of such amount depends in whole or in part on the income or profits of any person except that—

“(A) any amount so received or accrued shall not be excluded from the term ‘interest’ solely by reason of being based on a fixed percentage or percentages of receipts or sales, and

“(B) where a real estate investment trust receives any amount which would be excluded from the term ‘interest’ solely because the debtor of the real estate investment trust receives or accrues any amount the determination of which depends in whole or in part on the income or profits of any person, only a proportionate part (determined pursuant to regulations prescribed by the Secretary) of the amount received or accrued by the real estate investment trust from the debtor will be excluded from the term ‘interest’.

“(2) SPECIAL RULE.—If—

“(A) a real estate investment trust receives or accrues with respect to an obligation secured by a mortgage on real property or an interest in real property amounts from a debtor which derives substantially all of its gross income with respect to such property (not taking into account any gain on any disposition) from the leasing of substantially all of its interests in such property to tenants, and

“(B) a portion of the amount which such debtor receives or accrues, directly or indirectly, from tenants consists of qualified rents (as defined in subsection (d)(6)(B)),

then the amounts which the trust receives or accrues from such debtor shall not be excluded from the term ‘interest’ by reason of being based on the income or profits of such debtor to the extent the amounts so received are attributable to qualified rents received or accrued by such debtor”

(r) AMENDMENT RELATED TO SECTION 664 OF THE REFORM ACT.— Clause (i) of section 857(e)(2)(B) of the 1986 Code is amended by striking out “as original issue discount on instruments” and inserting “with respect to instruments”

(s) AMENDMENTS RELATED TO SECTION 668 OF THE REFORM ACT.—

(1) Paragraph (2) of section 4981(e) of the 1986 Code is amended to read as follows:

“(2) CAPITAL GAIN NET INCOME.—

“(A) IN GENERAL.—The term ‘capital gain net income’ has the meaning given such term by section 1222(9) (determined by treating the calendar year as the trust’s taxable year).

“(B) REDUCTION FOR NET ORDINARY LOSS.—The amount determined under subparagraph (A) shall be reduced by the amount of the trust’s net ordinary loss for the taxable year.

“(C) NET ORDINARY LOSS.—For purposes of this paragraph, the net ordinary loss for the calendar year is the amount which would be net operating loss of the trust for the calendar year if the amount of such loss were determined in the same manner as ordinary income is determined under paragraph (1).”

(2) Subparagraph (C) of section 857(b)(3) of the 1986 Code is amended by striking out “real estate investment trust taxable income” in the last sentence and inserting in lieu thereof “the taxable income of the real estate investment trust”.

(3) Subparagraph (A) of section 4981(c)(1) of the 1986 Code is amended by striking out “such calendar year” and inserting in

lieu thereof "such calendar year (but computed without regard to that portion of such deduction which is attributable to the amount excluded under section 857(b)(2)(D))".

(4) Subsection (a) of section 857 of the 1986 Code is amended by adding at the end thereof the following new sentence:

"The Secretary may waive the requirements of paragraph (1) for any taxable year if the real estate investment trust establishes to the satisfaction of the Secretary that it was unable to meet such requirements by reason of distributions previously made to meet the requirements of section 4981."

(5) Effective with respect to dividends declared in 1988 and subsequent calendar years, paragraph (8) of section 857(b) of the 1986 Code is amended—

(A) by striking out "in December" and inserting in lieu thereof "in October, November, or December",

(B) by striking out "in such month" and inserting in lieu thereof "in such a month",

(C) by striking out "on such date" in subparagraphs (A) and (B) and inserting in lieu thereof "on December 31 of such calendar year", and

(D) by striking out "before February 1" and inserting in lieu thereof "during January".

(t) AMENDMENTS RELATED TO SECTION 671 OF THE REFORM ACT.—

(1) Paragraph (1) of section 860C(e) of the 1986 Code is amended to read as follows:

"(1) AMOUNTS TREATED AS ORDINARY.—Any amount taken into account under subsection (a) by any holder of a residual interest in a REMIC shall be treated as ordinary income or ordinary loss, as the case may be."

(2)(A) Paragraph (4) of section 860D(a) of the 1986 Code is amended—

(i) by striking out "4th month ending after" and inserting in lieu thereof "3rd month beginning after", and

(ii) by striking out "and each quarter ending thereafter" and inserting in lieu thereof "and at all times thereafter".

(B) The amendment made by subparagraph (A)(ii) shall take effect on January 1, 1988.

(3)(A) Clause (i) of section 860F(a)(2)(A) of the 1986 Code is amended to read as follows:

"(i) the substitution of a qualified replacement mortgage for a qualified mortgage (or the repurchase in lieu of substitution of a defective obligation),"

(B)(i) Paragraph (2) of section 860F(a) of the 1986 Code is amended by striking out the last sentence of subparagraph (A).

(ii) Subsection (a) of section 860F of the 1986 Code is amended by adding at the end thereof the following new paragraph:

"(5) EXCEPTIONS.—Notwithstanding subparagraphs (A) and (D) of paragraph (1), the term 'prohibited transaction' shall not include any disposition—

"(A) required to prevent default on a regular interest where the threatened default resulted from a default on 1 or more qualified mortgages, or

"(B) to facilitate a clean-up call (as defined in regulations)."

(C) Subparagraph (D) of section 860F(a)(2) of the 1986 Code is amended by striking out "described in subsection (b)".

Effective date.
26 USC 860D
note.

(4) Subparagraph (A) of section 860F(b)(1) of the 1986 Code is amended by striking out "the transfer of any property to a REMIC" and inserting in lieu thereof "the transfer of any property to a REMIC in exchange for regular or residual interests in such REMIC".

(5)(A) Paragraph (1) of section 860G(a) of the 1986 Code is amended to read as follows:

"(1) **REGULAR INTEREST.**—The term 'regular interest' means any interest in a REMIC which is issued on the startup day with fixed terms and which is designated as a regular interest if—

"(A) such interest unconditionally entitles the holder to receive a specified principal amount (or other similar amount), and

"(B) interest payments (or other similar amount), if any, with respect to such interest at or before maturity—

"(i) are payable based on a fixed rate (or to the extent provided in regulations, at a variable rate), or

"(ii) consist of a specified portion of the interest payments on qualified mortgages and such portion does not vary during the period such interest is outstanding.

The interest shall not fail to meet the requirements of subparagraph (A) merely because the timing (but not the amount) of the principal payments (or other similar amounts) may be contingent on the extent of prepayments on qualified mortgages and the amount of income from permitted investments."

(B) Paragraph (2) of section 860G(a) of the 1986 Code is amended to read as follows:

"(2) **RESIDUAL INTEREST.**—The term 'residual interest' means an interest in a REMIC which is issued on the startup day, which is not a regular interest, and which is designated as a residual interest."

(C) Paragraph (3) of section 860G(a) of the 1986 Code is amended—

(i) by striking out "on or before the startup day" in subparagraph (A)(i) and inserting in lieu thereof "on the startup day in exchange for regular or residual interests in the REMIC",

(ii) by inserting "if, except as provided in regulations, such purchase is pursuant to a fixed-price contract in effect on the startup day" before the comma at the end of subparagraph (A)(ii), and

(iii) by striking out "on or before the startup day" in subparagraph (C) and inserting in lieu thereof "on the startup day in exchange for regular or residual interests in the REMIC".

(D) Subparagraph (A) of section 860G(a)(4) of the 1986 Code is amended to read as follows:

"(A) which would be a qualified mortgage if transferred on the startup day in exchange for regular or residual interests in the REMIC, and"

(E) Paragraph (9) of section 860G(a) of the 1986 Code is amended to read as follows:

"(9) **STARTUP DAY.**—The term 'startup day' means the day on which the REMIC issues all of its regular and residual interests. To the extent provided in regulations, all interests issued (and all transfers to the REMIC) during any period (not exceeding 10 days) permitted in such regulations shall be treated as occur-

ring on the day during such period selected by the REMIC for purposes of this paragraph.”

(F) The amendments made by this paragraph shall not apply to any REMIC where the startup day (as defined in section 860G(a)(9) of the 1986 Code as in effect on the day before the date of the enactment of this Act) is before July 1, 1987.

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note.

(6) Paragraph (3) of section 860G(a) of the 1986 Code is amended—

(A) by striking out “directly or indirectly,” in subparagraph (A), and

(B) by adding at the end thereof the following new sentence:

“For purposes of this subparagraph, any obligation secured by stock held by a person as a tenant-stockholder (as defined in section 216) in a cooperative housing corporation (as so defined) shall be treated as secured by an interest in real property.”

(7) Subparagraph (B) of section 860G(a)(7) of the 1986 Code is amended by inserting before the period at the end of the 1st sentence the following: “or lower than expected returns on cash flow investments”.

(8)(A) Paragraph (8) of section 860G(a) of the 1986 Code is amended—

(i) by striking out “section 856(e)” in subparagraph (A) and inserting in lieu thereof “section 856(e) (without regard to paragraph (5) thereof)”, and

(ii) by striking out the last sentence and inserting in lieu thereof the following:

“Solely for purposes of section 860D(a), the determination of whether any property is foreclosure property shall be made without regard to section 856(e)(4).”

(B) Section 860G of the 1986 Code is amended by redesignating subsection (c) as subsection (d) and by inserting after subsection (b) the following new subsection:

“(c) TAX ON INCOME FROM FORECLOSURE PROPERTY.—

“(1) IN GENERAL.—A tax is hereby imposed for each taxable year on the net income from foreclosure property of each REMIC. Such tax shall be computed by multiplying the net income from foreclosure property by the highest rate of tax specified in section 11(b).

“(2) NET INCOME FROM FORECLOSURE PROPERTY.—For purposes of this part, the term ‘net income from foreclosure property’ means the amount which would be the REMIC’s net income from foreclosure property under section 857(b)(4)(B) if the REMIC were a real estate investment trust.”

(C) Paragraph (1) of section 860C(b) of the 1986 Code is amended by striking out “and” at the end of subparagraph (C), by striking out the period at the end of subparagraph (D) and inserting in lieu thereof “, and”, and by adding at the end thereof the following new subparagraph:

“(E) the amount of the net income from foreclosure property (if any) shall be reduced by the amount of the tax imposed by section 860G(c).”

(9)(A) Section 860G of the 1986 Code (as amended by paragraph (8)) is amended by redesignating subsection (d) as subsection (e) and by inserting after subsection (c) the following new subsection:

“(d) TAX ON CONTRIBUTIONS AFTER STARTUP DATE.—

“(1) **IN GENERAL.**—Except as provided in paragraph (2), if any amount is contributed to a REMIC after the startup day, there is hereby imposed a tax for the taxable year of the REMIC in which the contribution is received equal to 100 percent of the amount of such contribution.

“(2) **EXCEPTIONS.**—Paragraph (1) shall not apply to any contribution which is made in cash and is described in any of the following subparagraphs:

“(A) Any contribution to facilitate a clean-up call (as defined in regulations) or a qualified liquidation.

“(B) Any payment in the nature of a guarantee.

“(C) Any contribution during the 3-month period beginning on the startup day.

“(D) Any contribution to a qualified reserve fund by any holder of a residual interest in the REMIC.

“(E) Any other contribution permitted in regulations.”

(B) The amendment made by subparagraph (A) shall not apply to any REMIC where the startup day (as defined in section 860G(a)(9) of the 1986 Code as in effect on the day before the date of the enactment of this Act) is before July 1, 1987.

(10) Subsection (e) of section 860G of the 1986 Code (as redesignated by paragraph (9)) is amended by striking out “and” at the end of paragraph (2), by striking out the period at the end of paragraph (3) and inserting in lieu thereof a comma, and by adding at the end thereof the following new paragraphs:

“(4) providing appropriate rules for treatment of transfers of qualified replacement mortgages to the REMIC where the transferor holds any interest in the REMIC, and

“(5) providing that a mortgage will be treated as a qualified replacement mortgage only if it is part of a bona fide replacement (and not part of a swap of mortgages).”

(11) Paragraph (6) of section 856(c) of the 1986 Code is amended by redesignating the last subparagraph as subparagraph (F) and by striking out the subparagraph (D) added by section 671(b)(1) of the Reform Act and inserting in lieu thereof the following:

“(E) A regular or residual interest in a REMIC shall be treated as a real estate asset, and any amount includible in gross income with respect to such an interest shall be treated as interest on an obligation secured by a mortgage on real property; except that, if less than 95 percent of the assets of such REMIC are real estate assets (determined as if the real estate investment trust held such assets), such real estate investment trust shall be treated as holding directly (and as receiving directly) its proportionate share of the assets and income of the REMIC. For purposes of determining whether any interest in a REMIC qualifies under the preceding sentence, any interest held by such REMIC in another REMIC shall be treated as a real estate asset under principles similar to the principles of the preceding sentence, except that, if such REMIC's are part of a tiered structure, they shall be treated as one REMIC for purposes of this subparagraph.”

(12) Clause (xi) of section 7701(a)(19)(C) of the 1986 Code is amended by striking out “are loans described” and inserting in lieu thereof “are assets described”.

(13) Subparagraph (B) of section 860E(c)(2) of the 1986 Code is amended by striking out "issue price of residual interest" and inserting in lieu thereof "issue price of the residual interest".

(14) Clause (ii) of section 860F(b)(1)(D) of the 1986 Code is amended by striking out "the real estate mortgage pool" and inserting in lieu thereof "the REMIC".

(15) Subsection (a) of section 860E of the 1986 Code is amended by adding at the end thereof the following new paragraphs:
 "(3) SPECIAL RULE FOR AFFILIATED GROUPS.—All members of an affiliated group filing a consolidated return shall be treated as 1 taxpayer for purposes of this subsection, except that paragraph (2) shall be applied separately with respect to each corporation which is a member of such group and to which section 593 applies.

"(4) TREATMENT OF CERTAIN SUBSIDIARIES.—

"(A) IN GENERAL.—For purposes of this subsection, a corporation to which section 593 applies and each qualified subsidiary of such corporation shall be treated as a single corporation to which section 593 applies.

"(B) QUALIFIED SUBSIDIARY.—For purposes of this subsection, the term 'qualified subsidiary' means any corporation—

"(i) all the stock of which, and substantially all the indebtedness of which, is held directly by the corporation to which section 593 applies, and

"(ii) which is organized and operated exclusively in connection with the organization and operation of 1 or more REMIC's."

(16)(A) Subsection (a) of section 860D of the 1986 Code is amended by striking out "and" at the end of paragraph (4), by striking out the period at the end of paragraph (5) and inserting in lieu thereof ", and", and by adding at the end thereof the following new paragraph:

"(6) with respect to which there are reasonable arrangements designed to ensure that—

"(A) residual interests in such entity are not held by disqualified organizations (as defined in section 860E(e)(5)), and

"(B) information necessary for the application of section 860E(e) will be made available by the entity."

(B) Section 860E of the 1986 Code is amended by adding at the end thereof the following new subsection:

"(e) TAX ON TRANSFERS OF RESIDUAL INTERESTS TO CERTAIN ORGANIZATIONS, ETC.—

"(1) IN GENERAL.—A tax is hereby imposed on any transfer of a residual interest in a REMIC to a disqualified organization.

"(2) AMOUNT OF TAX.—The amount of the tax imposed by paragraph (1) on any transfer of a residual interest shall be equal to the product of—

"(A) the amount (determined under regulations) equal to the present value of the total anticipated excess inclusions with respect to such interest for periods after such transfer, multiplied by

"(B) the highest rate of tax specified in section 11(b)(1).

"(3) LIABILITY.—The tax imposed by paragraph (1) on any transfer shall be paid by the transferor; except that, where such

transfer is through an agent for a disqualified organization, such tax shall be paid by such agent.

“(4) **TRANSFeree FURNISHES AFFIDAVIT.**—The person (otherwise liable for any tax imposed by paragraph (1)) shall be relieved of liability for the tax imposed by paragraph (1) with respect to any transfer if—

“(A) the transferee furnishes to such person an affidavit that the transferee is not a disqualified organization, and

“(B) as of the time of the transfer, such person does not have actual knowledge that such affidavit is false.

“(5) **DISQUALIFIED ORGANIZATION.**—For purposes of this section, the term ‘disqualified organization’ means—

“(A) the United States, any State or political subdivision thereof, any foreign government, any international organization, or any agency or instrumentality of any of the foregoing,

“(B) any organization (other than a cooperative described in section 521) which is exempt from tax imposed by this chapter unless such organization is subject to the tax imposed by section 511, and

“(C) any organization described in section 1381(a)(2)(C). For purposes of subparagraph (A), the rules of section 168(h)(2)(D) (relating to treatment of certain taxable instrumentalities) shall apply; except that, in the case of the Federal Home Loan Mortgage Corporation, clause (ii) of such section shall not apply.

“(6) **TREATMENT OF PASS-THRU ENTITIES.**—

“(A) **IMPOSITION OF TAX.**—If, at any time during any taxable year of a pass-thru entity, a disqualified organization is the record holder of an interest in such entity, there is hereby imposed on such entity for such taxable year a tax equal to the product of—

“(i) the amount of excess inclusions for such taxable year allocable to the interest held by such disqualified organization, multiplied by

“(ii) the highest rate of tax specified in section 11(b)(1).

“(B) **PASS-THRU ENTITY.**—For purposes of this paragraph, the term ‘pass-thru entity’ means—

“(i) any regulated investment company, real estate investment trust, or common trust fund,

“(ii) any partnership, trust, or estate, and

“(iii) any organization to which part I of subchapter T applies.

Except as provided in regulations, a person holding an interest in a pass-thru entity as a nominee for another person shall, with respect to such interest, be treated as a pass-thru entity.

“(C) **TAX TO BE DEDUCTIBLE.**—Any tax imposed by this paragraph with respect to any excess inclusion of any pass-thru entity for any taxable year shall, for purposes of this title (other than this subsection), be applied against (and operate to reduce) the amount included in gross income with respect to the residual interest involved.

“(D) **EXCEPTION WHERE HOLDER FURNISHES AFFIDAVIT.**—No tax shall be imposed by subparagraph (A) with respect to any interest in a pass-thru entity for any period if—

“(i) the record holder of such interest furnishes to such pass-thru entity an affidavit that such record holder is not a disqualified organization, and

“(ii) during such period, the pass-thru entity does not have actual knowledge that such affidavit is false.

“(7) **WAIVER.**—The Secretary may waive the tax imposed by paragraph (1) on any transfer if—

“(A) within a reasonable time after discovery that the transfer was subject to tax under paragraph (1), steps are taken so that the interest is no longer held by the disqualified organization, and

“(B) there is paid to the Secretary such amounts as the Secretary may require.

“(8) **ADMINISTRATIVE PROVISIONS.**—For purposes of subtitle F, the taxes imposed by this subsection shall be treated as excise taxes with respect to which the deficiency procedures of such subtitle apply.”

(C) Paragraph (2) of section 26(b) of the 1986 Code is amended by striking out “and” at the end of subparagraph (J), by striking out the period at the end of subparagraph (K) and inserting in lieu thereof “, and”, and by adding at the end thereof the following new subparagraph:

“(L) section 860E(e) (relating to taxes with respect to certain residual interests).”

(D)(i) The amendments made by subparagraph (A) shall apply in the case of any REMIC where the start-up day (as defined in section 860G(a)(9) of the 1986 Code, as in effect on the day before the date of the enactment of this Act) is after March 31, 1988; except that such amendments shall not apply in the case of a REMIC formed pursuant to a binding written contract in effect on such date.

26 USC 860D
note.

(ii) The amendments made by subparagraphs (B) and (C) (except to the extent they relate to paragraph (6) of section 860E(e) of the 1986 Code as added by such amendments) shall apply to transfers after March 31, 1988; except that such amendments shall not apply to any transfer pursuant to a binding written contract in effect on such date.

26 USC 860E
note.

(iii) Except as provided in clause (iv), the amendments made by subparagraphs (B) and (C) (to the extent they relate to paragraph (6) of section 860E(e) of the 1986 Code as so added) shall apply to excess inclusions for periods after March 31, 1988 but only to the extent such inclusions are—

(I) allocable to an interest in a pass-thru entity acquired after March 31, 1988, or

(II) allocable to an interest in a pass-thru entity acquired on or before March 31, 1988, but attributable to a residual interest acquired by the pass-thru entity after March 31, 1988.

For purposes of the preceding sentence, any interest in a pass-thru entity (or residual interest) acquired after March 31, 1988, pursuant to a binding written contract in effect on such date shall be treated as acquired before such date.

(iv) In the case of any real estate investment trust, regulated investment company, common trust fund, or publicly traded partnership, no tax shall be imposed under section 860E(e)(6) of the 1986 Code (as added by the amendment made by subpara-

graph (B) for any taxable year beginning before January 1, 1989.

(17) Subparagraph (B) of section 860E(c)(2) of the 1986 Code is amended—

(A) by inserting “(adjusted for contributions)” after “residual interest” the second place it appears, and

(B) by striking “decreased by” in clause (ii) and inserting in lieu thereof “decreased (but not below zero) by”.

(18)(A) Subsection (e) of section 860F of the 1986 Code is amended by adding at the end thereof the following new sentences: “Such return shall be filed by the REMIC. The determination of who may sign such return shall be made without regard to the first sentence of this subsection.”

(B) Unless the REMIC otherwise elects, the amendment made by subparagraph (A) shall not apply to any REMIC where the start-up day (as defined in section 860G(a)(9) of the 1986 Code as in effect on the day before the date of the enactment of this Act) is before the date of the enactment of this Act.

(19) Subsection (a) of section 860D of the 1986 Code is amended by adding at the end thereof the following new sentence:

“In the case of a qualified liquidation (as defined in section 860F(a)(4)(A)), paragraph (4) shall not apply during the liquidation period (as defined in section 860F(a)(4)(B)).”

(20) Subsection (a) of section 860A of the 1986 Code is amended by striking out “this chapter” each place it appears and inserting in lieu thereof “this subtitle”.

(21) Paragraph (1) of section 860C(b) of the 1986 Code is amended by striking out “and in the same manner” and inserting in lieu thereof “and, except as provided in regulations, in the same manner”.

(22) The following sections of the 1986 Code are each amended by striking out “real estate mortgage pool” and inserting in lieu thereof “REMIC”:

(A) Section 382(l)(4)(B)(ii).

(B) Section 860F(a)(2)(A)(iii).

(C) Section 860F(a)(2)(C).

(D) Section 860F(b)(1)(C)(ii).

(E) Section 860F(b)(1)(D)(ii).

(23) Subsection (d) of section 860E of the 1986 Code is amended by adding at the end thereof the following new sentence:

“Rules similar to the rules of the preceding sentence shall apply also in the case of regulated investment companies, common trust funds, and organizations to which part I of subchapter T applies.”

(24) Subparagraph (C) of section 6049(d)(7) of the 1986 Code is amended by striking out “the issue price” and inserting in lieu thereof “the adjusted issue price”.

(25)(A) Paragraph (19) of section 7701(a) of the 1986 Code is amended by adding at the end thereof the following new sentence: “For purposes of determining whether any interest in a REMIC qualifies under clause (xi), any regular interest in another REMIC held by such REMIC shall be treated as a loan described in a preceding clause under principles similar to the principles of clause (xi); except that, if such REMIC’s are part of a tiered structure, they shall be treated as 1 REMIC for purposes of clause (xi).”

(B) Paragraph (4) of section 593(d) of the 1986 Code is amended by adding at the end thereof the following new sentence: “For

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note.

Loans.

purposes of determining whether any interest in a REMIC qualifies under the preceding sentence, any interest in another REMIC held by such REMIC shall be treated as a qualifying real property loan under principles similar to the principles of the preceding sentence, except that if such REMIC's are part of a tiered structure, they shall be treated as 1 REMIC for purposes of this paragraph."

(26) Section 860E of the 1986 Code is amended by adding at the end thereof the following new subsection:

"(f) TREATMENT OF VARIABLE INSURANCE CONTRACTS.—Except as provided in regulations, with respect to any variable contract (as defined in section 817), there shall be no adjustment in the reserve to the extent of any excess inclusion."

(27) Subsection (a) of section 860E of the 1986 Code is amended by adding at the end thereof the following new paragraph:

"(5) COORDINATION WITH SECTION 172.—Any excess inclusion for any taxable year shall not be taken into account—

"(A) in determining under section 172 the amount of any net operating loss for such taxable year, and

"(B) in determining taxable income for such taxable year for purposes of the 2nd sentence of section 172(b)(2)."

(u) AMENDMENTS RELATED TO SECTION 672 OF THE REFORM ACT.—

(1) Subparagraph (B) of section 163(e)(2) of the 1986 Code is amended by striking out "paragraph (6)" and inserting in lieu thereof "paragraph (7)".

(2) Subparagraph (B) of section 1278(a)(4) of the 1986 Code is amended by striking out "section 1272(a)(6)" and inserting in lieu thereof "section 1272(a)(7)".

(3) Section 1288(a) of the 1986 Code is amended by striking out "paragraph (6)" each place it appears and inserting in lieu thereof "paragraph (7)".

(4) Sections 1271(a)(2)(A)(ii) and 1275(a)(4)(B)(ii)(I) of the 1986 Code are each amended by striking out "subsection (a)(6)" and inserting in lieu thereof "subsection (a)(7)".

(v) AMENDMENT RELATED TO SECTION 674 OF THE REFORM ACT.—Subparagraph (A) of section 6049(d)(7) of the 1986 Code is amended by inserting "(and such amounts shall be treated as paid when includible in gross income under section 860B(b))" before the period at the end thereof.

(w) AMENDMENTS RELATED TO SECTION 675 OF THE REFORM ACT.—

(1) Subsection (a) of section 675 of the Reform Act is amended to read as follows:

"(a) GENERAL RULE.—Except as otherwise provided in this section, the amendments made by this subtitle shall take effect on January 1, 1987."

(2) Section 675 of the Reform Act is amended by adding at the end thereof the following new subsection:

"(d) STUDY.—The Secretary of the Treasury or his delegate shall conduct a study of the operation of the amendments made by this part and their competitive impact on savings and loan institutions and similar financial institutions. Not later than January 1, 1990, the Secretary shall submit a report of such study to the Committee on Ways and Means of the House of Representatives and the Committee on Finance of the Senate (together with such recommendations as he may deem advisable)."

26 USC 860A
note.

Effective date.

Banks and
banking.
26 USC 860A
note.
Reports.

Real property. SEC. 1007. AMENDMENTS RELATED TO TITLE VII OF THE REFORM ACT.

(a) AMENDMENTS TO SECTION 55 OF THE 1986 CODE.—

(1) Paragraph (1) of section 55(c) of the 1986 Code is amended by inserting before the period at the end of the first sentence the following: “and the section 936 credit allowable under section 27(b)”.

(2) Paragraph (2) of section 55(b) of the 1986 Code is amended by adding at the end thereof the following new sentence:

“If a taxpayer is subject to the regular tax, such taxpayer shall be subject to the tax imposed by this section (and, if the regular tax is determined by reference to an amount other than taxable income, such amount shall be treated as the taxable income of such taxpayer for purposes of the preceding sentence).”

(3) Effective with respect to taxable years ending after the date of the enactment of this Act, paragraph (3) of section 55(d) of the 1986 Code is amended by adding at the end thereof the following new sentence: “In the case of a taxpayer described in paragraph (1)(C)(i), alternative minimum taxable income shall be increased by the lesser of (i) 25 percent of the excess of alternative minimum taxable income (determined without regard to this sentence) over \$155,000, or (ii) \$20,000.”

(b) AMENDMENTS TO SECTION 56 OF THE 1986 CODE.—

(1) Paragraph (3) of section 56(a) of the 1986 Code is amended by adding at the end thereof the following new sentence: “For purposes of the preceding sentence, in the case of a contract described in section 460(e)(1), the percentage of the contract completed shall be determined under section 460(b)(2) by using the simplified procedures for allocation of costs prescribed under section 460(b)(4).”

(2) Subparagraph (E) of section 56(b)(1) of the 1986 Code is amended to read as follows:

“(E) STANDARD DEDUCTION AND DEDUCTION FOR PERSONAL EXEMPTIONS NOT ALLOWED.—The standard deduction under section 63(c), the deduction for personal exemptions under section 151, and the deduction under section 642(b) shall not be allowed.”

(3) Subparagraph (C) of section 56(b)(1) of the 1986 Code is amended by striking out “and” at the end of clause (ii), by striking out the period at the end of clause (iii) and inserting in lieu thereof a comma, and by adding at the end thereof the following new clauses:

“(iv) in lieu of the exception under section 163(d)(3)(B)(i), the term ‘investment interest’ shall not include any qualified housing interest (as defined in subsection (e)), and

“(v) the adjustments of this section and sections 57 and 58 shall apply in determining net investment income under section 163(d).”

(4) Clause (iii) of section 56(b)(1)(C) of the 1986 Code is amended—

(A) by striking out “specified activity bond” and inserting in lieu thereof “specified private activity bond”, and

(B) by striking out “section 56(a)(5)(B)” and inserting in lieu thereof “section 57(a)(5)(B)”.

(5) Subparagraph (A) of section 56(d)(2) of the 1986 Code is amended—

(A) by striking out “(other than subsection (a)(6) thereof)”, and

(B) by adding at the end thereof the following new sentence:

“An item of tax preference shall be taken into account under clause (ii) only to the extent such item increased the amount of the net operating loss for the taxable year under section 172(c).”

(6)(A) Paragraph (1) of section 56(e) of the 1986 Code is amended—

(i) by striking out “interest which is” and inserting in lieu thereof “interest which is qualified residence interest (as defined in section 163(h)(3)) and is”, and

(ii) by striking out “section 163(h)(3)” in subparagraph (B) and inserting in lieu thereof “section 163(h)(4)”.

(B) Paragraph (3) of section 56(e) of the 1986 Code is amended by striking out “interest paid or accrued” and inserting in lieu thereof “interest which is qualified residence interest (as defined in section 163(h)(3)) and is paid or accrued”.

(7) The last sentence of section 56(f)(2)(B) of the 1986 Code is amended by striking out “any such taxes” and inserting in lieu thereof “any such taxes (otherwise eligible for the credit provided by section 901 without regard to section 901(j))”.

(8) Clause (iii) of section 56(f)(3)(A) of the 1986 Code is amended by striking out “an income statement” and inserting in lieu thereof “an income statement for a substantial nontax purpose”.

(9) Subparagraph (B) of section 56(f)(3) of the 1986 Code is amended by striking out “paragraph (3)(A)” and inserting in lieu thereof “this subsection”.

(10) Subparagraph (C) of section 56(f)(3) of the 1986 Code is amended by adding at the end thereof the following new sentence: “If the taxpayer has 2 or more statements described in the clause (or subclause) with the lowest number designation, the applicable financial statement shall be the one of such statements specified in regulations.”

(11)(A) Subparagraph (F) of section 56(f)(2) of the 1986 Code is amended to read as follows:

“(F) TREATMENT OF TAXES ON DIVIDENDS FROM 936 CORPORATIONS.—

“(i) IN GENERAL.—For purposes of determining the alternative minimum tax foreign tax credit, 50 percent of any withholding tax or income tax paid to a possession of the United States with respect to dividends received from a corporation eligible for the credit provided by section 936 shall be treated as a tax paid to a foreign country by the corporation receiving the dividend.

“(ii) LIMITATION.—If the aggregate amount of the dividends referred to in clause (i) for any taxable year exceeds the excess referred to in paragraph (1), the amount treated as a tax paid to a foreign country under clause (i) shall not exceed the amount which would be so treated without regard to this clause multiplied by a fraction—

“(I) the numerator of which is the excess referred to in paragraph (1), and

“(II) the denominator of which is the aggregate amount of such dividends.

“(iii) TREATMENT OF TAXES IMPOSED ON 936 CORPORATION.—For purposes of this subparagraph, taxes paid by any corporation eligible for the credit provided by section 936 to a possession of the United States shall be treated as a withholding tax paid with respect to any dividend paid by such corporation to the extent such taxes would be treated as paid by the corporation receiving the dividend under rules similar to the rules of section 902 (and the amount of any such dividend shall be increased by the amount so treated).”

(B) Clause (iii) of section 56(g)(4)(C) of the 1986 Code is amended by striking out “clause (ii)(I)” and inserting in lieu thereof “clause (i)”.

(12) Clause (iii) of section 56(g)(4)(B) of the 1986 Code is amended by adding at the end thereof the following new sentence: “The preceding sentence shall not apply to any annuity contract held under a plan described in section 403(a).”

(13) Paragraph (1) of section 56(c) of the 1986 Code is amended—

(A) by striking out “ADJUSTED EARNINGS AND PROFITS” in the paragraph heading and inserting in lieu thereof “ADJUSTED CURRENT EARNINGS”, and

(B) by striking out “ADJUSTED EARNINGS AND PROFITS” in the heading of subparagraph (B) and inserting in lieu thereof “ADJUSTED CURRENT EARNINGS”.

(14)(A) Subsection (b) of section 56 of the 1986 Code is amended by adding at the end thereof the following new paragraph:

“(3) TREATMENT OF INCENTIVE STOCK OPTIONS.—Section 421 shall not apply to the transfer of stock acquired pursuant to the exercise of an incentive stock option (as defined in section 422A). The adjusted basis of any stock so acquired shall be determined on the basis of the treatment prescribed by the preceding sentence.”

(B) Paragraph (3) of section 57(a) of the 1986 Code is hereby repealed.

(C) The amendments made by this paragraph shall apply with respect to options exercised after December 31, 1987.

(15) Clause (i) of section 56(a)(1)(A) of the 1986 Code is amended by striking out “REAL” in the heading and inserting in lieu thereof “PERSONAL”.

(16) The heading of paragraph (1) of section 56(b) of the 1986 Code is amended by striking out “ITEMIZED”.

(17) Subparagraph (A) of section 56(g)(4) of the 1986 Code is amended by adding at the end thereof the following new clauses:

“(vi) ELECTION TO HAVE CUMULATIVE LIMITATION.—

“(I) IN GENERAL.—In the case of any property placed in service during a taxable year to which an election under this clause applies, in lieu of applying clause (i), the depreciation deduction for such property for any taxable year shall be the lesser of the accumulated 168(g) depreciation or the accumulated book depreciation; reduced by the aggregate amount of the depreciation deductions

determined under this subclause with respect to such property for prior taxable years.

“(II) ACCUMULATED 166(g) DEPRECIATION.—For purposes of this clause, the term ‘accumulated section 168(g) depreciation’ means the aggregate amount of the depreciation deductions determined under the alternative system of section 168(g) with respect to the property for all periods before the close of the taxable year.

“(III) ACCUMULATED BOOK DEPRECIATION.—For purposes of this clause, the term ‘accumulated book depreciation’ means the aggregate amount of the depreciation deductions determined under the method used for book purposes with respect to the property for all periods before the close of the taxable year.

“(IV) ELECTION.—The taxpayer may make an election under this clause for any taxable year beginning after 1989. Such an election, once made with respect to any such taxable year, shall apply to all property placed in service during such taxable year, and shall be irrevocable.

“(V) SIMILAR RULES FOR PROPERTY DESCRIBED IN CLAUSE (i), (iii), OR (iv).—Rules similar to the rules of the preceding provisions of this clause shall also apply in the case of property to which clause (ii), (iii), or (iv) applies.

“(vii) SPECIAL RULE FOR CERTAIN PROPERTY.—In the case of any property described in paragraph (1), (2), (3), or (4) of section 168(f), the amount of depreciation allowable for purposes of the regular tax shall be treated as the amount allowable under the alternative system of section 168(g).”

(18) Paragraph (4) of section 56(g) of the 1986 Code is amended by adding at the end thereof the following new subparagraph:

“(I) ADJUSTED BASIS.—The adjusted basis of any property with respect to which an adjustment under this paragraph applies shall be determined by applying the treatment prescribed in this paragraph.”

(19) Subsection (a) of section 56 of the 1986 Code is amended by adding at the end thereof the following new paragraph:
 “(8) SECTION 87 NOT APPLICABLE.—Section 87 (relating to alcohol fuel credit) shall not apply.”

(c) AMENDMENTS TO SECTION 57 OF THE 1986 CODE.—

(1) Clause (iii) of section 57(a)(5)(C) of the 1986 Code is amended by inserting “(whether a current or advance refunding)” after “any refunding bond”.

(2) Clause (i) of section 57(a)(5)(C) of the 1986 Code is amended to read as follows:

“(i) IN GENERAL.—For purposes of this part, the term ‘specified private activity bond’ means any private activity bond (as defined in section 141) which is issued after August 7, 1986, and the interest on which is not includible in gross income under section 103.”

(3) Subparagraph (A) of section 57(a)(6) of the 1986 Code is amended by inserting “or 642(c)” after “section 170”.

(d) AMENDMENTS TO SECTION 58 OF THE 1986 CODE.—

(1) Paragraph (2) of section 58(a) of the 1986 Code is amended—

(A) by striking out “(as modified by section 461(i)(4)(A))”, and

(B) by striking out “section 469(d), without regard to paragraph (1)(B) thereof” and inserting in lieu thereof “section 469(c)”.

(2) Paragraph (3) of section 58(a) of the 1986 Code is amended by striking out “section 469(g)(1)(C)” and inserting in lieu thereof “section 469(j)(2)”.

(3) Subsection (a) of section 58 of the 1986 Code is amended by adding at the end thereof the following new paragraph:

“(4) DETERMINATION OF LOSS.—In determining the amount of the loss from any tax shelter farm activity, the adjustments of sections 56 and 57 shall apply.”

(4) Subsection (b) of section 58 of the 1986 Code is amended by striking out paragraphs (1), (2), and (3), and inserting in lieu thereof the following:

“(1) the adjustments of sections 56 and 57 shall apply,

“(2) the provisions of section 469(m) (relating to phase-in of disallowance) shall not apply, and

“(3) in lieu of applying section 469(j)(7), the passive activity loss of a taxpayer shall be computed without regard to qualified housing interest (as defined in section 56(e)).”

(e) AMENDMENTS TO SECTION 59 OF THE 1986 CODE.—

(1) Paragraph (2) of section 59(e) of the 1986 Code is amended by striking out “would have been allowable as a deduction” and inserting in lieu thereof “would have been allowable as a deduction (determined without regard to section 291)”.

(2) Subsection (h) of section 59 of the 1986 Code is amended by striking out “taxable year—” and all that follows and inserting in lieu thereof “taxable year with the adjustments of sections 56, 57, and 58.”

(3) Paragraph (1) of section 59(a) of the 1986 Code is amended by striking out “and” at the end of subparagraph (B), by striking out the period at the end of subparagraph (C) and inserting in lieu thereof “, and”, and by adding at the end thereof the following new subparagraph:

Agriculture and
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 commodities.
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Taxes.

“(D) the determination of whether any income is high-taxed income for purposes of section 904(d)(2) were made on the basis of the applicable rate specified in section 55(b)(1)(A) in lieu of the highest rate of tax specified in section 1 or 11 (whichever applies).”

(4) Subsection (i) of section 59 of the 1986 Code is amended—

(A) by striking out “of this subtitle” and inserting in lieu thereof “of this subtitle (other than this part)”, and

(B) by striking out “by this title” and inserting in lieu thereof “by this subtitle”.

(f) TRANSITIONAL PROVISIONS.—

(1) In the case of the taxable year of an estate or trust which begins before January 1, 1987, and ends on or after such date, the items of tax preference apportioned to any beneficiary of such estate or trust under section 58(c) of the Internal Revenue Code of 1954 (as in effect on the day before the date of the enactment of the Tax Reform Act of 1986) shall be taken into account for purposes of determining the amount of the tax imposed by section 55 of the Internal Revenue Code of 1986 (as amended by the Tax Reform Act of 1986) on such beneficiary for such beneficiary's taxable year in which such taxable year of the estate or trust ends.

26 USC 55 note.

(2) The last sentence of subparagraph (B) of section 701(f)(6) of the Reform Act is amended to read as follows: “The aggregate amount of investment tax credits with respect to the unit in Mississippi allowed solely by reason of being described in this subparagraph shall not exceed \$141,000,000.”

26 USC 55 note.

(3) Subsection (f) of section 701 of the Reform Act is amended by adding at the end thereof the following new paragraph:

“(7) AGREEMENT VESSEL DEPRECIATION ADJUSTMENT.—

“(A) For purposes of part VI of subchapter A of chapter 1 of the Internal Revenue Code of 1986, in the case of a qualified taxpayer, alternative minimum taxable income for the taxable year shall be reduced by an amount equal to the agreement vessel depreciation adjustment.

“(B) For purposes of this paragraph, the agreement vessel depreciation adjustment shall be an amount equal to the depreciation deduction that would have been allowable for such year under section 167 of such Code with respect to agreement vessels placed in service before January 1, 1987, if the basis of such vessels had not been reduced under section 607 of the Merchant Marine Act of 1936, as amended, and if depreciation with respect to such vessel had been computed using the 25-year straight-line method. The aggregate amount by which basis of a qualified taxpayer is treated as not reduced by reason of this subparagraph shall not exceed \$100,000,000.

“(C) For purposes of this paragraph, the term ‘qualified taxpayer’ means a parent corporation incorporated in the State of Delaware on December 1, 1972, and engaged in water transportation, and includes any other corporation which is a member of the affiliated group of which the parent corporation is the common parent. No taxpayer shall be treated as a qualified corporation for any taxable year beginning after December 31, 1991.”

(4)(A) If any property to which this paragraph applies is placed in service in a taxable year which begins before Janu-

26 USC 57 note.

ary 1, 1987, and ends on or after August 1, 1986, the item of tax preference determined under section 57(a) of the Internal Revenue Code of 1954 (as in effect on the day before the date of the enactment of the Tax Reform Act of 1986) with respect to such property shall be the excess of—

(i) the amount allowable as a deduction for depreciation or amortization for such taxable year, over

(ii) the amount which would be determined for such taxable year under the rules of paragraph (1) or (5) (whichever is appropriate) of section 56(a) of the Internal Revenue Code of 1954 (as amended by the Tax Reform Act of 1986).

(B) This paragraph shall apply to any property—

(i) which is described in paragraph (4) or (12) of section 57(a) of the Internal Revenue Code of 1954 (as so in effect), and

(ii) to which paragraph (1) or (5) of section 56(a) of the Internal Revenue Code of 1986 would apply if the taxable year referred to in subparagraph (A) began after December 31, 1986.

26 USC 59 note.

(5) In determining the amount of the alternative minimum tax foreign tax credit under section 59 of the 1986 Code, there shall not be taken into account any taxes paid or accrued in a taxable year beginning after December 31, 1986, which are treated under section 904(c) of the 1986 Code as paid or accrued in a taxable year beginning on or before December 31, 1986.

(g) MISCELLANEOUS AMENDMENTS.—

(1) Subparagraph (K) of section 26(b)(2) of the 1986 Code is amended by striking out the comma at the end thereof and inserting in lieu thereof “.”.

(2)(A) So much of section 38(c) as precedes paragraph (4) thereof is amended to read as follows:

“(c) LIMITATION BASED ON AMOUNT OF TAX.—

“(1) IN GENERAL.—The credit allowed under subsection (a) for any taxable year shall not exceed the excess (if any) of the taxpayer’s net income tax over the greater of—

“(A) the tentative minimum tax for the taxable year, or

“(B) 25 percent of so much of the taxpayer’s net regular tax liability as exceeds \$25,000.

For purposes of the preceding sentence, the term ‘net income tax’ means the sum of the regular tax liability and the tax imposed by section 55, reduced by the credits allowable under subparts A and B of this part, and the term ‘net regular tax liability’ means the regular tax liability reduced by the sum of the credits allowable under subparts A and B of this part.

“(2) REGULAR INVESTMENT TAX CREDIT MAY OFFSET 25 PERCENT OF MINIMUM TAX.—

“(A) IN GENERAL.—In the case of a C corporation, the amount determined under paragraph (1)(A) shall be reduced by the lesser of—

“(i) the portion of the regular investment tax credit not used against the normal limitation, or

“(ii) 25 percent of the taxpayer’s tentative minimum tax for the taxable year.

“(B) PORTION OF REGULAR INVESTMENT TAX CREDIT NOT USED AGAINST NORMAL LIMIT.—For purposes of subparagraph (A), the portion of the regular investment tax credit

for any taxable year not used against the normal limitation is the excess (if any) of—

“(i) the portion of the credit under subsection (a) which is attributable to the application of the regular percentage under section 46, over

“(ii) the limitation of paragraph (1) (without regard to this paragraph) reduced by the portion of the credit under subsection (a) which is not so attributable.

“(C) LIMITATION.—In no event shall this paragraph permit the allowance of a credit which would result in a net chapter 1 tax less than an amount equal to 10 percent of the amount determined under section 55(b)(1)(A) without regard to the alternative tax net operating loss deduction. For purposes of the preceding sentence, the term ‘net chapter 1 tax’ means the sum of the regular tax liability for the taxable year and the tax imposed by section 55 for the taxable year, reduced by the sum of the credits allowable under this part for the taxable year (other than under section 34).”

(B) Subsection (c) of section 38 of the 1986 Code is amended—

(i) by redesignating paragraph (4) as paragraph (3), and

(ii) by striking out “subparagraphs (A) and (B) of paragraph (1)” each place it appears in such paragraph and inserting in lieu thereof “subparagraph (B) of paragraph (1).

(3)(A) Subsection (c) of section 47 of the 1986 Code is amended by striking out “or D” and inserting in lieu thereof “D, or G”.

(B) Subparagraph (D) of section 42(j)(4) of the 1986 Code is amended by striking out “or D” and inserting in lieu thereof “D, or G”.

(4) The last sentence of clause (ii) of section 53(d)(1)(B) of the 1986 Code is amended by striking out “earnings and profits” and inserting in lieu thereof “current earnings”.

(5) Sections 173(b), 174(e)(2), and 263(c) of the 1986 Code are each amended by striking out “section 59(d)” and inserting in lieu thereof “section 59(e)”.

(6) Section 511 of the 1986 Code is amended by striking out subsection (d).

(7) Sections 616(e) and 617(j) of the 1986 Code are each amended by striking out “section 58(i)” and inserting in lieu thereof “section 59(e)”.

(8) Paragraph (4) of section 701(c) of the Reform Act is amended by striking out “section 631(a)” and inserting in lieu thereof “section 221(a)”.

(9) Subparagraph (B) of section 1362(e)(5) of the 1986 Code is amended by striking out “Subsection (d)(2)” and inserting in lieu thereof “Subsection (d)”.

(10) Subsection (a) of section 6154 of the 1986 Code (as in effect before its repeal by the Revenue Act of 1987) is amended by striking out “11, 59A” and inserting in lieu thereof “11, 55, 59A”.

(11) Paragraph (1) of section 962(a) of the 1986 Code is amended—

(A) by striking out “section 1” and inserting in lieu thereof “sections 1 and 55”, and

(B) by striking out “section 11” and inserting in lieu thereof “sections 11 and 55”.

(12) Subsection (h) of section 32 of the 1986 Code is amended by striking out "for taxpayers other than corporations".

(13)(A) Subsection (d) of section 2 of the 1986 Code is amended by striking out "the tax imposed by section 1" and inserting in lieu thereof "the taxes imposed by sections 1 and 55".

(B) Subsection (d) of section 11 of the 1986 Code is amended by striking out "the tax imposed by subsection (a)" and inserting in lieu thereof "the taxes imposed by subsection (a) and section 55".

SEC. 1008. AMENDMENTS RELATED TO TITLE VIII OF THE REFORM ACT.

(a) AMENDMENTS RELATED TO SECTION 801 OF THE REFORM ACT.—

(1)(A) Subparagraph (B) of section 448(d)(2) of the 1986 Code (defining qualified personal service corporation) is amended by striking out "or indirectly" and inserting in lieu thereof "(or indirectly through 1 or more partnerships, S corporations, or qualified personal service corporations not described in paragraph (2) or (3) of subsection (a))".

(B) Section 448(d) of the 1986 Code is amended by adding at the end thereof the following new paragraph:

"(8) **USE OF RELATED PARTIES, ETC.**—The Secretary shall prescribe such regulations as may be necessary to prevent the use of related parties, pass-thru entities, or intermediaries to avoid the application of this section."

(2) Subparagraph (C) of section 448(d)(4) of the 1986 Code (relating to special rules for application of paragraph (2)) is amended by striking out "all such members" and inserting in lieu thereof "such group".

(3) Paragraph (2) of section 461(i) of the 1986 Code is amended to read as follows:

"(2) **SPECIAL RULE FOR SPUDDING OF OIL OR GAS WELLS.—**

"(A) **IN GENERAL.**—In the case of a tax shelter, economic performance with respect to amounts paid during the taxable year for drilling an oil or gas well shall be treated as having occurred within a taxable year if drilling of the well commences before the close of the 90th day after the close of the taxable year.

"(B) **DEDUCTION LIMITED TO CASH BASIS.—**

"(i) **TAX SHELTER PARTNERSHIPS.**—In the case of a tax shelter which is a partnership, in applying section 704(d) to a deduction or loss for any taxable year attributable to an item which is deductible by reason of subparagraph (A), the term 'cash basis' shall be substituted for the term 'adjusted basis'.

"(ii) **OTHER TAX SHELTERS.**—Under regulations prescribed by the Secretary, in the case of a tax shelter other than a partnership, the aggregate amount of the deductions allowable by reason of subparagraph (A) for any taxable year shall be limited in a manner similar to the limitation under clause (i).

"(C) **CASH BASIS DEFINED.**—For purposes of subparagraph (B), a partner's cash basis in a partnership shall be equal to the adjusted basis of such partner's interest in the partnership, determined without regard to—

"(i) any liability of the partnership, and

"(ii) any amount borrowed by the partner with respect to such partnership which—

“(I) was arranged by the partnership or by any person who participated in the organization, sale, or management of the partnership (or any person related to such person within the meaning of section 465(b)(3)(C)), or

“(II) was secured by any asset of the partnership.”

(4) Section 464 of the 1986 Code (relating to limitations on deductions for certain farming expenses) is amended by adding at the end thereof the following new subsection:

“(g) **TERMINATION.**—Except as provided in subsection (f), subsections (a) and (b) shall not apply to any taxable year beginning after December 31, 1986.”

(5) Paragraph (4) of section 801(d) of the Reform Act is amended by striking out “the completed contract method” and inserting in lieu thereof “a method of accounting for long-term contracts”.

26 USC 448 note.

(6) Section 801(d) of the Reform Act is amended by adding at the end thereof the following new paragraph:

“(5) **SPECIAL RULE FOR PARAGRAPHS (2) AND (3).**—If any loan, lease, contract, or evidence of any transaction to which paragraph (2) or (3) applies is transferred after June 10, 1987, to a person other than a related party (within the meaning of paragraph (2)), paragraph (2) or (3) shall cease to apply on and after the date of such transfer.”

(7) Paragraph (3) of section 448(d) of the 1986 Code is amended by adding at the end thereof the following new sentence: “An S corporation shall not be treated as a tax shelter for purposes of this section merely by reason of being required to file a notice of exemption from registration with a State agency described in section 461(i)(3)(A), but only if there is a requirement applicable to all corporations offering securities for sale in the State that to be exempt from such registration the corporation must file such a notice.”

(8) Subparagraph (C) of section 448(d)(4) of the 1986 Code is amended by striking out “substantially all of” and inserting in lieu thereof “90 percent or more of”.

(9) Paragraph (3) of section 448(c) of the 1986 Code is amended by adding at the end thereof the following new subparagraph:

“(D) **TREATMENT OF PREDECESSORS.**—Any reference in this subsection to an entity shall include a reference to any predecessor of such entity.”

(b) **AMENDMENTS RELATED TO SECTION 803 OF THE REFORM ACT.**—

(1) Paragraph (2) of section 263A(a) of the 1986 Code is amended by adding at the end thereof the following new sentence: “Any cost which (but for this subsection) could not be taken into account in computing taxable income for any taxable year shall not be treated as a cost described in this paragraph.”

(2) Section 263A(c) of the 1986 Code (relating to general exceptions) is amended—

(A) by striking out “263(c), 616(a), or 617(a)” and inserting in lieu thereof “263(c), 263(i), 291(b)(2), 616, or 617”, and

(B) by adding at the end thereof the following new paragraph:

“(6) **COORDINATION WITH SECTION 59(e).**—Paragraphs (2) and (3) shall apply to any amount allowable as a deduction under

section 59(e) for qualified expenditures described in subparagraphs (B), (C), (D), and (E) of paragraph (2) thereof."

(3) Subparagraph (B) of section 263A(d)(2) of the 1986 Code (relating to special rule for person with minority interest who materially participates) is amended—

(A) by striking out "such grove, orchard, or vineyard" in clause (i) and inserting in lieu thereof "the plants described in subparagraph (A) at all times during the taxable year in which such amounts were paid or incurred", and

(B) by striking out "such grove, orchard, or vineyard during the 4-taxable year period beginning with the taxable year in which the grove, orchard, or vineyard was lost or damaged" and inserting in lieu thereof "the plants described in subparagraph (A) during the taxable year in which such amounts were paid or incurred".

(4) Paragraph (3) of section 263A(f) of the 1986 Code (relating to interest relating to property used to produce property) is amended—

(A) by striking out "incurred or continued in connection with" and inserting in lieu thereof "allocable (as determined under paragraph (2)) to", and

(B) by inserting "(as so determined)" after "allocable".

(5) Section 447(b) of the 1986 Code is amended—

(A) by striking out "of" before "expenses", and

(B) by striking out "or" before "EXPENSES" in the heading thereof.

(6) Section 447(g)(1) of the 1986 Code is amended by striking out "trade or business of farming" each place it appears and inserting in lieu thereof "qualified farming trade or business".

(7) Paragraph (4)(A)(i) of section 803(d) of the Reform Act is amended by striking out "203" each place it appears and inserting in lieu thereof "204".

(8) The allocation used in the regulations prescribed under section 263A(h)(2) of the Internal Revenue Code of 1986 for apportioning storage costs and related handling costs shall be determined by dividing the amount of such costs by the beginning inventory balances and the purchases during the year and by multiplying the resulting allocation ratio by inventory amounts determined in accordance with the provisions of the joint explanatory statement of the committee of conference of the conference report accompanying H.R. 3838 (H.R. Rept. No. 99-841, Vol. II, 99th Cong., 2d Sess. II-306-307 (1986)).

(c) AMENDMENTS RELATED TO SECTION 804 OF THE REFORM ACT.—

(1) Paragraph (3) of section 460(b) of the 1986 Code is amended—

(A) by striking out "subparagraph" and inserting in lieu thereof "paragraph",

(B) by striking out "paragraph (1)" each place it appears in subparagraph (B) and inserting in lieu thereof "subparagraph (A)", and

(C) by striking out "paragraph (1)" in subparagraph (C) and inserting in lieu thereof "subparagraph (B)".

(2)(A) Section 460(b) of the 1986 Code (relating to percentage of completion method) is amended by adding at the end thereof the following new paragraph:

"(4) SPECIAL RULES.—

26 USC 263A
note.

26 USC 263A
note.

Contracts.

“(A) **SIMPLIFIED METHOD OF COST ALLOCATION.**—In the case of any long-term contract, the Secretary may prescribe a simplified procedure for allocation of costs to such contract in lieu of the method of allocation under subsection (c).

“(B) **LOOK-BACK METHOD NOT TO APPLY TO CERTAIN CONTRACTS.**—Paragraph (2)(B) and subsection (a)(2) shall not apply to any contract—

“(i) the gross price of which (as of the completion of the contract) does not exceed the lesser of—

“(I) \$1,000,000, or

“(II) 1 percent of the average annual gross receipts of the taxpayer for the 3 taxable years preceding the taxable year in which the contract was completed, and

“(ii) which is completed within 2 years of the contract commencement date.

For purposes of this subparagraph, rules similar to the rules of subsections (e)(2) and (f)(3) shall apply.”

(B) Section 460(b)(2) of the 1986 Code is amended by striking out “In” and inserting in lieu thereof “Except as provided in paragraph (4), in”.

(3) Subparagraph (B) of section 804(d)(2) of the Reform Act is amended by striking out “section 263A(c)(5)” and inserting in lieu thereof “section 460(c)(5)”.

26 USC 460 note.

(4)(A) Paragraph (3) of section 460(b) of the 1986 Code is amended by adding at the end thereof the following new sentences:

“For purposes of the preceding sentence, any amount received or accrued after completion of the contract shall be taken into account by discounting (using the Federal mid-term rate determined under section 1274(d) as of the time such amount was received or accrued) such amount to its value as of the completion of the contract. The taxpayer may elect with respect to any contract to have the preceding sentence not apply to such contract.”

(B) Subparagraph (B) of section 460(b)(2) of the 1986 Code is amended by striking out “completion of the contract” and inserting in lieu thereof “completion of the contract (or, with respect to any amount received or accrued after completion of the contract, when such amount is so received or accrued)”.

(d) **AMENDMENT RELATED TO SECTION 805 OF THE REFORM ACT.**—

(1) Section 166(d)(1)(A) of the 1986 Code is amended by striking out “subsections (a) and (c)” and inserting in lieu thereof “subsection (a)”.

(2) Subsection (b) of section 805 of the Reform Act is amended by inserting “, as amended by section 901(d)(4),” after “Section 166”.

26 USC 166.

(3) Subsection (a) of section 582 of the 1986 Code is amended by striking out “subsections (a), (b), and (c) of section 166” and inserting in lieu thereof “subsections (a) and (b) of section 166”.

(e) **AMENDMENTS RELATED TO SECTION 806 OF THE REFORM ACT.**—

(1)(A) Clause (i) of section 706(b)(1)(B) of the 1986 Code is amended to read as follows:

“(i) the majority interest taxable year (as defined in paragraph (4)),”.

(B) Paragraph (4) of section 706(b) of the 1986 Code is amended to read as follows:

“(4) MAJORITY INTEREST TAXABLE YEAR; LIMITATION ON REQUIRED CHANGES.—

“(A) MAJORITY INTEREST TAXABLE YEAR DEFINED.—For purposes of paragraph (1)(B)(i)—

“(i) IN GENERAL.—The term ‘majority interest taxable year’ means the taxable year (if any) which, on each testing day, constituted the taxable year of 1 or more partners having (on such day) an aggregate interest in partnership profits and capital of more than 50 percent.

“(ii) TESTING DAYS.—The testing days shall be—

“(I) the 1st day of the partnership taxable year (determined without regard to clause (i)), or

“(II) the days during such representative period as the Secretary may prescribe.

“(B) FURTHER CHANGE NOT REQUIRED FOR 3 YEARS.—Except as provided in regulations necessary to prevent the avoidance of this section, if, by reason of paragraph (1)(B)(i), the taxable year of a partnership is changed, such partnership shall not be required to change to another taxable year for either of the 2 taxable years following the year of change.”

(2) Clause (iii) of section 706(b)(1)(B) of the 1986 Code is amended by striking out “or such other period as the Secretary may prescribe in regulations” and inserting in lieu thereof “unless the Secretary by regulations prescribes another period”.

(3) Section 706(b) of the 1986 Code is amended by adding at the end thereof the following new paragraph:

“(5) APPLICATION WITH OTHER SECTIONS.—Except as provided in regulations, for purposes of determining the taxable year to which a partnership is required to change by reason of this subsection, changes in taxable years of other persons required by this subsection, section 441(i), section 584(h), section 645, or section 1378(a) shall be taken into account.”

(4) Paragraph (2) of section 441(i) of the 1986 Code (defining personal service corporation) is amended by adding at the end thereof the following:

“A corporation shall not be treated as a personal service corporation unless more than 10 percent of the stock (by value) in such corporation is held by employee-owners (within the meaning of section 269A(b)(2), as modified by the preceding sentence). If a corporation is a member of an affiliated group filing a consolidated return, all members of such group shall be taken into account in determining whether such corporation is a personal service corporation.”

(5)(A) Section 584 of the 1986 Code (relating to common trust funds) is amended by adding at the end thereof the following new subsection:

“(h) TAXABLE YEAR OF COMMON TRUST FUND.—For purposes of this subtitle, the taxable year of any common trust fund shall be the calendar year.”

26 USC 584 note.

(B) The amendment made by subparagraph (A) shall take effect as if included in the amendments made by section 806 of the Reform Act, except that section 806(e)(1) shall be applied by substituting “December 31, 1987” for “December 31, 1986”. For purposes of section 806(e)(2) of the Reform Act—

- (i) a participant in a common trust fund shall be treated in the same manner as a partner, and
- (ii) subparagraph (C) thereof shall be applied by substituting "December 31, 1987" for "December 31, 1986" and as if it did not contain the election to include all income in the short taxable year.
- (6) Section 806(c)(2) of the Reform Act is amended by striking out "Section 267(a)" and inserting in lieu thereof "Section 267(a)(2)". 26 USC 267.
- (7) Subparagraph (C) of section 806(e)(2) of the Reform Act is amended— 26 USC 1378 note.
- (A) by striking out "(including such short taxable year)", and
- (B) by striking out "short taxable year" the second place it appears and inserting in lieu thereof "the partner's or shareholder's taxable year with or within which the partnership's or S corporation's short taxable year ends".
- (8) Section 806(e)(2) of the Reform Act is amended—
- (A) by striking out "any taxable year" and inserting in lieu thereof "the taxpayer's first taxable year beginning after December 31, 1986", and
- (B) by striking out "taxpayer" each place it appears and inserting in lieu thereof "partnership, S corporation, or personal service corporation".
- (9) Nothing in section 806 of the Reform Act or in any legislative history relating thereto shall be construed as requiring the Secretary of the Treasury or his delegate to permit an automatic change of a taxable year. 26 USC 1378 note.
- (10) Subsection (e) of section 806 of the Reform Act is amended by adding at the end thereof the following new paragraph: 26 USC 1378 note.
- "(3) BASIS, ETC. RULES.—
- "(A) BASIS RULE.—The adjusted basis of any partner's interest in a partnership or shareholder's stock in an S corporation shall be determined as if all of the income to be taken into account ratably in the 4 taxable years referred to in paragraph (2)(C) were included in gross income for the 1st of such taxable years.
- "(B) TREATMENT OF DISPOSITIONS.—If any interest in a partnership or stock in an S corporation is disposed of before the last taxable year in the spread period, all amounts which would be included in the gross income of the partner or shareholder for subsequent taxable years in the spread period under paragraph (2)(C) and attributable to the interest or stock disposed of shall be included in gross income for the taxable year in which the disposition occurs. For purposes of the preceding sentence, the term 'spread period' means the period consisting of the 4 taxable years referred to in paragraph (2)(C)."
- (f) AMENDMENTS RELATED TO SECTION 811 OF THE REFORM ACT.—
- (1) Paragraph (4) of section 453C(b) of the 1986 Code is amended—
- (A) by striking out "at any time during" and inserting in lieu thereof "as of the close of", and
- (B) by striking out "as of the close of such taxable year in lieu" and inserting in lieu thereof "as of the close of such taxable year (determined by not taking into account any indebtedness described in paragraph (3)(B)) in lieu"

(2) So much of paragraph (2) of section 453C(d) of the 1986 Code as precedes subparagraph (A) is amended to read as follows:

“(2) **EXCESS ALLOCABLE INSTALLMENT INDEBTEDNESS.**—If the allocable installment indebtedness for any taxable year exceeds the amount which may be allocated under paragraph (1) to applicable installment obligations arising in (and outstanding as of the close of) such taxable year, such excess shall—”.

(3) Subparagraph (A) of section 453C(e)(1) of the 1986 Code is amended by adding at the end thereof the following new sentence:

“Such term also includes any obligation held by any person if the basis of such obligation in the hands of such person is determined (in whole or in part) by reference to the basis of such obligation in the hands of another person and such obligation was an applicable installment obligation in the hands of such other person.”

(4) Paragraph (2) of section 453C(e) of the 1986 Code (relating to aggregation rules) is amended by striking out “For” and inserting in lieu thereof “Except as provided in regulations, for”.

(5) Subparagraph (B) of section 453C(e)(4) of the 1986 Code is amended by striking out “or (3)”.

(6) Paragraph (4) of section 811(c) of the Reform Act is amended by striking out the second subparagraphs (D) and (E).

(7) Paragraph (5) of section 811(c) of the Reform Act is amended by striking out “October 23, 1985” each place it appears and inserting in lieu thereof “October 23, 1984”.

(8) Section 811(c) of the Reform Act is amended by adding at the end thereof the following new paragraph:

“(9) **SPECIAL RULES.**—For purposes of section 453C of the 1986 Code (as added by subsection (a))—

“(A) **REVOLVING CREDIT PLANS, ETC.**—The term ‘applicable installment obligation’ shall not include any obligation arising out of any disposition or sale described in paragraph (1) or (2) of section 453(k) of such Code (as added by section 812(a)).

“(B) **CERTAIN DISPOSITIONS DEEMED MADE ON FIRST DAY OF TAXABLE YEAR.**—In the case of a taxpayer’s 1st taxable year ending after December 31, 1986, dispositions after February 28, 1986, and before the 1st day of such taxable year shall be treated as made on such 1st day.”

(9) For purposes of applying the amendments made by this subsection and the amendments made by section 10202 of the Revenue Act of 1987, the provisions of this subsection shall be treated as having been enacted immediately before the enactment of the Revenue Act of 1987.

(g) **AMENDMENTS RELATED TO SECTION 812 OF THE REFORM ACT.**—

(1) Section 453 of the 1986 Code is amended by redesignating the subsection (j) added by section 812 of the Reform Act as subsection (k).

(2) Subsection (c) of section 453A of the 1986 Code (as in effect on the date before the date of the enactment of the Revenue Act of 1987) is amended by striking out “453(j)” and inserting in lieu thereof “453(k)”.

26 USC 453C
note.

26 USC 453C
note.

(3) Paragraph (1) of section 812(c) of the Reform Act is amended by striking out "paragraph (2)" and inserting in lieu thereof "paragraphs (2) and (3)".

(4) Subsection (c) of section 812 of the Reform Act is amended by redesignating paragraph (2) as paragraph (3) and inserting after paragraph (1) the following new paragraph:

"(2) SALES OF STOCK, ETC.—Section 453(k)(2) of the Internal Revenue Code of 1986, as added by subsection (a), shall apply to sales after December 31, 1986, in taxable years ending after such date."

(5) Paragraph (3) of section 812(c) of the Reform Act (as so redesignated) is amended by striking out subparagraphs (B) and (C) and inserting in lieu thereof the following:

"(B) such change shall be treated as having been made with the consent of the Secretary,

"(C) the period for taking into account adjustments under section 481 of such Code by reason of such change shall be equal to 4 years, and

"(D) except as provided in paragraph (4), the amount taken into account in each of such 4 years shall be the applicable percentage (determined in accordance with the following table) of the net adjustment:

| "In the case of the: | The applicable percentage is: |
|-----------------------|-------------------------------|
| 1st taxable year..... | 15 |
| 2nd taxable year..... | 25 |
| 3rd taxable year..... | 30 |
| 4th taxable year..... | 30. |

If the taxpayer's last taxable year beginning before January 1, 1987, was the taxpayer's 1st taxable year in which sales were made under a revolving credit plan, all adjustments under section 481 of such Code shall be taken into account in the taxpayer's 1st taxable year beginning after December 31, 1986."

(6) Subsection (c) of section 812 of the Reform Act is amended by adding at the end thereof the following new paragraphs:

"(4) ACCELERATION OF ADJUSTMENTS WHERE CONTRACTION IN AMOUNT OF INSTALLMENT OBLIGATIONS.—

"(A) IN GENERAL.—If the percentage determined under subparagraph (B) for any taxable year in the adjustment period exceeds the percentage which would otherwise apply under paragraph (3)(D) for such taxable year (determined after the application of this paragraph for prior taxable years in the adjustment period)—

"(i) the percentage determined under subparagraph (B) shall be substituted for the applicable percentage which would otherwise apply under paragraph (3)(D), and

"(ii) any increase in the applicable percentage by reason of clause (i) shall be applied to reduce the applicable percentage determined under paragraph (3)(D) for subsequent taxable years in the adjustment period (beginning with the 1st of such subsequent taxable years).

"(B) DETERMINATION OF PERCENTAGE.—For purposes of subparagraph (A), the percentage determined under this subparagraph for any taxable year in the adjustment period is the excess (if any) of—

“(i) the percentage determined by dividing the aggregate contraction in revolving installment obligations by the aggregate face amount of such obligations outstanding as of the close of the taxpayer’s last taxable year beginning before January 1, 1987, over

“(ii) the sum of the applicable percentages under paragraph (3)(D) (as modified by this paragraph) for prior taxable years in the adjustment period.

“(C) AGGREGATE CONTRACTION IN REVOLVING INSTALLMENT OBLIGATIONS.—For purposes of subparagraph (B), the aggregate contraction in revolving installment obligations is the amount by which—

“(i) the aggregate face amount of the revolving installment obligations outstanding as of the close of the taxpayer’s last taxable year beginning before January 1, 1987, exceeds

“(ii) the aggregate face amount of the revolving installment obligations outstanding as of the close of the taxable year involved.

“(D) REVOLVING INSTALLMENT OBLIGATIONS.—For purposes of this paragraph, the term ‘revolving installment obligations’ means installment obligations arising under a revolving credit plan.

“(E) TREATMENT OF CERTAIN OBLIGATIONS DISPOSED OF ON OR BEFORE OCTOBER 26, 1987.—For purposes of subparagraphs (B)(i) and (C)(i), in determining the aggregate face amount of revolving installment obligations outstanding as of the close of the taxpayer’s last taxable year beginning before January 1, 1987, there shall not be taken into account any obligation—

“(i) which was disposed of to an unrelated person on or before October 26, 1987, or

“(ii) was disposed of to an unrelated person on or after such date pursuant to a binding written contract in effect on October 26, 1987, and at all times thereafter before such disposition.

For purposes of the preceding sentence, the term ‘unrelated person’ means any person who is not a related person (as defined in section 453(g) of the Internal Revenue Code of 1986).

“(5) LIMITATION ON LOSSES FROM SALES OF OBLIGATIONS UNDER REVOLVING CREDIT PLANS.—If 1 or more obligations arising under a revolving credit plan and taken into account under paragraph (3) are disposed of during the adjustment period, then, notwithstanding any other provision of law—

“(A) no losses from such dispositions shall be recognized, and

“(B) the aggregate amount of the adjustment for taxable years in the adjustment period (in reverse order of time) shall be reduced by the amount of such losses.

“(6) ADJUSTMENT PERIOD.—For purposes of paragraphs (4) and (5), the adjustment period is the 4-year period under paragraph (3).”

(h) AMENDMENT RELATED TO SECTION 821 OF THE REFORM ACT.—Section 821(b)(3) of the Reform Act is amended by adding at the end thereof the following new sentence: “The preceding sentence shall also apply to any taxable year beginning after August 16, 1986, and

before January 1, 1987, if the taxpayer treated such income in the same manner for the taxable year preceding such taxable year.”

(i) AMENDMENT RELATED TO SECTION 822 OF THE REFORM ACT.— Paragraph (1) of section 703(b) of the 1986 Code is amended by striking out “or (d)(4)”.

(j) AMENDMENTS RELATED TO SECTION 824 OF THE REFORM ACT.—

(1) Section 6501(o) of the 1986 Code which relates to cross references is amended by striking out paragraph (3).

(2) Paragraph (4) of section 824(c) of the Reform Act is amended by striking out “an indemnity agreement” and inserting in lieu thereof “an underwriting agreement”.

26 USC 118 note.

SEC. 1009. AMENDMENTS RELATED TO TITLE IX OF THE REFORM ACT.

(a) AMENDMENTS RELATED TO SECTION 901 OF THE REFORM ACT.—

(1) Subparagraph (C) of section 46(e)(4) of the 1986 Code is amended by adding at the end thereof the following new sentences: “Notwithstanding the preceding provisions of this subparagraph, any such election shall terminate effective with respect to the 1st taxable year of the organization making such election which begins after 1986 and during which such organization (or any successor organization) was not at any time the lessee under any lease of regular investment tax credit property. For purposes of the preceding sentence, the term ‘regular investment tax credit property’ means any section 38 property if the regular percentage applied to such property and the amount of qualified investment with respect to such property would have been reduced under paragraph (1) but for an election under this subparagraph.”

(2)(A) Paragraph (5) of section 585(c) of the 1986 Code is amended by adding at the end thereof the following new subparagraph:

“(C) ELECTION MADE BY EACH MEMBER.—In the case of a parent-subsidiary controlled group, any election under this section shall be made separately by each member of such group.”

(B) Subclause (I) of section 585(c)(3)(A)(iii) of the 1986 Code is amended by striking out “or such greater amount as the taxpayer may designate” and inserting in lieu thereof “or such higher percentage of such net amount as the taxpayer may elect”.

(C) Clause (ii) of section 585(c)(3)(B) of the 1986 Code is amended by striking out “designates an amount” and inserting in lieu thereof “elects a higher percentage”.

(3) Paragraph (4) of section 585(c) of the 1986 Code is amended by adding at the end thereof the following new sentence:

“If the amount of the reserve referred to in subparagraph (B) as of the close of any taxable year exceeds the outstanding balance (as of such time) of the loans referred to in subparagraph (B), such excess shall be included in gross income for such taxable year.”

(b) AMENDMENTS RELATED TO SECTION 902 OF THE REFORM ACT.—

(1) Paragraph (3) of section 902(f) of the Reform Act is amended—

(A) in subparagraph (F), by striking out “distribution company” and inserting in lieu thereof “distribution facility”;

(B) in subparagraph (L), by striking out “waterfront project” and inserting in lieu thereof “2 Festival Market

State listing.
26 USC 265 note.

Place projects at Union Pier Terminal and 1 project at the Remount Road Container Yard, State Pier No. 15 at North Charleston Terminal",

(C) in subparagraph (M), by striking out "Pontalba" and inserting in lieu thereof "Pontalba",

(D) in subparagraph (P), by striking out "Birmingham, Alabama," and inserting in lieu thereof "Homewood, Alabama, the", and

(E) by adding at the end thereof the following new subparagraphs:

"(T) Bellows Falls, Vermont—building project.

"(U) East Broadway Project, Louisville, Kentucky.

"(V) O.K. Industries, Oklahoma."

26 USC 265 note.

(2) Paragraph (4) of section 902(f) of the Reform Act is amended by striking out "subparagraph" and inserting in lieu thereof "paragraph".

(3)(A) Paragraph (3) of section 265(b) of the 1986 Code is amended to read as follows:

"(3) EXCEPTION FOR CERTAIN TAX-EXEMPT OBLIGATIONS.—

"(A) IN GENERAL.—Any qualified tax-exempt obligation acquired after August 7, 1986, shall be treated for purposes of paragraph (2) and section 291(e)(1)(B) as if it were acquired on August 7, 1986.

"(B) QUALIFIED TAX-EXEMPT OBLIGATION.—

"(i) IN GENERAL.—For purposes of subparagraph (A), the term 'qualified tax-exempt obligation' means a tax-exempt obligation—

"(I) which is issued after August 7, 1986, by a qualified small issuer,

"(II) which is not a private activity bond (as defined in section 141), and

"(III) which is designated by the issuer for purposes of this paragraph.

"(ii) CERTAIN BONDS NOT TREATED AS PRIVATE ACTIVITY BONDS.—For purposes of clause (i)(II), there shall not be treated as a private activity bond—

"(I) any qualified 501(c)(3) bond (as defined in section 145), or

"(II) any obligation issued to refund (or which is part of a series of obligations issued to refund) an obligation issued before August 8, 1986, which was not an industrial development bond (as defined in section 103(b)(2) as in effect on the day before the date of the enactment of the Tax Reform Act of 1986) or a private loan bond (as defined in section 103(o)(2)(A), as so in effect, but without regard to any exemption from such definition other than section 103(o)(2)(A)).

"(C) QUALIFIED SMALL ISSUER.—

"(i) IN GENERAL.—For purposes of subparagraph (B), the term 'qualified small issuer' means, with respect to obligations issued during any calendar year, any issuer if the reasonably anticipated amount of tax-exempt obligations (other than obligations described in clause (ii)) which will be issued by such issuer during such calendar year does not exceed \$10,000,000.

“(ii) OBLIGATIONS NOT TAKEN INTO ACCOUNT IN DETERMINING STATUS AS QUALIFIED SMALL ISSUER.—For purposes of clause (i), an obligation is described in this clause if such obligation is—

“(I) a private activity bond (other than a qualified 501(c)(3) bond, as defined in section 145),

“(II) an obligation to which section 141(a) does not apply by reason of section 1312, 1313, 1316(g), or 1317 of the Tax Reform Act of 1986 and which would (if issued on August 15, 1986) have been an industrial development bond (as defined in section 103(b)(2) as in effect on the day before the date of the enactment of such Act) or a private loan bond (as defined in section 103(o)(2)(A), as so in effect, but without regard to any exception from such definition other than section 103(o)(2)(A)), or

“(III) an obligation issued to refund (other than to advance refund within the meaning of section 149(d)(5)) any obligation to the extent the amount of the refunding obligation does not exceed the outstanding amount of the refunded obligation.

“(iii) ALLOCATION OF AMOUNT OF ISSUE IN CERTAIN CASES.—In the case of an issue under which more than 1 governmental entity receives benefits, if—

“(I) all governmental entities receiving benefits from such issue irrevocably agree (before the date of issuance of the issue) on an allocation of the amount of such issue for purposes of this subparagraph, and

“(II) such allocation bears a reasonable relationship to the respective benefits received by such entities,

then the amount of such issue so allocated to an entity (and only such amount with respect to such issue) shall be taken into account under clause (i) with respect to such entity.

“(D) LIMITATION ON AMOUNT OF OBLIGATIONS WHICH MAY BE DESIGNATED.—

“(i) IN GENERAL.—Not more than \$10,000,000 of obligations issued by an issuer during any calendar year may be designated by such issuer for purposes of this paragraph.

“(ii) CERTAIN REFUNDINGS OF DESIGNATED OBLIGATIONS DEEMED DESIGNATED.—Except as provided in clause (iii), in the case of a refunding (or series of refundings) of a qualified tax-exempt obligation, the refunding obligation shall be treated as a qualified tax-exempt obligation (and shall not be taken into account under clause (i)) if—

“(I) the refunding obligation was not taken into account under subparagraph (C) by reason of clause (ii)(III) thereof,

“(II) the average maturity date of the refunding obligations issued as part of the issue of which such refunding obligation is a part is not later than the average maturity date of the obligations to be refunded by such issue, and

“(III) the refunding obligation has a maturity date which is not later than the date which is 30 years after the date the original qualified tax-exempt obligation was issued.

Subclause (II) shall not apply if the average maturity of the issue of which the original qualified tax-exempt obligation was a part (and of the issue of which the obligations to be refunded are a part) is 3 years or less. For purposes of this clause, average maturity shall be determined in accordance with section 147(b)(2)(A).

“(iii) CERTAIN OBLIGATIONS MAY NOT BE DESIGNATED OR DEEMED DESIGNATED.—No obligation issued as part of an issue may be designated under this paragraph (or may be treated as designated under clause (ii)) if—

“(I) any obligation issued as part of such issue is issued to refund another obligation, and

“(II) the aggregate face amount of such issue exceeds \$10,000,000.

“(E) AGGREGATION OF ISSUERS.—For purposes of subparagraphs (C) and (D)—

“(i) an issuer and all entities which issue obligations on behalf of such issuer shall be treated as 1 issuer,

“(ii) all obligations issued by a subordinate entity shall, for purposes of applying subparagraphs (C) and (D) to each other entity to which such entity is subordinate, be treated as issued by such other entity, and

“(iii) an entity formed (or, to the extent provided by the Secretary, availed of) to avoid the purposes of subparagraph (C) or (D) and all entities benefiting thereby shall be treated as 1 issuer.

“(F) TREATMENT OF COMPOSITE ISSUES.—In the case of an obligation which is issued as part of a direct or indirect composite issue, such obligation shall not be treated as a qualified tax-exempt obligation unless—

“(i) the requirements of this paragraph are met with respect to such composite issue (determined by treating such composite issue as a single issue), and

“(ii) the requirements of this paragraph are met with respect to each separate lot of obligations which are part of the issue (determined by treating each such separate lot as a separate issue).”

(B) In the case of any obligation issued after August 7, 1986, and before January 1, 1987, the time for making a designation with respect to such obligation under section 265(b)(3)(B)(iii) of the 1986 Code shall not expire before January 1, 1989.

(C) If—

(i) an obligation is issued on or after January 1, 1986, and on or before August 7, 1986,

(ii) when such obligation was issued, the issuer made a designation that it intended to qualify under section 802(e)(3) of H.R. 3838 of the 99th Congress as passed by the House of Representatives, and

(iii) the issuer makes an election under this subparagraph with respect to such obligation,

for purposes of section 265(b)(3) of the 1986 Code, such obligation shall be treated as issued on August 8, 1986.

(D)(i) Except as provided in clause (ii), the following provisions of section 265(b)(3) of the 1986 Code (as amended by this subparagraph (A)) shall apply to obligations issued after June 30, 1987:

- (I) subparagraph (C)(ii)(III),
- (II) clauses (ii) and (iii) of subparagraph (D), and
- (III) subparagraphs (E) and (F).

(ii) At the election of an issuer (made at such time and in such manner as the Secretary of the Treasury or his delegate may prescribe), the provisions referred to in clause (i) shall apply to such issuer as if included in the amendments made by section 902(a) of the Tax Reform Act of 1986.

(4) Subparagraph (B) of section 291(e)(1) of the 1986 Code is amended by redesignating the clause (iv) added by section 902(c)(2) of the Reform Act as clause (v).

(5) Clause (i) of section 291(e)(1)(B) of the 1986 Code is amended by striking out "section 582(a)(2)" and inserting in lieu thereof "section 585(a)(2)".

(6) Paragraph (1) of section 902(e) of the Reform Act is amended by striking out "Section 163(h)(12)" and inserting in lieu thereof "Section 163(i)(2) (as redesignated by section 511(b) of this Act)".

26 USC 163.

(7) Paragraph (4) of section 902(f) of the Reform Act is amended—

26 USC 265 note.

(A) by inserting "and qualified 501(c)(3) bonds designated by such Governor for purposes of this paragraph," after "1987," and

(B) by striking out "subparagraph" in the last sentence and inserting in lieu thereof "paragraph".

(c) AMENDMENTS RELATED TO SECTION 903 OF THE REFORM ACT.—

(1) Paragraph (1) of section 172(b) of the 1986 Code is amended by redesignating subparagraphs (L) and (M) as subparagraphs (K) and (L), respectively.

(2) Subparagraph (A) of section 172(b)(1) of the 1986 Code is amended by striking out "Except" and all that follows down through "a net operating loss" and inserting in lieu thereof "Except as otherwise provided in this paragraph, a net operating loss".

(3) Subparagraph (B) of section 172(b)(1) of the 1986 Code is amended to read as follows:

"(B) Except as otherwise provided in this paragraph, a net operating loss for any taxable year ending after December 31, 1975, shall be a net operating loss carryover to each of the 15 taxable years following the taxable year of the loss."

(d) AMENDMENTS RELATED TO SECTION 905 OF THE REFORM ACT.—

(1) Subsection (1) of section 165 of the 1986 Code is amended by redesignating paragraph (6) as paragraph (7) and by striking out paragraph (5) and inserting in lieu thereof the following:

"(5) ELECTION TO TREAT AS ORDINARY LOSS.—

"(A) IN GENERAL.—In lieu of any election under paragraph (1), the taxpayer may elect to treat the amount referred to in paragraph (1) for the taxable year as an ordinary loss described in subsection (c)(2) incurred during the taxable year.

"(B) LIMITATIONS.—

Banks and
banking.

“(i) **DEPOSIT MAY NOT BE FEDERALLY INSURED.**—No election may be made under subparagraph (A) with respect to any loss on a deposit in a qualified financial institution if part or all of such deposit is insured under Federal law.

“(ii) **DOLLAR LIMITATION.**—With respect to each financial institution, the aggregate amount of losses attributable to deposits in such financial institution to which an election under subparagraph (A) may be made by the taxpayer for any taxable year shall not exceed \$20,000 (\$10,000 in the case of a separate return by a married individual). The limitation of the preceding sentence shall be reduced by the amount of any insurance proceeds under any State law which can reasonably be expected to be received with respect to losses on deposits in such institution.

“(6) **ELECTION.**—Any election by the taxpayer under this subsection for any taxable year—

“(A) shall apply to all losses for such taxable year of the taxpayer on deposits in the institution with respect to which such election was made, and

“(B) may be revoked only with the consent of the Secretary.”

26 USC 451 note.

(2) Paragraph (1) of section 905(c) of the Reform Act is amended to read as follows:

“(1) **IN GENERAL.**—The amendment made by subsection (a) shall apply to taxable years beginning after December 31, 1981, and, except as provided in paragraph (2), the amendment made by subsection (b) shall apply to taxable years beginning after December 31, 1982.”

(3) The subsection (f) of section 451 of the 1986 Code which was added by section 905(b) of the 1986 Reform Act is redesignated as subsection (g).

26 USC 165 note.

(4) If on the date of the enactment of this Act (or at any time before the date 1 year after such date of enactment) credit or refund of any overpayment of tax attributable to amendments made by section 905 of the Reform Act or by this subsection (or the assessment of any underpayment of tax so attributable) is barred by any law or rule of law—

(A) credit or refund of any such overpayment may nevertheless be made if claim therefore is filed before the date 1 year after such date of enactment, and

(B) assessment of any such underpayment may nevertheless be made if made before the date 1 year after such date of enactment.

SEC. 1010. AMENDMENTS RELATED TO TITLE X OF THE REFORM ACT.

(a) **AMENDMENTS RELATED TO SECTION 1011 OF THE REFORM ACT.**—

(1) Paragraph (1) of section 813(a) of the 1986 Code (relating to foreign life insurance companies) is amended by striking out “the special life insurance company deduction and”.

26 USC 801 note.

(2) Paragraph (1) of section 1011(d) of the Reform Act is amended—

(A) by striking out “any bond” and inserting in lieu thereof “any market discount bond (as defined in section 1278 of the Internal Revenue Code of 1986)”,

(B) by striking out "28 percent" and inserting in lieu thereof "31.6 percent", and

(C) by adding at the end thereof the following new sentence: "The preceding sentence shall apply only if the tax determined under the preceding sentence is less than the tax which would otherwise be imposed."

(3) Paragraph (2) of section 1011(d) of the Reform Act is amended to read as follows: 26 USC 801 note.

"(2) **QUALIFIED LIFE INSURANCE COMPANY.**—For purposes of paragraph (1), the term 'qualified life insurance company' means any life insurance company subject to tax under part I of subchapter L of chapter 1 of the Internal Revenue Code of 1986."

(b) **AMENDMENTS RELATED TO SECTION 1012 OF THE REFORM ACT.**—

(1) Clause (iv) of section 1012(c)(4)(C) of the Reform Act is amended to read as follows: 26 USC 833 note.

"(iv) dental benefit coverage provided by a Delta Dental Plans Association organization through contracts with independent professional service providers so long as the provision of such coverage is the principal activity of such organization." Health care professionals.

(2) Clause (ii) of section 1012(c)(4)(C) of the Reform Act is amended by striking out "Association" and inserting in lieu thereof "Plan".

(3) The Secretary of the Treasury or his delegate may prescribe rules providing proper adjustments for taxpayers which become subject to subchapter L of chapter 1 of the 1986 Code by reason of the amendments made by section 1012 of the Reform Act with respect to short taxable years which begin during 1987 by reason of section 843 of such Code. 26 USC 833 note.

(4)(A) Paragraph (3) of section 501(m) of the 1986 Code is amended by striking out "and" at the end of subparagraph (C), by striking out the period at the end of subparagraph (D) and inserting in lieu thereof ", and", and by adding at the end thereof the following new subparagraph:

"(E) charitable gift annuities."

(B) Subsection (m) of section 501 of the 1986 Code is amended by adding at the end thereof the following new paragraph:

"(5) **CHARITABLE GIFT ANNUITY.**—For purposes of paragraph (3)(E), the term 'charitable gift annuity' means an annuity if—

"(A) a portion of the amount paid in connection with the issuance of the annuity is allowable as a deduction under section 170 or 2055, and

"(B) the annuity is described in section 514(c)(5) (determined as if any amount paid in cash in connection with such issuance were property)."

(c) **AMENDMENTS RELATED TO SECTION 1021 OF THE REFORM ACT.**— Insurance.

(1)(A) Subparagraph (C) of section 832(b)(7) of the 1986 Code (relating to special rules for determining premiums earned) is amended by striking out "this part" and inserting in lieu thereof "section 831(a)".

(B) The subparagraph heading for such subparagraph is amended by striking out "NONLIFE INSURANCE COMPANY" and inserting in lieu thereof "INSURANCE COMPANY TAXABLE UNDER SECTION 831 (a)".

(2) Paragraph (7) of section 832(b) of the 1986 Code is amended by adding at the end thereof the following new subparagraphs:

“(D) TREATMENT OF COMPANIES WHICH BECOME TAXABLE UNDER SECTION 831 (a).—

“(i) EXCEPTION TO PHASE-IN FOR COMPANIES WHICH WERE NOT TAXABLE, ETC., BEFORE 1987.—Subparagraph (C) of paragraph (4) shall not apply to any insurance company which, for each taxable year beginning before January 1, 1987, was not subject to the tax imposed by section 821(a) or 831(a) (as in effect on the day before the date of the enactment of the Tax Reform Act of 1986) by reason of being—

“(I) subject to tax under section 821(c) (as so in effect), or

“(II) described in section 501(c) (as so in effect) and exempt from tax under section 501(a).

“(ii) PHASE-IN BEGINNING AT LATER DATE FOR COMPANIES NOT 1ST TAXABLE UNDER SECTION 831 (a) IN 1987.—In the case of an insurance company—

“(I) which was not subject to the tax imposed by section 831(a) for its 1st taxable year beginning after December 31, 1986, by reason of being subject to tax under section 831(b), or described in section 501(c) and exempt from tax under section 501(a), and

“(II) which, for any taxable year beginning before January 1, 1987, was subject to the tax imposed by section 821(a) or 831(a) (as in effect on the day before the date of the enactment of the Tax Reform Act of 1986),

subparagraph (C) of paragraph (4) shall apply beginning with the 1st taxable year beginning after December 31, 1986, for which such company is subject to the tax imposed by section 831(a) and shall be applied by substituting the last day of the preceding taxable year for ‘December 31, 1986’ and the 1st day of the 7th succeeding taxable year for ‘January 1, 1993’.

“(E) TREATMENT OF CERTAIN RECIPROCAL INSURERS.—In the case of a reciprocal (within the meaning of section 835(a)) which reports (as required by State law) on its annual statement reserves on unearned premiums net of premium acquisition expenses—

“(i) subparagraph (B) of paragraph (4) shall be applied by treating unearned premiums as including an amount equal to such expenses, and

“(ii) appropriate adjustments shall be made under subparagraph (c) of paragraph (4) to reflect the amount by which—

“(I) such reserves at the close of the most recent taxable year beginning before January 1, 1987, are greater or less than,

“(II) 80 percent of the sum of the amount under subclause (I) plus such premium acquisition expenses.”

(3) Paragraph (5) of section 832(e) of the 1986 Code is amended by striking out “and” at the end of subparagraph (A) and by striking out the period at the end of subparagraph (B) and inserting in lieu thereof a comma.

(d) AMENDMENTS RELATED TO SECTION 1022 OF THE REFORM ACT.—

(1) Section 832 of the 1986 Code (defining insurance company taxable income) is amended by adding at the end thereof the following new subsection:

“(g) **DIVIDENDS WITHIN GROUP.**—In the case of an insurance company subject to tax under section 831(a) filing or required to file a consolidated return under section 1501 with respect to any affiliated group for any taxable year, any determination under this part with respect to any dividend paid by one member of such group to another member of such group shall be made as if such group were not filing a consolidated return.”

(2) Subclause (II) of section 832(b)(5)(B)(ii) of the 1986 Code (relating to losses incurred) is amended by inserting “(directly or indirectly)” after “attributable”.

(3) For purposes of section 832(b)(5)(C)(i) of the 1986 Code, any stock or obligation acquired on or after August 8, 1986, by an insurance company subject to the tax imposed by section 831 of the 1986 Code (hereinafter in this paragraph referred to as the “acquiring company”) from another insurance company so subject (hereinafter in this paragraph referred to as the “transferor company”) shall be treated as acquired on the date on which such stock or obligation was acquired by the transferor company if—

26 USC 832 note.

(A) the transferor company acquired such stock or obligation before August 8, 1986, and

(B) at all times after the date on which such stock or obligation was acquired by the transferor company and before the date of the acquisition by the acquiring company, the transferor company and the acquiring company were members of the same affiliated group filing a consolidated return.

For purposes of the preceding sentence, the date on which the stock or obligation was acquired by the transferor company shall be determined with regard to any prior application of the preceding sentence. For purposes of this paragraph, if the acquiring corporation or transferor corporation was a party to a reorganization described in section 368(a)(1)(F) of the 1986 Code, any reference to such corporation shall include a reference to any predecessor thereof involved in such reorganization.

(e) **AMENDMENTS RELATED TO SECTION 1023 OF THE REFORM ACT.**—

(1) Subparagraph (B) of section 846(f)(6) of the 1986 Code (relating to special rule for certain accident and health insurance lines of business) is amended by striking out “paid during the year” and inserting in lieu thereof “paid in the middle of the year”.

(2) Subsection (g) of section 846 of the 1986 Code is amended by striking out “and” at the end of paragraph (1), by striking out the period at the end of paragraph (2) and inserting in lieu thereof “, and”, and by adding at the end thereof the following new paragraph:

“(3) regulations providing appropriate adjustments in the application of this section to a taxpayer having a taxable year which is not the calendar year.”

(3) Subsection (e) of section 1023 of the Reform Act (relating to discounting of unpaid losses and certain unpaid expenses) is amended by adding at the end thereof the following new paragraph:

26 USC 846 note.

“(4) APPLICATION OF FRESH START TO COMPANIES WHICH BECOME SUBJECT TO SECTION 831 (a) TAX IN LATER TAXABLE YEAR.—If—

“(A) an insurance company was not subject to tax under section 831(a) of the Internal Revenue Code of 1986 for its 1st taxable year beginning after December 31, 1986, by reason of being—

“(i) subject to tax under section 831(b) of such Code, or

“(ii) described in section 501(c) of such Code and exempt from tax under section 501(a) of such Code, and

“(B) such company becomes subject to tax under such section 831(a) for any later taxable year,

paragraph (2) and subparagraphs (A) and (C) of paragraph (3) shall be applied by treating such later taxable year as its 1st taxable year beginning after December 31, 1986, and by treating the calendar year in which such later taxable year begins as 1987; and paragraph (3)(B) shall not apply.”

(f) AMENDMENTS RELATED TO SECTION 1024 OF THE REFORM ACT.—

(1) Subparagraph (A) of section 831(b)(2) of the 1986 Code (relating to companies to which alternative tax applies) is amended by adding at the end thereof the following new sentence:

“The election under clause (ii) shall apply to the taxable year for which made and for all subsequent taxable years for which the requirements of clause (i) are met. Such an election, once made, may be revoked only with the consent of the Secretary.”

(2) Subsection (a) of section 835 of the 1986 Code (relating to election by reciprocal) is amended by striking out “section 821(a)” and inserting in lieu thereof “section 831(a)”.

(3) Subsection (f) of section 835 of the 1986 Code is amended by striking out “subsection (e)” and inserting in lieu thereof “subsection (d)”.

(4) Paragraph (6) of section 243(b) of the 1986 Code (relating to special rules for insurance companies) is amended by striking out “or 821”.

(5) Subsection (c) of section 543 of the 1986 Code (relating to gross income of insurance companies other than life or mutual) is amended—

(A) by striking out “OR MUTUAL” in the heading and inserting in lieu thereof “INSURANCE COMPANIES”, and

(B) by striking out “life or mutual” in the text and inserting in lieu thereof “a life insurance company”.

(6) Subsection (g) of section 816 of the 1986 Code (relating to burial and funeral benefit insurance companies) is amended by striking out “section 821 or”.

(7) The table of sections for part II of subchapter L of chapter 1 of the 1986 Code (relating to other insurance companies) is amended by striking out the item relating to section 831 and inserting in lieu thereof the following new item:

“Sec. 831. Tax on insurance companies other than life insurance companies.”

(8) Paragraph (1) of section 1024(d) of the Reform Act is amended by adding at the end thereof the following new sentence: “In the case of a company taxable under section 831(b) of the Internal Revenue Code of 1986 (as amended by subsection

(a)), any amount included in gross income under this paragraph shall be treated as gross investment income.”

(9) Section 831(b) of the 1986 Code is amended by adding at the end thereof the following new paragraph:

“(3) LIMITATION ON USE OF NET OPERATING LOSSES.—For purposes of this part, except as provided in section 844, a net operating loss (as defined in section 172) shall not be carried—

“(A) to or from any taxable year for which the insurance company is not subject to the tax imposed by subsection (a), or

“(B) to any taxable year if, between the taxable year from which such loss is being carried and such taxable year, there is an intervening taxable year for which the insurance company was not subject to the tax imposed by subsection (a).”

(g) AMENDMENTS RELATED TO SECTION 1031 OF THE REFORM ACT.—

(1) Paragraph (1) of section 1031(a) of the Reform Act is amended by inserting “(whether made in a lump sum or a series of substantially equal payments over a period of not more than 6 years)” after “any initial payment”.

26 USC 832 note.

(2) Paragraph (2) of section 1031(a) of the Reform Act is amended by striking out “initial payment” each place it appears and inserting in lieu thereof “initial payment referred to in paragraph (1)”.

(3) Paragraph (2) of section 1031(a) of the Reform Act is amended by striking out “this title” each place it appears and inserting in lieu thereof “the Internal Revenue Code of 1986”.

(h) SPECIAL RULE FOR MUTUAL LIFE INSURANCE COMPANY.—

(1) IN GENERAL.—Paragraph (2) of section 217(i) of the Tax Reform Act of 1984 is amended to read as follows:

26 USC 816 note.

“(2) EFFECT OF ELECTION ON SUBSIDIARIES OF ELECTING PARENT.—For purposes of determining the amount of the small life insurance company deduction of any controlled group which includes a mutual company which made an election under paragraph (1), the taxable income of such electing company shall be taken into account under section 806(b)(2) of the Internal Revenue Code of 1954 (relating to phaseout of small life insurance company deduction).”

(2) EFFECTIVE DATE.—The amendment made by this subsection shall apply to taxable years beginning after December 31, 1986, and before January 1, 1992.

26 USC 816 note.

(3) REVENUE LOSS LIMITED.—The decrease in the amount of Federal revenue by reason of the amendment made by this subsection shall not exceed \$300,000 per taxable year.

26 USC 816 note.

(i) DELAY IN EFFECTIVE DATE FOR DIVERSIFICATION REQUIREMENTS WITH RESPECT TO ACCOUNTS FOR CERTAIN IMMEDIATE ANNUITIES.—Section 817(h) of the 1986 Code shall not apply until January 1, 1989 with respect to a variable contract (as defined in section 817(d) of the 1986 Code) if—

26 USC 817 note.

(1) such contract provides for the payment of an immediate annuity (as defined in section 72(u)(4) of the 1986 Code),

(2) such contract was outstanding on September 12, 1986, and

(3) the segregated asset account on which such contract is based was, on September 12, 1986, wholly invested in deposits insured by the Federal Deposit Insurance Corporation or the Federal Savings and Loan Insurance Corporation.

(j) TREATMENT OF ALTERNATIVE MINIMUM TAX WITH RESPECT TO SHAREHOLDERS SURPLUS ACCOUNT.—

(1) Paragraph (2) of section 815(c) of the 1986 Code (relating to shareholders surplus account) is amended by adding at the end thereof the following new sentence:

“If for any taxable year a tax is imposed by section 55, under regulations proper adjustments shall be made for such year and all subsequent taxable years in the amounts taken into account under subparagraphs (A) and (B) of this paragraph and subparagraph (B) of subsection (d)(3).”

26 USC 815 note.

(2) **EFFECTIVE DATE.**—The amendment made by paragraph (1) shall apply to taxable years beginning after December 31, 1986.

(k) TREATMENT OF CERTAIN ITEMS AS NOT INTEREST FOR SOURCE RULES, ETC.—Subsection (f) of section 818 of the 1986 Code is amended by adding at the end thereof the following new paragraph:

“(3) **ITEMS DESCRIBED IN SECTION 807(C) TREATED AS NOT INTEREST FOR SOURCE RULES, ETC.**—For purposes of part I of subchapter N, items described in any paragraph of section 807(c) shall be treated as amounts which are not interest.”

SEC. 1011. AMENDMENTS RELATED TO PARTS I AND II OF SUBTITLE A OF TITLE XI OF THE REFORM ACT.**(a) AMENDMENT RELATED TO SECTION 1101 OF THE REFORM ACT.—**

(1) Paragraph (4) of section 219(g) of the 1986 Code (relating to special rule for married individuals filing separately) is amended to read as follows:

“(4) **SPECIAL RULE FOR MARRIED INDIVIDUALS FILING SEPARATELY AND LIVING APART.**—A husband and wife who—

“(A) file separate returns for any taxable year, and

“(B) live apart at all times during such taxable year, shall not be treated as married individuals for purposes of this subsection.”

26 USC 219 note.

(2)(A) Except as provided in subparagraph (B), the amendment made by paragraph (1) shall apply to taxable years beginning after December 31, 1987.

(B) A taxpayer may elect to have the amendment made by paragraph (1) apply to any taxable year beginning in 1987.

(b) AMENDMENTS RELATED TO SECTION 1102 OF THE REFORM ACT.—

(1) Sections 408(d)(2)(C) and 408(o)(4)(B)(iv) of the 1986 Code are each amended by striking out “with or within which the taxable year ends” and inserting in lieu thereof “in which the taxable year begins”.

(2)(A) Section 408(d)(4) of the 1986 Code (relating to excess contributions returned before due date of return) is amended by striking out “to the extent that such contribution exceeds the amount allowable as a deduction under section 219”.

(B) Section 408(d)(4) of the 1986 Code is amended—

(i) by striking out “excess” each place it appears, and

(ii) by striking out “EXCESS CONTRIBUTIONS” in the heading and inserting in lieu thereof “CONTRIBUTIONS”.

(3) Sections 408(d)(5) and 4973(b) of the 1986 Code are each amended by striking out all that follows “section 219” in the last sentence thereof and inserting in lieu thereof “shall be computed without regard to section 219(g).”

(4)(A) Section 6693(b) of the 1986 Code (relating to overstatement of designated nondeductible contributions) is amended to read as follows:

“(b) PENALTIES RELATING TO NONDEDUCTIBLE CONTRIBUTIONS.—

“(1) OVERSTATEMENT OF DESIGNATED NONDEDUCTIBLE CONTRIBUTIONS.—Any individual who—

“(A) is required to furnish information under section 408(o)(4) as to the amount of designated nondeductible contributions made for any taxable year, and

“(B) overstates the amount of such contributions made for such taxable year,

shall pay a penalty of \$100 for each such overstatement unless it is shown that such overstatement is due to reasonable cause.

“(2) FAILURE TO FILE FORM.—Any individual who fails to file a form required to be filed by the Secretary under section 408(o)(4) shall pay a penalty of \$50 for each such failure unless it is shown that such failure is due to reasonable cause.”

(B)(i) The heading for section 6693 of the 1986 Code is amended by striking out “overstatement of” and inserting in lieu thereof “penalties relating to”.

(ii) The item relating to section 6693 in the table of sections for subchapter B of chapter 68 is amended by striking out “overstatement of” and inserting in lieu thereof “penalties relating to”.

(c) AMENDMENTS RELATED TO SECTION 1105 OF THE REFORM ACT.—

(1) Section 402(g)(2)(C) of the 1986 Code (relating to taxation of distribution) is amended—

(A) by striking out “(and no tax shall be imposed under section 72(t))” in clause (i),

(B) by striking out “such excess deferral is made” in clause (ii) and inserting in lieu thereof “such income is distributed”, and

(C) by inserting at the end thereof the following new flush sentence:

“No tax shall be imposed under section 72(t) on any distribution described in the preceding sentence.”

(2) Section 402(g)(2) is amended by striking out “REQUIRED DISTRIBUTION” in the heading thereof and inserting in lieu thereof “DISTRIBUTION”.

(3) Section 402(g)(2) of the 1986 Code is amended by adding at the end thereof the following new subparagraph:

“(D) PARTIAL DISTRIBUTIONS.—If a plan distributes only a portion of any excess deferral and income allocable thereto, such portion shall be treated as having been distributed ratably from the excess deferral and the income.”

(4) Section 402(g)(3) of the 1986 Code (defining elective deferral) is amended by striking out “paragraph” and inserting in lieu thereof “subsection”.

(5)(A) Clause (iii) of section 402(g)(8)(A) of the 1986 Code (relating to special rule for certain organizations) is amended by inserting “(determined in the manner prescribed by the Secretary)” after “taxable years”.

(B) Section 402(g)(8) of the 1986 Code is amended by adding at the end thereof the following new subparagraph:

“(D) YEARS OF SERVICE.—For purposes of this paragraph, the term ‘years of service’ has the meaning given such term by section 403(b).”

(6)(A) Section 402(g) of the 1986 Code, as added by section 1852(b)(3)(A) of the Reform Act, is redesignated as subsection (i).

Law
enforcement and
crime.

26 USC 402 note.

(B) Section 402(g) of the 1986 Code, as added by section 1854(f)(2) of the Reform Act, is redesignated as subsection (j).

(C) Section 1854(f)(4)(C) of the Reform Act is amended by striking out "section 402(g)" and inserting in lieu thereof "section 402(j)".

(7)(A) Section 401(a) of the 1986 Code is amended by adding at the end thereof the following new paragraph:

"(30) LIMITATIONS ON ELECTIVE DEFERRALS.—In the case of a trust which is part of a plan under which elective deferrals (within the meaning of section 402(g)(3)) may be made with respect to any individual during a calendar year, such trust shall not constitute a qualified trust under this subsection unless the plan provides that the amount of such deferrals under such plan and all other plans, contracts, or arrangements of an employer maintaining such plan may not exceed the amount of the limitation in effect under section 402(g)(1) for taxable years beginning in such calendar year."

(B) Section 403(b)(1) of the 1986 Code is amended by striking out "and" at the end of subparagraph (C), by inserting "and" at the end of subparagraph (D), and by inserting after subparagraph (D) the following new subparagraph:

"(E) in the case of a contract purchased under a plan which provides a salary reduction agreement, the plan meets the requirements of section 401(a)(30)."

(C) Subparagraph (A) of section 408(k)(6) of the 1986 Code, as amended by subsection (f)(1), is amended by adding at the end thereof the following new clause:

"(iv) LIMITATIONS ON ELECTIVE DEFERRALS.—Clause (i) shall not apply to a simplified employee pension unless the requirements of section 401(a)(30) are met."

(D) Subparagraph (D) of section 501(c)(18) of the 1986 Code is amended by striking out "and" at the end of clause (ii), by striking out the period at the end of clause (iii) and inserting in lieu thereof ", and", and by inserting after clause (iii) the following new clause:

"(iv) the requirements of section 401(a)(30) are met."

26 USC 401 note.

(E)(i) Except as provided in clause (ii), the amendments made by this paragraph shall apply to plan years beginning after December 31, 1987.

(ii) In the case of a plan described in section 1105(c)(2) of the Reform Act, the amendments made by this paragraph shall not apply to contributions made pursuant to an agreement described in such section for plan years beginning before the earlier of—

(I) the later of January 1, 1988, or the date on which the last of such agreements terminates (determined without regard to any extension thereof after February 28, 1986), or

(II) January 1, 1989.

26 USC 402 note.

(8) Section 1105(c)(2)(A) of the Reform Act is amended by striking out "the last of such collective bargaining agreements" and inserting in lieu thereof "such agreement".

(9) Section 1105(c) of the Reform Act is amended by adding at the end thereof the following new paragraph:

"(6) REPORTING REQUIREMENTS.—The amendments made by subsection (b) shall apply to calendar years beginning after December 31, 1986."

(10) Notwithstanding any other provision of law, a plan may incorporate by reference the dollar limitations under section 402(g) of the Internal Revenue Code of 1986. 26 USC 402 note.

(11) Section 402(g)(3) of the 1986 Code is amended by inserting at the end thereof the following new sentence: "An employer contribution shall not be treated as an elective deferral described in subparagraph (C) if under the salary reduction agreement such contribution is made pursuant to a one-time irrevocable election made by the employee at the time of initial eligibility to participate in the agreement or is made pursuant to a similar arrangement specified in regulations." Wages.

(12) Subparagraph (A) of section 403(b)(12) of the 1986 Code is amended by inserting after clause (ii) the following new sentence: Wages.

"For purposes of clause (i), a contribution shall be treated as not made pursuant to a salary reduction agreement if under the agreement it is made pursuant to a 1-time irrevocable election made by the employee at the time of initial eligibility to participate in the agreement or is made pursuant to a similar arrangement specified in regulations."

(d) AMENDMENTS RELATED TO SECTION 1106 OF THE REFORM ACT.—

(1) Section 404(l) of the 1986 Code (relating to limitation on amount of compensation which may be taken into account) is amended by adding at the end thereof the following new sentence: "For purposes of clause (i), (ii), or (iii) of subsection (a)(1)(A), and in computing the full funding limitation, any adjustment under the preceding sentence shall not be taken into account for any year before the year for which such adjustment first takes effect."

(2) Section 415(b)(5)(D) of the 1986 Code (relating to application to changes in benefit structures) is amended by striking out "this paragraph" and inserting in lieu thereof "subparagraph (A)".

(3) Paragraph (2) of section 415(k) of the 1986 Code (relating to contributions to provide cost-of-living protection under defined benefit plans), as added by section 1106(c) of the Reform Act, is amended—

(A) by striking out "to the arrangement" in subparagraph (C)(ii) and inserting in lieu thereof "to such increase", and

(B) by striking out subparagraph (D) and inserting in lieu thereof:

"(D) ARRANGEMENT ELECTIVE; TIME FOR ELECTION.—An arrangement meets the requirements of this subparagraph only if it is elective, it is available under the same terms to all participants, and it provides that such election may at least be made in the year in which the participant—

"(i) attains the earliest retirement age under the defined benefit plan (determined without regard to any requirement of separation from service), or

"(ii) separates from service."

(4) Sections 401(a)(17) and 404(l) of the 1986 Code are each amended by adding at the end thereof the following new sentence: "In determining the compensation of an employee, the rules of section 414(q)(6) shall apply, except that in applying such rules, the term 'family' shall include only the spouse of the employee and any lineal descendants of the employee who have not attained age 19 before the close of the year."

26 USC 415 note.

(5) Paragraph (4) of section 1106(i) of the Reform Act is amended by striking the period at the end thereof and inserting in lieu thereof "(determined as if the amendments made by this section were in effect for such year)."

(6) Section 415(b)(5)(B) of the 1986 Code is amended by inserting "and subsection (e)" after "paragraphs (1)(B) and (4)".

(7) Subparagraph (A) of section 415(c)(6) of the 1986 Code is amended—

(A) by striking out "paragraph (c)(1)(A) (as adjusted for such year pursuant to subsection (d)(1))", and inserting in lieu thereof "paragraph (1)(A)"; and

(B) by striking out "paragraph (c)(1)(A) (as so adjusted)" and inserting in lieu thereof "paragraph (1)(A)".

(8) Sections 414(q)(1)(D) and 416(i)(1)(A)(i) of the 1986 Code are each amended by striking out "150 percent of the amount in effect under section 415(c)(1)(A)" and inserting in lieu thereof "50 percent of the amount in effect under section 415(b)(1)(A)".

(e) AMENDMENTS RELATED TO SECTION 1107 OF THE REFORM ACT.—

(1) Section 457(c)(2) of the 1986 Code is amended by striking out "and paragraphs (2) and (3) of subsection (b)".

(2) Section 457(d)(1)(A) of the 1986 Code (relating to distribution requirements) is amended to read as follows:

"(A) under the plan amounts will not be made available to participants or beneficiaries earlier than—

"(i) the calendar year in which the participant attains age 70½,

"(ii) when the participant is separated from service with the employer, or

"(iii) when the participant is faced with an unforeseeable emergency (determined in the manner prescribed by the Secretary in regulations)."

(3) Paragraph (7) of section 401(k) of the 1986 Code (defining rural electric cooperative plan) is amended to read as follows:

"(7) RURAL ELECTRIC COOPERATIVE PLAN.—For purposes of this subsection—

"(A) IN GENERAL.—The term 'rural electric cooperative plan' means any pension plan—

"(i) which is a defined contribution plan (as defined in section 414(i)), and

"(ii) which is established and maintained by a rural electric cooperative.

"(B) RURAL ELECTRIC COOPERATIVE DEFINED.—For purposes of subparagraph (A), the term 'rural electric cooperative' means—

"(i) any organization which—

"(I) is exempt from tax under this subtitle or which is a State or local government or political subdivision thereof (or agency or instrumentality thereof), and

"(II) is engaged primarily in providing electric service on a mutual or cooperative basis,

"(ii) any organization described in paragraph (4) or (6) of section 501(c) and at least 80 percent of the members of which are organizations described in clause (i), and

"(iii) an organization which is a national association of organizations described in clause (i) or (ii)."

(4) Section 414(c) of the 1986 Code is amended by inserting "or any requirement under section 457" after "(n)(3)".

(5)(A) Paragraph (6) of section 818(a) of the 1986 Code (defining pension plan contracts) is amended—

(i) by striking out "State" in subparagraph (A),

(ii) by inserting "or any organization (other than a governmental unit) exempt from tax under this subtitle," after "foregoing," in subparagraph (B),

(iii) by striking out "or" before "agency" in subparagraph (B), and

(iv) by inserting ", or organization" after "instrumentality" the second place it appears in subparagraph (B).

(B) The amendments made by this paragraph shall apply to contracts issued after December 31, 1986.

26 USC 818 note.

(6) Section 1107(c)(3) of the Reform Act is amended—

(A) by striking out "eligible" each place it appears, and

(B) by inserting at the end of subparagraph (B) the following new sentence: "This subparagraph shall only apply to individuals who were covered under the plan and agreement on August 16, 1986."

26 USC 457 note.

(7) Paragraph (5) of section 1107(c) of the Reform Act is amended—

(A) by striking out "to employees on August 1, 1986, of",

(B) by striking out "a deferred compensation plan" in subparagraph (A) and inserting in lieu thereof "to employees on August 16, 1986,"

(C) by inserting "maintaining a deferred compensation plan" after "Alabama" in subparagraph (A), and

(D) by striking out "a deferred compensation plan" in subparagraph (B) and inserting in lieu thereof "to individuals eligible to participate on August 16, 1986, in a deferred compensation plan".

(8) Section 3121(v)(3)(A) of the 1986 Code is amended by striking out "457(e)(1)" and inserting in lieu thereof "457(f)(1)".

(9) Effective for years beginning after December 31, 1988, paragraph (9) of section 457(e) of the 1986 Code is amended by inserting "after separation from service and" before "within 60 days".

(10) Subclause (I) of section 457(d)(2)(B)(i) of the 1986 Code is amended to read as follows:

"(I) the amounts payable with respect to the participant will be paid at times specified by the Secretary which are not later than the time determined under section 401(a)(9)(G) (relating to incidental death benefits)."

(f) AMENDMENTS RELATED TO SECTION 1108 OF THE REFORM ACT.—

Retirement.

(1) Subparagraph (A) of section 408(k)(6) of the 1986 Code (relating to salary reduction arrangements under simplified employee pensions) is amended to read as follows:

"(A) ARRANGEMENTS WHICH QUALIFY.—

"(i) IN GENERAL.—A simplified employee pension shall not fail to meet the requirements of this subsection for a year merely because, under the terms of the pension, an employee may elect to have the employer make payments—

“(I) as elective employer contributions to the simplified employee pension on behalf of the employee, or

“(II) to the employee directly in cash.

“(ii) 50 PERCENT OF ELIGIBLE EMPLOYEES MUST ELECT.—Clause (i) shall not apply to a simplified employee pension unless an election described in clause (i)(I) is made or is in effect with respect to not less than 50 percent of the employees of the employer eligible to participate.

“(iii) REQUIREMENTS RELATING TO DEFERRAL PERCENTAGE.—Clause (i) shall not apply to a simplified employee pension for any year unless the deferral percentage for such year of each highly compensated employee eligible to participate is not more than the product of—

“(I) the average of the deferral percentages for such year of all employees (other than highly compensated employees) eligible to participate, multiplied by

“(II) 1.25.”

(2) Section 408(k)(6)(B) of the 1986 Code (relating to exception where more than 25 employees) is amended by inserting “who were eligible to participate (or would have been required to be eligible to participate if a pension was maintained)” after “25 employees”.

(3)(A) Section 408(k)(6)(D)(ii) of the 1986 Code (defining deferral percentage) is amended by striking out “(within the meaning of section 414(s))” and inserting in lieu thereof “(not in excess of the first \$200,000)”.

(B) Subparagraph (B) of section 408(k)(7) of the 1986 Code (defining compensation) is amended to read as follows:

“(B) COMPENSATION.—Except as provided in paragraph (2)(C), the term ‘compensation’ has the meaning given such term by section 414(s).”

(C) Subparagraph (C) of section 408(k)(3) of the 1986 Code is amended by striking out “total” before “compensation”.

(D) Section 408(k)(8) of the 1986 Code is amended by striking out “paragraph (3)(C)” and inserting in lieu thereof “paragraphs (3)(C) and (6)(D)(ii)”.

(4) Section 408(k)(6) of the 1986 Code (relating to employee may elect salary reduction arrangement) is amended by redesignating subparagraph (F) as subparagraph (G) and by inserting after subparagraph (E) the following new subparagraph:

“(F) EXCEPTION WHERE PENSION DOES NOT MEET REQUIREMENTS NECESSARY TO INSURE DISTRIBUTION OF EXCESS CONTRIBUTIONS.—This paragraph shall not apply with respect to any year for which the simplified employee pension does not meet such requirements as the Secretary may prescribe as are necessary to insure that excess contributions are distributed in accordance with subparagraph (C), including—

“(i) reporting requirements, and

“(ii) requirements which, notwithstanding paragraph (4), provide that contributions (and any income allocable thereto) may not be withdrawn from a simplified employee pension until a determination has been made

that the requirements of subparagraph (A)(iii) have been met with respect to such contributions.”

(5) Section 408(d) of the 1986 Code (relating to tax treatment of distributions) is amended by adding at the end thereof the following new paragraph:

“(7) SPECIAL RULES FOR SIMPLIFIED EMPLOYEE PENSIONS.—

“(A) TRANSFER OR ROLLOVER OF CONTRIBUTIONS PROHIBITED UNTIL DEFERRAL TEST MET.—Notwithstanding any other provision of this subsection or section 72(t), paragraph (1) and section 72(t)(1) shall apply to the transfer or distribution from a simplified employee pension of any contribution under a salary reduction arrangement described in subsection (k)(6) (or any income allocable thereto) before a determination as to whether the requirements of subsection (k)(6)(A)(iii) are met with respect to such contribution.

“(B) CERTAIN EXCLUSIONS TREATED AS DEDUCTIONS.—For purposes of paragraphs (4) and (5) and section 4973, any amount excludable or excluded from gross income under section 402(h) shall be treated as an amount allowable or allowed as a deduction under section 219.”

(6) Subparagraph (C) of section 404(h)(1) of the 1986 Code is amended by inserting “(or during the taxable year in the case of a taxable year described in subparagraph (A)(ii))” after “taxable year” the second place it appears.

(7) Section 1108(h) of the Reform Act is amended to read as follows:

26 USC 219 note.

“(h) EFFECTIVE DATES.—

“(1) IN GENERAL.—Except as provided in paragraph (2), the amendments made by this section shall apply to years beginning after December 31, 1986.

“(2) INTEGRATION RULES.—Subparagraphs (D) and (E) of section 408(k)(3) of the Internal Revenue Code of 1954 (as in effect before the amendments made by this section) shall continue to apply for years beginning after December 31, 1986, and before January 1, 1989, except that employer contributions under an arrangement under section 408(k)(6) of the Internal Revenue Code of 1986 (as added by this section) may not be integrated under such subparagraphs.”

(8) Section 209(e)(8) of the Social Security Act is amended to read as follows:

42 USC 409.

“(8) under a simplified employee pension (as defined in section 408(k)(1) of such Code), other than any contributions described in section 408(k)(6) of such Code,”

(9) Section 3401(a)(12)(C) of the 1986 Code is amended—

(A) by striking out “section 219” and inserting in lieu thereof “section 402(h) (1) and (2)”, and

(B) by striking out “a deduction” and inserting in lieu thereof “an exclusion”.

(10) Section 408(k)(8) of the 1986 Code is amended by inserting “, except that in the case of years beginning after 1988, the \$200,000 amount (as so adjusted) shall not exceed the amount in effect under section 401(a)(17)” after “section 415(d)”.

(g) AMENDMENTS RELATED TO SECTION 1111 OF THE REFORM ACT.—

(1)(A) Section 401(l)(2)(B) of the 1986 Code (defining contribution percentages) is amended by inserting “by the employer” after “contributed” each place it appears.

(B) Clause (ii) of section 401(I)(3)(A) of the 1986 Code is amended by inserting "attributable to employer contributions" after "benefits".

(2) Section 401(I)(5)(C) of the 1986 Code (defining average annual compensation) is amended to read as follows:

"(C) AVERAGE ANNUAL COMPENSATION.—The term 'average annual compensation' means the participant's highest average annual compensation for—

"(i) any period of at least 3 consecutive years, or
 "(ii) if shorter, the participant's full period of service."

(3) Section 401(I)(5)(E) of the 1986 Code (defining covered compensation) is amended—

(A) by striking out "age 65" each place it appears and inserting in lieu thereof "the social security retirement age", and

(B) by adding at the end thereof the following new clause:

"(iii) SOCIAL SECURITY RETIREMENT AGE.—For purposes of this subparagraph, the term 'social security retirement age' has the meaning given such term by section 415(b)(8)."

26 USC 401 note.

(4) Section 1111(c)(3) of the Reform Act is amended by striking out "benefits pursuant to, and individuals covered by, any such agreement in".

(h) AMENDMENTS RELATED TO SECTION 1112 OF THE REFORM ACT.—

(1) Section 410(b)(4)(B) of the 1986 Code (relating to exclusion of employees not meeting age and service requirements) is amended—

(A) by striking out "do not meet" and inserting in lieu thereof "not meeting", and

(B) by striking out "and".

(2) Section 410(b)(6) of the 1986 Code (relating to definitions and special rules) is amended by redesignating subparagraph (F) as subparagraph (G) and by adding after subparagraph (E) the following new subparagraph:

"(F) EMPLOYERS WITH ONLY HIGHLY COMPENSATED EMPLOYEES.—A plan maintained by an employer which has no employees other than highly compensated employees for any year shall be treated as meeting the requirements of this subsection for such year."

(3) Section 401(a)(26) of the 1986 Code (relating to additional participation requirements) is amended by redesignating subparagraph (F) as subparagraph (H) and by adding after subparagraph (E) the following new subparagraphs:

"(F) SPECIAL RULE FOR CERTAIN DISPOSITIONS OR ACQUISITIONS.—Rules similar to the rules of section 410(b)(6)(C) shall apply for purposes of this paragraph.

"(G) SEPARATE LINES OF BUSINESS.—At the election of the employer and with the consent of the Secretary, this paragraph may be applied separately with respect to each separate line of business of the employer. For purposes of this paragraph, the term 'separate line of business' has the meaning given such term by section 414(r) (without regard to paragraph (7) thereof)."

(4) Section 402(b)(2) of the 1986 Code (relating to failure to meet requirements of section 410(b)) is amended by striking out

subparagraphs (A) and (B) and inserting in lieu thereof the following:

“(A) **HIGHLY COMPENSATED EMPLOYEES.**—If 1 of the reasons a trust is not exempt from tax under section 501(a) is the failure of the plan of which it is a part to meet the requirements of section 401(a)(26) or 410(b), then a highly compensated employee shall, in lieu of the amount determined under paragraph (1), include in gross income for the taxable year with or within which the taxable year of the trust ends an amount equal to the vested accrued benefit of such employee (other than the employee’s investment in the contract) as of the close of such taxable year of the trust.

“(B) **FAILURE TO MEET COVERAGE TESTS.**—If a trust is not exempt from tax under section 501(a) for any taxable year solely because such trust is part of a plan which fails to meet the requirements of section 401(a)(26) or 410(b), paragraph (1) shall not apply by reason of such failure to any employee who was not a highly compensated employee during—

“(i) such taxable year, or

“(ii) any preceding period for which service was creditable to such employee under the plan.”

(5) Subsections (m)(4)(A) and (n)(3)(A) of section 414 of the 1986 Code are each amended by striking out “and (16)” and inserting in lieu thereof “(16), (17), and (26)”.

(6) Clause (iii) of section 1112(e)(3)(A) of the Reform Act is amended by striking out “a plan or merger” and inserting in lieu thereof “the plan”.

26 USC 401 note.

(7) Section 1112(e)(2) of the Reform Act is amended by striking out “employees covered by such agreement in”.

(8) Subsection (e) of section 1112 of the Reform Act is amended by striking out paragraph (3)(C) and by adding at the end of such subsection the following new paragraph:

“(4) **SPECIAL RULE FOR PLANS WHICH MAY NOT TERMINATE.**—To the extent provided in regulations prescribed by the Secretary of the Treasury or his delegate, if a plan is prohibited from terminating under title IV of the Employee Retirement Income Security Act of 1974 before the 1st year to which the amendment made by subsection (b) would apply, the amendment made by subsection (b) shall only apply to years after the 1st year in which the plan is able to terminate.”

(9) Subparagraph (B) of section 1112(e)(3) of the Reform Act is amended to read as follows:

“(B) **INTEREST RATE FOR DETERMINING ACCRUED BENEFIT OF HIGHLY COMPENSATED EMPLOYEES FOR CERTAIN PURPOSES.**—In the case of a termination, transfer, or distribution of assets of a plan described in subparagraph (A)(ii) before the 1st year to which the amendment made by subsection (b) applies—

“(i) **AMOUNT ELIGIBLE FOR ROLLOVER, INCOME AVERAGING, OR TAX-FREE TRANSFER.**—For purposes of determining any eligible amount, the present value of the accrued benefit of any highly compensated employee shall be determined by using an interest rate not less than the highest of—

“(I) the applicable rate under the plan’s method in effect under the plan on August 16, 1986,

“(II) the highest rate (as of the date of the termination, transfer, or distribution) determined under any of the methods applicable under the plan at any time after August 15, 1986, and before the termination, transfer, or distribution in calculating the present value of the accrued benefit of an employee who is not a highly compensated employee under the plan (or any other plan used in determining whether the plan meets the requirements of section 401 of the Internal Revenue Code of 1986), or

“(III) 5 percent.

“(ii) **ELIGIBLE AMOUNT.**—For purposes of clause (i), the term ‘eligible amount’ means any amount with respect to a highly compensated employee which—

“(I) may be rolled over under section 402(a)(5) of such Code,

“(II) is eligible for income averaging under section 402(e)(1) of such Code, or capital gains treatment under section 402(a)(2) or 403(a)(2) of such Code (as in effect before this Act), or

“(III) may be transferred to another plan without inclusion in gross income.

“(iii) **AMOUNTS SUBJECT TO EARLY WITHDRAWAL OR EXCESS DISTRIBUTION TAX.**—For purposes of sections 72(t) and 4980A of such Code, there shall not be taken into account the excess (if any) of—

“(I) the amount distributed to a highly compensated employee by reason of such termination or distribution, over

“(II) the amount determined by using the interest rate applicable under clause (i).

“(iv) **DISTRIBUTIONS OF ANNUITY CONTRACTS.**—If an annuity contract purchased after August 16, 1986, is distributed to a highly compensated employee in connection with such termination or distribution, there shall be included in gross income for the taxable year of such distribution an amount equal to the excess of—

“(I) the purchase price of such contract, over

“(II) the present value of the benefits payable under such contract determined by using the interest rate applicable under clause (i).

Such excess shall not be taken into account for purposes of sections 72(t) and 4980A of such Code.

“(v) **HIGHLY COMPENSATED EMPLOYEE.**—For purposes of this subparagraph, the term ‘highly compensated employee’ has the meaning given such term by section 414(q) of such Code.”

(10) Section 413(b) of the 1986 Code is amended by adding at the end thereof the following new paragraph:

“(9) **PLANS COVERING A PROFESSIONAL EMPLOYEE.**—Notwithstanding subsection (a), in the case of a plan (and trust forming part thereof) which covers any professional employee, paragraph (1) shall be applied by substituting ‘section 410(a)’ for ‘section 410’, and paragraph (2) shall not apply.”

(11) Section 410(b)(4) of the 1986 Code is amended by adding at the end thereof the following new subparagraph:

“(C) REQUIREMENTS NOT TREATED AS BEING MET BEFORE ENTRY DATE.—An employee shall not be treated as meeting the age and service requirements described in this paragraph until the first date on which, under the plan, any employee with the same age and service would be eligible to commence participation in the plan.”

(i) AMENDMENTS RELATED TO SECTION 1114 OF THE REFORM ACT.—

(1) Paragraph (1) of section 414(q) of the 1986 Code (defining highly compensated employee) is amended by adding at the end thereof the following new flush sentence:

“The Secretary shall adjust the \$75,000 and \$50,000 amounts under this paragraph at the same time and in the same manner as under section 415(d).”

(2) Section 414(q)(6) of the 1986 Code is amended by adding at the end thereof the following new subparagraph:

“(C) RULES TO APPLY TO OTHER PROVISIONS.—

“(i) IN GENERAL.—Except as provided in regulations and in clause (ii), the rules of subparagraph (A) shall be applied in determining the compensation of (or any contributions or benefits on behalf of) any employee for purposes of any section with respect to which a highly compensated employee is defined by reference to this subsection.

“(ii) EXCEPTION FOR DETERMINING INTEGRATION LEVELS.—Clause (i) shall not apply in determining the portion of the compensation of a participant which is under the integration level for purposes of section 401(l).”

(3)(A) Section 414(q)(8) of the 1986 Code (relating to excluded employees) is amended—

(i) by inserting “and” at the end of subparagraph (D), by striking “, and” at the end of subparagraph (E) and inserting in lieu thereof a period, and by striking out subparagraph (F), and

(ii) by striking out “The” in the last sentence thereof and inserting in lieu thereof “Except as provided by the Secretary, the”.

(B) Section 414(q) of the 1986 Code is amended by adding at the end thereof the following new paragraph:

“(11) SPECIAL RULE FOR NONRESIDENT ALIENS.—For purposes of this subsection and subsection (r), employees who are nonresident aliens and who receive no earned income (within the meaning of section 911(d)(2)) from the employer which constitutes income from sources within the United States (within the meaning of section 861(a)(3)) shall not be treated as employees.”

(4)(A) Paragraph (8) of section 414(q) of the 1986 Code is amended by inserting “or the number of officers taken into account under paragraph (5)” after “paragraph (4)”.

(B) Section 416(i)(1)(A) of the 1986 Code is amended by adding at the end thereof the following new sentence: “For purposes of determining the number of officers taken into account under clause (i), employees described in section 414(q)(8) shall be excluded.”

(5) Subparagraph (B) of section 408(k)(3) of the 1986 Code is amended to read as follows:

“(B) SPECIAL RULES.—For purposes of subparagraph (A), there shall be excluded from consideration employees described in subparagraph (A) or (C) of section 410(b)(3).”

(j) AMENDMENTS RELATED TO SECTION 1115 OF THE REFORM ACT.—
(1) So much of section 414(s) of the 1986 Code as precedes paragraph (2) is amended to read as follows:

“(s) COMPENSATION.—For purposes of any applicable provision—
“(1) IN GENERAL.—Except as provided in this subsection, the term ‘compensation’ has the meaning given such term by section 415(c)(3).”

(2) Section 414(s) of the 1986 Code is amended by striking out paragraph (2), by redesignating paragraphs (3) and (4) as paragraphs (2) and (3), respectively, and by adding at the end thereof the following new paragraph:

“(4) APPLICABLE PROVISION.—For purposes of this subsection, the term ‘applicable provision’ means any provision which specifically refers to this subsection.”

(3)(A) Section 416(i)(1) of the 1986 Code (defining key employee) is amended by adding at the end thereof the following new subparagraph:

“(D) COMPENSATION.—For purposes of this paragraph, the term ‘compensation’ has the meaning given such term by section 414(q)(7).”

26 USC 416 note.

(B) The amendment made by this paragraph shall apply to years beginning after December 31, 1988.

(k) AMENDMENTS RELATED TO SECTION 1116 OF THE REFORM ACT.—
(1)(A) Subparagraph (B) of section 401(k)(2) of the 1986 Code (relating to distributions from a cash or deferred arrangement) is amended—

(i) by striking out subclauses (II), (III), and (IV) of clause (1) and inserting in lieu thereof:

“(II) an event described in paragraph (10),” and

(ii) by redesignating subclauses (V) and (VI) as subclauses (III) and (IV), respectively.

(B) Section 401(k) of the 1986 Code is amended by adding at the end thereof the following new paragraph:

“(10) DISTRIBUTIONS UPON TERMINATION OF PLAN OR DISPOSITION OF ASSETS OR SUBSIDIARY —

“(A) IN GENERAL.—The following events are described in this paragraph:

“(i) TERMINATION.—The termination of the plan without establishment or maintenance of another defined contribution plan (other than an employee stock ownership plan as defined in section 4975(e)(7)).

“(ii) DISPOSITION OF ASSETS.—The disposition by a corporation of substantially all of the assets (within the meaning of section 409(d)(2)) used by such corporation in a trade or business of such corporation, but only with respect to an employee who continues employment with the corporation acquiring such assets.

“(iii) DISPOSITION OF SUBSIDIARY.—The disposition by a corporation of such corporation’s interest in a subsidiary (within the meaning of section 409(d)(3)), but only with respect to an employee who continues employment with such subsidiary.

“(B) DISTRIBUTIONS MUST BE LUMP SUM DISTRIBUTIONS.—

“(i) IN GENERAL.—An event shall not be treated as described in subparagraph (A) with respect to any employee unless the employee receives a lump sum distribution by reason of the event.

“(ii) LUMP SUM DISTRIBUTION.—For purposes of this subparagraph, the term ‘lump sum distribution’ has the meaning given such term by section 402(e)(4), without regard to clauses (i), (ii), (iii), and (iv) of subparagraph (A), subparagraph (B), or subparagraph (H) thereof.

“(C) TRANSFEROR CORPORATION MUST MAINTAIN PLAN.—An event shall not be treated as described in clause (ii) or (iii) of subparagraph (A) unless the transferor corporation continues to maintain the plan after the disposition.”

(C)(i) Subparagraph (A)(i) of section 401(k)(10) of the 1986 Code (as added by subparagraph (B)) shall apply to distributions after October 16, 1987.

26 USC 401 note.

(ii) Subparagraph (B) of section 401(k)(10) of the 1986 Code (as added by subparagraph (B)) shall apply to distributions after March 31, 1988.

(2) Subparagraph (B) of section 401(k)(2) of the 1986 Code is amended—

(A) by inserting “amounts held by the trust which are attributable to employer contributions made pursuant to the employee’s election” after “under which”,

(B) by striking out “amounts held by the trust which are attributable to employer contributions made pursuant to the employee’s election” in clause (i), and

(C) by striking out “amounts” in clause (ii).

(3)(A) Clause (ii) of section 401(k)(3)(A) of the 1986 Code is amended by inserting “eligible” before “highly compensated employees” each place it appears.

(B) Section 1116(b)(4) of the Reform Act is amended by striking out “any” the first place it appears and inserting in lieu thereof “an”.

26 USC 401.

(4) Subparagraph (C) of section 401(k)(3) of the 1986 Code, as added by section 1116(e) of the Reform Act, is redesignated as subparagraph (D).

(5) Subclause (I) of section 401(k)(3)(D)(ii) of the 1986 Code, as redesignated by paragraph (4), is amended by striking out “meets” and inserting in lieu thereof “meet”.

(6) Section 401(k)(4)(A) of the 1986 Code is amended by striking out “provided by such employer”.

(7) Section 401(k)(8) of the 1986 Code (relating to arrangement not disqualified if excess contributions distributed) is amended by redesignating subparagraph (E) as subparagraph (F) and by inserting after subparagraph (D) the following new subparagraph:

“(E) TREATMENT OF MATCHING CONTRIBUTIONS FORFEITED BY REASON OF EXCESS DEFERRAL OR CONTRIBUTION.—For purposes of paragraph (2)(C), a matching contribution (within the meaning of subsection (m)) shall not be treated as forfeitable merely because such contribution is forfeitable if the contribution to which the matching contribution relates is treated as an excess contribution under subparagraph

- (B), an excess deferral under section 402(g)(2)(A), or an excess aggregate contribution under section 401(m)(6)(B)."
- 26 USC 401 note. (8) Subparagraph (B) of section 1116(f)(2) of the Reform Act is amended by adding at the end thereof the following new sentence: "If clause (i) or (ii) applies to any arrangement adopted by a governmental unit, then any cash or deferred arrangement adopted by such unit on or after the date referred to in the applicable clause shall be treated as adopted before such date."
- (9) Section 401(k)(4)(B) of the 1986 Code is amended by adding at the end thereof the following new sentence:
 "This subparagraph shall not apply to a rural electric cooperative plan."
- 26 USC 401 note. (10) Clause (i) of section 1116(f)(2)(B) of the Reform Act is amended by striking out "(or political subdivision thereof)" and inserting in lieu thereof "or political subdivision thereof, or any agency or instrumentality thereof,".
- (I) AMENDMENTS RELATED TO SECTION 1117 OF THE REFORM ACT.—
- (1) Paragraph (1) of section 401(m) of the 1986 Code (relating to nondiscrimination test for matching contributions and employee contributions) is amended by striking out "A plan" and inserting in lieu thereof "A defined contribution plan".
- (2) Paragraph (3) of section 401(m) of the 1986 Code (relating to requirements) is amended by adding at the end thereof the following new sentence: "If matching contributions are taken into account for purposes of subsection (k)(3)(A)(ii) for any plan year, such contributions shall not be taken into account under subparagraph (A) for such year."
- (3) The last sentence of section 401(m)(2)(B) of the 1986 Code is amended by striking out "such contributions" the first place it appears and inserting in lieu thereof "contributions to which this subsection applies".
- (4) Section 401(m)(4)(A) of the 1986 Code (defining matching contribution) is amended by striking out "the plan" each place it appears and inserting in lieu thereof "a defined contribution plan".
- (5)(A) Section 401(m)(4)(B) of the 1986 Code (defining elective deferral) is amended by striking out "section 402(g)(3)(A)" and inserting in lieu thereof "section 402(g)(3)".
- (B) The amendment made by this paragraph shall take effect as if included in the amendments made by section 1120 of the Reform Act.
- (6) Subparagraph (C) of section 401(m)(6) of the 1986 Code is amended by striking out "EXCESS" in the subparagraph heading and inserting in lieu thereof "EXCESS AGGREGATE".
- (7) Section 401(m)(7)(A) of the 1986 Code (relating to additional tax of section 72(t) not applicable) is amended by striking out "paragraph (8)" and inserting in lieu thereof "paragraph (6)".
- (8) Section 4979(a)(1) of the 1986 Code (relating to tax on certain excess contributions) is amended by striking out "a cash or deferred arrangement which is part of".
- (9) Section 4979(c) of the 1986 Code (defining excess contributions) is amended—
- (A) by striking out "403(b)," and
- (B) by striking out "408(k)(8)(B)" and inserting in lieu thereof "408(k)(6)(C)".
- (10) Section 4979(d) of the 1986 Code (defining excess aggregate contribution) is amended by adding at the end thereof the

Effective date.
 26 USC 401 note.

following new sentence: "For purposes of determining excess aggregate contributions under an annuity contract described in section 403(b), such contract shall be treated as a plan described in subsection (e)(1)."

Contracts.

(11) Paragraph (2) of section 4979(f) of the 1986 Code (relating to inclusion in prior year) is amended to read as follows:

"(2) YEAR OF INCLUSION.—

"(A) IN GENERAL.—Except as provided in subparagraph (B), any amount distributed as provided in paragraph (1) shall be treated as received and earned by the recipient in his taxable year for which such contribution was made.

"(B) DE MINIMIS DISTRIBUTIONS.—If the total excess contributions and excess aggregate contributions distributed to a recipient under a plan for any plan year are less than \$100, such distributions (and any income allocable thereto) shall be treated as earned and received by the recipient in his taxable year in which such distributions were made."

(12) Subsection (d) of section 1117 of the Reform Act is amended by adding at the end thereof the following new paragraph:

26 USC 401 note.

"(4) DISTRIBUTIONS BEFORE PLAN AMENDMENT.—

"(A) IN GENERAL.—If a plan amendment is required to allow a plan to make any distribution described in section 401(m)(6) of the Internal Revenue Code of 1986, any such distribution which is made before the close of the 1st plan year for which such amendment is required to be in effect under section 1140 shall be treated as made in accordance with the provisions of the plan.

"(B) DISTRIBUTIONS PURSUANT TO MODEL AMENDMENT.—

"(i) SECRETARY TO PRESCRIBE AMENDMENT.—The Secretary of the Treasury or his delegate shall prescribe an amendment which allows a plan to make any distribution described in section 401(m)(6) of the Internal Revenue Code of 1986.

"(ii) ADOPTION BY PLAN.—If a plan adopts the amendment prescribed under clause (i) and makes a distribution in accordance with such amendment, such distribution shall be treated as made in accordance with the provisions of the plan."

(m) AMENDMENTS RELATED TO SECTION 1120 OF THE REFORM ACT.—

(1)(A) Section 403(b)(10) of the 1986 Code (relating to non-discrimination requirements), as added by section 1120(b) of the Reform Act, is redesignated as paragraph (12).

(B) Subparagraph (D) of section 403(b)(1) of the 1986 Code is amended by striking out "paragraph (10)" and inserting in lieu thereof "paragraph (12)".

(2) Clause (i) of section 403(b)(12)(A), as redesignated by paragraph (1), is amended—

(A) by inserting "(17)," after "(5)," and

(B) by inserting ", section 401(m)," after "section 401(a)" the first place it appears.

(3) Section 1120(c) of the Reform Act is amended to read as follows:

26 USC 403 note.

"(c) EFFECTIVE DATES.—

"(1) IN GENERAL.—Except as provided in paragraph (2), the amendments made by this section shall apply to years beginning after December 31, 1988.

“(2) **COLLECTIVE BARGAINING AGREEMENTS.**—In the case of a plan maintained pursuant to 1 or more collective bargaining agreements between employee representatives and 1 or more employers ratified before March 1, 1986, the amendments made by this section shall not apply to plan years beginning before the earlier of—

“(A) January 1, 1991, or

“(B) the later of—

“(i) January 1, 1989, or

“(ii) the date on which the last of such collective bargaining agreements terminates (determined without regard to any extension thereof after February 28, 1986).”

SEC. 1011A. AMENDMENTS RELATED TO PARTS III AND IV OF SUBTITLE A OF TITLE XI OF THE REFORM ACT.

(a) AMENDMENTS RELATED TO SECTION 1121 OF THE REFORM ACT.—

(1) Subparagraph (F) of section 402(a)(5) of the 1986 Code (relating to transfer treated as rollover contribution under section 408) is amended by striking out “described in subparagraph (A)” and inserting in lieu thereof “resulting in any portion of a distribution being excluded from gross income under subparagraph (A)”.

(2)(A) Section 408(d)(3)(A) is amended by striking out the last sentence thereof.

26 USC 408 note.

(B) The amendment made by subparagraph (A) shall apply to rollover contributions made in taxable years beginning after December 31, 1986.

26 USC 401 note.

(3) Section 1121(d) of the Reform Act is amended by adding at the end thereof the following new paragraph:

“(5) **PLANS MAY INCORPORATE SECTION 401(a)(9) REQUIREMENTS BY REFERENCE.**—Notwithstanding any other provision of law, except as provided in regulations prescribed by the Secretary of the Treasury or his delegate, a plan may incorporate by reference the requirements of section 401(a)(9) of the Internal Revenue Code of 1986.”

(4) Section 1121(d)(3) of the Reform Act is amended by striking out “plan years” and inserting in lieu thereof “years”.

26 USC 402 note.

(5) Section 402(a)(5)(F)(ii) of the Internal Revenue Code of 1954 shall not apply to distributions after October 22, 1986, and before the 1st taxable year beginning after 1986 which are attributable to benefits which accrued before January 1, 1985.

(b) AMENDMENTS RELATED TO SECTION 1122 OF THE REFORM ACT.—

(1)(A) Section 72(f) of the 1986 Code (relating to special rules for computing employees' contributions) is amended by striking out “for purposes of subsections (d)(1) and (e)(7), the consideration for the contract contributed by the employee.”

(B) Section 72(n) of the 1986 Code (relating to annuities under retired serviceman's family protection plan or survivor benefit plan) is amended by striking out “Subsections (b) and (d)” and inserting in lieu thereof “Subsection (b)”.

(C) Sections 406(e) and 407(e) of the 1986 Code are each amended by striking out paragraph (1) and by redesignating paragraphs (2), (3), and (4) as paragraphs (1), (2), and (3), respectively.

(2)(A) Section 72 of the 1986 Code (relating to annuities and certain proceeds of endowment and life insurance contracts) is

amended by adding after subsection (c) the following new subsection:

“(d) **TREATMENT OF EMPLOYEE CONTRIBUTIONS UNDER DEFINED CONTRIBUTION PLANS AS SEPARATE CONTRACTS.**—For purposes of this section, employee contributions (and any income allocable thereto) under a defined contribution plan may be treated as a separate contract.”

(B) Section 72(e) of the 1986 Code is amended by striking out paragraph (9).

(3) Section 414(k)(2) of the 1986 Code (relating to certain plans treated as defined contribution plans) is amended by inserting “72(d) (relating to treatment of employee contributions as separate contract),” before “411(a)(7)(A)”.

(4)(A) The amendment made by section 1122(e)(1) of the Reform Act is repealed and the Internal Revenue Code of 1986 shall be applied and administered as if such amendment had not been enacted.

26 USC 402 and note.

(B) Subclause (I) of section 402(a)(5)(D)(i) of the 1986 Code is amended by inserting “is payable as provided in clause (i), (iii), or (iv) of subsection (e)(4)(A) (without regard to the second sentence thereof) and” after “such distribution” the first place it appears.

(C) Section 402(a)(5)(D)(i) of the 1986 Code is amended by adding at the end thereof the following new sentence: “Any distribution described in section 401(a)(28)(B)(ii) shall be treated as meeting the requirements of subclauses (I) and (II).”

(D) Section 402(a)(5)(D)(iii) is amended by striking out “10-YEAR” in the heading.

(E) Section 402(a)(5)(D)(i)(II) of the 1986 Code (as in effect after the amendment made by subparagraph (A)) shall not apply to distributions after December 31, 1986, and before March 31, 1988.

26 USC 402 note.

(5) Clause (ii) of section 402(a)(6)(H) of the 1986 Code (relating to special rule for frozen deposits) is amended by adding at the end thereof the following new flush sentence:

“A deposit shall not be treated as a frozen deposit unless on at least 1 day during the 60-day period described in paragraph (5)(C) (without regard to this subparagraph) such deposit is described in the preceding sentence.”

(6) Clause (i) of section 402(e)(4)(B) of the 1986 Code is amended by striking out “taxpayer” and inserting in lieu thereof “employee”.

(7) The last sentence of section 402(e)(4)(J) of the 1986 Code (relating to unrealized appreciation on employer securities) is amended to read as follows: “In accordance with rules prescribed by the Secretary, a taxpayer may elect, on the return of tax on which a distribution is required to be included, not to have this subparagraph apply with respect to such distribution.”

(8) Section 402 of the 1986 Code (relating to taxability of beneficiary of employees' trust) is amended as follows:

(A) Subsection (a)(1) is amended by striking out “paragraphs (2) and (4)” and inserting in lieu thereof “paragraph (4)”.

(B) Subsection (a)(4) is amended by striking out “or (2)”.

(C) Subsection (a)(6)(C) is amended by striking out “paragraph (2) of subsection (a), and”.

(D) Subsection (a)(6)(E)(ii) is amended by striking out “paragraph (2) of subsection (a), and” and by striking out the comma after “subsection (e)”.

(E) Subsection (e)(1)(A) is amended by striking out “ordinary income portion of a”.

(F) Subsection (e)(4)(A) is amended—

(i) by striking out “Except for purposes of subsection (a)(2) and section 403(a)(2), a” and inserting in lieu thereof “A”, and

(ii) by striking out “subsection (a)(2) of this section, and subsection (a)(2) of section 403,”.

(G) Subparagraph (L) of subsection (e)(4) is hereby repealed.

(H) Subsection (e)(4)(M) is amended by striking out “, subsection (a)(2) of this section, and section 403(a)(2)”.

(I) Subsection (e)(5) is amended by striking out “and paragraph (2) of subsection (a)”.

(J) Subsection (e)(6)(C) is amended to read as follows:

“(C) SPECIAL LUMP-SUM TREATMENT.—For purposes of this paragraph, special lump sum treatment applies to any distribution if any portion of such distribution is taxed under this subsection by reason of an election under paragraph (4)(B).”

(9)(A) Section 72(e)(7) of the 1986 Code is hereby repealed.

(B) Section 72(e)(5)(D) is amended by striking out “paragraphs (7) and (8)” and inserting in lieu thereof “paragraph (8)”.

(C) Section 72(e)(8)(A) is amended by striking out “(other than paragraph (7))”.

(D) Section 72(q)(2)(E) of the 1986 Code is amended by striking out “(determined without regard to subsection (e)(7))”.

(10) Section 402(e)(1)(B) of the 1986 Code (relating to amount of tax on lump-sum distributions) is amended by adding at the end thereof the following new flush sentence:

“For purposes of the preceding sentence, in determining the amount of tax under section 1(c), section 1(g) shall be applied without regard to paragraph (2)(B) thereof.”

(11) Section 1122(h) of the Reform Act is amended by adding at the end thereof the following new paragraph:

“(9) SPECIAL RULE FOR STATE PLANS.—In the case of a plan maintained by a State which on May 5, 1986, permitted withdrawal by the employee of employee contributions (other than as an annuity), section 72(e) of the Internal Revenue Code of 1986 shall be applied—

“(A) without regard to the phrase ‘before separation from service’ in paragraph (8)(D), and

“(B) by treating any amount received (other than as an annuity) before or with the 1st annuity payment as having been received before the annuity starting date.”

(12) Subparagraph (B) of section 1122(h)(2) of the Reform Act is amended by inserting “, except that section 72(b)(3) of the Internal Revenue Code of 1986 (as added by such subsection) shall apply to individuals whose annuity starting date is after July 1, 1986” after “1986”.

(13) Sections 1122 (h)(3)(C) and (h)(4)(C) of the Reform Act are each amended by striking out “with respect to any other lump

sum distribution" and inserting in lieu thereof "for purposes of such Code".

(14) Clause (i) of section 1122(h)(3)(C) of the Reform Act is amended— 26 USC 402 note.

(A) by striking out "individual" and inserting in lieu thereof "employee", and

(B) by inserting "or by an individual, estate, or trust with respect to such an employee" after "1986".

(15) Section 1122(h)(5) of the Reform Act is amended—

(A) by striking out "individual" and inserting in lieu thereof "employee",

(B) by inserting "and by including in gross income the zero bracket amount in effect under section 63(d) of such Code for such years" after "1986" in the last sentence, and

(C) by adding at the end thereof the following new sentence: "This paragraph shall also apply to an individual, estate, or trust which receives a distribution with respect to an employee described in this paragraph."

(16) Sections 406(c) and 407(c) of the 1986 Code are each amended—

(A) by striking out "subsections (a)(2) and (e) of section 402, and section 403(a)(2)" and inserting in lieu thereof "section 402(e)", and

(B) by striking out "OF CAPITAL GAIN PROVISIONS AND" in the heading thereof.

(c) AMENDMENTS RELATED TO SECTION 1123 OF THE REFORM ACT.—

(1) Subparagraph (A) of section 72(t)(2) of the 1986 Code (relating to subsection not to apply to certain distributions) is amended by striking out "on account of early retirement under the plan" in clause (v).

(2) Subparagraph (C) of section 72(t)(2) of the 1986 Code (relating to certain plans) is amended to read as follows:

"(C) EXCEPTIONS FOR DISTRIBUTIONS FROM EMPLOYEE STOCK OWNERSHIP PLANS.—Any distribution made before January 1, 1990, to an employee from an employee stock ownership plan (as defined in section 4975(e)(7)) or a tax credit employee stock ownership plan (as defined in section 409) if—

"(i) such distribution is attributable to assets which have been invested in employer securities (within the meaning of section 409(l)) at all times during the 5-plan-year period preceding the plan year in which the distribution is made, and

"(ii) at all times during such period the requirements of sections 401(a)(28) and 409 (as in effect at such times) are met with respect to such employer securities."

(3) Subparagraph (A) of section 72(t)(3) of the 1986 Code (relating to certain exceptions not to apply to individual retirement plans) is amended by striking out "and (C)" and inserting in lieu thereof "(C), and (D)".

(4) Subparagraphs (D) and (G) of section 72(q)(2) of the 1986 Code are each amended by striking out the period at the end thereof and inserting in lieu thereof a comma.

(5) Subparagraph (B) of section 72(q)(3) of the 1986 Code (relating to change in substantially equal payments) is amended by striking out "employee" each place it appears and inserting in lieu thereof "taxpayer".

(6) Section 72(q)(2) of the 1986 Code (relating to subsection not to apply to certain dispositions) is amended by inserting after subparagraph (G) the following new subparagraph:

“(H) to which subsection (t) applies (without regard to paragraph (2) thereof),”.

(7) Subparagraph (D) of section 72(q)(2) and clause (iv) of section 72(t)(2)(A) of the 1986 Code are each amended by inserting “designated” before “beneficiary”.

(8) Paragraph (2) of section 72(o) of the 1986 Code (relating to additional tax if amount received before age 59½) is hereby repealed.

(9) Subparagraph (I) of section 402(e)(4) of the 1986 Code is amended by striking out “clause (ii) of”.

(10) Section 26(b)(2) of the 1986 Code is amended—

(A) by striking out “, (o)(2),” in subparagraph (C), and

(B) by striking out “408(f) (relating to additional tax on income from certain retirement accounts)” in subparagraph (D) and inserting in lieu thereof “72(t) (relating to 10-percent additional tax on early distributions from qualified retirement plans)”.

26 USC 72 note.

(11) Section 1123(e)(2) of the Reform Act is amended—

(A) by striking out “taxable”, and

(B) by inserting “, but only with respect to distributions from contracts described in section 403(b) of the Internal Revenue Code of 1986 which are attributable to assets other than assets held as of the close of the last year beginning before January 1, 1989” after “1988”.

(12) Section 1123(e) of the Reform Act is amended by adding at the end thereof the following new paragraph:

“(5) SPECIAL RULE FOR DISTRIBUTIONS UNDER AN ANNUITY CONTRACT.—The amendments made by paragraphs (1), (2), and (3) of subsection (b) shall not apply to any distribution under an annuity contract if—

“(A) as of March 1, 1986, payments were being made under such contract pursuant to a written election providing a specific schedule for the distribution of the taxpayer’s interest in such contract, and

“(B) such distribution is made pursuant to such written election.”

26 USC 72 note.

(13) Section 72(t) of the 1986 Code shall apply to any distribution without regard to whether such distribution is made without the consent of the participant pursuant to section 411(a)(11) or section 417(e) of the 1986 Code.

26 USC 402 note.

(d) AMENDMENTS RELATED TO SECTION 1124 OF THE REFORM ACT.—
(1) Section 1124(a) of the Reform Act is amended to read as follows:

Handicapped persons.

“(a) IN GENERAL.—If an employee dies, separates from service, or becomes disabled before 1987 and an individual, trust, or estate receives a lump-sum distribution with respect to such employee after December 31, 1986, and before March 16, 1987, on account of such death, separation from service, or disability, then, for purposes of the Internal Revenue Code of 1986, such individual, estate, or trust may treat such distribution as if it were received in 1986.”

(2) Section 1124(b) of the Reform Act is amended—

(A) by striking out “employee” each place it appears and inserting in lieu thereof “individual, estate, or trust”, and

(B) by inserting "with respect to an employee" after "receives".

(3) Section 1124 of the Reform Act is amended by adding at the end thereof the following new subsection:

"(c) LUMP SUM DISTRIBUTION.—For purposes of this section, the term 'lump sum distribution' has the meaning given such term by section 402(e)(4)(A) of the Internal Revenue Code of 1986, without regard to subparagraph (B) or (H) of section 402(e)(4) of such Code."

(e) AMENDMENTS RELATED TO SECTION 1131 OF THE REFORM ACT.—

(1) Subsection (c) of section 4972 of the 1986 Code (defining nondeductible contributions) is amended to read as follows:

"(c) NONDEDUCTIBLE CONTRIBUTIONS.—For purposes of this section—

"(1) IN GENERAL.—The term 'nondeductible contributions' means, with respect to any qualified employer plan, the sum of—

"(A) the excess (if any) of—

"(i) the amount contributed for the taxable year by the employer to or under such plan, over

"(ii) the amount allowable as a deduction under section 404 for such contributions (determined without regard to subsection (e) thereof), and

"(B) the amount determined under this subsection for the preceding taxable year reduced by the sum of—

"(i) the portion of the amount so determined returned to the employer during the taxable year, and

"(ii) the portion of the amount so determined deductible under section 404 for the taxable year (determined without regard to subsection (e) thereof).

"(2) ORDERING RULE FOR SECTION 404.—For purposes of paragraph (1), the amount allowable as a deduction under section 404 for any taxable year shall be treated as—

"(A) first from carryforwards to such taxable year from preceding taxable years (in order of time), and

"(B) then from contributions made during such taxable year.

"(3) CONTRIBUTIONS WHICH MAY BE RETURNED TO EMPLOYER.—In determining the amount of nondeductible contributions for any taxable year, there shall not be taken into account any contribution for such taxable year which is distributed to the employer in a distribution described in section 4980(c)(2)(B)(ii) if such distribution is made on or before the last day on which a contribution may be made for such taxable year under section 404(a)(6).

"(4) PRE-1987 CONTRIBUTIONS.—The term 'nondeductible contribution' shall not include any contribution made for a taxable year beginning before January 1, 1987."

(2) Paragraph (1) of section 4972(d) of the 1986 Code (defining qualified employer plan) is amended to read as follows:

"(1) QUALIFIED EMPLOYER PLAN.—

"(A) IN GENERAL.—The term 'qualified employer plan' means—

"(i) any plan meeting the requirements of section 401(a) which includes a trust exempt from tax under section 501(a),

"(ii) an annuity plan described in section 403(a), and

“(iii) any simplified employee pension (within the meaning of section 408(k)).

“(B) EXEMPTION FOR GOVERNMENTAL AND TAX EXEMPT PLANS.—The term ‘qualified employer plan’ does not include a plan described in subparagraph (A) or (B) of section 4980(c)(1).”

26 USC 404 note.

(3) Section 1131(d) of the Reform Act is amended to read as follows:

“(d) EFFECTIVE DATES.—

“(1) IN GENERAL.—Except as provided in paragraph (2), the amendments made by this section shall apply to taxable years beginning after December 31, 1986.

“(2) SPECIAL RULES FOR COLLECTIVE BARGAINING AGREEMENTS.—In the case of a plan maintained pursuant to 1 or more collective bargaining agreements between employee representatives and 1 or more employers ratified before March 1, 1986, the amendments made by this section shall not apply to contributions pursuant to any such agreement for taxable years beginning before the earlier of—

“(A) January 1, 1989, or

“(B) the date on which the last of such collective bargaining agreements terminates (determined without regard to any extension thereof after February 28, 1986).”

(4)(A) Subparagraph (A) of section 404(a)(7) of the 1986 Code is amended—

(i) by striking out “provisions” and inserting in lieu thereof “paragraphs”, and

(ii) by inserting “or in connection with trusts or plans described in 2 or more of such paragraphs” after “1 or more defined benefit plans”.

(B) Paragraph (3) of section 404(h) of the 1986 Code is amended to read as follows:

“(3) COORDINATION WITH SUBSECTION (a) (7).—For purposes of subsection (a)(7), a simplified employee pension shall be treated as if it were a separate stock bonus or profit-sharing trust.”

26 USC 4972
note.

(5) In the case of any taxable year beginning in 1987, the amount under section 4972(c)(1)(A)(ii) of the 1986 Code for a plan to which title IV of the Employee Retirement Income Security Act of 1974 applies shall be increased by the amount (if any) by which, as of the close of the plan year with or within which such taxable year begins—

(A) the liabilities of such plan (determined as if the plan had terminated as of such time), exceed

(B) the assets of such plan.

Securities.

(f) AMENDMENTS RELATED TO SECTION 1132 OF THE REFORM ACT.—

(1) Section 4980(c)(1)(A) of the 1986 Code (defining qualified plan) is amended by striking out “this subtitle” and inserting in lieu thereof “subtitle A”.

(2) Section 4980(c)(3)(A) of the 1986 Code (relating to exception for employee stock ownership plans) is amended—

(A) by inserting “or a tax credit employee stock ownership plan (as described in section 409)” after “section 4975(e)(7)”, and

(B) by inserting “, except to the extent necessary to meet the requirements of section 401(a)(28),” after “must”.

(3) Subparagraph (C) of section 4980(c)(3) of the 1986 Code is amended—

(A) by striking out “(by reason of the limitations of section 415)”, and

(B) by adding at the end thereof the following new sentence:

“The amount allocated in the year of transfer shall not be less than the lesser of the maximum amount allowable under section 415 or $\frac{1}{8}$ of the amount attributable to the securities acquired.”

(4) Subparagraph (B) of section 1132(c)(2) of the Reform Act is amended by striking out “November 19, 1978” and inserting in lieu thereof “September 19, 1978”.

26 USC 4980
note.

(5) Section 1132(c) of the Reform Act is amended by adding at the end thereof the following new paragraph:

“(5) SPECIAL RULE FOR EMPLOYEE STOCK OWNERSHIP PLANS.—Section 4980(c)(3) of the Internal Revenue Code of 1986 (as added by subsection (a)) shall apply to reversions occurring after March 31, 1985.”

(6) Section 4980(c)(3) of the 1986 Code is amended by adding at the end thereof the following new subparagraphs:

“(F) NO CREDIT OR DEDUCTION ALLOWED.—No credit or deduction shall be allowed under chapter 1 for any amount transferred to an employee stock ownership plan in a transfer to which this paragraph applies.

“(G) AMOUNT TRANSFERRED TO INCLUDE INCOME THEREON, ETC.—The amount transferred shall not be treated as meeting the requirements of subparagraphs (B) and (C) unless amounts attributable to such amount also meet such requirements.”

(7) Section 4980(c)(3)(C) of the 1986 Code is amended by adding at the end thereof the following new sentence:

“In the case of dividends on securities held in the suspense account, the requirements of this subparagraph are met only if the dividends are allocated to accounts of participants or paid to participants in proportion to their accounts, or used to repay loans used to purchase employer securities.”

(g) AMENDMENTS RELATED TO SECTION 1133 OF THE REFORM ACT.—

Retirement.

(1)(A) Section 4981A of the 1986 Code (as added by section 1133 of the Reform Act) is redesignated as section 4980A.

(B) The table of sections for chapter 43 of the 1986 Code is amended by redesignating section 4981A as section 4980A.

(2) Paragraph (1) of section 4980A(c) of the 1986 Code (as redesignated by paragraph (1)) is amended by striking out “\$112,500 (adjusted at the same time and in the same manner as under section 415(d))” and inserting in lieu thereof “the greater of—

“(A) \$150,000, or

“(B) \$112,500 (adjusted at the same time and in the same manner as under section 415(d)).”

(3) Section 4980A(c)(2) of the 1986 Code (relating to exclusion of certain distributions), as redesignated by paragraph (1), is amended—

(A) by striking out “employee’s” in subparagraph (C) and inserting in lieu thereof “individual’s”, and

(B) by adding after subparagraph (D) the following new subparagraphs:

“(E) Any retirement distribution with respect to an individual of an annuity contract the value of which is not includible in gross income at the time of the distribution (other than distributions under, or proceeds from the sale or exchange of, such contract).

“(F) Any retirement distribution with respect to an individual of—

“(i) excess deferrals (and income allocable thereto) under section 402(g)(2)(A)(ii), or

“(ii) excess contributions (and income allocable thereto) under section 401(k)(8) or 408(d)(4) or excess aggregate contributions (and income allocable thereto) under section 401(m)(6).”

(4)(A) Section 4980A of the 1986 Code, as redesignated by paragraph (1), is amended by adding at the end thereof the following new subsection:

“(f) EXEMPTION OF ACCRUED BENEFITS IN EXCESS OF \$562,500 ON AUGUST 1, 1986.—For purposes of this section—

“(1) IN GENERAL.—If an election is made with respect to an eligible individual to have this subsection apply, the individual’s excess distributions and excess retirement accumulation shall be computed without regard to any distributions or interests attributable to the accrued benefit of the individual as of August 1, 1986.

“(2) REDUCTION IN AMOUNTS WHICH MAY BE RECEIVED WITHOUT TAX.—If this subsection applies to any individual—

“(A) EXCESS DISTRIBUTIONS.—Subsection (c)(1) shall be applied—

“(i) without regard to subparagraph (A), and

“(ii) by reducing (but not below zero) the amount determined under subparagraph (B) thereof by retirement distributions attributable (as determined under rules prescribed by the Secretary) to the individual’s accrued benefit as of August 1, 1986.

“(B) EXCESS RETIREMENT ACCUMULATION.—The amount determined under subsection (d)(3)(B) (without regard to subsection (c)(1)(A)) with respect to such individual shall be reduced (but not below zero) by the present value of the individual’s accrued benefit as of August 1, 1986, which has not been distributed as of the date of death.

“(3) ELIGIBLE INDIVIDUAL.—For purposes of this subsection, the term ‘eligible individual’ means any individual if, on August 1, 1986, the present value of such individual’s interests in qualified employer plans and individual retirement plans exceeded \$562,500.

“(4) CERTAIN AMOUNTS EXCLUDED.—In determining an individual’s accrued benefit for purposes of this subsection, there shall not be taken into account any portion of the accrued benefit—

“(A) payable to an alternate payee pursuant to a qualified domestic relations order (within the meaning of section 414(p)) if includible in income of the alternate payee, or

“(B) attributable to the individual’s investment in the contract (as defined in section 72(f)).

“(5) ELECTION.—An election under paragraph (1) shall be made on an individual’s return of tax imposed by chapter 1 or 11 for a taxable year beginning before January 1, 1989.”

(B) Section 4980A(c) of the 1986 Code, as redesignated by paragraph (1), is amended by striking out paragraph (5).

(5) Section 4980A(d) of the 1986 Code (relating to increase in estate tax if individual dies with excess accumulation), as redesignated by paragraph (1), is amended—

(A) by striking out “section 2010” in paragraph (2) and inserting in lieu thereof “chapter 11”, and

(B) by adding at the end thereof the following new paragraphs:

“(4) RULES FOR COMPUTING EXCESS RETIREMENT ACCUMULATION.—The excess retirement accumulation of an individual shall be computed without regard to—

“(A) any community property law,

“(B) the value of—

“(i) amounts payable to an alternate payee pursuant to a qualified domestic relations order (within the meaning of section 414(p)) if includible in income of the alternate payee, and

“(ii) the individual’s investment in the contract (as defined in section 72(f)), and

“(C) the excess (if any) of—

“(i) any interests which are payable immediately after death, over

“(ii) the value of such interests immediately before death.

“(5) ELECTION BY SPOUSE TO HAVE EXCESS DISTRIBUTION RULE APPLY.—

“(A) IN GENERAL.—If the spouse of an individual is the beneficiary of all of the interests described in paragraph (3)(A), the spouse may elect—

“(i) not to have this subsection apply, and

“(ii) to have this section apply to such interests and any retirement distribution attributable to such interests as if such interests were the spouse’s.

“(B) DE MINIMIS EXCEPTION.—If 1 or more persons other than the spouse are beneficiaries of a de minimis portion of the interests described in paragraph (3)(A)—

“(i) the spouse shall not be treated as failing to meet the requirements of subparagraph (A), and

“(ii) if the spouse makes the election under subparagraph (A), this section shall not apply to such portion or any retirement distribution attributable to such portion.”

(6) Subparagraph (B) of section 4980A(d)(3) of the 1986 Code, as redesignated by paragraph (1), is amended to read as follows:

“(B) the present value (as determined under rules prescribed by the Secretary as of the valuation date prescribed in subparagraph (A)) of a single life annuity with annual payments equal to the limitation of subsection (c) (as in effect for the year in which death occurs and as if the individual had not died).”

(7) Section 2013 of the 1986 Code (relating to credit for tax on prior transfer) is amended by adding at the end thereof the following new subsection:

“(g) TREATMENT OF ADDITIONAL TAX UNDER SECTION 4980A.—For purposes of this section, the estate tax paid shall not include any portion of such tax attributable to section 4980A(d).”

26 USC 4980A
note.

(8) Paragraph (1) of section 1133(c) of the Reform Act is amended by inserting “, other than a distribution with respect to a decedent dying before January 1, 1987” after “1986”.

(9) Section 4980A(d)(3)(A) of the 1986 Code is amended by inserting “(other than as a beneficiary, determined after application of paragraph (5))” after “the individual’s interests”.

(10) Section 691(c)(1) of the 1986 Code is amended by adding at the end thereof the following new subparagraph:

“(C) **EXCESS RETIREMENT ACCUMULATION TAX.**—For purposes of this subsection, no deduction shall be allowed for the portion of the estate tax attributable to the increase in such tax under section 4980A(d).”

(11) Section 2053(c)(1)(B) of the 1986 Code is amended by adding at the end thereof the following new sentence: “This subparagraph shall not apply to any increase in the tax imposed by this chapter by reason of section 4980A(d).”

(12) Section 6018(a) of the 1986 Code is amended by adding at the end thereof the following new paragraph:

“(5) **RETURN REQUIRED IF EXCESS RETIREMENT ACCUMULATION TAX.**—The executor shall make a return with respect to the estate tax imposed by subtitle B in any case where such tax is increased by reason of section 4980A(d).”

(h) **AMENDMENTS RELATED TO SECTION 1134 OF THE REFORM ACT.**—

(1) Section 72(p)(3)(A) of the 1986 Code (relating to denial of interest deductions in certain cases) is amended by inserting “to which paragraph (1) does not apply by reason of paragraph (2) during the period” after “loan”.

(2) Subparagraph (B) of section 72(p)(3) of the 1986 Code is amended to read as follows:

“(B) **PERIOD TO WHICH SUBPARAGRAPH (A) APPLIES.**—For purposes of subparagraph (A), the period described in this subparagraph is the period—

“(i) on or after the 1st day on which the individual to whom the loan is made is a key employee (as defined in section 416(i)), or

“(ii) such loan is secured by amounts attributable to elective deferrals described in subparagraph (A) or (C) of section 402(g)(3).”

(i) **AMENDMENTS RELATED TO SECTION 1135 OF THE REFORM ACT.**—

(1) Subparagraph (A) of section 72(u)(1) of the 1986 Code (relating to annuity contracts not held by natural persons) is amended by inserting “(other than subchapter L)” after “subtitle”.

(2) Subparagraph (D) of section 72(u)(3) of the 1986 Code (relating to exceptions) is amended by striking out “until such time as the employee separates from service” and inserting in lieu thereof “until all amounts under such contract are distributed to the employee for whom such contract was purchased or the employee’s beneficiary”.

(3) Subparagraphs (D) and (E) of section 72(u)(3) of the 1986 Code (relating to exceptions) are each amended by striking out “which”.

(4) Paragraph (4) of section 72(u) of the 1986 Code is amended by striking out “and” at the end of subparagraph (A), by striking out the period at the end of subparagraph (B) and inserting in lieu thereof “, and”, and by adding at the end thereof the following new subparagraph:

“(C) which provides for a series of substantially equal periodic payments (to be made not less frequently than annually) during the annuity period.”

(j) AMENDMENTS RELATED TO SECTION 1136 OF THE REFORM ACT.—
(1) Section 401(a)(27) of the 1986 Code is amended by adding at the end thereof the following new subparagraph:

“(B) PLAN MUST DESIGNATE TYPE.—In the case of a plan which is intended to be a money purchase pension plan or a profit-sharing plan, a trust forming part of such plan shall not constitute a qualified trust under this subsection unless the plan designates such intent at such time and in such manner as the Secretary may prescribe.”

(2) Section 401(a)(27) of the 1986 Code is amended by striking out “(27)” and inserting in lieu thereof:

“(27) DETERMINATIONS AS TO PROFIT-SHARING PLANS.—

“(A) CONTRIBUTIONS NEED NOT BE BASED ON PROFITS.—”

(k) AMENDMENT RELATED TO SECTION 1139 OF THE REFORM ACT.—
Clause (i) of section 1139(d)(2)(A) of the Reform Act is amended by striking out “before January” and inserting in lieu thereof “after January”.

26 USC 411 note.

(l) AMENDMENT RELATED TO SECTION 1145 OF THE REFORM ACT.—
Subparagraph (E) of section 401(a)(11) of the 1986 Code (relating to cross reference) is redesignated as subparagraph (F).

(m) AMENDMENTS RELATED TO SECTION 1147 OF THE REFORM ACT.—

(1) Subparagraph (C) of section 7701(j)(1) of the 1986 Code (relating to tax treatment of Federal Thrift Savings Fund) is amended by inserting “, section 401(k)(4)(B),” after “paragraph (2)”.

(2) Section 8440(a)(3) of title 5, United States Code, is amended by inserting “, 401(k)(4)(B) of such Code,” after “subsection (b)”.

SEC. 1011B. AMENDMENTS RELATED TO SUBTITLES B AND C OF TITLE XI OF THE REFORM ACT.

(a) AMENDMENTS RELATED TO SECTION 1151 OF THE REFORM ACT.—

(1) Paragraph (2) of section 89(a) of the 1986 Code (relating to year of inclusion) is amended to read as follows:

“(2) YEAR OF INCLUSION.—

“(A) IN GENERAL.—Except as provided in subparagraph

(B)—

“(i) any amount included in gross income under paragraph (1) shall be taken into account for the taxable year of the employee with or within which the plan year ends, and

“(ii) any deduction of the employer attributable to such amount shall be allowable for the taxable year of the employer with or within which the plan year ends.

“(B) ELECTION TO DELAY INCLUSION FOR 1 YEAR.—If an employer maintaining a plan with a plan year ending after September 30 and on or before December 31 of a calendar year elects the application of this subparagraph—

“(i) amounts included in gross income under paragraph (1) with respect to employees of such employer shall be taken into account for the taxable year of the employee following the taxable year determined under subparagraph (A), but

“(ii) any deduction of the employer which is attributable to such amounts shall be allowable for the tax-

able year with or within which the plan year following the plan year in which the excess benefits occurred ends."

(2) Paragraph (4) of section 89(b) of the 1986 Code (defining nontaxable benefits) is amended by adding at the end thereof the following new sentence: "Such term includes any group-term life insurance the cost of which is includible in gross income under section 79."

(3) Paragraph (1) of section 89(g) of the 1986 Code (relating to the aggregation of comparable health plans) is amended by adding at the end thereof the following new subparagraph:

"(C) EMPLOYEES COVERED BY MORE THAN 1 PLAN.—The Secretary may provide that 2 or more plans providing benefits to the same participant shall be treated as 1 plan for purposes of applying subsections (d)(1)(B), (d)(2), and (f)."

(4) Subparagraph (B) of section 89(g)(2) of the 1986 Code (relating to sworn statements) is amended by adding at the end thereof the following new sentence: "No statement shall be required under clause (ii) with respect to any individual eligible for coverage at no cost under a health plan which provides core health benefits and with respect to whom the employee does not elect any core health coverage from the employer."

(5) Subparagraph (D) of section 89(g)(2) of the 1986 Code is amended by striking out "under such plan" and inserting in lieu thereof "under such plans".

(6) Section 89(g) of the 1986 Code is amended by striking out paragraph (6).

(7) Subparagraph (A) of section 89(h)(1) of the 1986 Code (relating to excluded employees) is amended by inserting "(or 1st day of a period of less than 31 days specified by the plan)" after "month".

(8) Section 89(j) of the 1986 Code (relating to other definitions and special rules) is amended by adding at the end thereof the following new paragraph:

"(12) EMPLOYERS WITH ONLY HIGHLY COMPENSATED EMPLOYEES.—The requirements of subsections (d) and (e) shall not apply to any statutory employee benefit plan for any year for which the only employees of the employer maintaining the plan are highly compensated employees."

(9) Section 89(k) of the 1986 Code (relating to requirement that plan be in writing) is amended by adding at the end thereof the following new paragraph:

"(5) LOSS OF EXEMPTION FOR CERTAIN PLANS.—If a plan described in paragraph (2)(E) fails to meet the requirements of paragraph (1), the organization which is part of such plan shall not be exempt from tax under section 501(a)."

(10) Section 6652(k)(2)(B) of the 1986 Code (relating to amount of additional tax) is amended by striking out "subsection (g)(3)" and inserting in lieu thereof "subsection (g)(3)(C)(i)".

(11)(A) Subsection (a) of section 125 of the 1986 Code is amended to read as follows:

"(a) GENERAL RULE.—Except as provided in subsection (b), no amount shall be included in the gross income of a participant in a cafeteria plan solely because, under the plan, the participant may choose among the benefits of the plan."

(B) Paragraph (1) of section 125(b) of the 1986 Code is amended by striking out "A plan shall be treated as failing to meet the

requirements of this subsection" and inserting in lieu thereof "In the case of a highly compensated employee, subsection (a) shall not apply to any benefit attributable to a plan year".

(C) Paragraph (2) of section 125(b) of the 1986 Code is amended by striking out "a plan shall be treated as failing to meet the requirements of this subsection" and inserting in lieu thereof "subsection (a) shall not apply to any plan year".

(12) Subparagraph (B) of section 125(c)(1) of the 1986 Code (defining cafeteria plans) is amended to read as follows:

"(B) the participant may choose among 2 or more benefits consisting of cash and qualified benefits."

(13)(A) Paragraph (1) of section 125(e) of the 1986 Code (defining qualified benefits) is amended by inserting "and without regard to section 89(a)" after "subsection (a)".

(B) The last sentence of section 125(b)(2) of the 1986 Code is amended to read as follows: "For purposes of the preceding sentence, qualified benefits shall not include benefits which (without regard to this paragraph) are includible in gross income."

(14) Subsection (d) of section 129 of the 1986 Code is amended by redesignating paragraph (8) as paragraph (7).

(15) Paragraph (7) of section 129(d) of the 1986 Code (as so redesignated) is amended—

(A) by inserting "under all plans of the employer" after "employees" the 2nd and 3rd time it appears in subparagraph (A),

(B) by striking out "there shall be disregarded" in subparagraph (B) and inserting in lieu thereof "a plan may disregard", and

(C) by striking out "415(q)(7)" in subparagraph (B) and inserting in lieu thereof "414(q)(7)".

(16) Section 414(m)(4) of the 1986 Code is amended by inserting "and" at the end of subparagraph (A), by striking out the comma at the end of subparagraph (B) and inserting in lieu thereof a period, and by striking out subparagraphs (C) and (D).

(17) Paragraph (2) of section 414(t) of the 1986 Code is amended by striking out "132," and inserting in lieu thereof "132, 162(i)(2), 162(k)".

(18) Paragraph (6) of section 129(e) of the 1986 Code is amended by striking out "of subsection (d)" and inserting in lieu thereof "of subsection (d) (other than paragraphs (4) and (7) thereof)".

(19) Subparagraph (C) of section 414(n)(3) of the 1986 Code is amended by striking out "132," and inserting in lieu thereof "132, 162(i)(2), 162(k)".

(20) Section 414(t)(1) of the 1986 Code (relating to application of controlled group rules to certain employees) is amended by striking out "of section 414" each place it appears.

(21) Section 89(j)(6) of the 1986 Code is amended by striking out "described in subparagraph (A), (B), or (C) of subsection (i)(2)".

(22)(A) Section 3121 of the 1986 Code (relating to definitions) is amended by adding at the end thereof the following new subsection:

"(x) BENEFITS PROVIDED UNDER CERTAIN EMPLOYEE BENEFIT PLANS.—Notwithstanding any paragraph of subsection (a) (other

than paragraph (1)), the term 'wages' shall include any amount which is includible in gross income by reason of section 89."

(B) Section 3231(e) of the 1986 Code (defining compensation) is amended by adding at the end thereof the following new paragraph:

"(8) BENEFITS PROVIDED UNDER CERTAIN EMPLOYEE BENEFIT PLANS.—Notwithstanding any other paragraph of this subsection (other than paragraph (2)), the term 'compensation' shall include any amount which is includible in gross income by reason of section 89."

(C) Section 3306 of the 1986 Code (relating to definitions) is amended by adding at the end thereof the following new subsection:

"(t) BENEFITS PROVIDED UNDER CERTAIN EMPLOYEE BENEFIT PLANS.—Notwithstanding any paragraph of subsection (b) (other than paragraph (1)), the term 'wages' shall include any amount which is includible in gross income by reason of section 89."

(D) Section 3401 of the 1986 Code (relating to definitions) is amended by adding at the end thereof the following new subsection:

"(g) BENEFITS PROVIDED UNDER CERTAIN EMPLOYEE BENEFIT PLANS.—Notwithstanding any paragraph of subsection (a), the term 'wages' shall include any amount which is includible in gross income by reason of section 89."

(E) The third to last sentence of section 209 of the Social Security Act is amended—

(i) by striking out the period at the end of clause (2) and inserting in lieu thereof "or", and

(ii) by inserting after clause (2) the following new clause:

"(3) Any amount required to be included in gross income under section 89 of the Internal Revenue Code of 1986."

(F) The amendments made by this paragraph shall not apply to any individual who separated from service with the employer before January 1, 1989.

(23)(A) Sections 3121(a)(5)(G) and 3306(b)(5)(G) of the 1986 Code are each amended by inserting "if such payment would not be treated as wages without regard to such plan and it is reasonable to believe that (if section 125 applied for purposes of this section) section 125 would not treat any wages as constructively received" after "section 125".

(B) Section 209(e)(9) of the Social Security Act is amended by inserting "if such payment would not be treated as wages without regard to such plan and it is reasonable to believe that (if section 125 applied for purposes of this section) section 125 would not treat any wages as constructively received" after "1986".

(24) Section 1151(h)(3) of the Reform Act is amended by striking out "Section 6039B(c)" and inserting in lieu thereof "Section 6039D(c)".

(25) Paragraph (1) of section 1151(k) of the Reform Act is amended by adding at the end thereof the following new sentence: "Notwithstanding the preceding sentence, the amendments made by subsections (e)(1) and (i)(3)(C) shall, to the extent they relate to sections 106, 162(i)(2), and 162(k) of the Internal Revenue Code of 1986, apply to years beginning after 1986."

(26) Section 1151(k) of the Reform Act is amended by adding at the end thereof the following new paragraph:

42 USC 409.

26 USC 3121
note.

Wages.

26 USC 6039B,
6039D.

26 USC 89 note.

“(6) CERTAIN PLANS MAINTAINED BY EDUCATIONAL INSTITUTIONS.—If an educational organization described in section 170(b)(1)(A)(ii) of the Internal Revenue Code of 1986 makes an election under this paragraph with respect to a plan described in section 125(c)(2)(C) of such Code, the amendments made by this section shall apply with respect to such plan for plan years beginning after the date of the enactment of this Act.”

(27)(A) Section 4976 of the 1986 Code is amended by redesignating subsection (c) as subsection (d) and by inserting after subsection (b) the following new subsection:

“(c) TAX ON FUNDED WELFARE BENEFIT FUNDS WHICH INCLUDE DISCRIMINATORY EMPLOYEE BENEFIT PLAN.—

“(1) IN GENERAL.—If—

“(A) an employer maintains a welfare benefit fund, and

“(B) a discriminatory employee benefit plan (within the meaning of section 89) is part of such fund for any plan year,

there is hereby imposed on such employer for the taxable year with or within which the plan year ends a tax in the amount determined under paragraph (2).

“(2) AMOUNT OF TAX.—The amount of the tax under paragraph (1) shall be equal to the excess (if any) of—

“(A) the product of the highest rate of tax imposed by section 11, multiplied by the lesser of—

“(i) the aggregate excess benefits (as defined in section 89) for such plan year, or

“(ii) the taxable income of the fund for such plan year, over

“(B) the amount of tax imposed by chapter 1 on such fund for such plan year.”

(B) Section 4976(b) of the 1986 Code is amended by adding at the end thereof the following new paragraph:

“(5) LIMITATION IN CASE OF BENEFITS TO WHICH SECTION 89 APPLIES.—If section 89 applies to any post-retirement medical benefit or life insurance benefit provided by a fund, the amount of the disqualified benefit under paragraph (1)(B) with respect to such benefit shall not exceed the aggregate excess benefits provided by the plan (as determined under section 89).”

(C) Section 505(a)(1) of the 1986 Code is amended by adding at the end thereof the following new subsection: “This paragraph shall not apply to any organization by reason of a failure to meet the requirements of subsection (b) with respect to a benefit to which section 89 applies.”

(28) Section 89(h)(4) of the 1986 Code is amended by striking out “subsection (h)(5)” and inserting in lieu thereof “subsection (g)(5)”.

(29) Section 89(k)(1) of the 1986 Code is amended by striking out the last sentence and inserting in lieu thereof the following new sentences:

“Such inclusion shall be coordinated (under regulations prescribed by the Secretary) with any inclusion under subsection (a) with respect to such plan. In the case of a statutory employee benefit plan described in subsection (i)(1)(B), any amount required to be included in gross income under this subsection shall be included in the gross income of the beneficiary.”

(30) Section 129(d)(1)(B) of the 1986 Code is amended by striking out “(6)” and inserting in lieu thereof “(7)”.

(31)(A) Section 129(d) of the 1986 Code is amended—

- (i) by striking out the last sentence of paragraph (3), and
- (ii) by inserting at the end thereof the following new paragraph:

“(8) EXCLUDED EMPLOYEES.—For purposes of paragraphs (2), (3), and (7), there shall be excluded from consideration employees who are excluded from consideration under section 89(h).”

(B) Sections 117(d)(4), 120(c)(2), 127(b)(2), 132(h)(1), and 505(b)(2) of the 1986 Code are each amended—

- (i) by striking out “may” the first place it appears and inserting in lieu thereof “shall”, and
- (ii) by striking out “may be” the second place it appears and inserting in lieu thereof “are”.

(32) Section 505(b) of the 1986 Code is amended by adding at the end thereof the following new paragraph:

“(7) \$200,000 COMPENSATION LIMIT.—A plan shall not be treated as meeting the requirements of this subsection unless under the plan the annual compensation of each employee taken into account for any year does not exceed \$200,000. The Secretary shall adjust the \$200,000 amount at the same time and in the same manner as under section 415(d).”

(33) Section 3401(a) of the 1986 Code is amended by inserting “or” at the end of paragraph (18), by striking out paragraph (19), and by redesignating paragraph (20) as paragraph (19).

(34) Section 89(l)(2) of the 1986 Code is amended by striking out “6652(l)” and inserting in lieu thereof “6652(k)”.

(b) AMENDMENTS RELATED TO SECTION 1161 OF THE REFORM ACT.—

(1) Section 162(m) of the 1986 Code (relating to special rules for health insurance costs of self-employed individuals) is amended by redesignating paragraph (4) as paragraph (5) and by inserting after paragraph (3) the following new paragraph:

“(4) DEDUCTION NOT ALLOWED FOR SELF-EMPLOYMENT TAX PURPOSES.—The deduction allowable by reason of this subsection shall not be taken into account in determining an individual's net earnings from self-employment (within the meaning of section 1402(a)) for purposes of chapter 2.”

(2) Section 162(m) of the 1986 Code (relating to cross reference) as redesignated by section 1161(a) of the Reform Act, is redesignated as subsection (n).

(3) Section 162(m)(2)(A) of the 1986 Code is amended by inserting: “derived by the taxpayer from the trade or business with respect to which the plan providing the medical care coverage is established” after “401(c)”.

(4) Section 211(a) of the Social Security Act is amended by inserting after paragraph (13) the following new paragraph:

“(14) The deduction under section 162(m) (relating to health insurance costs of self-employed individuals) shall not be allowed.”

(c) AMENDMENTS RELATED TO SECTION 1163 OF THE REFORM ACT.—
(1) Paragraph (8) of section 129(e) of the 1986 Code (relating to treatment of onsite facilities) is amended—

(A) by inserting “maintained by an employer” after “onsite facility”,

(B) by inserting “of dependent care assistance provided to an employee” after “the amount”,

(C) by inserting “of the facility by a dependent of the employee” after “utilization” in subparagraph (A), and

(D) by inserting "with respect to such dependent" after "provided" in subparagraph (B).

(2)(A) Paragraph (2) of section 129(a) of the 1986 Code is amended to read as follows:

"(2) LIMITATION OF EXCLUSION.—

"(A) IN GENERAL.—The amount which may be excluded under paragraph (1) for dependent care assistance with respect to dependent care services provided during a taxable year shall not exceed \$5,000 (\$2,500 in the case of a separate return by a married individual).

"(B) YEAR OF INCLUSION.—The amount of any excess under subparagraph (A) shall be included in gross income in the taxable year in which the dependent care services were provided (even if payment of dependent care assistance for such services occurs in a subsequent taxable year).

"(C) MARITAL STATUS.—For purposes of this paragraph, marital status shall be determined under the rules of paragraphs (3) and (4) of section 21(e)."

(B) Section 6051(a) of the 1986 Code is amended by striking out the period at the end of paragraph (8) and inserting in lieu thereof ", and", and by adding at the end thereof the following new paragraph:

"(9) the total amount incurred for dependent care assistance with respect to such employee under a dependent care assistance program described in section 129(d)."

(C)(i) Except as provided in this subparagraph, the amendments made by this paragraph shall apply to taxable years beginning after December 31, 1987.

(ii) A taxpayer may elect to have the amendment made by subparagraph (A) apply to taxable years beginning in 1987.

(iii) In the case of a taxpayer not making an election under clause (ii), any dependent care assistance provided in a taxable year beginning in 1987 with respect to which reimbursement was not received in such taxable year shall be treated as provided in the taxpayer's first taxable year beginning after December 31, 1987.

(d) AMENDMENT RELATED TO SECTION 1164 OF THE REFORM ACT.—Section 119(d)(2) of the 1986 Code is amended—

(1) by striking out "(as of the close of the calendar year in which the taxable year begins)" in subparagraph (A)(i), and

(2) by adding at the end thereof the following:
"The appraised value under subparagraph (A)(i) shall be determined as of the close of the calendar year in which the taxable year begins, or, in the case of a rental period not greater than 1 year, at any time during the calendar year in which such period begins."

(e) AMENDMENTS RELATED TO SECTION 1166 OF THE REFORM ACT.—Section 7701(a)(20) of the 1986 Code (defining employee) is amended—

(1) by striking out "106, and 125" and inserting in lieu thereof "and 106", and

(2) by inserting "and for purposes of applying section 125 with respect to cafeteria plans," before "the term".

(f) AMENDMENTS RELATED TO SECTION 1168 OF THE REFORM ACT.—

(1) Paragraph (1) of section 134(b) of the 1986 Code is amended by striking out "or regulation thereunder" and inserting in lieu thereof ", regulation, or administrative practice".

(2)(A) Section 134(b)(1) of the 1986 Code is amended by inserting “(other than personal use of a vehicle)” after “in-kind benefit”.

26 USC 134 note.

(B) The amendment made by subparagraph (A) shall apply to taxable years beginning after December 31, 1986.

(3) Section 134(b)(3)(A) of the 1986 Code is amended by striking out “under any provision of law or regulation described in paragraph (1)”.

26 USC 134 note.

(4) Section 1168(c) of the Reform Act is amended by striking out “1986” and inserting in lieu thereof “1984”.

(g) AMENDMENTS RELATED TO SECTION 1172 OF THE REFORM ACT.—

26 USC 409.

(1) Section 1172(b)(1)(A) of the Reform Act is amended by inserting “each place it appears” before the comma.

(2) Paragraphs (2) and (3) of section 409(n) of the 1986 Code (relating to securities received in certain transactions) is amended by inserting “or section 2057” after “section 1042” each place it appears.

(3) Paragraph (1) of section 2057(b) of the 1986 Code (relating to qualified sale) is amended by striking out “is”.

Loans.

(h) AMENDMENTS RELATED TO SECTION 1173 OF THE REFORM ACT.—

(1) Section 133 of the 1986 Code (relating to exclusion of interest on securities acquisition loans) is amended by adding at the end thereof the following new subsection:

“(e) PERIOD TO WHICH INTEREST EXCLUSION APPLIES.—

“(1) IN GENERAL.—In the case of—

“(A) an original securities acquisition loan, and

“(B) any securities acquisition loan (or series of such loans) used to refinance the original securities acquisition loan,

subsection (a) shall apply only to interest accruing during the excludable period with respect to the original securities acquisition loan.

“(2) EXCLUDABLE PERIOD.—For purposes of this subsection, the term ‘excludable period’ means, with respect to any original securities acquisition loan—

“(A) IN GENERAL.—The 7-year period beginning on the date of such loan.

“(B) LOANS DESCRIBED IN SUBSECTION (b)(1)(A).—If the term of an original securities acquisition loan described in subsection (b)(1)(A) is greater than 7 years, the term of such loan. This subparagraph shall not apply to a loan described in subsection (b)(3)(B).

“(3) ORIGINAL SECURITIES ACQUISITION LOAN.—For the purposes of this subsection, the term ‘original securities acquisition loan’ means a securities acquisition loan described in subparagraph (A) or (B) of subsection (b)(1).”

(2)(A) Section 133(b) of the 1986 Code (defining securities acquisition loan) is amended—

(i) by striking out “or are used to refinance such a loan,” in paragraph (1)(A),

(ii) by striking out “, except that this subparagraph shall not apply to any loan the commitment period of which exceeds 7 years” in paragraph (1)(B), and

(iii) by adding at the end thereof the following new paragraph:

“(5) TREATMENT OF REFINANCINGS.—The term ‘securities acquisition loan’ shall include any loan which—

“(A) is (or is part of a series of loans) used to refinance a loan described in subparagraph (A) or (B) of paragraph (1), and

“(B) meets the requirements of paragraphs (2) and (3).”

(B) Subparagraph (B) of section 133(b)(3) of the 1986 Code is amended to read as follows:

“(B) repayment terms providing for more rapid repayment of principal or interest on such loan, but only if allocations under the plan attributable to such repayment do not discriminate in favor of highly compensated employees (within the meaning of section 414(q)).”

(3) Section 404(k) of the 1986 Code is amended—

(A) by inserting “(whether or not allocated to participants)” after “employer securities” in paragraph (2)(C), and

(B) by adding at the end thereof the following new sentence: “Paragraph (2)(C) shall not apply to dividends from employer securities which are allocated to any participant unless the plan provides that employer securities with a fair market value not less than the amount of such dividends are allocated to such participant for the year which (but for paragraph (2)(C)) such dividends would have been allocated to such participant.”

(4) Subparagraph (C) of section 852(b)(5) of the 1986 Code (relating to interest on certain loans used to acquire employer securities) is amended by striking out “paragraph” and inserting in lieu thereof “section”.

(5)(A) The amendments made by paragraphs (1) and (2) shall apply to—

26 USC 133 note.

(i) any loan used to acquire employer securities after July 18, 1984, and

(ii) loans made after July 18, 1984, which were used (or were part of a series of loans used) to refinance any loan which—

(I) was used to acquire employer securities after May 23, 1984 (July 18, 1984, in the case of a loan described in section 133(b)(3)(B) of the Internal Revenue Code of 1986), and

(II) met the requirements of section 133 (other than subsection (b)(2) thereof) of such Code as in effect as of the later of the date on which the loan was made, or July 19, 1984.

In no event shall such amendments apply to any loan described in section 133(b)(1)(B) of such Code which is made before October 22, 1986 (or loan used, or part of a series of loans used, to refinance such a loan).

(B) Subparagraph (B) of section 1173(c)(2) of the Reform Act is amended to read as follows:

26 USC 133 note.

“(B) Section 133(b)(1)(A) of the Internal Revenue Code of 1986, as amended by subsection (b)(2), shall apply to any loan used (or part of a series of loans used) to refinance a loan which—

“(i) was used to acquire employer securities after May 23, 1984, and

“(ii) met the requirements of section 133 of the Internal Revenue Code of 1986 as in effect as of the later of—

“(I) the date on which the loan was made, or

“(II) July 19, 1984.”

(6) Section 404(k) of the 1986 Code is amended by striking out “merely by reason of any distribution” in the third sentence and inserting in lieu thereof “or as engaging in a prohibited transaction for purposes of section 4975(d)(3) merely by reason of any distribution or payment”.

(i) AMENDMENTS RELATED TO SECTION 1174 OF THE REFORM ACT.—

(1) Clause (ii) of section 409(o)(1)(A) of the 1986 Code (relating to distribution requirement) is amended by striking out “such year” and inserting in lieu thereof “distribution is required to begin under this clause”.

26 USC 409 note.

(2) Section 1174(a)(2) of the Reform Act is amended by striking out “plan terminations” and inserting in lieu thereof “distributions”.

(3) Section 409(o)(1)(A) of the 1986 Code is amended by striking out “unless the participant otherwise elects” and inserting in lieu thereof “if the participant and, if applicable pursuant to sections 401 (a)(11) and 417, with the consent of the participant’s spouse elects”.

(j) AMENDMENTS RELATED TO SECTION 1175 OF THE REFORM ACT.—

(1) Subclause (II) of section 401(a)(28)(B) of the 1986 Code (relating to method of meeting requirements) is amended by inserting “and within 90 days after the period during which the election may be made, the plan invests the portion of the participant’s account covered by the election in accordance with such election” after “clause (i)”.

(2) Clause (iv) of section 401(a)(28)(B) of the 1986 Code is amended to read as follows:

“(iv) QUALIFIED ELECTION PERIOD.—For purposes of this subparagraph, the term ‘qualified election period’ means the 6-plan-year period beginning with the later of—

“(I) the 1st plan year in which the individual first became a qualified participant, or

“(II) the 1st plan year beginning after December 31, 1986.

For purposes of the preceding sentence, an employer may elect to treat an individual first becoming a qualified participant in the 1st plan year beginning in 1987 as having become a participant in the 1st plan year beginning in 1988.”

(3) The last sentence of section 409(d) of the 1986 Code (relating to employer securities must stay in the plan) is amended by inserting “or to any distribution or reinvestment required under section 401(a)(28)” after “section 401(a)(9)”.

(4) Section 4978(d) of the 1986 Code (relating to section not to apply to certain dispositions) is amended by adding at the end thereof the following new paragraph:

“(4) DISPOSITIONS TO MEET DIVERSIFICATION REQUIREMENTS.—This section shall not apply to any disposition of qualified securities which is required under section 401(a)(28).”

(5) Section 409(h) of the 1986 Code (relating to right to demand employer securities; put option) is amended by adding at the end thereof the following new paragraph:

“(7) EXCEPTION WHERE EMPLOYEE ELECTED DIVERSIFICATION.—Paragraph (1)(A) shall not apply with respect to the portion of

the participant's account which the employee elected to have reinvested under section 401(a)(28)(B)."

(6) Section 401(a)(28)(B) of the 1986 Code is amended by adding at the end thereof the following new clause:

"(v) COORDINATION WITH DISTRIBUTION RULES.—Any distribution required by this subparagraph shall not be taken into account in determining whether—

"(I) a subsequent distribution is a lump-sum distribution under section 402(e)(4)(A), or

"(II) section 402(a)(5)(D)(iii) applies to a subsequent distribution."

(k) AMENDMENTS RELATED TO SECTION 1176 OF THE REFORM ACT.—

(1) Section 401(a)(22) of the 1986 Code is amended by striking out "is not publicly traded" each place it appears and inserting in lieu thereof "is not readily tradable on an established market".

(2) Section 401(a)(22) of the 1986 Code is amended by adding at the end thereof the following new sentence: "For purposes of the preceding sentence, subsections (b), (c), (m), and (o) of section 414 shall not apply except for determining whether stock of the employer is not readily tradable on an established market."

(3) Section 409(l)(4) of the 1986 Code (relating to nonvoting common stock may be acquired in certain cases), as added by section 1176(b) of the Reform Act, is redesignated as paragraph (5).

(l) AMENDMENTS RELATED TO SECTION 1177 OF THE REFORM ACT.—

(1) Paragraph (2) of section 1177(b) of the Reform Act is amended by striking out "section 143(d)(3)(C)" and inserting in lieu thereof "section 146(d)(3)(C)".

26 USC 38 note.

(2) Subsection (b) of section 1177 of the Reform Act is amended by striking out "made by this subtitle" and inserting in lieu thereof "made by section 1175".

(3) If any newspaper corporation described in section 1177(b) of the Reform Act, as amended by this subsection, pays in cash a dividend within 60 days after the date of the enactment of this Act to the corporation's employee stock ownership plans and if a corporate resolution declaring such dividend was adopted before November 30, 1987, and such resolution specifies that such dividend shall be contingent upon passage by the Congress of technical corrections, then such dividend (to the extent the aggregate amount so paid does not exceed \$3,500,000) shall be treated as if it had been declared and paid in 1987 for all purposes of the Internal Revenue Code of 1986.

Newspapers.
26 USC 38 note.

SEC. 1012. AMENDMENTS RELATED TO TITLE XII OF THE REFORM ACT.

Corporations.

(a) AMENDMENTS RELATED TO SECTION 1201 OF THE REFORM ACT.—

(1)(A) Subparagraph (C) of section 904(d)(2) of the 1986 Code is amended to read as follows:

"(C) FINANCIAL SERVICES INCOME.—

"(i) IN GENERAL.—Except as otherwise provided in this subparagraph, the term 'financial services income' means any income which is received or accrued by any person predominantly engaged in the active conduct of a banking, insurance, financing, or similar business, and which is—

"(I) described in clause (ii),

“(II) passive income (determined without regard to subclause (I) of subparagraph (A)(iii)), or

“(III) export financing interest which (but for subparagraph (B)(ii)) would be high withholding tax interest.

“(ii) GENERAL DESCRIPTION OF FINANCIAL SERVICES INCOME.—Income is described in this clause if such income is—

“(I) derived in the active conduct of a banking, financing, or similar business,

“(II) derived from the investment by an insurance company of its unearned premiums or reserves ordinary and necessary for the proper conduct of its insurance business, or

“(III) of a kind which would be insurance income as defined in section 953(a) determined without regard to those provisions of paragraph (1)(A) of such section which limit insurance income to income from countries other than the country in which the corporation was created or organized.

“(iii) EXCEPTIONS.—The term ‘financial services income’ does not include—

“(I) any high withholding tax interest,

“(II) any dividend from a noncontrolled section 902 corporation, and

“(III) any export financing interest not described in clause (i)(III).”

(B) Clause (i) of section 864(d)(5)(A) of the 1986 Code is amended by striking out “(C)(iii)” and inserting in lieu thereof “(C)(iii)(III)”.

(2) Subparagraph (D) of section 904(d)(2) of the 1986 Code is amended by adding at the end thereof the following new sentence: “Such term does not include any dividend from a noncontrolled section 902 corporation and does not include any financial services income.”

(3) Paragraph (3) of section 904(d) of the 1986 Code is amended by adding at the end thereof the following new subparagraph:

“(H) EXCEPTION FOR CERTAIN HIGH WITHHOLDING TAX INTEREST.—This paragraph shall not apply to any amount which—

“(i) without regard to this paragraph, is high withholding tax interest (including any amount treated as high withholding tax interest under paragraph (2)(B)(iii)), and

“(ii) would (but for this subparagraph) be treated as financial services income under this paragraph.

The amount to which this paragraph does not apply by reason of the preceding sentence shall not exceed the interest or equivalent income of the controlled foreign corporation taken into account in determining financial services income without regard to this subparagraph.”

(4) Subparagraph (E) of section 904(d)(3) of the 1986 Code is amended—

(A) by striking out the first sentence and inserting in lieu thereof the following: “If a controlled foreign corporation meets the requirements of section 954(b)(3)(A) (relating to de minimis rule) for any taxable year, for purposes of this

paragraph, none of its foreign base company income (as defined in section 954(a) without regard to section 954(b)(5)) and none of its gross insurance income (as defined in section 954(b)(3)(C)) for such taxable year shall be treated as income in a separate category, except that this sentence shall not apply to any income which (without regard to this sentence) would be treated as financial services income.", and

(B) by striking out "income (other than high withholding tax interest and dividends from a noncontrolled section 902 corporation)" and inserting in lieu thereof "passive income".

(5) Paragraph (2) of section 1201(e) of the Reform Act is amended by adding at the end thereof the following new subparagraph:

26 USC 904 note.

"(J) TREATMENT OF AFFILIATED GROUP FILING CONSOLIDATED RETURN.—For purposes of this paragraph, all members of an affiliated group of corporations filing a consolidated return shall be treated as 1 corporation."

(6) Subparagraph (A) of section 904(d)(2) of the 1986 Code is amended—

(A) by striking out "The term" in clause (ii) and inserting in lieu thereof "Except as provided in clause (iii), the term", and

(B) by adding at the end thereof the following new clause:

"(iv) CLARIFICATION OF APPLICATION OF SECTION 864(d)(6).—In determining whether any income is of a kind which would be foreign personal holding company income, the rules of section 864(d)(6) shall apply only in the case of income of a controlled foreign corporation."

(7) Subparagraph (F) of section 904(d)(3) of the 1986 Code is amended to read as follows:

"(F) SEPARATE CATEGORY.—For purposes of this paragraph—

"(i) IN GENERAL.—Except as provided in clause (ii), the term 'separate category' means any category of income described in subparagraph (A), (B), (C), (D), or (E) of paragraph (1).

"(ii) COORDINATION WITH HIGH-TAXED INCOME PROVISIONS.—

"(I) In determining whether any income of a controlled foreign corporation is in a separate category, subclause (III) of paragraph (2)(A)(iii) shall not apply.

"(II) Any income of the taxpayer which is treated as income in a separate category under this paragraph shall be so treated notwithstanding any provision of paragraph (2); except that the determination of whether any amount is high-taxed income shall be made after the application of this paragraph."

(8) Clause (iii) of section 904(d)(2)(B) of the 1986 Code is amended to read as follows:

"(iii) REGULATIONS.—The Secretary may by regulations provide that—

"(I) amounts (not otherwise high withholding tax interest) shall be treated as high withholding tax

interest where necessary to prevent avoidance of the purposes of this subparagraph, and

“(II) a tax shall not be treated as a withholding tax or other tax imposed on a gross basis if such tax is in the nature of a prepayment of a tax imposed on a net basis.”

(9) Clause (ii) of section 904(d)(2)(I) of the 1986 Code is amended by striking out “except to the extent that” and all that follows down through “and” at the end thereof and inserting in lieu thereof the following:

“except that—

“(I) such taxes shall be treated as paid or accrued with respect to shipping income to the extent the taxpayer establishes to the satisfaction of the Secretary that such taxes were paid or accrued with respect to such income,

“(II) in the case of a person described in subparagraph (C)(i), such taxes shall be treated as paid or accrued with respect to financial services income to the extent the taxpayer establishes to the satisfaction of the Secretary that such taxes were paid or accrued with respect to such income, and

“(III) such taxes shall be treated as paid or accrued with respect to high withholding tax interest to the extent the taxpayer establishes to the satisfaction of the Secretary that such taxes were paid or accrued with respect to such income, and”.

(10) Clause (i) of section 904(d)(2)(E) of the 1986 Code is amended by striking out “during which it was a controlled foreign corporation” and inserting in lieu thereof “during which it was a controlled foreign corporation and except as provided in regulations, the taxpayer was a United States shareholder in such corporation”.

(11) Subparagraph (E) of section 904(d)(1) of the 1986 Code is amended by striking out “dividends” and inserting in lieu thereof “in the case of a corporation, dividends”.

(b) AMENDMENT RELATED TO SECTION 1202 OF THE REFORM ACT.—

(1) Paragraph (7) of section 902(c) of the 1986 Code is amended—

(A) by striking out “secton 960” and inserting in lieu thereof “section 960”, and

(B) by striking out “this section” the second place it appears and inserting in lieu thereof “this section and section 960”.

(2) Paragraph (1) of section 902(c) of the 1986 Code is amended by striking out “sections 964 and 986” and inserting in lieu thereof “sections 964(a) and 986”.

(3) For purposes of sections 902 and 960 of the 1986 Code, the increase in earnings and profits of any foreign corporation under section 1023(e)(3)(C) of the Reform Act shall be taken into account ratably over the 10-year period beginning with the corporation's first taxable year beginning after December 31, 1986.

(4) Paragraph (3) of section 404A(d) of the 1986 Code is amended by striking out “the amount determined” and inserting in lieu thereof “except as provided in regulations, the amount determined”.

(c) AMENDMENT RELATED TO SECTION 1203 OF THE REFORM ACT.— Paragraph (5) of section 904(f) of the 1986 Code is amended by adding at the end thereof the following new subparagraph:

“(F) DISPOSITIONS.—If any separate limitation loss for any taxable year is allocated against any separate limitation income for such taxable year, except to the extent provided in regulations, rules similar to the rules of paragraph (3) shall apply to any disposition of property if gain from such disposition would be in the income category with respect to which there was such separate limitation loss.”

(d) AMENDMENTS RELATED TO SECTION 1211 OF THE REFORM ACT.— (1) Subsection (d) of section 865 of the 1986 Code is amended by adding at the end thereof the following new paragraph:

“(4) COORDINATION WITH SUBSECTION (c).—

“(A) GAIN NOT IN EXCESS OF DEPRECIATION ADJUSTMENTS SOURCED UNDER SUBSECTION (c).—Notwithstanding paragraph (1), any gain from the sale of an intangible shall be sourced under subsection (c) to the extent such gain does not exceed the depreciation adjustments with respect to such intangible.

“(B) SUBSECTION (c) (2) NOT TO APPLY TO INTANGIBLES.— Paragraph (2) of subsection (c) shall not apply to any gain from the sale of an intangible.”

(2) Subparagraph (A) of section 865(e)(1) of the 1986 Code is amended by striking out “(d), or (f)” and inserting in lieu thereof “(d)(1)(B) or (3), or (f)”.

(3)(A) Clause (ii) of section 865(g)(1)(A) of the 1986 Code is amended by striking out “partnership.”

(B) Subsection (h) of section 865 of the 1986 Code is amended by adding at the end thereof the following new paragraph:

“(5) TREATMENT OF PARTNERSHIPS.—In the case of a partnership, except as provided in regulations, this section shall be applied at the partner level.”

(4) Subsection (f) of section 865 of the 1986 Code is amended to read as follows:

“(f) STOCK OF AFFILIATES.—If—

“(1) a United States resident sells stock in an affiliate which is a foreign corporation,

“(2) such sale occurs in a foreign country in which such affiliate is engaged in the active conduct of a trade or business, and

“(3) more than 50 percent of the gross income of such affiliate for the 3-year period ending with the close of such affiliate’s taxable year immediately preceding the year in which the sale occurred was derived from the active conduct of a trade or business in such foreign country,

any gain from such sale shall be sourced outside the United States. For purposes of paragraphs (2) and (3), the United States resident may elect to treat an affiliate and all other corporations which are wholly owned (directly or indirectly) by the affiliate as one corporation.”

(5) Effective with respect to taxable years beginning after December 31, 1987, subparagraph (B) of section 865(e)(2) of the 1986 Code is amended to read as follows:

“(B) EXCEPTION.—Subparagraph (A) shall not apply to any sale of inventory property which is sold for use, disposition, or consumption outside the United States if an office

or other fixed place of business of the taxpayer in a foreign country materially participated in the sale."

(6)(A) Subsection (g) of section 865 of the 1986 Code is amended by adding at the end thereof the following new paragraph:

"(3) SPECIAL RULE FOR CERTAIN STOCK SALES BY RESIDENTS OF PUERTO RICO.—Paragraph (2) shall not apply to the sale by an individual who was a bona fide resident of Puerto Rico during the entire taxable year of stock in a corporation if—

"(A) such corporation is engaged in the active conduct of a trade or business in Puerto Rico, and

"(B) more than 50 percent of its gross income for the 3-year period ending with the close of such corporation's taxable year immediately preceding the year in which such sale occurred was derived from the active conduct of a trade or business in Puerto Rico.

For purposes of the preceding sentence, the taxpayer may elect to treat a corporation and all other corporations which are wholly owned (directly or indirectly) by such corporation as one corporation."

(B) Subsection (i) of section 865 of the 1986 Code is amended by striking out "and" at the end of paragraph (1), by striking out the period at the end of paragraph (2) and inserting in lieu thereof "; and", and by adding at the end thereof the following new paragraph:

"(3) providing that, subject to such conditions (which may include provisions comparable to section 877) as may be provided in such regulations, subsections (e)(1)(B) and (g)(2) shall not apply for purposes of sections 931, 933, and 936."

(7) Subparagraph (B) of section 864(c)(4) of the 1986 Code is amended by striking out "or" at the end of clause (i), by striking out the period at the end of clause (ii) and inserting in lieu thereof "; or", and by adding at the end thereof the following new clause:

"(iii) is derived from the sale or exchange (outside the United States) through such office or other fixed place of business of personal property described in section 1221(1), except that this clause shall not apply if the property is sold or exchanged for use, consumption, or disposition outside the United States and an office or other fixed place of business of the taxpayer in a foreign country participated materially in such sale."

(8) Section 865 of the 1986 Code is amended by redesignating subsections (h), (i), and (j) as subsections (i), (j), and (k), respectively, and by inserting after subsection (g) the following new subsection:

"(h) TREATMENT OF GAINS FROM SALE OF CERTAIN STOCK OR INTANGIBLES AND FROM CERTAIN LIQUIDATIONS.—

"(1) IN GENERAL.—In the case of gain to which this subsection applies—

"(A) such gain shall be sourced outside the United States, but

"(B) subsections (a), (b), and (c) of section 904 and sections 902, 907, and 960 shall be applied separately with respect to such gain.

"(2) GAIN TO WHICH SUBSECTION APPLIES.—This subsection shall apply to—

“(A) GAIN FROM SALE OF CERTAIN STOCK OR INTANGIBLES.—
Any gain—

“(i) which is from the sale of stock in a foreign corporation or an intangible (as defined in subsection (d)(2)) and which would otherwise be sourced in the United States under this section,

“(ii) which, under a treaty obligation of the United States (applied without regard to this section), would be sourced outside the United States, and

“(iii) with respect to which the taxpayer chooses the benefits of this subsection.

“(B) GAIN FROM LIQUIDATION IN POSSESSION.—Any gain which is derived from the receipt of any distribution in liquidation of a corporation—

“(i) which is organized in a possession of the United States, and

“(ii) more than 50 percent of the gross income of which during the 3-taxable year period ending with the close of the taxable year immediately preceding the taxable year in which the distribution is received is from the active conduct of a trade or business in such possession.”

(9) Subparagraph (A) of section 865(e)(1) of the 1986 Code is amended by striking out “outside the United States” the first place it appears and inserting in lieu thereof “in a foreign country”.

(10) Subparagraph (B) of section 864(c)(4) of the 1986 Code is amended—

(A) by striking out “(including any gain or loss realized on the sale or exchange of such property)” in clause (i), and

(B) by striking out “, or gain or loss from the sale or exchange of stock or notes, bonds, or other evidences of indebtedness” in clause (ii).

(11) Clause (i) of section 865(g)(1)(A) of the 1986 Code is amended to read as follows—

“(i) any individual who—

“(I) is a United States citizen or a resident alien and does not have a tax home (as defined in section 911(d)(3)) in a foreign country, or

“(II) is a nonresident alien and has a tax home (as so defined) in the United States, and”.

(12) Paragraph (2) of section 865(d) of the 1986 Code is amended by inserting “franchise,” after “trade brand,”.

(e) AMENDMENTS RELATED TO SECTION 1212 OF THE REFORM ACT.—

(1)(A) Paragraph (3) of section 883(c) of the 1986 Code is amended to read as follows:

“(3) SPECIAL RULES FOR PUBLICLY TRADED CORPORATIONS.—

“(A) EXCEPTION.—Paragraph (1) shall not apply to any corporation which is organized in a foreign country meeting the requirements of paragraph (1) or (2) of subsection (a) (as the case may be) and the stock of which is primarily and regularly traded on an established securities market in such foreign country, another foreign country meeting the requirements of such paragraph, or the United States.

“(B) TREATMENT OF STOCK OWNED BY PUBLICLY TRADED CORPORATION.—Any stock in another corporation which is owned (directly or indirectly) by a corporation meeting the

Aliens.

requirements of subparagraph (A) shall be treated as owned by individuals who are residents of the foreign country in which the corporation meeting the requirements of subparagraph (A) is organized."

(B) Paragraph (1) of section 883(c) of the 1986 Code is amended—

(i) by striking out "Paragraphs (1) and (2) of subsection (a)" and inserting in lieu thereof "Paragraph (1) or (2) of subsection (a) (as the case may be)", and

(ii) by striking out "such paragraphs (1) and (2)" and inserting in lieu thereof "such paragraph".

(2)(A) Paragraphs (1) and (2) of section 883(a) of the 1986 Code are each amended by striking out "to citizens of the United States and".

(B) Paragraphs (1) and (2) of section 872(b) of the 1986 Code are each amended by striking out "to citizens of the United States and to corporations organized in the United States" and inserting in lieu thereof "to individual residents of the United States".

(3)(A) The section heading for section 863 of the 1986 Code is amended to read as follows:

"SEC. 863. SPECIAL RULES FOR DETERMINING SOURCE."

(B) The table of sections for part I of subchapter N of chapter 1 of the 1986 Code is amended by striking out the item relating to section 863 and inserting in lieu thereof the following:

"Sec. 863. Special rules for determining source."

(4) Subsection (c) of section 862 is hereby repealed.

(5) Paragraphs (1) and (2) of section 872(b) of the 1986 Code and paragraphs (1) and (2) of section 883(a) of the 1986 Code are each amended by striking out "operation" and inserting in lieu thereof "international operation".

(6) Paragraph (1) of section 887(b) of the 1986 Code is amended—

(A) by striking out "under section 863(c)" and inserting in lieu thereof "under section 863(c)(2)", and

(B) by adding at the end thereof the following new sentence: "To the extent provided in regulations, such term does not include any income of a kind to which an exemption under paragraph (1) or (2) of section 883(a) would not apply."

(f) **AMENDMENT RELATED TO SECTION 1213 OF THE REFORM ACT.**— Paragraph (2) of section 863(e) of the 1986 Code is amended by striking out "foreign country" each place it appears and inserting in lieu thereof "foreign country (or possession of the United States)".

(g) **AMENDMENTS RELATED TO SECTION 1214 OF THE REFORM ACT.**—

(1)(A) Paragraph (1) of section 1214(d) of the Reform Act is amended to read as follows:

"(1) **IN GENERAL.**—The amendments made by this section shall apply to payments made in a taxable year of the payor beginning after December 31, 1986."

(B) A taxpayer may elect not to have the amendment made by subparagraph (A) apply and to have section 1214(d)(1) of the Reform Act apply as in effect before such amendment. Such election shall be made at such time and in such manner as the Secretary of the Treasury or his delegate may prescribe.

(2) Subparagraph (B) of section 1214(d)(2) of the Reform Act is amended by striking out "section 904(d)(2)(G)" and inserting in lieu thereof "section 904(d)(2)(H)".

(3) Subparagraph (B) of section 861(c)(1) of the 1986 Code is amended—

(A) by striking out "subchapter)" in clause (i) and inserting in lieu thereof "subchapter) or, in the case of a corporation, is attributable to income so derived by a subsidiary of such corporation",

(B) by striking out "or chain of subsidiaries of such corporation" in clause (ii), and

(C) by adding at the end thereof the following new sentence:

"For purposes of this subparagraph, the term 'subsidiary' means any corporation in which the corporation referred to in this subparagraph owns (directly or indirectly) stock meeting the requirements of section 1504(a)(2) (determined by substituting '50 percent' for '80 percent' each place it appears)."

(4) Paragraph (1) of section 2105(b) of the 1986 Code is amended by striking out "section 861(c), if any interest thereon would be treated by reason of section 861(a)(1)(A) as income from sources without the United States" and inserting in lieu thereof "section 871(i)(3), if any interest thereon would not be subject to tax by reason of section 871(i)(1)".

(5) Paragraph (2) of section 864(c) of the 1986 Code is amended by striking out the last sentence.

(6) Paragraph (3) of section 907(c) of the 1986 Code is amended:

(A) by striking out subparagraph (B) and redesignating subparagraphs (C) and (D) as subparagraphs (B) and (C), respectively, and

(B) by striking out "and dividends described in subparagraph (B)".

(7) Subsection (a) of section 1442 of the 1986 Code is amended—

(A) by striking out "and the references in" and inserting in lieu thereof "the references in", and

(B) by inserting before the period at the end thereof the following: ", and the reference in section 1441(c)(10) to section 871(i)(2) shall be treated as referring to section 881(d)".

(h) AMENDMENTS RELATED TO SECTION 1215 OF THE REFORM ACT.—

(1) Paragraph (4) of section 864(e) of the 1986 Code is amended to read as follows:

"(4) BASIS OF STOCK IN NONAFFILIATED 10-PERCENT OWNED CORPORATIONS ADJUSTED FOR EARNINGS AND PROFITS CHANGES.—

"(A) IN GENERAL.—For purposes of allocating and apportioning expenses on the basis of assets, the adjusted basis of any stock in a nonaffiliated 10-percent owned corporation shall be—

"(i) increased by the amount of the earnings and profits of such corporation attributable to such stock and accumulated during the period the taxpayer held such stock, or

"(ii) reduced (but not below zero) by any deficit in earnings and profits of such corporation attributable to such stock for such period.

“(B) NONAFFILIATED 10-PERCENT OWNED CORPORATION.—For purposes of this paragraph, the term ‘nonaffiliated 10-percent owned corporation’ means any corporation if—

“(i) such corporation is not included in the taxpayer’s affiliated group, and

“(ii) members of such affiliated group own 10 percent or more of the total combined voting power of all classes of stock of such corporation entitled to vote.

“(C) EARNINGS AND PROFITS OF LOWER TIER CORPORATIONS TAKEN INTO ACCOUNT.—

“(i) **IN GENERAL.—**If, by reason of holding stock in a nonaffiliated 10-percent owned corporation, the taxpayer is treated under clause (iii) as owning stock in another corporation with respect to which the stock ownership requirements of clause (ii) are met, the adjustment under subparagraph (A) shall include an adjustment for the amount of the earnings and profits (or deficit therein) of such other corporation which are attributable to the stock the taxpayer is so treated as owning and to the period during which the taxpayer is treated as owning such stock.

“(ii) **STOCK OWNERSHIP REQUIREMENTS.—**The stock ownership requirements of this clause are met with respect to any corporation if members of the taxpayer’s affiliated group own (directly or through the application of clause (iii)) 10 percent or more of the total combined voting power of all classes of stock of such corporation entitled to vote.

“(iii) **STOCK OWNED THROUGH ENTITIES.—**For purposes of this subparagraph, stock owned (directly or indirectly) by a corporation, partnership, or trust shall be treated as being owned proportionately by its shareholders, partners, or beneficiaries. Stock considered to be owned by a person by reason of the application of the preceding sentence, shall, for purposes of applying such sentence, be treated as actually owned by such person.

“(D) COORDINATION WITH SUBPART F, ETC.—For purposes of this paragraph, proper adjustment shall be made to the earnings and profits of any corporation to take into account any earnings and profits included in gross income under section 951 or under any other provision of this title and reflected in the adjusted basis of the stock.”

(2)(A) Paragraph (1) of section 864(e) of the 1986 Code is amended by striking out “from sources outside the United States”.

(B) Subsection (h) of section 936 of the 1986 Code is amended by redesignating paragraph (7) as paragraph (8) and by inserting after paragraph (6) the following new paragraph:

“(7) **SECTION 864(e)(1) NOT TO APPLY.—**This subsection shall be applied as if section 864(e)(1) (relating to treatment of affiliated groups) had not been enacted.”

(C) The heading for part I of subchapter N of chapter 1 of the 1986 Code is amended to read as follows:

“PART I—SOURCE RULES AND OTHER GENERAL RULES RELATING TO FOREIGN INCOME”.

(D) The table of parts for subchapter N of chapter 1 of the 1986 Code is amended by striking out the item relating to part I and inserting in lieu thereof the following:

“Part I. Source rules and other general rules relating to foreign income.”

(3) Paragraph (3) of section 864(e) of the 1986 Code is amended by striking out the last sentence and inserting in lieu thereof the following: “A similar rule shall apply in the case of the portion of any dividend (other than a qualifying dividend as defined in section 243(b)) equal to the deduction allowable under section 243 or 245(a) with respect to such dividend and in the case of a like portion of any stock the dividends on which would be so deductible and would not be qualifying dividends (as so defined).”

(4)(A) Paragraph (5) of section 864(e) of the 1986 Code is amended by adding at the end thereof the following new subparagraph:

“(D) TREATMENT OF BANK HOLDING COMPANIES.—To the extent provided in regulations—

“(i) a bank holding company (within the meaning of section 2(a) of the Bank Holding Company Act of 1956), and

“(ii) any subsidiary of a financial institution described in section 581 or 591 or of any bank holding company if such subsidiary is predominantly engaged (directly or indirectly) in the active conduct of a banking, financing, or similar business,

shall be treated as a corporation described in subparagraph (C).”

(B) Subparagraph (B) of section 864(e)(5) of the 1986 Code is amended by adding at the end thereof the following new sentence: “This subparagraph shall not apply for purposes of paragraph (6).”

(5) Paragraph (6) of section 864(e) of the 1986 Code is amended by striking out “directly allocable and apportioned” and inserting in lieu thereof “directly allocable or apportioned”.

(6)(A) Paragraph (7) of section 864(e) of the 1986 Code is amended by striking out “and” at the end of subparagraph (B), by striking out the period at the end of subparagraph (C) and inserting in lieu thereof a comma, and by adding at the end thereof the following new subparagraphs:

“(D) for direct allocation of interest expense in the case of indebtedness resulting in a disallowance under section 246A,

“(E) for appropriate adjustments in the application of paragraph (3) in the case of an insurance company, and

“(F) that this subsection shall not apply for purposes of any provision of this subchapter to the extent the Secretary determines that the application of this subsection for such purposes would not be appropriate.”

(B) Subsection (e) of section 864 of the 1986 Code is amended by striking out “(except as provided in regulations)” in the material preceding paragraph (1).

26 USC 864 note.

(7) Paragraph (2) of section 1215(c) of the Reform Act is amended to read as follows:

“(2) TRANSITIONAL RULES.—

“(A) GENERAL PHASE-IN.—

“(i) IN GENERAL.—In the case of the 1st 3 taxable years of the taxpayer beginning after December 31, 1986, the amendments made by this section shall not apply to interest expenses paid or accrued by the taxpayer during the taxable year with respect to an aggregate amount of indebtedness which does not exceed the general phase-in amount.

“(ii) GENERAL PHASE-IN AMOUNT.—Except as provided in clause (iii), the general phase-in amount for purposes of clause (i) is the applicable percentage (determined under the following table) of the aggregate amount of indebtedness of the taxpayer outstanding on November 16, 1985:

| “In the case of the: | The applicable percentage is: |
|------------------------|-------------------------------|
| 1st taxable year | 75 |
| 2nd taxable year | 50 |
| 3rd taxable year | 25. |

“(iii) LOWER LIMIT WHERE TAXPAYER REDUCES INDEBTEDNESS.—For purposes of applying this subparagraph to interest expenses attributable to any month, the general phase-in amount shall in no event exceed the lowest amount of indebtedness of the taxpayer outstanding as of the close of any preceding month beginning after November 16, 1985. To the extent provided in regulations, the average amount of indebtedness outstanding during any month shall be used (in lieu of the amount outstanding as of the close of such month) for purposes of the preceding sentence.

“(B) CONSOLIDATION RULE NOT TO APPLY TO CERTAIN INTEREST.—

“(i) IN GENERAL.—In the case of the 1st 5 taxable years of the taxpayer beginning after December 31, 1986—

“(I) subparagraph (A) shall not apply for purposes of paragraph (1) of section 864(e) of the Internal Revenue Code of 1986 (as added by this section), but

“(II) such paragraph (1) shall not apply to interest expenses paid or accrued by the taxpayer during the taxable year with respect to an aggregate amount of indebtedness which does not exceed the special phase-in amount.

“(ii) SPECIAL PHASE-IN AMOUNT.—The special phase-in amount for purposes of clause (i) is the sum of—

“(I) the general phase-in amount as determined for purposes of subparagraph (A),

“(II) the 5-year phase-in amount, and

“(III) the 4-year phase-in amount.

For purposes of applying this subparagraph to interest expense attributable to any month, the special phase-in amount shall in no event exceed the limitation determined under subparagraph (A)(iii).

“(iii) 5-YEAR PHASE-IN AMOUNT.—The 5-year phase-in amount is the lesser of—

“(I) the applicable percentage (determined under the following table for purposes of this subclause) of the 5-year debt amount, or

“(II) the applicable percentage (determined under the following table for purposes of this subclause) of the 5-year debt amount reduced by paydowns:

| “In the case of the: | The applicable percentage for purposes of subclause (I) is: | The applicable percentage for purposes of subclause (II) is: |
|------------------------|---|--|
| 1st taxable year | 8½ | 10 |
| 2nd taxable year | 16½ | 25 |
| 3rd taxable year | 25 | 50 |
| 4th taxable year | 33½ | 100 |
| 5th taxable year | 16% | 100. |

“(iv) 4-YEAR PHASE-IN AMOUNT.—The 4-year phase-in amount is the lesser of—

“(I) the applicable percentage (determined under the following table for purposes of this subclause) of the 4-year debt amount, or

“(II) the applicable percentage (determined under the following table for purposes of this subclause) of the 4-year debt amount reduced by paydowns to the extent such paydowns exceed the 5-year debt amount:

| “In the case of the: | The applicable percentage for purposes of subclause (I) is: | The applicable percentage for purposes of subclause (II) is: |
|------------------------|---|--|
| 1st taxable year | 5 | 6¼ |
| 2nd taxable year | 10 | 16½ |
| 3rd taxable year | 15 | 37½ |
| 4th taxable year | 20 | 100 |
| 5th taxable year | 0 | 0. |

“(v) 5-YEAR DEBT AMOUNT.—The term ‘5-year debt amount’ means the excess (if any) of—

“(I) the amount of the outstanding indebtedness of the taxpayer on May 29, 1985, over

“(II) the amount of the outstanding indebtedness of the taxpayer as of the close of December 31, 1983.

The 5-year debt amount shall not exceed the aggregate amount of indebtedness of the taxpayer outstanding on November 16, 1985.

“(vi) 4-YEAR DEBT AMOUNT.—The term ‘4-year debt amount’ means the excess (if any) of—

“(I) the amount referred to in clause (v)(II), over

“(II) the amount of the outstanding indebtedness of the taxpayer as of the close of December 31, 1982.

The 4-year debt amount shall not exceed the aggregate amount of indebtedness of the taxpayer outstanding on November 16, 1985, reduced by the 5-year debt amount.

“(vii) **PAYDOWNS.**—For purposes of applying this subparagraph to interest expenses attributable to any month, the term ‘paydowns’ means the excess (if any) of—

“(I) the aggregate amount of indebtedness of the taxpayer outstanding on November 16, 1985, over

“(II) the lowest amount of indebtedness of the taxpayer outstanding as of the close of any preceding month beginning after November 16, 1985 (or, to the extent provided in regulations under subparagraph (A)(iii), the average amount of indebtedness outstanding during any such month).

“(C) **COORDINATION OF SUBPARAGRAPHS (A) AND (B).**—In applying subparagraph (B), there shall first be taken into account indebtedness to which subparagraph (A) applies.

“(D) **SPECIAL RULES.**—

“(i) In the case of the 1st 9 taxable years of the taxpayer beginning after December 31, 1986, the amendments made by this section shall not apply to interest expenses paid or accrued by the taxpayer during the taxable year with respect to an aggregate amount of indebtedness which does not exceed the applicable percentage (determined under the following table) of the indebtedness described in clause (iii) or (iv):

| “In the case of the: | The applicable percentage is: |
|-----------------------|-------------------------------|
| 1st taxable year..... | 90 |
| 2nd taxable year..... | 80 |
| 3rd taxable year..... | 70 |
| 4th taxable year..... | 60 |
| 5th taxable year..... | 50 |
| 6th taxable year..... | 40 |
| 7th taxable year..... | 30 |
| 8th taxable year..... | 20 |
| 9th taxable year..... | 10. |

“(ii) The provisions of this subparagraph shall apply in lieu of the provisions of subparagraphs (A) and (B).

Oklahoma.

“(iii) **INDEBTEDNESS OUTSTANDING ON MAY 29, 1985.**—Indebtedness is described in this clause if it is indebtedness (which was outstanding on May 29, 1985) of a corporation incorporated on June 13, 1917, which has its principal place of business in Bartlesville, Oklahoma.

New York.

“(iv) **INDEBTEDNESS OUTSTANDING ON MAY 29, 1985.**—Indebtedness is described in this clause if it is indebtedness (which was outstanding on May 29, 1985) of a member of an affiliated group (as defined in section 1504(a)), the common parent of which was incorporated on August 26, 1926, and has its principal place of business in Harrison, New York.

“(E) **TREATMENT OF AFFILIATED GROUP.**—For purposes of this paragraph, all members of the same affiliated group of corporations (as defined in section 864(e)(5)(A) of the Internal Revenue Code of 1986, as added by this section) shall be treated as 1 taxpayer whether or not such members filed a consolidated return.

“(F) **ELECTION TO HAVE PARAGRAPH NOT APPLY.**—A taxpayer may elect (at such time and in such manner as the

Secretary of the Treasury or his delegate may prescribe) to have this paragraph not apply. In the case of members of the same affiliated group (as so defined), such an election may be made only if each member consents to such election.”

(i) AMENDMENTS RELATED TO SECTION 1221 OF THE REFORM ACT.—

(1)(A) Subparagraph (C) of section 953(c)(3) of the 1986 Code is amended by adding at the end thereof the following new sentence:

“An election under this subparagraph made for any taxable year shall not be effective if the corporation (or any predecessor thereof) was a disqualified corporation for the taxable year for which the election was made or for any prior taxable year beginning after 1986.”

(B) Clause (i) of section 953(c)(3)(D) of the 1986 Code is amended to read as follows:

“(i) PERIOD DURING WHICH ELECTION IN EFFECT.—

“(I) IN GENERAL.—Except as provided in subclause (II), any election under subparagraph (C) shall apply to the taxable year for which made and all subsequent taxable years unless revoked with the consent of the Secretary.

“(II) TERMINATION.—If a foreign corporation which made an election under subparagraph (C) for any taxable year is a disqualified corporation for any subsequent taxable year, such election shall not apply to any taxable year beginning after such subsequent taxable year.”

(C) Paragraph (3) of section 953(c) of the 1986 Code is amended by adding at the end thereof the following new subparagraph:

“(E) DISQUALIFIED CORPORATION.—For purposes of this paragraph the term ‘disqualified corporation’ means, with respect to any taxable year, any foreign corporation which is a controlled foreign corporation for an uninterrupted period of 30 days or more during such taxable year (determined without regard to this subsection) but only if a United States shareholder (determined without regard to this subsection) owns (within the meaning of section 958(a)) stock in such corporation at some time during such taxable year.”

(2)(A) Paragraph (1) of section 953(c) of the 1986 Code is amended by striking out “and” at the end of subparagraph (A), by striking out the period at the end of subparagraph (B) and inserting in lieu thereof “, and”, and by adding at the end thereof the following new subparagraph:

“(C) the pro rata share referred to in section 951(a)(1)(A)(i) shall be determined under paragraph (5) of this subsection.”

(B) Subsection (c) of section 953 of the 1986 Code is amended by redesignating paragraph (5) as paragraph (6) and by inserting after paragraph (4) the following new paragraph:

“(5) DETERMINATION OF PRO RATA SHARE.—

“(A) IN GENERAL.—The pro rata share determined under this paragraph for any United States shareholder is the lesser of—

“(i) the amount which would be determined under paragraph (2) of section 951(a) if—

“(I) only related person insurance income were taken into account,

“(II) stock owned (within the meaning of section 958(a)) by United States shareholders on the last day of the taxable year were the only stock in the foreign corporation, and

“(III) only distributions received by United States shareholders were taken into account under subparagraph (B) of such paragraph (2), or

“(ii) the amount which would be determined under paragraph (2) of section 951(a) if the entire earnings and profits of the foreign corporation for the taxable year were subpart F income.

Regulations.

“(B) COORDINATION WITH OTHER PROVISIONS.—The Secretary shall prescribe regulations providing for such modifications to the provisions of this subpart as may be necessary or appropriate by reason of subparagraph (A).”

(3)(A) Paragraph (2) of section 953(c) of the 1986 Code is amended by striking out “with respect to which the primary insured is” and inserting in lieu thereof “with respect to which the person (directly or indirectly) insured is”.

(B) Subparagraph (A) of section 953(c)(3) of the 1986 Code is amended—

(i) by striking out “persons who are the primary insured” and inserting in lieu thereof “persons who are (directly or indirectly) insured”, and

(ii) by striking out “to any such primary insured” and inserting in lieu thereof “to any such person”.

26 USC 953 note.

(C) The amendments made by this paragraph to the extent such amendments add the phrase “(directly or indirectly)” shall apply only to taxable years beginning after December 31, 1987.

(4)(A) Subsection (c) of section 953 of the 1986 Code (as amended by paragraph (2)) is amended by redesignating paragraph (6) as paragraph (7) and by inserting after paragraph (5) the following new paragraph:

“(6) RELATED PERSON.—For purposes of this subsection—

“(A) IN GENERAL.—Except as provided in subparagraph (B), the term ‘related person’ has the meaning given such term by section 954(d)(3).

“(B) TREATMENT OF CERTAIN LIABILITY INSURANCE POLICIES.—In the case of any policy of insurance covering liability arising from services performed as a director, officer, or employee of a corporation or as a partner or employee of a partnership, the person performing such services and the entity for which such services are performed shall be treated as related persons.”

(B) Paragraphs (2) and (3)(A) of section 953(c) of the 1986 Code are each amended by striking out “(within the meaning of section 954(d)(3))”.

(5) Paragraph (2) of section 953(c) of the 1986 Code is amended by striking out “insurance income attributable” and inserting in lieu thereof “insurance income (within the meaning of subsection (a)) attributable”.

26 USC 952 note.

(6) For purposes of applying section 952(c)(1)(A) of the 1986 Code, the earnings and profits of any corporation shall be determined without regard to any increase in earnings and profits under section 1023(e)(3)(C) of the Reform Act.

- (7) Subsection (b) of section 953 of the 1986 Code is amended—
- (A) by striking out paragraph (1) and redesignating paragraphs (2), (3), and (4) as paragraphs (1), (2), and (3), respectively,
 - (B) by striking out subparagraph (A) of paragraph (1) (as so redesignated) and inserting in lieu thereof the following: “(A) The small life insurance company deduction.”, and
 - (C) by striking out “(other than those taken into account under paragraph (3))” in paragraph (3) (as so redesignated).
- (8) Subparagraph (B) of section 953(c)(3) of the 1986 Code is amended—
- (A) by striking out “related person insurance income” and inserting in lieu thereof “related person insurance income (determined on a gross basis)”, and
 - (B) by striking out “its insurance income” and inserting in lieu thereof “its insurance income (as so determined)”.
- (9) Subclause (II) of section 953(c)(3)(C)(i) of the 1986 Code is amended—
- (A) by striking out “all benefits” and inserting in lieu thereof “all benefits (other than with respect to section 884)”, and
 - (B) by striking out “under any income tax treaty” and inserting in lieu thereof “granted by the United States under any treaty”.
- (10) Paragraph (7) of section 861(a) of the 1986 Code is amended to read as follows:
- “(7) Amounts received as underwriting income (as defined in section 832(b)(3)) derived from the issuing (or reinsuring) of any insurance or annuity contract—
- “(A) in connection with property in, liability arising out of an activity in, or in connection with the lives or health of residents of, the United States, or
 - “(B) in connection with risks not described in subparagraph (A) as a result of any arrangement whereby another corporation receives a substantially equal amount of premiums or other consideration in respect to issuing (or reinsuring) any insurance or annuity contract in connection with property in, liability arising out of activity in, or in connection with the lives or health of residents of, the United States.”
- (11) Subparagraph (A) of section 955(a)(2) of the 1986 Code is amended by striking out “beginning before 1987” and inserting in lieu thereof “beginning before 1987 (to the extent such amount exceeds the sum of the decreases in qualified investments determined under this paragraph for prior taxable years beginning after 1986)”.
- (12) Paragraphs (6) and (7) of section 954(b) of the 1986 Code are each amended by striking out “(determined without regard to the exclusion under paragraph (2) of this subsection)”.
- (13)(A) Subparagraph (C) of section 1221(g)(3) of the Reform Act is amended—
- (i) by striking out “July 9” and inserting in lieu thereof “June 9”, and
 - (ii) by striking out “March 31, 1982” and inserting in lieu thereof “November 3, 1981”.
- (B) Subparagraph (D) of section 1221(g)(3) of the Reform Act is amended—

(i) by striking out "as of August 16, 1986, under a reinsurance contract in effect on such date" and inserting in lieu thereof "under a reinsurance contract",

(ii) by striking out "the preceding sentence" and inserting in lieu thereof "this subparagraph", and

(iii) by adding at the end thereof the following: "For purposes of this paragraph, the amount of qualified reinsurance income shall not exceed the amount of insurance income from reinsurance contracts for calendar year 1985. In the case of controlled foreign corporations described in subparagraph (C)(ii), the preceding sentence shall not apply and the qualified reinsurance income of any such corporation shall not exceed such corporation's proportionate share of \$27,000,000 (determined on the basis of respective amounts of qualified reinsurance income determined without regard to this subparagraph)."

(14)(A) Paragraph (3) of section 954(d) of the 1986 Code is amended by striking out "50 percent or more" each place it appears and inserting in lieu thereof "more than 50 percent".

(B) Clause (ii) of section 861(c)(2)(B) of the 1986 Code is amended to read as follows:

"(ii) such section shall be applied by substituting '10 percent or more' for 'more than 50 percent' each place it appears."

(15) Subsection (b) of section 951 of the 1986 Code is amended by striking out "section 957(d)" and inserting in lieu thereof "section 957(c)".

(16) Subsection (c) of section 952 of the 1986 Code is amended by adding at the end thereof the following new paragraph:

"(3) SPECIAL RULE FOR DETERMINING EARNINGS AND PROFITS.— For purposes of this subsection, earnings and profits of any controlled foreign corporation shall be determined without regard to paragraphs (4), (5), and (6) of section 312(n). Under regulations, the preceding sentence shall not apply to the extent it would increase earnings and profits by an amount which was previously distributed by the controlled foreign corporation."

(17) Subparagraph (A) of section 881(c)(4) of the 1986 Code is amended by striking out clauses (ii), (iii), (iv), and (v) and inserting in lieu thereof the following:

"(ii) Paragraph (4) of section 954(b) (relating to exception for certain income subject to high foreign taxes).

"(iii) Clause (i) of section 954(c)(3)(A) (relating to certain income received from related persons)."

(18) Subparagraph (B) of section 954(c)(1) of the 1986 Code is amended by striking out "or" at the end of clause (i), by redesignating clause (ii) as clause (iii), and by inserting after clause (i) the following new clause:

"(ii) which is an interest in a trust, partnership, or REMIC, or".

(19)(A) Subsection (a) of section 6046 of the 1986 Code is amended by striking out "and" at the end of paragraph (2), by redesignating paragraph (3) as paragraph (4), and by inserting after paragraph (2) the following new paragraph:

"(3) each person (not described in paragraph (2)) who, at any time after January 1, 1987, is treated as a United States shareholder under section 953(c) with respect to a foreign corporation, and".

(B) Subsection (b) of section 6046 of the 1986 Code is amended by striking out "subsection (a)(2)" and inserting in lieu thereof "paragraph (2) or (3) of subsection (a)".

(C) Subsection (a) of section 6046 of the 1986 Code is amended by adding at the end thereof the following new sentence:

"In the case of a foreign corporation with respect to which any person is treated as a United States shareholder under section 953(c), paragraph (1) shall be treated as including a reference to each United States person who is an officer or director of such corporation."

(20) Subparagraph (B) of section 954(c)(1) of the 1986 Code is amended by striking out the last sentence and inserting in lieu thereof the following:

"In the case of any regular dealer in property, gains and losses from the sale or exchange of any such property or arising out of bona fide hedging transactions reasonably necessary to the conduct of the business of being a dealer in such property shall not be taken into account under this subparagraph. Gains and losses from the sale or exchange of any property which, in the hands of the controlled foreign corporation, is property described in section 1221(1) also shall not be taken into account under this subparagraph."

(21) Subsection (c) of section 953 (as amended by this subsection) is amended by striking out paragraph (7) and inserting in lieu thereof the following:

"(7) COORDINATION WITH SECTION 1248.—For purposes of section 1248, if any person is (or would be but for paragraph (3)) treated under paragraph (1) as a United States shareholder with respect to any foreign corporation which would be taxed under subchapter L if it were a domestic corporation and which is (or would be but for paragraph (3)) treated under paragraph (1) as a controlled foreign corporation—

"(A) such person shall be treated as meeting the stock ownership requirements of section 1248(a)(2) with respect to such foreign corporation, and

"(B) such foreign corporation shall be treated as a controlled foreign corporation.

"(8) REGULATIONS.—The Secretary shall prescribe such regulations as may be necessary to carry out the purposes of this subsection, including—

"(A) regulations preventing the avoidance of this subsection through cross insurance arrangements or otherwise, and

"(B) regulations which may provide that a person will not be treated as a United States shareholder under paragraph (1) with respect to any foreign corporation if neither such person (nor any related person to such person) is (directly or indirectly) insured under any policy of insurance or reinsurance issued by such foreign corporation."

(22) Subclause (III) of section 952(c)(1)(B)(iii) of the 1986 Code is amended by striking out "insurance income" and inserting in lieu thereof "insurance income or foreign personal holding company income,".

(23) Clause (iii) of section 952(c)(1)(B) of the 1986 Code is amended by redesignating subclauses (III) and (IV) as subclauses (V) and (VI), respectively, and by inserting after subclause (II) the following new subclauses:

“(III) foreign base company sales income,

“(IV) foreign base company services income.”

(24) Clause (ii) of section 952(c)(1)(B) of the 1986 Code is amended by adding at the end thereof the following new sentence: “In determining the deficit attributable to qualified activities described in clause (iii)(III) or (IV), deficits in earnings and profits (to the extent not previously taken into account under this section) for taxable years beginning after 1962 and before 1987 also shall be taken into account. In the case of the qualified activity described in clause (iii)(II), the rule of the preceding sentence shall apply, except that ‘1982’ shall be substituted for ‘1962’.”

(25)(A) Paragraph (1) of section 952(c) of the 1986 Code is amended by adding at the end thereof the following new subparagraph:

“(C) CERTAIN DEFICITS OF MEMBER OF THE SAME CHAIN OF CORPORATIONS MAY BE TAKEN INTO ACCOUNT.—

“(i) IN GENERAL.—A controlled foreign corporation may elect to reduce the amount of its subpart F income for any taxable year which is attributable to any qualified activity by the amount of any deficit in earnings and profits of a qualified chain member for a taxable year ending with (or within) the taxable year of such controlled foreign corporation to the extent such deficit is attributable to such activity. To the extent any deficit reduces subpart F income under the preceding sentence, such deficit shall not be taken into account under subparagraph (B).

“(ii) QUALIFIED CHAIN MEMBER.—For purposes of this subparagraph, the term ‘qualified chain member’ means, with respect to any controlled foreign corporation, any other corporation which is created or organized under the laws of the same foreign country as the controlled foreign corporation but only if—

“(I) all the stock of such other corporation (other than directors’ qualifying shares) is owned at all times during the taxable year in which the deficit arose (directly or through 1 or more corporations other than the common parent) by such controlled foreign corporation, or

“(II) all the stock of such controlled foreign corporation (other than directors’ qualifying shares) is owned at all times during the taxable year in which the deficit arose (directly or through 1 or more corporations other than the common parent) by such other corporation.

“(iii) COORDINATION.—This subparagraph shall be applied after subparagraphs (A) and (B).”

(B) Subparagraph (B) of section 954(c)(3) of the 1986 Code is amended by inserting before the period at the end thereof the following: “or creates (or increases) a deficit which under section 952(c) may reduce the subpart F income of the payor or another controlled foreign corporation”.

(j) AMENDMENT RELATED TO SECTION 1224 OF THE REFORM ACT.—Paragraph (2) of section 901(g) of the 1986 Code and section 936(d)(3)(B) of the 1986 Code are each amended by striking out “section 957(c)” and inserting in lieu thereof “section 957(c) (as in

effect on the day before the date of the enactment of the Tax Reform Act of 1986”.

(k) AMENDMENT RELATED TO SECTION 1225 OF THE REFORM ACT.— Subsection (c) of section 1225 of the Reform Act is amended by striking out “March 1, 1986” and inserting in lieu thereof “January 1, 1986”.

26 USC 535 note.

(l) AMENDMENTS RELATED TO SECTION 1226 OF THE REFORM ACT.—

(1) Subsection (a) of section 246A of the 1986 Code is amended by striking out the last sentence.

(2)(A) Paragraph (8) of section 245 of the 1986 Code is amended to read as follows:

“(8) DISALLOWANCE OF FOREIGN TAX CREDIT.—No credit shall be allowed under section 901 for any taxes paid or accrued (or treated as paid or accrued) with respect to the United States-source portion of any dividend received by a corporation from a qualified 10-percent-owned foreign corporation.”

(B) Subsection (a) of section 245 of the 1986 Code is amended by adding at the end thereof the following new paragraph:

“(10) COORDINATION WITH TREATIES.—If—

“(A) any portion of a dividend received by a corporation from a qualified 10-percent-owned foreign corporation would be treated as from sources in the United States under paragraph (9),

“(B) under a treaty obligation of the United States (applied without regard to this subsection), such portion would be treated as arising from sources outside the United States, and

“(C) the taxpayer chooses the benefits of this paragraph, this subsection shall not apply to such dividend (but subsections (a), (b), and (c) of section 904 and sections 902, 907, and 960 shall be applied separately with respect to such portion of such dividend).”

(3) Subsection (a) of section 245 of the 1986 Code is amended by adding at the end thereof the following new paragraph:

“(11) COORDINATION WITH SECTION 1248.—For purposes of this subsection, the term ‘dividend’ does not include any amount treated as a dividend under section 1248.”

(m) AMENDMENTS RELATED TO SECTION 1228 OF THE REFORM ACT.—

(1) Subsection (a) of section 1228 of the Reform Act is amended by striking out “and” at the end of paragraph (3), and by striking out paragraph (4) and inserting in lieu thereof the following:

26 USC 897 note.

“(4) the transfer, sale, exchange, or other disposition is part of a single integrated plan, whereby the stock of the corporation described in paragraph (1) becomes owned directly by the 2 corporations specifically referred to in subsection (b) or by such 2 corporations and by 1 or both of their jointly owned direct subsidiaries,

“(5) within 20 days after each transfer, sale, exchange, or other disposition, the person making such transfer, sale, exchange, or other disposition notifies the Internal Revenue Service of the transaction, the date of the transaction, the basis of the stock involved, the holding period for such stock, and such other information as the Internal Revenue Service may require, and

“(6) the integrated plan is completed before the date 4 years after the date of the enactment of the Technical and Miscellaneous Revenue Act of 1988.

In the case of any underpayment attributable to a failure to meet any requirement of this subsection, the period during which such underpayment may be assessed shall in no event expire before the date 5 years after the date of the enactment of the Technical and Miscellaneous Revenue Act of 1988.”

(2) Subsection (c) of section 1228 of the Reform Act is hereby repealed.

(n) AMENDMENTS RELATED TO SECTION 1231 OF THE REFORM ACT.—

26 USC 936 note.

(1) Subparagraph (A) of section 1231(g)(2) of the Reform Act is amended by adding at the end thereof the following new sentence: “In the case of any transfer (or license) which is not to a foreign person, the preceding sentence shall be applied by substituting ‘August 16, 1986’ for ‘November 16, 1985’.”

(2) Subparagraph (B) of section 1231(g)(2) of the Reform Act is amended by striking out “was made” and inserting in lieu thereof “, if any, was made”.

26 USC 936 note.

(3) Subsection (g) of section 1231 of the Reform Act is amended by adding at the end thereof the following new paragraph:

“(5) TRANSITIONAL RULE FOR INCREASE IN GROSS INCOME TEST.—

“(A) IN GENERAL.—If—

“(i) a corporation fails to meet the requirements of subparagraph (B) of section 936(a)(2) of the Internal Revenue Code of 1986 (as amended by subsection (d)(1)) for any taxable year beginning in 1987 or 1988,

“(ii) such corporation would have met the requirements of such subparagraph (B) if such subparagraph had been applied without regard to the amendment made by subsection (d)(1), and

“(iii) 75 percent or more of the gross income of such corporation for such taxable year (or, in the case of a taxable year beginning in 1988, for the period consisting of such taxable year and the preceding taxable year) was derived from the active conduct of a trade or business within a possession of the United States, such corporation shall nevertheless be treated as meeting the requirements of such subparagraph (B) for such taxable year if it elects to reduce the amount of the qualified possession source investment income for the taxable year by the amount of the shortfall determined under subparagraph (B) of this paragraph.

“(B) DETERMINATION OF SHORTFALL.—The shortfall determined under this subparagraph for any taxable year is an amount equal to the excess of—

“(i) 75 percent of the gross income of the corporation for the 3-year period (or part thereof) referred to in section 936(a)(2)(A) of such Code, over

“(ii) the amount of the gross income of such corporation for such period (or part thereof) which was derived from the active conduct of a trade or business within a possession of the United States.

“(C) SPECIAL RULE.—Any income attributable to the investment of the amount not treated as qualified possession source investment income under subparagraph (A)

shall not be treated as qualified possession source investment income for any taxable year."

(4) Subparagraph (B) of section 1231(a)(1) of the Reform Act is amended by striking out "at the end thereof" and inserting in lieu thereof "at the end of the material relating to payment of cost sharing".

(5)(A) Clause (ii) of section 936(d)(4)(A) of the 1986 Code is amended to read as follows: Puerto Rico.

"(ii) in accordance with a specific authorization granted by the Commissioner of Financial Institutions of Puerto Rico pursuant to regulations issued by such Commissioner."

(B) Clauses (i) and (ii) of section 936(d)(4)(C) of the 1986 Code are each amended by striking out "the Secretary of the Treasury of Puerto Rico" and inserting in lieu thereof "the Commissioner of Financial Institutions of Puerto Rico".

(o) AMENDMENT RELATED TO SECTION 1234 OF THE REFORM ACT.— Subsection (d) of section 6039E of the 1986 Code is amended by adding at the end thereof the following new sentence:

"Nothing in the preceding sentence shall be construed to require the disclosure of information which is subject to section 245A of the Immigration and Nationality Act (as in effect on the date of the enactment of this sentence)."

(p) AMENDMENTS RELATED TO SECTION 1235 OF THE REFORM ACT.—

(1) Paragraph (1) of section 1291(d) of the 1986 Code is amended to read as follows:

"(1) IN GENERAL.—This section shall not apply with respect to any distribution paid by a passive foreign investment company, or any disposition of stock in a passive foreign investment company, if such company is a qualified electing fund for each of its taxable years—

"(A) which begins after December 31, 1986, and for which such company is a passive foreign investment company, and

"(B) which includes any portion of the taxpayer's holding period."

(2) Subsection (c) of section 1296 of the 1986 Code is amended by striking out "owns at least" and inserting in lieu thereof "owns (directly or indirectly) at least".

(3) Paragraph (3) of section 1291(b) of the 1986 Code is amended by striking out "and" at the end of subparagraph (D), by striking out the period at the end of subparagraph (E) and inserting in lieu thereof ", and", and by adding at the end thereof the following new subparagraph:

"(F) proper adjustment shall be made for amounts not includible in gross income by reason of section 551(d), 959(a), or 1293(c)."

(4) Paragraph (2) of section 1294(c) of the 1986 Code is amended—

(A) by striking out "is disposed of" in subparagraph (A) and inserting in lieu thereof "is transferred",

(B) by striking out "such disposition or cessation" each place it appears and inserting in lieu thereof "such transfer or cessation", and

(C) by striking out "DISPOSITIONS" in the paragraph heading and inserting in lieu thereof "TRANSFERS".

(5) Paragraph (1) of section 1296(b) of the 1986 Code is amended to read as follows:

“(1) IN GENERAL.—Except as provided in paragraph (2), the term ‘passive income’ means any income which is of a kind which would be foreign personal holding company income as defined in section 954(c).”

(6)(A) Subsection (f) of section 1291 of the 1986 Code is amended to read as follows:

“(f) RECOGNITION OF GAIN.—To the extent provided in regulations, in the case of any transfer of stock in a passive foreign investment company where (but for this subsection) there is not full recognition of gain, the excess (if any) of—

“(1) the fair market value of such stock, over

“(2) its adjusted basis,

shall be treated as gain from the sale or exchange of such stock and shall be recognized notwithstanding any provision of law. Proper adjustment shall be made to the basis of any such stock for gain recognized under the preceding sentence.”

(B) Subsection (e) of section 1291 of the 1986 Code is amended by striking out “Rules similar” and inserting in lieu thereof “Except to the extent inconsistent with the regulations prescribed under subsection (f), rules similar”.

(7)(A) Paragraphs (4) and (5) of section 1291(a) of the 1986 Code are hereby repealed.

(B) Section 1291 of the 1986 Code is amended by adding at the end thereof the following new subsection:

“(g) COORDINATION WITH FOREIGN TAX CREDIT RULES.—

“(1) IN GENERAL.—If there are creditable foreign taxes with respect to any distribution in respect of stock in a passive foreign investment company—

“(A) the amount of such distribution shall be determined for purposes of this section with regard to section 78,

“(B) the excess distribution taxes shall be allocated ratably to each day in the taxpayer’s holding period for the stock, and

“(C) to the extent—

“(i) that such excess distribution taxes are allocated to a taxable year referred to in subsection (a)(1)(B), such taxes shall be taken into account under section 901 for the current year, and

“(ii) that such excess distribution taxes are allocated to any other taxable year, such taxes shall reduce (subject to the principles of section 904(d) and not below zero) the increase in tax determined under subsection (c)(2) for such taxable year by reason of such distribution (but such taxes shall not be taken into account under section 901).

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

“(A) CREDITABLE FOREIGN TAXES.—The term ‘creditable foreign taxes’ means, with respect to any distribution—

“(i) any foreign taxes deemed paid under section 902 with respect to such distribution, and

“(ii) any withholding tax imposed with respect to such distribution,

but only if the taxpayer chooses the benefits of section 901 and such taxes are creditable under section 901 (determined without regard to paragraph (1)(C)(ii)).

“(B) EXCESS DISTRIBUTION TAXES.—The term ‘excess distribution taxes’ means, with respect to any distribution, the

portion of the creditable foreign taxes with respect to such distribution which is attributable (on a pro rata basis) to the portion of such distribution which is an excess distribution.

“(C) SECTION 1248 GAIN.—The rules of this subsection also shall apply in the case of any gain which but for this section would be includible in gross income as a dividend under section 1248.”

(8) Section 1294 of the 1986 Code is amended by adding at the end thereof the following new subsection:

“(g) CROSS REFERENCE.—

“For provisions providing for interest for the period of the extension under this section, see section 6601.”

(9) Paragraph (2) of section 1291(e) of the 1986 Code is amended by striking out “not” the second place it appears.

(10)(A) Subsection (a) of section 1297 of the 1986 Code is amended by redesignating paragraph (4) as paragraph (5) and by inserting after paragraph (3) the following new paragraph:

“(4) OPTIONS.—To the extent provided in regulations, if any person has an option to acquire stock, such stock shall be considered as owned by such person. For purposes of this paragraph, an option to acquire such an option, and each one of a series of such options, shall be considered as an option to acquire such stock.”

(B) Paragraph (5) of section 1297(a) of the 1986 Code (as redesignated by subparagraph (A)) is amended by striking out “paragraph (2) or (3)” and inserting in lieu thereof “paragraph (2), (3), or (4)”.

(11) Paragraph (3) of section 904(d) of the 1986 Code is amended by adding at the end thereof the following new subparagraph:

“(I) LOOK-THRU APPLIES TO PASSIVE FOREIGN INVESTMENT COMPANY INCLUSION.—If—

“(i) a passive foreign investment company is a controlled foreign corporation, and

“(ii) the taxpayer is a United States shareholder in such controlled foreign corporation,

any amount included in gross income under section 1293 shall be treated as income in a separate category to the extent such amount is attributable to income in such category.”

(12) Clause (ii) of section 1291(a)(1)(B) of the 1986 Code is amended to read as follows:

“(ii) any period in the taxpayer’s holding period before the 1st day of the 1st taxable year of the company which begins after December 31, 1986, and for which it was a passive foreign investment company, and”.

(13) Subparagraph (A) of section 1291(b)(2) of the 1986 Code is amended by adding at the end thereof the following new sentence:

“For purposes of clause (ii), any excess distribution received during such 3-year period shall be taken into account only to the extent it was included in gross income under subsection (a)(1)(B).”

(14) Subparagraph (A) of section 1291(a)(3) of the 1986 Code is amended by striking out “in the case of an excess distribution”

and inserting in lieu thereof "for purposes of applying this section to an excess distribution".

(15) Subsection (b) of section 1293 of the 1986 Code is amended by adding at the end thereof the following new sentence: "To the extent provided in regulations, if the fund establishes to the satisfaction of the Secretary that it uses a shorter period than the taxable year to determine shareholders' interests in the earnings of such fund, pro rata shares may be determined by using such shorter period."

(16) Subparagraph (B) of section 1296(b)(2) of the 1986 Code is amended by striking out "by a corporation which" and inserting in lieu thereof "by a corporation which is predominantly engaged in an insurance business and which".

(17) Paragraph (5) of section 1297(b) of the 1986 Code is amended to read as follows:

"(5) APPLICATION OF PART WHERE HELD BY OTHER ENTITY.—

"(A) IN GENERAL.—Under regulations, in any case in which a United States person is treated as owning stock in a passive foreign investment company by reason of subsection (a)—

(i) any disposition by the United States person or the person owning such stock which results in the United States person being treated as no longer owning such stock, or

(ii) any disposition of property in respect of such stock to the person holding such stock, shall be treated as a disposition to, the United States person with respect to the stock in the passive foreign investment company.

"(B) AMOUNT TREATED IN SAME MANNER AS PREVIOUSLY TAXED INCOME.—Rules similar to the rules of section 959(b) shall apply to any amount described in subparagraph (A) and to any amount included in gross income under section 1293(a) (or which would have been so included but for section 951(f)) in respect of stock which the taxpayer is treated as owning under subsection (a)."

(18) Subsection (e) of section 1293 of the 1986 Code is amended by adding at the end thereof the following new paragraph:

"(3) DETERMINATION OF EARNINGS AND PROFITS.—The earnings and profits of any qualified electing fund shall be determined without regard to paragraphs (4), (5), and (6) of section 312(n). Under regulations, the preceding sentence shall not apply to the extent it would increase earnings and profits by an amount which was previously distributed by the qualified electing fund."

(19) Subsection (d) of section 1248 of the 1986 Code is amended by adding at the end thereof the following new paragraph:

"(7) AMOUNTS INCLUDED IN GROSS INCOME UNDER SECTION 1293.—Earnings and profits of the foreign corporation attributable to any amount previously included in the gross income of such person under section 1293 with respect to the stock sold or exchanged, but only to the extent the inclusion of such amount did not result in an exclusion of an amount under section 1293(c)."

(20) Paragraph (6) of section 1297(b) of the 1986 Code is amended by striking out "If a" and inserting in lieu thereof "Except as provided in regulations, if a".

(21) Section 1246 of the 1986 Code is amended by redesignating the subsection relating to information with respect to certain foreign investment companies as subsection (f), by redesignating the subsection relating to coordination with section 1248 as subsection (g), and by redesignating the subsection relating to cross reference as subsection (h).

(22) Subparagraph (A) of section 1297(b)(3) of the 1986 Code is amended to read as follows:

“(A) neither such corporation (nor any predecessor) was a passive foreign investment company for any prior taxable year.”

(23) Subsection (c) of section 1293 of the 1986 Code is amended by striking out “shall be treated as a distribution which is not a dividend” and inserting in lieu thereof “shall be treated, for purposes of this chapter, as a distribution which is not a dividend; except that such distribution shall immediately reduce earnings and profits”.

(24) Subsection (b) of section 1297 of the 1986 Code is amended by adding at the end thereof the following new paragraph:

“(8) TREATMENT OF CERTAIN FOREIGN CORPORATIONS OWNING STOCK IN 25-PERCENT OWNED DOMESTIC CORPORATION.—

“(A) IN GENERAL.—If—

“(i) a foreign corporation is subject to the tax imposed by section 531 (or waives any benefit under any treaty which would otherwise prevent the imposition of such tax), and

“(ii) such foreign corporation owns at least 25 percent (by value) of the stock of a domestic corporation,

for purposes of determining whether such foreign corporation is a passive foreign investment company, any qualified stock held by such domestic corporation shall be treated as an asset which does not produce passive income (and is not held for the production of passive income) and any amount included in gross income with respect to such stock shall not be treated as passive income.

“(B) QUALIFIED STOCK.—For purposes of subparagraph (A), the term ‘qualified stock’ means any stock in a C corporation which is a domestic corporation and which is not a regulated investment company or real estate investment trust.”

(25) Section 1294 of the 1986 Code is amended by adding at the end thereof the following new subsection:

“(f) TREATMENT OF LOANS TO SHAREHOLDER.—For purposes of this section and section 1293, any loan by a qualified electing fund (directly or indirectly) to a shareholder of such fund shall be treated as a distribution to such shareholder.

(26)(A) Paragraph (2) of section 1296(b) of the 1986 Code is amended by striking out “or” at the end of subparagraph (A), by striking out the period at the end of subparagraph (B) and inserting in lieu thereof “, or”, and by adding at the end thereof the following:

“(C) which is interest, a dividend, or a rent or royalty, which is received or accrued from a related person (within the meaning of section 954(d)(3)) to the extent such amount is properly allocable (under regulations prescribed by the Secretary) to income of such related person which is not passive income.

For purposes of subparagraph (C), the term 'related person' has the meaning given such term by section 954(d)(3) determined by substituting 'foreign corporation' for 'controlled foreign corporation' each place it appears in section 954(d)(3)."

(B) The paragraph heading for paragraph (2) of section 1296(b) of the 1986 Code is amended by striking out "EXCEPTION FOR CERTAIN BANKS AND INSURANCE COMPANIES" and inserting in lieu thereof "EXCEPTIONS".

(27) Subsection (a) of section 1296 of the 1986 Code is amended by adding at the end thereof the following new sentences: "A foreign corporation may elect to have the determination under paragraph (2) based on the adjusted bases of its assets in lieu of their value. Such an election, once made, may be revoked only with the consent of the Secretary."

(28) Paragraph (2) of section 1291(d) of the 1986 Code is amended by striking out subparagraph (B) and inserting in lieu thereof the following:

"(B) ADDITIONAL ELECTION FOR SHAREHOLDER OF CONTROLLED FOREIGN CORPORATIONS.—

"(i) IN GENERAL.—If—

"(I) a passive foreign investment company becomes a qualified electing fund for a taxable year which begins after December 31, 1986,

"(II) the taxpayer holds stock in such company on the first day of such taxable year, and

"(III) such company is a controlled foreign corporation (as defined in section 957(a)),

the taxpayer may elect to include in gross income as a dividend received on such first day an amount equal to the portion of the post-1986 earnings and profits of such company attributable (under regulations prescribed by the Secretary) to the stock in such company held by the taxpayer on such first day. The amount treated as a dividend under the preceding sentence shall be treated as an excess distribution and shall be allocated under subsection (a)(1)(A) only to days during periods taken into account in determining the post-1986 earnings and profits so attributable.

"(ii) POST-1986 EARNINGS AND PROFITS.—For purposes of clause (i), the term 'post-1986 earnings and profits' means earnings and profits which were accumulated in taxable years of such company beginning after December 31, 1986, and during the period or periods the stock was held by the taxpayer while the company was a passive foreign investment company.

"(iii) COORDINATION WITH SECTION 959(e).—For purposes of section 959(e), any amount included in gross income under this subparagraph shall be treated as included in gross income under section 1248(a).

"(C) ADJUSTMENTS.—In the case of any stock to which subparagraph (A) or (B) applies—

"(i) the adjusted basis of such stock shall be increased by the gain recognized under subparagraph (A) or the amount treated as a dividend under subparagraph (B), as the case may be, and

“(ii) the taxpayer’s holding period in such stock shall be treated as beginning on the first day referred to in such subparagraph.”

(29)(A) Clause (ii) of section 904(d)(2)(A) of the 1986 Code is amended by striking out “or section 1293” and inserting in lieu thereof “or, except as provided in subparagraph (E)(iii) or paragraph (3)(I), section 1293”.

(B) Subparagraph (E) of section 904(d)(2) of the 1986 Code is amended by adding at the end thereof the following new clause:

“(iii) TREATMENT OF INCLUSIONS UNDER SECTION 1293.—If any foreign corporation is a non-controlled section 902 corporation with respect to the taxpayer, any inclusion under section 1293 with respect to such corporation shall be treated as a dividend from such corporation.”

(30) Clause (ii) of section 864(b)(2)(A) of the 1986 Code is amended by striking out “section 542(c)(7)” and inserting in lieu thereof “section 542(c)(7), 542(c)(10),”.

(31) Paragraph (1) of section 1291(c) of the 1986 Code is amended by adding at the end thereof the following new sentence: “Any increase in the tax imposed by this chapter for the current year under subsection (a) to the extent attributable to the amount referred to in subparagraph (B) shall be treated as interest paid under section 6601 on the due date for the current year.”

(32) Section 1293 of the 1986 Code is amended by adding at the end thereof the following new subsection:

“(g) OTHER SPECIAL RULES.—

“(1) EXCEPTION FOR CERTAIN INCOME.—For purposes of determining the amount included in the gross income of any person under this section, the ordinary earnings and net capital gain of a qualified electing fund shall not include any item of income received by such fund if—

“(A) such fund is a controlled foreign corporation (as defined in section 957(a)) and such person is a United States shareholder (as defined in section 951(b)) in such fund, and

“(B) such person establishes to the satisfaction of the Secretary that—

“(i) such income was subject to an effective rate of income tax imposed by a foreign country greater than 90 percent of the maximum rate of tax specified in section 11, or

“(ii) such income is—

“(I) from sources within the United States,

“(II) effectively connected with the conduct by the qualified electing fund of a trade or business in the United States, and

“(III) not exempt from taxation (or subject to a reduced rate of tax) pursuant to a treaty obligation of the United States.

“(2) PREVENTION OF DOUBLE INCLUSION.—The Secretary shall prescribe such adjustment to the provisions of this section as may be necessary to prevent the same item of income of a qualified electing fund from being included in the gross income of a United States person more than once.”

(33) Paragraph (3) of section 1291(b) of the 1986 Code (as amended by paragraph (3)) is amended by striking out “and” at the end of subparagraph (E), by striking out the period at the

end of subparagraph (F) and inserting in lieu thereof “, and”, and by adding at the end thereof the following new subparagraph:

“(G) if a charitable deduction was allowable under section 642(c) to a trust for any distribution of its income, proper adjustments shall be made for the deduction so allowable to the extent allocable to distributions or gain in respect of stock in a passive foreign investment company.”

(34) Paragraph (2) of section 1294(c) of the 1986 Code is amended by adding at the end thereof the following new sentence: “To the extent provided in regulations, the preceding sentence shall not apply in the case of a transfer in a transaction with respect to which gain or loss is not recognized (in whole or in part), and the transferee in such transaction shall succeed to the treatment under this section of the transferor.”

(35) Section 1297 of the 1986 Code is amended by redesignating subsection (c) as subsection (d) and by inserting after subsection (b) the following new subsection:

“(c) **TREATMENT OF STOCK HELD BY POOLED INCOME FUND.**—If stock in a passive foreign investment company is owned (or treated as owned under subsection (a)) by a pooled income fund (as defined in section 642(c)(5)) and no portion of any gain from a disposition of such stock may be allocated to income under the terms of the governing instrument of such fund—

“(1) section 1291 shall not apply to any gain on a disposition of such stock by such fund if (without regard to section 1291) a deduction would be allowable with respect to such gain under section 642(c)(3),

“(2) section 1293 shall not apply with respect to such stock, and

“(3) in determining whether section 1291 applies to any distribution in respect of such stock, subsection (d) of section 1291 shall not apply.”

(36) Paragraph (1) of section 1297(b) of the 1986 Code is amended by striking out “passive foreign investment corporation” and inserting in lieu thereof “passive foreign investment company”.

(37)(A) Paragraph (2) of section 1295(b) of the 1986 Code is amended by adding at the end thereof the following new sentence: “To the extent provided in regulations, such an election may be made later than as required by the preceding sentence in cases where the company failed to make a timely election because it reasonably believed it was not a passive foreign investment company.”

(B) The period during which an election under section 1295(b) of the 1986 Code may be made shall in no event expire before the date 60 days after the date of enactment of this Act.

(q) **AMENDMENTS RELATED TO SECTION 1241 OF THE ACT.**—

(1)(A) Subparagraph (B) of section 884(b)(2) of the 1986 Code is amended to read as follows:

“(B) **LIMITATION.**—

“(i) **IN GENERAL.**—The increase under subparagraph (A) for any taxable year shall not exceed the accumulated effectively connected earnings and profits as of the close of the preceding taxable year.

“(ii) **ACCUMULATED EFFECTIVELY CONNECTED EARNINGS AND PROFITS.**—For purposes of clause (i), the term

'accumulated effectively connected earnings and profits' means the excess of—

"(I) the aggregate effectively connected earnings and profits for preceding taxable years beginning after December 31, 1986, over

"(II) the aggregate dividend equivalent amounts determined for such preceding taxable years."

(B) For purposes of applying section 884 of the 1986 Code, the earnings and profits of any corporation shall be determined without regard to any increase in earnings and profits under sections 1023(e)(3)(C) and 1021(e)(2)(C) of the Reform Act or arising from section 823(b)(4)(C) of the 1986 Code.

26 USC 884 note.

(2)(A) Paragraph (1) of section 884(e) of the 1986 Code is amended to read as follows:

"(1) **LIMITATION ON TREATY EXEMPTION.**—No treaty between the United States and a foreign country shall exempt any foreign corporation from the tax imposed by subsection (a) (or reduce the amount thereof) unless—

"(A) such treaty is an income tax treaty, and

"(B) such foreign corporation is a qualified resident of such foreign country."

(B) Paragraph (3) of section 884(e) of the 1986 Code is amended to read as follows:

"(3) **COORDINATION WITH WITHHOLDING TAX.**—

"(A) **IN GENERAL.**—If a foreign corporation is subject to the tax imposed by subsection (a) for any taxable year (determined after the application of any treaty), no tax shall be imposed by section 871(a), 881(a), 1441, or 1442 on any dividends paid by such corporation out of its earnings and profits for such taxable year.

"(B) **LIMITATION ON CERTAIN TREATY BENEFITS.**—If—

"(i) any dividend described in section 861(a)(2)(B) is received by a foreign corporation, and

"(ii) subparagraph (A) does not apply to such dividend,

rules similar to the rules of subparagraphs (A) and (B) of subsection (f)(3) shall apply to such dividend."

(C) Subsection (f) of section 884 of the 1986 Code is amended—

(i) by striking out the 2nd sentence of paragraph (1), and

(ii) by adding at the end thereof the following new paragraph:

"(3) **COORDINATION WITH TREATIES.**—

"(A) **PAYOR MUST BE QUALIFIED RESIDENT.**—In the case of any interest described in paragraph (1) which is paid or accrued by a foreign corporation, no benefit under any treaty between the United States and the foreign country of which such corporation is a resident shall apply unless—

"(i) such treaty is an income tax treaty, and

"(ii) such foreign corporation is a qualified resident of such foreign country.

"(B) **RECIPIENT MUST BE QUALIFIED RESIDENT.**—In the case of any interest described in paragraph (1) which is received or accrued by any corporation, no benefit under any treaty between the United States and the foreign country of which such corporation is a resident shall apply unless—

"(i) such treaty is an income tax treaty, and

“(ii) such foreign corporation is a qualified resident of such foreign country.”

(3) Paragraph (1) of section 884(f) of the 1986 Code is amended—

(A) by striking out “sections 871, 881, 1441, and 1442” and inserting in lieu thereof “this subtitle”, and

(B) by adding at the end thereof the following new sentence:

“To the extent provided in regulations, subparagraph (A) shall not apply to interest in excess of the amounts reasonably expected to be deductible under section 882 in computing the effectively connected taxable income of such foreign corporation.”

(4) Paragraph (4) of section 884(e) of the 1986 Code is amended by redesignating subparagraph (C) as subparagraph (D) and by inserting after subparagraph (B) the following new subparagraph:

“(C) CORPORATIONS OWNED BY PUBLICLY TRADED DOMESTIC CORPORATIONS.—A foreign corporation which is a resident of a foreign country shall be treated as a qualified resident of such foreign country if—

“(i) such corporation is wholly owned (directly or indirectly) by a domestic corporation, and

“(ii) the stock of such domestic corporation is primarily and regularly traded on an established securities market in the United States.”

(5) Subparagraph (A) of section 884(e)(4) of the 1986 Code is amended—

(A) by striking out “more than 50 percent” in clause (i) and inserting in lieu thereof “50 percent or more”, and

(B) by striking out “or the United States” in clause (ii) and inserting in lieu thereof “or citizens or residents of the United States”.

(6) Subsection (e) of section 884 of the 1986 Code is amended by adding at the end thereof the following new paragraph:

“(5) EXCEPTION FOR INTERNATIONAL ORGANIZATIONS.—This section shall not apply to an international organization (as defined in section 7701(a)(18)).”

(7) Subparagraph (B) of section 861(a)(2) of the 1986 Code is amended by striking out “other than under section 884(d)(2)” each place it appears and inserting in lieu thereof “other than income described in section 884(d)(2)”.

(8) Paragraph (2) of section 26(b) of the 1986 Code is amended by striking out “and” at the end of subparagraph (J), by striking out the period at the end of subparagraph (K) and inserting in lieu thereof “, and”, and by adding at the end thereof the following new subparagraph:

“(L) section 884 (relating to branch profits tax).”

(9) Section 861 of the 1986 Code is amended by adding at the end thereof the following new subsection:

“(f) CROSS REFERENCE.—

“For treatment of interest paid by the branch of a foreign corporation, see section 884(f).”

(10) The paragraph (6) of section 906(b) of the 1986 Code which was added by section 1241(c) of the Reform Act is redesignated as paragraph (7).

(11) Subsection (c) of section 2104 of the 1986 Code is amended by striking out "section 861(a)(1)(B), section 861(a)(1)(G), or section 861(a)(1)(H)" and inserting in lieu thereof "subparagraph (A), (C), or (D) of section 861(a)(1)".

(12) Subparagraph (A) of section 904(g)(9) of the 1986 Code is amended by striking out "861(a)(1)(B)" and inserting in lieu thereof "861(a)(1)(A)".

(13)(A) Paragraph (1) of section 4373 of the 1986 Code is amended to read as follows:

"(1) **EFFECTIVELY CONNECTED ITEMS.**—Any amount which is effectively connected with the conduct of a trade or business within the United States unless such amount is exempt from the application of section 882(a) pursuant to a treaty obligation of the United States."

(B) The amendment made by subparagraph (A) shall apply with respect to premiums paid after the date 30 days after the date of the enactment of this Act.

26 USC 4373
note.

(14) Paragraph (1) of section 884(f) of the 1986 Code is amended by inserting "(or having gross income treated as effectively connected with the conduct of a trade or business in the United States)" after "United States" in the material preceding subparagraph (A) thereof.

(15) Section 861(a)(2)(C) of the 1986 Code is amended by striking out "section 243(d)" and inserting in lieu thereof "section 243(e)".

(r) **AMENDMENTS RELATED TO SECTION 1242 OF THE REFORM ACT.**—

(1) Paragraph (7) of section 864(c) of the 1986 Code is amended to read as follows:

"(7) **TREATMENT OF CERTAIN PROPERTY TRANSACTIONS.**—For purposes of this title, if—

"(A) any property ceases to be used or held for use in connection with the conduct of a trade or business within the United States, and

"(B) such property is disposed of within 10 years after such cessation,

the determination of whether any income or gain attributable to such disposition is taxable under section 871(b) or 882 (as the case may be) shall be made as if such sale or exchange occurred immediately before such cessation and without regard to the requirement that the taxpayer be engaged in a trade or business within the United States during the taxable year for which such income or gain is taken into account."

(2) Paragraph (6) of section 864(c) of the 1986 Code is amended to read as follows:

"(6) **TREATMENT OF CERTAIN DEFERRED PAYMENTS, ETC.**—For purposes of this title, in the case of any income or gain of a nonresident alien individual or a foreign corporation which—

"(A) is taken into account for any taxable year, but

"(B) is attributable to a sale or exchange of property or the performance of services (or any other transaction) in any other taxable year,

the determination of whether such income or gain is taxable under section 871(b) or 882 (as the case may be) shall be made as if such income or gain were taken into account in such other taxable year and without regard to the requirement that the taxpayer be engaged in a trade or business within the United States during the taxable year referred to in subparagraph (A)."

- (s) AMENDMENTS RELATED TO SECTION 1246 OF THE REFORM ACT.—
 (1)(A) Section 1446 of the 1986 Code is amended to read as follows:

“SEC. 1446. WITHHOLDING TAX ON FOREIGN PARTNERS’ SHARE OF EFFECTIVELY CONNECTED INCOME.

Regulations.

“(a) GENERAL RULE.—If—

“(1) a partnership has effectively connected taxable income for any taxable year, and

“(2) any portion of such income is allocable under section 704 to a foreign partner,

such partnership shall pay a withholding tax under this section at such time and in such manner as the Secretary shall by regulations prescribe.

“(b) AMOUNT OF WITHHOLDING TAX.—

“(1) IN GENERAL.—The amount of the withholding tax payable by any partnership under subsection (a) shall be equal to the applicable percentage of the effectively connected taxable income of the partnership which is allocable under section 704 to foreign partners.

“(2) APPLICABLE PERCENTAGE.—For purposes of paragraph (1), the term ‘applicable percentage’ means—

“(A) the highest rate of tax specified in section 1 in the case of the portion of the effectively connected taxable income which is allocable under section 704 to foreign partners who are not corporations, and

“(B) the highest rate of tax specified in section 11(b) in the case of the portion of the effectively connected taxable income which is allocable under section 704 to foreign partners which are corporations.

“(c) EFFECTIVELY CONNECTED TAXABLE INCOME.—For purposes of this section, the term ‘effectively connected taxable income’ means the taxable income of the partnership which is effectively connected (or treated as effectively connected) with the conduct of a trade or business in the United States computed with the following adjustments:

“(1) Paragraph (1) of section 703(a) shall not apply.

“(2) The partnership shall be allowed a deduction for depletion with respect to oil and gas wells but the amount of such deduction shall be determined without regard to sections 613 and 613A.

“(3) There shall not be taken into account any item of income, gain, loss, or deduction to the extent allocable under section 704 to any partner who is not a foreign partner.

“(d) TREATMENT OF FOREIGN PARTNERS.—

“(1) ALLOWANCE OF CREDIT.—Each foreign partner of a partnership shall be allowed a credit under section 33 for such partner’s share of the withholding tax paid by the partnership under this section. Such credit shall be allowed for the partner’s taxable year in which (or with which) the partnership taxable year (for which such tax was paid) ends.

“(2) CREDIT TREATED AS DISTRIBUTED TO PARTNER.—A foreign partner’s share of any withholding tax paid by the partnership under this section shall be treated as distributed to such partner by such partnership on the last day of the partnership’s taxable year (for which such tax was paid).

Petroleum and petroleum products.
 Natural gas.

“(e) FOREIGN PARTNER.—For purposes of this section, the term ‘foreign partner’ means any partner who is not a United States person.

“(f) REGULATIONS.—The Secretary shall prescribe such regulations as may be necessary to carry out the purposes of this section, including regulations providing for the application of this section in the case of publicly traded partnerships.”

(B) Paragraph (2) of section 6401(b) of the 1986 Code is amended by striking out the last sentence and inserting in lieu thereof the following: “The preceding sentence shall not apply to any credit so allowed by reason of section 1446.”

(C) The table of sections for subchapter A of chapter 3 of the 1986 Code is amended by striking out the item relating to section 1446 and inserting in lieu thereof the following:

“Sec. 1446. Withholding of tax on foreign partners’ share of effectively connected income.”

(D) The amendments made by this paragraph shall apply to taxable years beginning after December 31, 1987. No amount shall be required to be deducted and withheld under section 1446 of the 1986 Code (as in effect before the amendment made by subparagraph (A)).

26 USC 1446
note.

(2)(A) Subsection (a) of section 872 of the 1986 Code is amended by striking out “the case of a nonresident alien individual” and inserting in lieu thereof “the case of a nonresident alien individual, except where the context clearly indicates otherwise”.

(B) Subsection (b) of section 882 of the 1986 Code is amended by striking out “the case of a foreign corporation” and inserting in lieu thereof “the case of a foreign corporation, except where the context clearly indicates otherwise”.

(t) AMENDMENTS RELATED TO SECTION 1247 OF THE REFORM ACT.—

(1) Subparagraph (A) of section 892(a)(2) of the 1986 Code is amended by striking out “or” at the end of clause (i), by striking out the period at the end of clause (ii) and inserting in lieu thereof “, or”, and by adding at the end thereof the following new clause:

“(iii) derived from the disposition of any interest in a controlled commercial entity.”

(2) Clause (ii) of section 892(a)(2)(A) of the 1986 Code is amended to read as follows:

“(ii) received by a controlled commercial entity or received (directly or indirectly) from a controlled commercial entity.”

(3) Subsection (a) of section 892 of the 1986 Code is amended by adding at the end thereof the following new paragraph:

“(3) TREATMENT AS RESIDENT.—For purposes of this title, a foreign government shall be treated as a corporate resident of its country. A foreign government shall be so treated for purposes of any income tax treaty obligation of the United States if such government grants equivalent treatment to the Government of the United States.”

(4) Section 893 of the 1986 Code is amended by adding at the end thereof the following new subsection:

“(c) LIMITATION ON EXCLUSION.—Subsection (a) shall not apply

to—

“(1) any employee of a controlled commercial entity (as defined in section 892(a)(2)(B)), or

“(2) any employee of a foreign government whose services are primarily in connection with a commercial activity (whether within or outside the United States) of the foreign government.”

(u) AMENDMENT RELATED TO SECTION 1249 OF THE REFORM ACT.—Subsection (d) of section 1503 of the 1986 Code is amended by adding at the end thereof the following new paragraphs:

“(3) TREATMENT OF LOSSES OF SEPARATE BUSINESS UNITS.—To the extent provided in regulations, any loss of a separate unit of a domestic corporation shall be subject to the limitations of this subsection in the same manner as if such unit were a wholly owned subsidiary of such corporation.

Regulations.

“(4) INCOME ON ASSETS ACQUIRED AFTER THE LOSS.—The Secretary shall prescribe such regulations as may be necessary or appropriate to prevent the avoidance of the purposes of this subsection by contributing assets to the corporation with the dual consolidated loss after such loss was sustained.”

(v) AMENDMENTS RELATED TO SECTION 1261 OF THE REFORM ACT.—

(1)(A) So much of section 986 of the 1986 Code as precedes subsection (c) thereof is amended to read as follows:

“SEC. 986. DETERMINATION OF FOREIGN TAXES AND FOREIGN CORPORATION'S EARNINGS AND PROFITS.

“(a) FOREIGN TAXES.—

“(1) IN GENERAL.—For purposes of determining the amount of the foreign tax credit—

“(A) any foreign income taxes shall be translated into dollars using the exchange rates as of the time such taxes were paid to the foreign country or possession of the United States, and

“(B) any adjustment to the amount of foreign income taxes shall be translated into dollars using—

“(i) except as provided in clause (ii), the exchange rate as of the time when such adjustment is paid to the foreign country or possession, or

“(ii) in the case of any refund or credit of foreign income taxes, using the exchange rate as of the time of original payment of such foreign income taxes.

“(2) FOREIGN INCOME TAXES.—For purposes of paragraph (1), ‘foreign income taxes’ means any income, war profits, or excess profits taxes paid to any foreign country or to any possession of the United States.

“(b) EARNINGS AND PROFITS AND DISTRIBUTIONS.—For purposes of determining the tax under this subtitle—

“(1) of any shareholder of any foreign corporation, the earnings and profits of such corporation shall be determined in the corporation's functional currency, and

“(2) in the case of any United States person, the earnings and profits determined under paragraph (1) (when distributed, deemed distributed, or otherwise taken into account under this subtitle) shall (if necessary) be translated into dollars using the appropriate exchange rate.”

(B) Section 987 of the 1986 Code is amended by inserting “and” at the end of paragraph (2), by striking out “, and” at the end of paragraph (3) and inserting in lieu thereof a period, and by striking out paragraph (4).

(C) The table of sections for subpart J of part III of subchapter N of chapter 1 is amended by striking out the item relating to section 986 and inserting in lieu thereof the following:

"Sec. 986. Determination of foreign taxes and foreign corporation's earnings and profits."

(2)(A) Subsection (c) of section 988 of the 1986 Code is amended by adding at the end thereof the following new paragraph:

"(5) SPECIAL RULES WHERE TAXPAYER TAKES OR MAKES DELIVERY.—If the taxpayer takes or makes delivery in connection with any section 988 transaction described in paragraph (1)(B)(iii), any gain or loss (determined as if the taxpayer sold the contract, option, or instrument on the date on which he took or made delivery for its fair market value on such date) shall be recognized in the same manner as if such contract, option, or instrument were so sold."

(B) The amendment made by subparagraph (A) shall not apply in any case in which the taxpayer takes or makes delivery before June 11, 1987.

26 USC 988 note.

(3)(A) Subsection (b) of section 988 of the 1986 Code is amended by adding at the end thereof the following new paragraph:

"(3) SPECIAL RULE FOR CERTAIN CONTRACTS, ETC.—In the case of any section 988 transaction described in subsection (c)(1)(B)(iii), any gain or loss from such transaction shall be treated as foreign currency gain or loss (as the case may be)."

(B) Subclause (II) of section 988(c)(1)(C)(i) of the 1986 Code is amended to read as follows:

"(II) any gain or loss from such transaction shall be treated as foreign currency gain or loss (as the case may be)."

(C) Paragraph (2) of section 988(c) of the 1986 Code is amended by inserting "or" at the end of subparagraph (A), by striking out ", or" at the end of subparagraph (B) and inserting in lieu thereof a period, and by striking out subparagraph (C).

(D) Paragraph (3) of section 988(c) of the 1986 Code is amended to read as follows:

"(3) PAYMENT DATE.—The term 'payment date' means the date on which the payment is made or received."

(4) The first sentence of paragraph (1) of section 988(d) is amended by striking out "this section" and inserting in lieu thereof "this subtitle".

(5) Subsection (b) of section 989 of the 1986 Code is amended—

(A) by striking out "951(a)" in paragraph (3) and inserting in lieu thereof "951(a)(1)(A)", and

(B) by adding at the end thereof the following new sentence:

"For purposes of the preceding sentence, any amount included in income under section 951(a)(1)(B) shall be treated as an actual distribution made on the last day of the taxable year for which such amount was so included."

(6) Clause (iii) of section 988(c)(1)(B) of the 1986 Code is amended to read as follows:

"(iii) Entering into or acquiring any forward contract, futures contract, option, or similar financial instrument unless such instrument would be marked to

Contracts.

market under section 1256 if held on the last day of the taxable year.”

(7) Subparagraph (B) of section 988(a)(3) of the 1986 Code is amended by adding at the end thereof the following new clause:

“(iii) SPECIAL RULE FOR PARTNERSHIPS.—To the extent provided in regulations, in the case of a partnership, the determination of residence shall be made at the partner level.”

(8) Clause (i) of section 988(a)(3)(B) of the 1986 Code is amended by adding at the end thereof the following new sentence: “If an individual does not have a tax home (as so defined), the residence of such individual shall be the United States if such individual is a United States citizen or a resident alien and shall be a country other than the United States if such individual is not a United States citizen or a resident alien.”

(9) Section 903 of the 1986 Code is amended by striking out “this subpart” and inserting in lieu thereof “this part”.

(w) AMENDMENTS RELATED TO SECTION 1274 OF THE REFORM ACT.—

(1) Subsection (e) of section 932 of the 1986 Code is amended to read as follows:

“(e) SPECIAL RULE FOR APPLYING SECTION TO TAX IMPOSED IN VIRGIN ISLANDS.—In applying this section for purposes of determining income tax liability incurred to the Virgin Islands, the provisions of this section shall not be affected by the provisions of Federal law referred to in section 934(a).”

(2) Paragraph (4) of section 932(c) of the 1986 Code is amended to read as follows:

“(4) RESIDENTS OF THE VIRGIN ISLANDS.—In the case of an individual—

“(A) who is a bona fide resident of the Virgin Islands at the close of the taxable year,

“(B) who, on his return of income tax to the Virgin Islands, reports income from all sources and identifies the source of each item shown on such return, and

“(C) who fully pays his tax liability referred to in section 934(a) to the Virgin Islands with respect to such income, for purposes of calculating income tax liability to the United States, gross income shall not include any amount included in gross income on such return, and allocable deductions and credits shall not be taken into account.”

(3) Paragraph (2) of section 932(c) of the 1986 Code is amended by striking out “his income tax return” and inserting in lieu thereof “an income tax return”.

(4) Subsection (c) of section 1274 of the Reform Act is amended by striking out “this title” and inserting in lieu thereof “the Internal Revenue Code of 1986”.

(x) AMENDMENT RELATED TO SECTION 1275 OF THE REFORM ACT.—Section 1444 of the 1986 Code is amended by striking out “(as modified by section 934A)”.

(y) AMENDMENT RELATED TO SECTION 1276 OF THE REFORM ACT.—Subsection (a) of section 7654 of the 1986 Code is amended by striking out “an individual to which” and inserting in lieu thereof “an individual to whom”.

(z) AMENDMENT RELATED TO SECTION 1277 OF THE REFORM ACT.—

(1) Section 1277 of the Reform Act is amended by adding at the end thereof the following new subsection:

26 USC 932 note.

26 USC 931 note.

“(f) EXEMPTION FROM WITHHOLDING.—Notwithstanding subsection (b), the modification of section 884 of the Internal Revenue Code of 1986 by reason of the amendment to section 881 of such Code by section 1273(b)(1) of this Act shall apply to taxable years beginning after December 31, 1986.”

(2) Subsection (e) of section 1277 of the Reform Act is amended by striking out “The preceding sentence” and inserting in lieu thereof “Notwithstanding subsection (b), the preceding sentence”.

(aa) COORDINATION WITH TREATIES.—

(1) TREATY OBLIGATIONS.—

(A) Subsection (d) of section 7852 of the 1986 Code is amended to read as follows:

“(d) TREATY OBLIGATIONS.—

“(1) IN GENERAL.—For purposes of determining the relationship between a provision of a treaty and any law of the United States affecting revenue, neither the treaty nor the law shall have preferential status by reason of its being a treaty or law.

“(2) SAVINGS CLAUSE FOR 1954 TREATIES.—No provision of this title (as in effect without regard to any amendment thereto enacted after August 16, 1954) shall apply in any case where its application would be contrary to any treaty obligation of the United States in effect on August 16, 1954.”

(B) Section 7852(d)(1) of the 1986 Code, as added by subparagraph (A), shall apply to any taxable period with respect to which the time for assessment of any deficiency has not expired by reason of any law or rule of law before the date of the enactment of this Act.

26 USC 7852
note.

(2) CERTAIN AMENDMENTS TO APPLY NOTWITHSTANDING TREATIES.—The following amendments made by the Reform Act shall apply notwithstanding any treaty obligation of the United States in effect on the date of the enactment of the Reform Act:

26 USC 861 note.

(A) The amendments made by section 1201 of the Reform Act.

(B) The amendments made by title VII of the Reform Act to the extent such amendments relate to the alternative minimum tax foreign tax credit.

(3) CERTAIN AMENDMENTS NOT TO APPLY TO THE EXTENT INCONSISTENT WITH TREATIES.—The following amendments made by the Reform Act shall not apply to the extent the application of such amendments would be contrary to any treaty obligation of the United States in effect on the date of the enactment of the Reform Act:

26 USC 861 note.

(A) The amendments made by section 1211 of the Reform Act to the extent—

(i) such amendments apply in the case of an individual treated as a resident of a foreign country under a treaty obligation of the United States as so in effect, or

(ii) such amendments relate to income of a non-resident from the sale or exchange of inventory property which would otherwise be sourced under section 865(e)(2) of the 1986 Code.

(B) The amendments made by section 1212(a) of the Reform Act; except for purposes of determining the amount of the foreign tax credit.

(C) The amendments made by subsections (b) and (c) of section 1212 of the Reform Act.

(D) The amendments made by section 1214 of the Reform Act; except for purposes of determining the amount of the foreign tax credit.

(E) The amendment made by section 1241(a) of the Reform Act to the extent that, under a treaty obligation of the United States, interest described in section 884(f)(1)(A) of the 1986 Code (as added by such amendment) which is in excess of amounts deducted would be treated as other than United States source.

(F) The amendment made by section 1241(b)(2)(A) of the Reform Act.

(G) The amendment made by section 1241(a) of the Reform Act to the extent such amendment relates to section 884(f)(1)(B) of the 1986 Code.

(H) The amendments made by section 1242 of the Reform Act to the extent they relate to paragraph (7) of section 864(c) of the 1986 Code.

(I) The amendment made by section 1247(a) of the Reform Act.

(J) The amendments made by section 123 of the Reform Act.

26 USC 861 note.

(4) **TREATMENT OF TECHNICAL CORRECTIONS.**—For purposes of paragraphs (2) and (3), any amendment made by this title shall be treated as if it had been included in the provision of the Reform Act to which such amendment relates.

(5) **REPORTING OF CERTAIN TREATY-BASED RETURN POSITIONS.**—

(A) Subchapter B of chapter 61 of the 1986 Code is amended by redesignating section 6114 as section 6115 and by inserting after section 6113 the following new section:

“SEC. 6114. TREATY-BASED RETURN POSITIONS.

“(a) **IN GENERAL.**—Each taxpayer who, with respect to any tax imposed by this title, takes the position that a treaty of the United States overrules (or otherwise modifies) an internal revenue law of the United States shall disclose (in such manner as the Secretary may prescribe) such position—

“(1) on the return of tax for such tax (or any statement attached to such return), or

“(2) if no return of tax is required to be filed, in such form as the Secretary may prescribe.

“(b) **WAIVER AUTHORITY.**—The Secretary may by regulations waive the requirements of subsection (a) with respect to classes of cases for which the Secretary determines that the waiver will not impede the assessment and collection of tax.”

(B) Part I of subchapter B of chapter 68 of the 1986 Code is amended by adding at the end thereof the following new section:

“SEC. 6712. FAILURE TO DISCLOSE TREATY-BASED RETURN POSITIONS.

“(a) **GENERAL RULE.**—If a taxpayer fails to meet the requirements of section 6114, there is hereby imposed a penalty equal to \$1,000 (\$10,000 in the case of a C corporation) on each such failure.

“(b) **AUTHORITY TO WAIVE.**—The Secretary may waive all or any part of the penalty provided by this section on a showing by the taxpayer that there was reasonable cause for the failure and that the taxpayer acted in good faith.

Law enforcement and crime.

“(c) **PENALTY IN ADDITION TO OTHER PENALTIES.**—The penalty imposed by this section shall be in addition to any other penalty imposed by law.”

(C)(i) The table of sections for subchapter B of chapter 61 of the 1986 Code is amended by striking out the item relating to section 6114 and inserting in lieu thereof the following:

“Sec. 6114. Treaty-based return positions.

“Sec. 6115. Cross reference.”

(ii) The table of sections for part I of subchapter B of chapter 68 of the 1986 Code is amended by adding at the end thereof the following new item:

“Sec. 6712. Failure to disclose treaty-based return positions.”

(D) The amendments made by this paragraph shall apply to taxable periods the due date for filing returns for which (without extension) occurs after December 31, 1988.

26 USC 6114
note.

(6) Subsection (a) of section 894 of the 1986 Code is amended to read as follows:

“(a) **TREATY PROVISIONS.**—

“(1) **IN GENERAL.**—The provisions of this title shall be applied to any taxpayer with due regard to any treaty obligation of the United States which applies to such taxpayer.

“(2) **CROSS REFERENCE.**—

“For relationship between treaties and this title, see section 7852(d).”

(bb) **MISCELLANEOUS FOREIGN TECHNICAL CORRECTIONS.**—

(1) **PROVISIONS RELATING TO FOREIGN PERSONAL HOLDING COMPANIES.**—

(A) Subsection (f) of section 551 of the 1986 Code is amended—

(i) by amending paragraph (1) to read as follows:

“(1) a foreign partnership or an estate or trust which is a foreign estate or trust, or”, and

(ii) by striking out the last sentence and inserting in lieu thereof the following: “In any case to which the preceding sentence applies, the Secretary may by regulations provide that rules similar to the rules of section 1297(b)(5) shall apply, and provide for such other adjustments in the application of this subchapter as may be necessary to carry out the purposes of this subsection.”

(B) Subsection (a) of section 551 of the 1986 Code is amended by striking out “(other than estates or trusts the gross income of which under this subtitle includes only income from sources within the United States)” and inserting in lieu thereof “(other than foreign estates or trusts)”.

(C) Subsection (c) of section 552 of the 1986 Code is amended to read as follows:

“(c) **LOOK-THRU FOR CERTAIN DIVIDENDS AND INTEREST.**—

“(1) **IN GENERAL.**—For purposes of this part, any related person dividend or interest shall be treated as foreign personal holding company income only to the extent such dividend or interest is attributable (determined under rules similar to the rules of subparagraphs (C) and (D) of section 904(d)(3)) to income of the related person which would be foreign personal holding company income.

“(2) RELATED PERSON DIVIDEND OR INTEREST.—For purposes of paragraph (1), the term ‘related person dividend or interest’ means any dividend or interest which—

“(A) is described in subparagraph (A) of section 954(c)(3), and

“(B) is received from a related person which is not a foreign personal holding company (determined without regard to this subsection).

For purposes of the preceding sentence, the term ‘related person’ has the meaning given such term by section 954(d)(3) (determined by substituting ‘foreign personal holding company’ for ‘controlled foreign corporation’ each place it appears).”

26 USC 551 note.

(D) The amendments made by this paragraph shall apply to taxable years of foreign corporations beginning after December 31, 1986.

(2) TREATMENT OF CERTAIN PAYMENTS OUTSIDE THE UNITED STATES.—

(A) Subparagraph (A) of section 3405(d)(13) of the 1986 Code is amended by striking out “the United States” and inserting in lieu thereof “the United States and any possession of the United States”.

(B) Clause (i) of section 3405(d)(13)(B) of the 1986 Code is amended to read as follows:

“(i) a United States citizen or a resident alien of the United States, or”.

(C) The heading of paragraph (13) of section 3405(d) of the 1986 Code is amended by striking out “UNITED STATES” and inserting in lieu thereof “UNITED STATES OR ITS POSSESSIONS”.

26 USC 3405 note.

(D) The amendments made by this paragraph shall apply to distributions made after the date of the enactment of this Act.

(3) CLARIFICATION OF DISCLOSURE UNDER CERTAIN AGREEMENTS.—

(A) Paragraph (4) of section 6103(k) of the 1986 Code is amended—

(i) by striking out “or other convention” and inserting in lieu thereof “or other convention or bilateral agreement”, and

(ii) by striking out “such convention” and inserting in lieu thereof “such convention or bilateral agreement”.

(B) Subparagraph (A) of section 6103(b)(5) of the 1986 Code is amended by striking out “the Commonwealth of the Northern Mariana Islands, the Republic of the Marshall Islands, the Federated States of Micronesia, and the Republic of Palau” and inserting in lieu thereof “and the Commonwealth of the Northern Mariana Islands”.

Effective date.
26 USC 6103 note.

(C) The amendments made by this paragraph shall take effect on the date of the enactment of the Tax Reform Act of 1986.

(4) COORDINATION OF TREATIES WITH SECTION 904 (g).—

(A) Subsection (g) of section 904 of the 1986 Code is amended by redesignating paragraph (10) as paragraph (11) and by inserting after paragraph (9) the following new paragraph:

“(10) COORDINATION WITH TREATIES.—

“(A) IN GENERAL.—If—

“(i) any amount derived from a United States-owned foreign corporation would be treated as derived from sources within the United States under this subsection by reason of an item of income of such United States-owned foreign corporation,

“(ii) under a treaty obligation of the United States (applied without regard to this subsection and by treating any amount included in gross income under section 951(a)(1) as a dividend), such amount would be treated as arising from sources outside the United States, and

“(iii) the taxpayer chooses the benefits of this paragraph,

this subsection shall not apply to such amount to the extent attributable to such item of income (but subsections (a), (b), and (c) of this section and sections 902, 907, and 960 shall be applied separately with respect to such amount to the extent so attributable).

“(B) SPECIAL RULE.—Amounts included in gross income under section 951(a)(1) shall be treated as a dividend under subparagraph (A)(ii) only if dividends paid by each corporation (the stock in which is taken into account in determining whether the shareholder is a United States shareholder in the United States-owned foreign corporation), if paid to the United States shareholder, would be treated under a treaty obligation of the United States as arising from sources outside the United States (applied without regard to this subsection).”

(B) The amendment made by subparagraph (A) shall take effect as if included in the amendment made by section 121 of the Tax Reform Act of 1984.

Effective date.
26 USC 904 note.

(5) TREATMENT OF ELECTION UNDER SECTION 338.—

(A) IN GENERAL.—Subsection (h) of section 338 of the 1986 Code is amended by adding at the end thereof the following new paragraph:

“(16) COORDINATION WITH FOREIGN TAX CREDIT PROVISIONS.—Except as provided in regulations, this section shall not apply for purposes of determining the source or character of any item for purposes of subpart A of part III of subchapter N of this chapter (relating to foreign tax credit). The preceding sentence shall not apply to any gain to the extent such gain is includible in gross income as a dividend under section 1248 (determined without regard to any deemed sale under this section by a foreign corporation).”

(B) EFFECTIVE DATE.—The amendment made by subparagraph (A) shall apply to qualified stock purchases (as defined in section 338(d)(3) of the 1986 Code) after March 31, 1988, except that, in the case of an election under section 338(h)(10) of the 1986 Code, such amendment shall apply to qualified stock purchases (as so defined) after June 10, 1987.

26 USC 338 note.

(6) TREATMENT OF TAX-EXEMPT SHAREHOLDERS OF A DISC.—

(A) Section 995 of the 1986 Code is amended by adding at the end thereof the following new subsection:

“(g) TREATMENT OF TAX-EXEMPT SHAREHOLDERS.—If any organization described in subsection (a)(2) or (b)(2) of section 511 is a shareholder in a DISC—

“(1) any amount deemed distributed to such shareholder under subsection (b),

“(2) any actual distribution to such shareholder which under section 996 is treated as out of accumulated DISC income, and

“(3) any gain which is treated as a dividend under subsection (c),

shall be treated as derived from the conduct of an unrelated trade or business (and the modifications of section 512(b) shall not apply). The rules of the preceding sentence shall apply also for purposes of determining any such shareholder's DISC-related deferred tax liability under subsection (f).”

26 USC 995 note.

(B) The amendment made by subparagraph (A) shall apply to taxable years beginning after December 31, 1987.

(7) TREATMENT OF CERTAIN AMOUNTS PREVIOUSLY TAXED UNDER SECTION 1248.—

(A) IN GENERAL.—Subsection (e) of section 959 of the 1986 Code is amended by striking out “such person under” and inserting in lieu thereof “such person (or, in any case to which section 1248(e) applies, of the domestic corporation referred to in section 1248(e)(2)) under”.

26 USC 959 note.

(B) EFFECTIVE DATE.—The amendment made by subparagraph (A) shall apply in the case of transactions to which section 1248(e) of the 1986 Code applies and which occur after December 31, 1986.

(8) TREATMENT OF SHARED FSC'S.—

(A) IN GENERAL.—Section 927 of the 1986 Code is amended by adding at the end thereof the following new subsection:

“(g) TREATMENT OF SHARED FSC'S.—

“(1) IN GENERAL.—Except as provided in paragraph (2), each separate account referred to in paragraph (3) maintained by a shared FSC shall be treated as a separate corporation for purposes of this subpart.

“(2) CERTAIN REQUIREMENTS APPLIED AT SHARED FSC LEVEL.—Paragraph (1) shall not apply—

“(A) for purposes of—

“(i) subparagraphs (A), (B), (D), and (E) of section 922(a)(1),

“(ii) paragraph (2) of section 922(a),

“(iii) subsections (b), (c), and (e) of section 924, and

“(iv) subsection (f) of this section, and

“(B) for such other purposes as the Secretary may by regulations prescribe.

“(3) SHARED FSC.—For purposes of this subsection, the term ‘shared FSC’ means any corporation if—

“(A) such corporation maintains a separate account for transactions with each shareholder (and persons related to such shareholder),

“(B) distributions to each shareholder are based on the amounts in the separate account maintained with respect to such shareholder, and

“(C) such corporation meets such other requirements as the Secretary may by regulations prescribe.”

26 USC 927 note.

(B) The amendment made by subparagraph (A) shall apply as if included in the provision of the Tax Reform Act of 1984 to which it relates.

(9) CLARIFICATION OF DIVIDENDS RECEIVED DEDUCTION FOR DIVIDENDS FROM A FSC.—

(A) Subsection (c) of section 245 of the 1986 Code is amended to read as follows:

“(c) CERTAIN DIVIDENDS RECEIVED FROM FSC.—

“(1) **IN GENERAL.**—In the case of a domestic corporation, there shall be allowed as a deduction an amount equal to—

“(A) 100 percent of any dividend received from another corporation which is distributed out of earnings and profits attributable to foreign trade income for a period during which such other corporation was a FSC, and

“(B) 70 percent (80 percent in the case of dividends from a 20-percent owned corporation as defined in section 243(c)(2)) of any dividend received from another corporation which is distributed out of earnings and profits attributable to effectively connected income received or accrued by such other corporation while such other corporation was a FSC.

“(2) **EXCEPTION FOR CERTAIN DIVIDENDS.**—Paragraph (1) shall not apply to any dividend which is distributed out of earnings and profits attributable to foreign trade income which—

“(A) is section 923(a)(2) nonexempt income (within the meaning of section 927(d)(6)), or

“(B) would not, but for section 923(a)(4), be treated as exempt foreign trade income.

“(3) **NO DEDUCTION UNDER SUBSECTION (a) OR (b).**—No deduction shall be allowable under subsection (a) or (b) with respect to any dividend which is distributed out of earnings and profits of a corporation accumulated while such corporation was a FSC.

“(4) **DEFINITIONS.**—For purposes of this subsection—

“(A) **FOREIGN TRADE INCOME; EXEMPT FOREIGN TRADE INCOME.**—The terms ‘foreign trade income’ and ‘exempt foreign trade income’ have the respective meanings given such terms by section 923.

“(B) **EFFECTIVELY CONNECTED INCOME.**—The term ‘effectively connected income’ means any income which is effectively connected (or treated as effectively connected) with the conduct of a trade or business in the United States and is subject to tax under this chapter. Such term shall not include any foreign trade income.”

(B) The amendment made by subparagraph (A) shall apply as if included in the provision of the Tax Reform Act of 1984 to which it relates.

26 USC 245 note.

SEC. 1013. AMENDMENTS RELATED TO TITLE XIII OF THE REFORM ACT.**(a) AMENDMENTS RELATED TO SECTION 1301 OF THE REFORM ACT.—**

(1) Clause (iii) of section 142(d)(4)(B) of the 1986 Code is amended by striking out “average rent” and inserting in lieu thereof “average gross rent”.

(2) Clause (iii) of section 143(a)(2)(A) of the 1986 Code is amended by striking out “no bond which is part of such issue meets” and inserting in lieu thereof “such issue does not meet”.

(3) Paragraph (4) of section 143(b) of the 1986 Code is amended by inserting “is part of an issue which” after “which”.

(4)(A) Clause (ii) of section 144(a)(12)(A) of the 1986 Code is amended by inserting “(or series of bonds)” before “issued to refund”.

(B)(i) Subclause (I) of section 144(a)(12)(A)(ii) of the 1986 Code is amended to read as follows:

“(I) the average maturity date of the issue of which the refunding bond is a part is not later than the average maturity date of the bonds to be refunded by such issue.”.

(ii) Subparagraph (A) of section 144(a)(12) of the 1986 Code is amended by adding at the end thereof the following new sentence:

“For purposes of clause (ii)(I), average maturity shall be determined in accordance with section 147(b)(2)(A).”

26 USC 144 note.

(iii) A refunding bond issued before July 1, 1987, shall be treated as meeting the requirement of subclause (I) of section 144(a)(12)(A)(ii) of the 1986 Code if such bond met the requirement of such subclause as in effect before the amendments made by this subparagraph.

(C) Clause (ii) of section 144(a)(12)(A) of the 1986 Code is amended by adding “and” at the end of subclause (II), by striking out subclause (III), and by redesignating subclause (IV) as subclause (III).

Loans.

(5) Subparagraph (B) of section 144(b)(1) of the 1986 Code is amended—

(A) by striking out “to which part B of title IV of the Higher Education Act of 1965 (relating to guaranteed student loans) does not apply”, and

(B) by striking out “of such Act” and inserting in lieu thereof “of the Higher Education Act of 1965”, and

(C) by striking out “eligible” and all that follows in such subparagraph and inserting in lieu thereof the following: “eligible. A program shall not be treated as described in this subparagraph if such program is described in subparagraph (A).”

A bond shall not be treated as a qualified student loan bond if the issue of which such bond is a part meets the private business tests of paragraphs (1) and (2) of section 141(b) (determined by treating 501(c)(3) organizations as governmental units with respect to their activities which do not constitute unrelated trades or businesses, determined by applying section 513(a).”

(6) Subclause (I) of section 145(b)(2)(B)(ii) of the 1986 Code is amended by striking out “103(b)” and inserting in lieu thereof “103(b)(2)”.

(7) Clause (i) of section 145(b)(2)(C) of the 1986 Code is amended by striking out “subparagraph (B)(ii)” and inserting in lieu thereof “subparagraph (B)”.

(8) Paragraph (4) of section 145(b) of the 1986 Code is amended by striking out “subparagraphs (C) and (D)” and inserting in lieu thereof “subparagraphs (C), (D), and (E)”.

(9) Subparagraph (A) of section 146(f)(5) of the 1986 Code (as in effect before the amendments made by section 10631 of the Revenue Act of 1987) is amended to read as follows:

“(A) the purpose of issuing exempt facility bonds described in I of the paragraphs of section 142(a).”.

(10)(A) Paragraph (1) of section 146(k) of the 1986 Code is amended by striking out “paragraph (2)” and inserting in lieu thereof “paragraphs (2) and (3)”.

(B) Subsection (k) of section 146 of the 1986 Code is amended by adding at the end thereof the following new paragraph:

“(3) TREATMENT OF GOVERNMENTAL BONDS TO WHICH VOLUME CAP ALLOCATED.—Paragraph (1) shall not apply to any bond to which volume cap is allocated under section 141(b)(5)—

“(A) for an output facility, or

“(B) for a facility of a type described in paragraph (4), (5), (6), or (10) of section 142(a),

if the issuer establishes that the State's share of the private business use (as defined by section 141(b)(6)) of the facility will equal or exceed the State's share of the volume cap allocated with respect to bonds issued to finance the facility.”

(11) Subsection (e) of section 147 of the 1986 Code is amended by striking out “treated as”.

(12) Subsection (f) of section 147 of the 1986 Code (relating to public approval requirement for private activity bonds) is amended by adding at the end thereof the following new paragraph:

“(4) SPECIAL RULES FOR SCHOLARSHIP FUNDING BOND ISSUES AND VOLUNTEER FIRE DEPARTMENT BOND ISSUES.—

“(A) SCHOLARSHIP FUNDING BONDS.—In the case of a qualified scholarship funding bond, any governmental unit which made a request described in section 150(d)(2)(B) with respect to the issuer of such bond shall be treated for purposes of paragraph (2) of this subsection as the governmental unit on behalf of which such bond was issued. Where more than one governmental unit within a State has made a request described in section 150(d)(2)(B), the State may also be treated for purposes of paragraph (2) of this subsection as the governmental unit on behalf of which such bond was issued.

“(B) VOLUNTEER FIRE DEPARTMENT BONDS.—In the case of a bond of a volunteer fire department which meets the requirements of section 150(e), the political subdivision described in section 150(e)(2)(B) with respect to such department shall be treated for purposes of paragraph (2) of this subsection as the governmental unit on behalf of which such bond was issued.”

(13)(A) Paragraph (1) of section 147(g) of the 1986 Code (relating to restriction on issuance costs financed by issue) is amended by striking out “aggregate face amount of the issue” and inserting in lieu thereof “proceeds of the issue”.

(B) Paragraph (2) of section 147(g) of the 1986 Code is amended by striking out “aggregate authorized face amount of the issue does not” and inserting in lieu thereof “proceeds of the issue do not”.

(C) The amendments made by this paragraph shall apply to bonds issued after June 30, 1987.

26 USC 147 note.

(14) Paragraph (2) of section 148(d) of the 1986 Code (relating to special rules for reasonably required reserve or replacement fund) is amended by striking out “any fund described in paragraph (1)” and inserting in lieu thereof “any reserve or replacement fund”.

(15) Paragraph (3) of section 148(f) of the 1986 Code is amended by adding at the end thereof the following new sentence: “A series of issues which are redeemed during a 6-month period (or such longer period as the Secretary may prescribe) shall be

treated (at the election of the issuer) as 1 issue for purposes of the preceding sentence if no bond which is part of any issue in such series has a maturity of more than 270 days or is a private activity bond."

(16)(A) Subclause (I) of section 148(f)(4)(B)(iii) of the 1986 Code (relating to safe harbor for determining when proceeds of tax or revenue anticipation bonds are expended) is amended by striking out "aggregate face amount of such issue" and inserting in lieu thereof "proceeds of such issue".

26 USC 148 note.

(B) The amendment made by subparagraph (A) shall apply to bonds issued after June 30, 1987.

(17)(A) Subparagraph (C) of section 148(f)(4) of the 1986 Code is amended—

(i) by striking out the heading and inserting in lieu thereof:

"(C) EXCEPTION FOR GOVERNMENTAL UNITS ISSUING \$5,000,000 OR LESS OF BONDS.—

"(i) IN GENERAL.—",

(ii) by redesignating clauses (i) through (iv) as subclauses (I) through (IV), respectively, and moving the margins of such subclauses 2 ems to the right, and

(iii) by striking out the last sentence and inserting in lieu thereof the following new clauses:

"(ii) AGGREGATION OF ISSUERS.—For purposes of subclause (IV) of clause (i)—

"(I) an issuer and all entities which issue bonds on behalf of such issuer shall be treated as 1 issuer,

"(II) all bonds issued by a subordinate entity shall, for purposes of applying such subclause to each other entity to which such entity is subordinate, be treated as issued by such other entity, and

"(III) an entity formed (or, to the extent provided by the Secretary, availed of) to avoid the purposes of such subclause (IV) and all other entities benefiting thereby shall be treated as 1 issuer.

"(iii) CERTAIN REFUNDING BONDS NOT TAKEN INTO ACCOUNT IN DETERMINING SMALL ISSUER STATUS.—There shall not be taken into account under subclause (IV) of clause (i) any bond issued to refund (other than to advance refund) any bond to the extent the amount of the refunding bond does not exceed the outstanding amount of the refunded bond.

"(iv) CERTAIN ISSUES ISSUED BY SUBORDINATE GOVERNMENTAL UNITS, ETC., EXEMPT FROM REBATE REQUIREMENT.—An issue issued by a subordinate entity of a governmental unit with general taxing powers shall be treated as described in clause (i)(I) if the aggregate face amount of such issue does not exceed the lesser of—

"(I) \$5,000,000, or

"(II) the amount which, when added to the aggregate face amount of other issues issued by such entity, does not exceed the portion of the \$5,000,000 limitation under clause (i)(IV) which such governmental unit allocates to such entity.

For purposes of the preceding sentence, an entity which issues bonds on behalf of a governmental unit with general taxing powers shall be treated as a

subordinate entity of such unit. An allocation shall be taken into account under subclause (II) only if it is irrevocable and made before the issuance date of such issue and only to the extent that the limitation so allocated bears a reasonable relationship to the benefits received by such governmental unit from issues issued by such entity.

“(v) DETERMINATION OF WHETHER REFUNDING BONDS ELIGIBLE FOR EXCEPTION FROM REBATE REQUIREMENT.—If any portion of an issue is issued to refund other bonds, such portion shall be treated as a separate issue which does not meet the requirements of paragraphs (2) and (3) by reason of this subparagraph unless—

“(I) the aggregate face amount of such issue does not exceed \$5,000,000,

“(II) each refunded bond was issued as part of an issue which was treated as meeting the requirements of paragraphs (2) and (3) by reason of this subparagraph,

“(III) the average maturity date of the refunding bonds issued as part of such issue is not later than the average maturity date of the bonds to be refunded by such issue, and

“(IV) no refunding bond has a maturity date which is later than the date which is 30 years after the date the original bond was issued.

Subclause (III) shall not apply if the average maturity of the issue of which the original bond was a part (and of the issue of which the bonds to be refunded are a part) is 3 years or less. For purposes of this clause, average maturity shall be determined in accordance with section 147(b)(2)(A).

“(vi) REFUNDINGS OF BONDS ISSUED UNDER LAW PRIOR TO TAX REFORM ACT OF 1986.—If section 141(a) did not apply to any refunded bond, the issue of which such refunded bond was a part shall be treated as meeting the requirements of subclause (II) of clause (v) if—

“(I) such issue was issued by a governmental unit with general taxing powers,

“(II) no bond issued as part of such issue was an industrial development bond (as defined in section 103(b)(2), but without regard to subparagraph (B) of section 103(b)(3)) or a private loan bond (as defined in section 103(o)(2)(A), but without regard to any exception from such definition other than section 103(o)(2)(C)), and

“(III) the aggregate face amount of all tax-exempt bonds (other than bonds described in subclause (II)) issued by such unit during the calendar year in which such issue was issued did not exceed \$5,000,000.

References in subclause (II) to section 103 shall be to such section as in effect on the day before the date of the enactment of the Tax Reform Act of 1986. Rules similar to the rules of clauses (ii) and (iii) shall apply for purposes of subclause (III). For purposes of subclause (II) of clause (i), bonds described in subclause

(II) of this clause to which section 141(a) does not apply shall not be treated as private activity bonds."

(B) Subclause (IV) of section 148(f)(4)(C)(i) of the 1986 Code (as redesignated by subparagraph (A)) is amended by striking out "(and all subordinate entities thereof)".

26 USC 148 note.

(C)(i) Except as provided in clause (ii), the amendments made by this paragraph shall apply to bonds issued after June 30, 1987.

(ii) At the election of an issuer (made at such time and in such manner as the Secretary of the Treasury or his delegate may prescribe), the amendments made by this paragraph shall apply to such issuer as if included in the amendments made by section 1301(a) of the Tax Reform Act of 1986.

(18) Clause (i) of section 148(f)(4)(D) of the 1986 Code is amended—

(A) by inserting "for a program" before "described in section 144(b)(1)(A)",

(B) by striking out "such a program" and inserting in lieu thereof "such program", and

Loans.

(C) by adding at the end thereof the following: "Amounts designated as interest on student loans shall not be taken into account in determining whether the issuer is reimbursed for such costs. Except as otherwise hereafter provided in regulations prescribed by the Secretary, costs described in subclause (I) paid from amounts earned as described in the first sentence of this clause may also be taken into account in determining the yield on the student loans under a program described in section 144(b)(1)(A)."

(19) Subparagraph (B) of section 148(f)(7) of the 1986 Code is amended by striking out "due to reasonable cause and not" and inserting in lieu thereof "not due".

(20) Clause (iii) of section 149(b)(3)(A) of the 1986 Code is amended by striking out "with respect to any bond issued before July 1, 1989".

(21) Subparagraph (A) of section 149(b)(4) of the 1986 Code is amended by striking out "a qualified student loan bond, and a qualified redevelopment bond" and inserting in lieu thereof "and a qualified student loan bond".

(22) Paragraph (3) of section 149(e) of the 1986 Code (relating to information reporting) is amended by striking out "there is reasonable cause for the failure to file such statement in a timely fashion" and inserting in lieu thereof "the failure to file in a timely fashion is not due to willful neglect".

(23)(A) Subparagraph (B) of section 150(b)(4) of the 1986 Code (relating to change in use of facilities financed with tax-exempt private activity bonds) is amended by inserting before the period "or a qualified small issue bond".

(B) The heading for paragraph (4) of section 150(b) of the 1986 Code is amended by inserting "AND SMALL ISSUE BONDS" after "EXEMPT FACILITY BONDS".

(C) Subparagraph (A) of section 150(b)(1) of the 1986 Code is amended by inserting "tax-exempt" before "qualified mortgage bond".

(24)(A) Subsection (e) of section 150 of the 1986 Code is amended by adding at the end thereof the following new paragraph:

"(3) TREATMENT AS PRIVATE ACTIVITY BONDS ONLY FOR CERTAIN PURPOSES.—Bonds which are part of an issue which meets the

requirements of paragraph (1) shall not be treated as private activity bonds except for purposes of sections 147(f) and 149(d)."

(B) The amendment made by subparagraph (A) shall apply to bonds issued after October 21, 1988.

26 USC 150 note.

(25) Clause (ii) of section 1301(f)(2)(C) of the Reform Act is amended to read as follows:

26 USC 25.

"(ii) Clause (ii) of section 25(c)(2)(A) is amended by striking out all that follows 'an amount of' and inserting in lieu thereof 'private activity bonds which it may otherwise issue during such calendar year under section 146.'"

(26) Subsection (h) of section 25 of the 1986 Code (relating to credit for interest on certain home mortgages) is amended by striking out "1987" and inserting in lieu thereof "1988".

(27) The date contained in section 143(a)(1)(B) of the 1986 Code shall be treated as contained in section 103A(c)(1)(B) of the Internal Revenue Code of 1954, as in effect on the day before the date of the enactment of the Reform Act, for purposes of any bond issued to refund a bond to which such 103A(c)(1) applies.

26 USC 143 note.

(28)(A) Subparagraph (A) of section 146(i)(2) of the 1986 Code is amended to read as follows:

"(A) the average maturity date of the qualified student loan bonds to be refunded by the issue of which the refunding bond is a part, or"

(B) Subparagraph (A) of section 146(i)(3) of the 1986 Code is amended to read as follows:

"(A) the average maturity date of the qualified mortgage bonds to be refunded by the issue of which the refunding bond is a part, or"

(C) Subsection (i) of section 146 of the 1986 Code is amended by redesignating paragraph (4) as paragraph (5) and by inserting after paragraph (3) the following new paragraph:

"(4) AVERAGE MATURITY.—For purposes of paragraphs (2) and (3), average maturity shall be determined in accordance with section 147(b)(2)(A)."

(29) Subparagraph (D) of section 147(f)(2) of the 1986 Code is amended by striking out "the maturity date" and all that follows and inserting in lieu thereof "the average maturity date of the issue of which the refunding bond is a part is later than the average maturity date of the bonds to be refunded by such issue. For purposes of the preceding sentence, average maturity shall be determined in accordance with subsection (b)(2)(A)."

(30) Subparagraph (A) of section 150(b)(1) of the 1986 Code is amended by inserting before the period "and before the date such residence is again the principal residence of at least 1 of the mortgagors who received such financing".

(31) Subparagraph (A) of section 150(b)(2) of the 1986 Code is amended by striking out "described paragraph" and inserting in lieu thereof "described in paragraph".

(32) Paragraph (2) of section 150(b) of the 1986 Code is amended by adding at the end thereof the following: "If the provisions of prior law corresponding to section 142(d) apply to a refunded bond, such provisions shall apply (in lieu of section 142(d)) to the refunding bond."

(33) Subsection (b) of section 150 of the 1986 Code is amended by adding at the end thereof the following new paragraph:

"(6) SMALL ISSUE BONDS WHICH EXCEED CAPITAL EXPENDITURE LIMITATION.—In the case of any financing provided from the

proceeds of any bond which, when issued, purported to be a qualified small issue bond, no deduction shall be allowed under this chapter for interest on such financing which accrues during the period such bond is not a qualified small issue bond."

(34)(A) Paragraph (7) of section 103(c) of the Internal Revenue Code of 1954 (as in effect on the day before the date of the enactment of the Tax Reform Act of 1986) is amended by striking out "necessary" and inserting in lieu thereof "necessary".

26 USC 103 note.

(B) Subparagraph (A) shall apply to obligations sold after May 2, 1978, and to which Treasury regulation section 1.103-13 (1979) was provided to apply.

26 USC 103 note.

(35) VALIDATION OF SINKING FUND REGULATIONS.—

(A) Treasury Regulation section 1.103-13(g) (1979) is hereby enacted into positive law.

(B)(i) Except as provided in clause (ii), subparagraph (A) shall apply to obligations sold after May 2, 1978, and to which such regulation was provided to apply.

(ii) Treasury Regulation section 1.103-13(g) (1979) as enacted into positive law by subparagraph (A) shall cease to apply to the extent hereafter modified by the Secretary of the Treasury or his delegate by regulations.

(36) Clause (i) of section 147(f)(2)(E) of the 1986 Code is amended by adding at the end thereof the following new sentence:

"If the office of any elected official described in subclause (II) is vacated and an individual is appointed by the chief elected executive officer of the governmental unit and confirmed by the elected legislative body of such unit (if any) to serve the remaining term of the elected official, the individual so appointed shall be treated as the elected official for such remaining term."

(37) The table of sections for part III of subchapter B of chapter 1 of the 1986 Code is amended by striking out the items relating to sections 103 and 103A and inserting in lieu thereof the following new item:

"Sec. 103. Interest on State and local bonds."

(38) Subparagraph (B) of section 141(b)(5) of the 1986 Code is amended by striking out "which would cause bond" and inserting in lieu thereof "which would cause a bond".

(39) Clause (ii) of section 142(b)(1)(B) of the 1986 Code is amended by striking out "(as defined in 168(i)(3))" and inserting in lieu thereof "(as defined in section 168(i)(3))".

(40) Subparagraph (B) of section 146(d)(4) of the 1986 Code is amended by striking out "with respect a possession" and inserting in lieu thereof "with respect to a possession".

(41) Clause (ii) of section 48(l)(11)(A) of the 1986 Code is amended by striking out "an industrial development bond (within the meaning of section 103(b)(2))" and inserting in lieu thereof "a private activity bond (within the meaning of section 141)".

(42) Subsection (a) of section 7478 of the 1986 Code is amended—

(A) by striking out "whether prospective obligations are described in section 103(a)" in paragraph (1) and inserting

in lieu thereof “whether interest on prospective obligations will be excludable from gross income under section 103(a)”, and

(B) by striking out “whether such prospective obligations are described in section 103(a)” and inserting in lieu thereof “whether interest on such prospective obligations will be excludable from gross income under section 103(a)”.

(43)(A) Subsection (b) of section 148 of the 1986 Code (defining higher yielding investments) is amended by adding at the end thereof the following new paragraph:

“(3) ALTERNATIVE MINIMUM TAX BONDS TREATED AS INVESTMENT PROPERTY IN CERTAIN CASES.—

“(A) IN GENERAL.—Except as provided in subparagraph (B), the term ‘investment property’ does not include any tax-exempt bond.

“(B) EXCEPTION.—With respect to an issue other than an issue a part of which is a specified private activity bond (as defined in section 57(a)(5)(C)), the term ‘investment property’ includes a specified private activity bond (as so defined).”

(B) Paragraph (2) of section 148(b) of the 1986 Code (defining investment property) is amended by striking the last sentence.

(C) The amendments made by this paragraph shall apply to obligations issued after March 31, 1988.

26 USC 148 note.

(44) Subparagraph (B) of section 46(c)(5) of the 1986 Code is amended—

(A) by striking out “INDUSTRIAL DEVELOPMENT BONDS” in the heading and inserting in lieu thereof “PRIVATE ACTIVITY BONDS”, and

(B) by striking “an industrial development bond (within the meaning of section 103(b)(2))” and inserting in lieu thereof “a private activity bond (within the meaning of section 141)”.

(b) AMENDMENTS RELATED TO SECTION 1311 OF THE REFORM ACT.—

(1) Section 1311 of the Reform Act is amended by redesignating subsection (d) as subsection (f), and by inserting after subsection (c) the following new subsections:

26 USC 141 note.

“(d) PUBLIC APPROVAL AND INFORMATION REPORTING.—Sections 147(f) and 149(e) of the 1986 Code shall apply to bonds issued after December 31, 1986.

“(e) REBATE REQUIREMENT FOR QUALIFIED SCHOLARSHIP FUNDING BONDS.—Section 150(d) of the 1986 Code shall apply to payments made after August 15, 1986.”

(2) Paragraph (2) of section 1311(b) of the Reform Act (relating to effective date for section 1301(f)) is amended by inserting “with respect to non-issued bond amounts elected” after “issued”.

(c) AMENDMENTS RELATED TO SECTION 1313 OF THE REFORM ACT.—

(1) Clause (i) of section 1313(a)(1)(B) of the Reform Act is amended by striking out “the proceeds” and inserting in lieu thereof “the net proceeds”.

(2)(A) Subparagraph (C) of section 1313(a)(3) of the Reform Act is amended by striking out “section 148” and inserting in lieu thereof “sections 143(g) and 148”.

(B) The amendment made by subparagraph (A) shall apply to bonds issued after June 30, 1987.

26 USC 141 note.

26 USC 141 note.

(3) Subparagraph (E) of section 1313(a)(3) of the Reform Act is amended by striking out "of such Code".

(4) Paragraph (3) of section 1313(a) of the Reform Act is amended by adding at the end thereof the following new sentence: "In the case of a refunding bond described in paragraph (1) with respect to a qualified bond described in paragraph (2)(B), the requirements of section 1312(b)(1) which applied to such qualified bond shall be treated as specified in this paragraph with respect to such refunding bond."

(5) Subparagraph (A) of section 1313(a)(4) of the Reform Act is amended by inserting "and by substituting 'September 1, 1986' for 'August 16, 1986'" before the comma at the end thereof.

(6) Paragraph (2) of section 1313(b) of the Reform Act is amended by adding at the end thereof "For purposes of the preceding sentence, the determination of whether a bond is described in such subsection (o)(2)(A) shall be made without regard to any exception other than section 103(o)(2)(C) of such Code."

(7) Subparagraph (F) of section 1313(b)(3) of the Reform Act is amended by striking out "of such Code".

(8) Paragraph (3) of section 1313(b) of the Reform Act is amended by adding after subparagraph (F) the following new subparagraph:

"(G) Except as provided in the last sentence of subsection (c)(2) of this section, the requirements of section 145(b) (relating to \$150,000,000 limitation on bonds other than hospital bonds)."

(9) Paragraph (5) of section 1313(b) of the Reform Act is amended by striking out "are to be" and inserting in lieu thereof "are or will be".

(10)(A) The heading for subsection (c) of section 1313 of the Reform Act is amended by striking out "CURRENT" and inserting in lieu thereof "CERTAIN".

(B) Paragraph (1) of section 1313(c) of the Reform Act is amended—

(i) by striking out "apply to any bond" and inserting in lieu thereof "apply to any bond (or series of bonds)", and

(ii) by striking out "law do not" and inserting in lieu thereof "law did not".

(11)(A) Subparagraph (A) of section 1313(c)(1) of the Reform Act is amended to read as follows:

"(A) the average maturity date of the issue of which the refunding bond is a part is not later than the average maturity date of the bonds to be refunded by such issue,".

(B) Paragraph (1) of section 1313(c) of the Reform Act is amended by adding at the end thereof the following new sentence:

"For purposes of subparagraph (A), average maturity shall be determined in accordance with section 147(b)(2)(A) of the 1986 Code."

(C) Paragraph (1) of section 1313(c) of the Reform Act is amended by adding "and" at the end of subparagraph (B), by striking out subparagraph (C), and by redesignating subparagraph (D) as subparagraph (C).

(D) Subparagraph (B) of section 1313(c)(2) of the Reform Act is amended by striking out "and (D)" and inserting in lieu thereof "and (C)".

(E) A refunding bond issued before July 1, 1987, shall be treated as meeting the requirement of subparagraph (A) of section 1313(c)(1) of the Reform Act if such bond met the requirement of such subparagraph as in effect before the amendments made by this paragraph.

26 USC 141 note.

(12)(A) Subparagraph (N) of section 103(b)(6) of the Internal Revenue Code of 1954, as in effect on the day before the date of the enactment of the Reform Act (relating to termination dates), is amended by redesignating clauses (ii) and (iii) as clauses (iii) and (iv), respectively, and by striking out clause (i) and inserting in lieu thereof the following new clauses:

“(i) **IN GENERAL.**—Except as provided in clause (ii), this paragraph shall not apply to any obligation issued after December 31, 1986.

“(ii) **CERTAIN REFUNDINGS.**—This paragraph shall apply to any obligation (or series of obligations) issued to refund an obligation issued on or before December 31, 1986, if—

“(I) the average maturity date of the issue of which the refunding obligation is a part is not later than the average maturity date of the obligations to be refunded by such issue,

“(II) the amount of the refunding obligation does not exceed the outstanding amount of the refunded obligation, and

“(III) the proceeds of the refunding obligation are used to redeem the refunded obligation not later than 90 days after the date of the issuance of the refunding obligation.

For purposes of subclause (I), average maturity shall be determined in accordance with subsection (b)(14)(B)(i).”

(B) The date applicable under section 144(a)(12)(B) of the 1986 Code shall be treated as contained in section 103(b)(6)(N)(iii) of the Internal Revenue Code of 1954, as in effect on the day before the date of the enactment of the Reform Act, for purposes of any bond issued to refund a bond to which such section 103(b)(6)(N)(iii) applies.

26 USC 144 note.

(13) Paragraph (2) of section 1313(c) of the Reform Act is amended—

26 USC 141 note.

(A) by striking out “apply to any bond” and inserting in lieu thereof “apply to any bond (or series of bonds)”,

(B) by striking out “subsection does not” and inserting in lieu thereof “subsection did not”, and

(C) by striking out “the proceeds” in subparagraph (A)(i) and inserting in lieu thereof “the net proceeds”.

(14)(A) Section 1313 of the Reform Act is amended by adding at the end thereof the following new subsection:

“(d) **MORTGAGE AND STUDENT LOAN TARGETING RULES TO APPLY TO LOANS MADE MORE THAN 3 YEARS AFTER THE DATE OF THE ORIGINAL ISSUE.**—Subsections (a)(3) and (b)(3) shall be treated as including the requirements of subsections (e) and (f) of section 143 and paragraphs (3) and (4) of section 144(b) of the 1986 Code with respect to bonds the proceeds of which are used to finance loans made more than 3 years after the date of the issuance of the original bond.”

(B) The amendment made by subparagraph (A) shall apply with respect to refunding bonds issued after October 16, 1987.

26 USC 141 note.

26 USC 103 note.

(15) A bond issued to refund an obligation described in section 103(o)(3) of the Internal Revenue Code of 1954 (as in effect on the day before the date of the enactment of the Tax Reform Act of 1986) shall not be treated as described in section 144(b) of the 1986 Code unless it is described in section 144(b)(1)(A) of the 1986 Code.

26 USC 141 note.

(d) AMENDMENTS RELATED TO SECTION 1314 OF THE REFORM ACT.—

(1) Subsection (a) of section 1314 of the Reform Act is amended by adding at the end thereof the following: "The preceding sentence shall not apply to the first advance refunding after September 25, 1985, of a bond issued before September 26, 1985."

(2) Subsection (f) of section 1314 of the Reform Act is amended by striking out "December" and inserting in lieu thereof "August".

(3) Section 1314 of the Reform Act is amended by redesignating subsection (g) as subsection (i) and by inserting after subsection (f) the following new subsections:

"(g) **TERMINATION OF MORTGAGE BOND POLICY STATEMENT REQUIREMENT.**—Paragraph (5) of section 103A(j) of the 1954 Code (relating to policy statement) shall not apply to any bond issued after August 15, 1986, and shall not apply to nonissued bond amounts elected under section 25 of the 1986 Code after such date.

"(h) **ARBITRAGE RESTRICTION ON INVESTMENTS IN INVESTMENT-TYPE PROPERTY.**—In the case of a bond issued before August 16, 1986 (September 1, 1986 in the case of a bond described in section 1312(c)(2)), section 103(c) of the 1954 Code shall be applied by treating the reference to securities in paragraph (2) thereof as including a reference to investment-type property but only for purposes of determining whether any bond issued after October 16, 1987, to advance refund such bond (or a bond which is part of a series of refundings of such bond) is an arbitrage bond (within the meaning of section 148(a) of the 1986 Code)."

(e) AMENDMENTS RELATED TO SECTION 1315 OF THE REFORM ACT.—

(1) Subsection (c) of section 1315 of the Reform Act is amended—

(A) by inserting "for calendar year 1986" after "1954 Code" each place it appears,

(B) by striking out "before August 16" each place it appears and inserting in lieu thereof "on August 15", and

(C) by adding at the end thereof the following new sentence:

"The preceding sentence shall not apply to the extent section 1313(b)(5) treats any bond as a private activity bond for purposes of section 146 of the 1986 Code."

(2)(A) Subsection (e) of section 1315 of the Reform Act is amended by adding at the end thereof the following new sentence: "The preceding sentence shall not apply to any bond which (if issued on August 15, 1986) would have been an industrial development bond (as defined in section 103(b)(2) of the 1954 Code)."

26 USC 141 note.

(B) The amendment made by subparagraph (A) shall apply to bonds issued after June 10, 1987.

(f) AMENDMENTS RELATED TO SECTION 1316 OF THE REFORM ACT.—

26 USC 141 note.

(1)(A) Subsections (a)(1), (b)(1), (c)(1), and (f)(1) of section 1316 of the Reform Act are each amended by inserting "and as having a

carryforward purpose described in section 146(f)(5) of such Code" after "the 1986 Code".

(B) The amendment made by subparagraph (A) shall apply only with respect to carryforwards of volume cap for years after 1986.

26 USC 141 note.

(2) Subsection (c) of section 1316 of the Reform Act is amended by adding at the end thereof the following new paragraph:

26 USC 141 note.

"(4) APPLICATION OF SECTION 147 (b).—A bond to which this subsection applies (other than a refunding bond) shall be treated as meeting the requirements of section 147(b) of the 1986 Code if the average maturity (determined in accordance with section 147(b)(2)(A) of such Code) of the issue of which such bond is a part does not exceed 20 years. A bond issued to refund (or which is part of a series of bonds issued to refund) a bond described in the preceding sentence shall be treated as meeting the requirements of such section if the refunding bond has a maturity date not later than the date which is 20 years after the date on which the original bond was issued."

(3) Paragraph (1) of section 1316(e) of the Reform Act is amended—

(A) by inserting "(and section 103(h)(2)(B)(ii) of the 1954 Code)" after "1986 Code" the first place it appears, and

(B) by inserting "(and section 103(b)(16) of the 1954 Code)" after "1986 Code" in the last sentence.

(4) Paragraph (2) of section 1316(g) of the Reform Act is amended—

(A) by striking out "described in the paragraph (3)" in subparagraph (A) and inserting in lieu thereof "issued to provide a facility described in paragraph (3)", and

(B) by striking out "which paragraph (3)" in subparagraph (C) and inserting in lieu thereof "which such paragraph (3)".

(5) Paragraph (6) of section 1316(g) of the Reform Act is amended by inserting "(and the provisions of section 1314)" after "section 1301".

(6) Paragraph (7) of section 1316(g) of the Reform Act is amended to read as follows:

"(7) In the case of a bond described in section 632(d) of the Tax Reform Act of 1984—

"(A) section 141 of the 1986 Code shall be applied without regard to subsection (a)(2) and paragraphs (4) and (5) of subsection (b),

"(B) paragraphs (1) and (2) of section 141(b) of the 1986 Code shall be applied by substituting '25 percent' for '10 percent' each place it appears, and

"(C) section 149(b) of the 1986 Code shall not apply.

This paragraph shall not apply to any bond issued after December 31, 1990."

(7)(A) Subparagraph (A) of section 1316(g)(8) of the Reform Act is amended by inserting "and as having a carryforward purpose described in section 146(f)(5) of such Code" after "the 1986 Code"

(B) The amendment made by subparagraph (A) shall apply only with respect to carryforwards of volume cap for years after 1986.

26 USC 141 note.

(8) Paragraph (2) of section 1316(j) of the Reform Act is amended to read as follows:

Florida. “(2) by adding at the end thereof the following new sentence:
 ‘In the case of refunding obligations not to exceed \$100,000,000 issued after October 21, 1986, by Dade County, Florida, for the purpose of advance refunding its Aviation Revenue Bonds (Series J), the first sentence of this paragraph shall be applied by substituting “the date which is 1 year after the date of the enactment of the Technical and Miscellaneous Revenue Act of 1988” for “December 31, 1984” and the amendments made by section 1301 of the Tax Reform Act of 1986 shall not apply.’”

26 USC 141 note.

(9) Paragraph (2) of section 1316(k) of the Reform Act is amended by striking out “\$55,000,000 must be redeemed no later than November 1, 1987” and inserting in lieu thereof “no more than \$55,000,000 shall be outstanding later than November 1, 1987”.

(10) Section 1104 of the Mortgage Subsidy Bond Tax Act of 1980 is amended by adding at the end of subsection (r) the following new sentence:

“Section 148(f) of the Internal Revenue Code of 1986 and the amendments made by section 1301 of the Tax Reform Act of 1986 shall not apply to any bonds described in paragraph (1) which may be issued as a result of the amendments made by the Tax Reform Act of 1986.”

(11) Subsection (l) of section 1316 of the Reform Act is hereby repealed.

Community development.
 Urban areas.
 26 USC 141 note.

(g) AMENDMENTS RELATED TO SECTION 1317 OF THE REFORM ACT.—

(1) Subparagraph (J) of section 1317(2) of the Reform Act is amended by striking out “began construction in 1980” and inserting in lieu thereof “, a subsidiary of Sierra Pacific Resources, began in 1980 work to design, finance, construct, and operate”.

(2) Subparagraph (C) of section 1317(3) of the Reform Act is amended to read as follows:

Baseball.
 Football.
 Stadiums.

“(C) A facility is described in this subparagraph if—

“(i) it is one or more stadiums to be used either by an American League baseball team or a National Football League team currently using a stadium in a city having a population in excess of 2,500,000 and described in section 146(d)(3) of the 1986 Code,

“(ii) the bonds to be used to provide financing for one or more such stadiums are issued by a political subdivision or a State agency pursuant to a resolution approving an inducement resolution adopted by a State agency on November 20, 1985, as it may be amended (whether or not the beneficiaries of such issue or issues are the beneficiaries (if any) specified in such inducement resolution and whether or not the number of such stadiums and the locations thereof are as specified in such inducement resolution) or pursuant to P.A. 84-1470 of the State in which such city is located (and by an agency created thereby), and

“(iii) such stadium or stadiums are located in the city described in (i).

The aggregate face amount of bonds to which this subparagraph applies shall not exceed \$250,000,000. In the case of any carryforward of volume cap for one or more stadiums described in the first sentence of this subparagraph, such carryforward shall be valid with respect to bonds issued for

such stadiums notwithstanding any other provision of the 1986 Code or the 1954 Code, and whether or not (i) there is a change in the number of stadiums or the beneficiaries or sites of the stadium or stadiums and (ii) the bonds are issued by either of the state agencies described in the first sentence of this subparagraph."

(3)(A) Subparagraph (P) of section 1317(3) of the Reform Act is amended—

(i) by striking out "approved" and inserting in lieu thereof "authorized", and

(ii) by striking out "December 9, 1985" and inserting in lieu thereof "December 2, 1985".

(B) Section 1317(3)(A) of the Reform Act is amended by striking out "domed".

(C) Section 1317(3)(U) of the Reform Act is amended by deleting "coliseum complex." and inserting in lieu thereof "coliseum complex, or is a renovation of an existing stadium located in Oakland, California, and used by an American League baseball team."

California.
Baseball.

(D) Section 1317(3)(W) of the Reform Act is amended by striking out "\$225,000,000" and inserting "\$25,000,000".

(4) Paragraph (3) of section 1317 of the Reform Act is amended by adding at the end thereof the following new subparagraph:

"(Z) A facility is described in this subparagraph if—

"(i) such facility was a redevelopment project that was approved in concept by the city council sitting as the redevelopment agency in October 1984, and

"(ii) \$20,000,000 in funds for such facility was identified in a 5-year budget approved by the city redevelopment agency on October 25, 1984.

The aggregate face amount of bonds to which this subparagraph applies shall not exceed \$80,000,000."

(5) Paragraph (4) of section 1317 of the Reform Act is amended—

(A) by striking out "1986. The bonds" and inserting in lieu thereof "1986, and the bonds",

(B) by striking out "and" at the end the subparagraph (A), and

(C) by adding "and" at the end of subparagraph (B).

(6) Subparagraph (W) of section 1317(6) of the Reform Act is amended to read as follows:

"(W) A project is described in this subparagraph if such project is—

"(i) a part of the Kenosha Downtown Redevelopment project, and

"(ii) located in an area bounded—

"(I) on the east by the east wall of the Army Corps of Engineers Confined Disposal Facility (extended),

"(II) on the north by 48th Street (extended),

"(III) on the west by the present Chicago & Northwestern Railroad tracks, and

"(IV) on the south by the north line of Eichelman Park (60th Street) (extended).

The aggregate face amount of bonds to which this subparagraph applies shall not exceed \$105,000,000."

(7) Paragraph (6) of section 1317 of the Reform Act is amended by redesignating subparagraph (X) as subparagraph (Z) and by inserting after subparagraph (W) the following new subparagraphs:

California.

“(X) A project is described in this subparagraph if a redevelopment plan for such project was approved by the city council of Bell Gardens, California, on June 12, 1979. The aggregate face amount of bonds to which this subparagraph applies shall not exceed \$10,000,000.

“(Y) Nothing in this paragraph shall be construed as having the effect of exempting from tax interest on any bond issued after June 10, 1987, if such interest would not have been exempt from tax were such bond issued on August 15, 1986.”

(8) The last sentence of subparagraph (A) of section 1317(7) of the Reform Act is amended by inserting before the period “and section 149(d)(2) of the 1986 Code shall not apply to bonds so treated”.

(9) Subparagraph (D) of section 1317(7) of the Reform Act is amended to read as follows:

“(D) A facility is described in this subparagraph if—

“(i) it is a convention, trade, or spectator facility,

“(ii) a regional convention, trade, and spectator facilities study committee was created before March 19, 1985, with respect to such facility, and

“(iii) feasibility and preliminary design consultants were hired on May 1, 1985, and October 31, 1985, with respect to such facility.

The aggregate face amount of bonds to which this subparagraph applies shall not exceed the excess of \$175,000,000 over the amount of bonds to which paragraph (48)(B) applies.”

(10) Clause (ii) of section 1317(7)(G) of the Reform Act is amended to read as follows:

“(ii) such facility’s location was approved in December 1985 by a task force created jointly by the Governor of the State within which such facility will be located and the mayor of the capital city of such State, and”.

(11) Subparagraph (J) of section 1317(7) of the Reform Act is amended—

(A) by striking out “civic festival” in clause (i) and inserting in lieu thereof “aquafestival”,

(B) by striking out clause (ii) and inserting in lieu thereof the following:

“(ii) a referendum was held on April 6, 1985, in which voters permitted the city council to lease 130 acres of dedicated parkland for the purpose of constructing such facility, and”, and

(C) by striking out “\$5,000,000” and inserting in lieu thereof “\$10,000,000”.

(12) Subparagraph (E) of section 1317(9) of the Reform Act is amended by striking out “March 5, 1985” and inserting in lieu thereof “March 6, 1985”.

(13) Clause (iii) of section 1317(9)(J) of the Reform Act is amended by striking out all that precedes “by the governor” and inserting in lieu thereof the following:

“(iii) such facility’s location was approved in December 1985 by a task force created jointly”.

(14) Subparagraph (A) of section 1317(11) of the Reform Act is amended by striking out “and section 142(a)” and inserting in lieu thereof “in section 142(a)”.

(15) Subparagraph (C) of section 1317(11) of the Reform Act is amended to read as follows:

“(C) A facility is described in this subparagraph if it is described in section 1865(c)(2)(C) of this Act.”

(16) Subparagraph (X) of section 1317(13) of the Reform Act is amended by striking out the last sentence.

(17) Paragraph (13) of the Reform Act is amended by adding at the end thereof the following new subparagraphs:

“(AA) A residential rental property project is described in this subparagraph if it is the Carriage Trace residential rental project in Clinton, Tennessee. The aggregate face amount of bonds to which this subparagraph applies shall not exceed \$10,000,000.

Tennessee.
Real property.

“(BB) A residential rental property project is described in this subparagraph if—

“(i) a contract to purchase such property was dated as of August 9, 1985,

Contracts.

“(ii) there was an inducement resolution adopted on September 27, 1985, for the issuance of obligations to finance such property,

“(iii) there was a State court final validation of such financing on November 15, 1985, and

“(iv) the certificate of nonappeal from such validation was available on December 15, 1985.

The aggregate face amount of bonds to which this subparagraph applies shall not exceed \$27,750,000.”

(18) Paragraph (14) of section 1317 of the Reform Act is amended by striking out “\$90,000,000” and inserting in lieu thereof “\$130,000,000” and by inserting “incorporated on February 20, 1985” before the period at the end of the 1st sentence.

(19) Subparagraph (B) of section 1317(15) of the Reform Act is amended—

(A) by striking out all that follows “agreement with” in clause (i) and inserting in lieu thereof “an underwriter to provide planning and financial guidance for a possible bond issue, and”, and

(B) by striking out “certificates” in clause (ii) and inserting in lieu thereof “bond issue”

(20) Paragraph (16) of section 1317 of the Reform Act is amended by striking out the last sentence.

(21) Clause (i) of section 1317(19)(D) of the Reform Act is amended by striking out “light rail transitway” and inserting in lieu thereof “fixed guideway”.

(22) Paragraph (20) of section 1317 of the Reform Act is amended by striking out “Section 148(f)” and inserting in lieu thereof “Subsections (c)(2) and (f) of section 148”.

(23) Subparagraph (B) of section 1317(21) of the Reform Act is amended—

(A) by striking out “Subsection (c)” and inserting in lieu thereof “Subsections (c)(2)”, and

(B) by striking out "103A(g)(5)(C)l" and inserting in lieu thereof "103A(g)(5)(C)".

(24) Paragraph (22) of section 1317 of the Reform Act is amended to read as follows:

"(22) DOWNTOWN REDEVELOPMENT PROJECT.—Subsection (b) of section 626 of the Tax Reform Act of 1984 is amended by adding at the end thereof the following new paragraph:

"(7) EXCEPTION FOR CERTAIN DOWNTOWN REDEVELOPMENT PROJECT.—The amendments made by this section shall not apply to any obligation which is issued as part of an issue 95 percent or more of the proceeds of which are to be used to provide a project to acquire and redevelop a downtown area if—

"(A) on August 15, 1985, a downtown redevelopment authority adopted a resolution to issue obligations for such project,

"(B) before September 26, 1985, the city expended, or entered into binding contracts to expend, more than \$10,000,000 in connection with such project, and

"(C) the State supreme court issued a ruling regarding the proposed financing structure for such project on December 11, 1985.

The aggregate face amount of obligations to which this paragraph applies shall not exceed \$85,000,000 and such obligations must be issued before January 1, 1992."

(25) Subparagraph (A) of section 1317(24) of the Reform Act is amended by adding at the end thereof the following: "The last paragraph of this section shall not apply to the treatment under the preceding sentence."

(26)(A) Clause (i) of section 1317(25)(A) of the Reform Act is amended by striking out "3 counties" and inserting in lieu thereof "1 or more of 3 counties".

(B) Clause (i) of section 1317(25)(B) of the Reform Act is amended by adding at the end thereof the following new sentence: "For purposes of applying section 146(k) of the 1986 Code, the public utility facility described in subparagraph (A) shall be treated as described in paragraph (2) of such section and such paragraph shall be applied without regard to the requirement that the issuer establish that a State's share of the use of a facility (or its output) will equal or exceed the State's share of the private activity bonds issued to finance the facility."

(27) Subparagraph (I) of section 1317(27) of the Reform Act is amended by adding at the end thereof the following: "For purposes of determining whether any bond to which this subparagraph applies is a qualified small issue bond, there shall not be taken into account under section 144(a) of the 1986 Code capital expenditures with respect to any facility of the United States Government and there shall not be taken into account any bond allocable to the United States Government."

(28) Clause (i) of section 1317(29)(B) of the Reform Act is amended by striking out all that follows "1993" and inserting in lieu thereof ", by the State of Connecticut, and".

(29) Subparagraph (D) of section 1317(29) of the Reform Act is amended by striking out "the net proceeds" and inserting in lieu thereof "the proceeds".

(30) Section 1317(33)(A)(ii) of the Reform Act is amended—

(A) by striking out "on" and inserting in lieu thereof "dated" each place it appears, and

(B) by inserting "dated on December 1, 1985" after "(Series 1985A and 1985B)" in subclause (III).

(31) Subparagraph (B) of section 1317(33) of the Reform Act is amended—

(A) by striking out "and before August 7, 1988," and

(B) by adding at the end thereof the following new sentence: "The aggregate face amount of bonds to which this subparagraph applies shall not exceed \$90,000,000."

(32) Subparagraph (G) of section 1317(33) of the Reform Act is amended by striking out "subparagraph (H)" and inserting in lieu thereof "subparagraph (F)".

(33) Subparagraph (H) of section 1317(33) of the Reform Act is amended—

(A) by striking out clause (ii) and inserting in lieu thereof the following:

"(ii) the proceeds of the issue are to be used to finance projects (to be determined by such university and the issuer) which are similar to those projects intended to be financed by bonds that were the subject of a request transmitted to Congress on November 7, 1985", and

(B) by adding at the end thereof the following: "Bonds to which this subparagraph applies shall be treated as qualified 501(c)(3) bonds if such bonds would not (if issued on August 15, 1986) be industrial development bonds (as defined in section 103(b)(2) of the 1954 Code), and section 147(f) of the 1986 Code shall not apply to the issue of which such bonds are a part. Bonds issued to finance facilities described in this subparagraph shall be treated as issued to finance such facilities notwithstanding the fact that a period in excess of 1 year has expired since the facilities were placed in service."

(34) Subparagraph (K) of section 1317(33) of the Reform Act is amended—

(A) by striking out "the issue is" in clause (i) and inserting in lieu thereof "the issue or issues are",

(B) by inserting "at least" before "900 units",

(C) by striking out "2,000 square feet" and inserting in lieu thereof "245,000 square feet", and

(D) by striking out "\$150,000,000" and inserting in lieu thereof "\$112,000,000".

(35) Paragraph (33) of section 1317 of the Reform Act is amended by striking out subparagraphs (M), (N), and (O) and inserting in lieu thereof the following new subparagraphs:

"(M) Proceeds of an issue are described in this subparagraph if such issue is issued on behalf of the Society of the New York Hospital to finance completion of a project commenced by such hospital in 1981 for construction of a diagnostic and treatment center or to refund bonds issued on behalf of such hospital in connection with the construction of such diagnostic and treatment center or to finance construction and renovation projects associated with an inpatient psychiatric care facility. The aggregate face amount of bonds to which this subparagraph applies shall not exceed \$150,000,000.

"(N) Any bond to which section 145(b) of the 1986 Code does not apply by reason of this paragraph (other than

Health care facilities.

subparagraph (A) thereof shall be taken into account in determining whether such section applies to any later issue.

“(O) In the case of any refunding bond—

“(i) to which any subparagraph of this paragraph applies, and

“(ii) to which the last sentence of section 1313(c)(2) applies,

such bond shall be treated as having such subparagraph apply (and the refunding bond shall be treated for purposes of such section as issued before January 1, 1986, and as not being an advance refunding) unless the issuer elects the opposite result.”

(36) Paragraph (36) of section 1317 of the Reform Act is amended by striking out “\$80,000,000” and inserting in lieu thereof “\$400,000,000”.

(37) Paragraph (38) of section 1317 of the Reform Act is amended by striking out “and sections 148 and 149”.

(38) Paragraphs (39) and (40) of section 1317 of the Reform Act are amended to read as follows:

“(39) CERTAIN BONDS TREATED AS QUALIFIED 501(C)(3) BONDS.—

A bond issued as part of an issue shall be treated for purposes of part IV of subchapter B of chapter 1 of the 1986 Code as a qualified 501(c)(3) bond if—

“(A) such bond would not (if issued on August 15, 1986) be an industrial development bond (as defined in section 103(b)(2) of the 1954 Code), and

“(B) such issue was approved by city voters on January 19, 1985, for construction or renovation of facilities for the cultural and performing arts.

The aggregate face amount of bonds to which this paragraph applies shall not exceed \$5,000,000.

“(40) CERTAIN LIBRARY BONDS.—In the case of a bond issued before January 1, 1986, by the City of Los Angeles Community Redevelopment Agency to provide the library and related structures associated with the City of Los Angeles Central Library Project, the ownership and use of the land and facilities associated with such project by persons which are not governmental units (or payments from such persons) shall not adversely affect the exclusion from gross income under section 103 of the 1954 Code of interest on such bonds.”

(39) Paragraph (41) of section 1317 of the Reform Act is amended to read as follows:

“(41) CERTAIN REFUNDING OBLIGATIONS FOR CERTAIN POWER FACILITIES.—With respect to 2 net billed nuclear power facilities located in the State of Washington on which construction has been suspended, the requirements of section 147(b) of the 1986 Code shall be treated as satisfied with respect to refunding bonds issued before 1992 if—

“(A) each refunding bond has a maturity date not later than the maturity date of the refunded bond, and

“(B) the facilities have not been placed in service as of the date of issuance of the refunding bond.

The aggregate face amount of bonds to which this paragraph applies shall not exceed \$2,000,000,000. Section 146 of the 1986 Code and the last paragraph of this section shall not apply to bonds to which this paragraph applies.”

California.

Washington.

(40) Paragraph (43) of section 1317 of the Reform Act is amended by inserting before the period "and the Internal Revenue Code of 1986 shall be applied without regard to section 149(d)(2)."

(41) Paragraph (44) of section 1317 of the Reform Act is amended—

(A) by inserting after "1986 Code" the following: "and the temporary period limitation of section 148(c)(2) of the 1986 Code",

(B) by striking out "\$100,000,000" and inserting in lieu thereof "\$200,000,000", and

(C) by striking out "Hospitals Bond Pool" in the second item in the table and inserting in lieu thereof "Hospital Equipment Loan Council".

(42) Paragraph (48) of section 1317 of the Reform Act is amended by striking out "either" in the material preceding subparagraph (A) and inserting in lieu thereof "any".

(43) Subparagraph (B) of section 1317(48) of the Reform Act is amended by striking out "subparagraph (O)" and inserting in lieu thereof "paragraph (6)(U)".

(44) Paragraph (48) of section 1317 of the Reform Act is amended by adding at the end thereof the following new subparagraph:

"(C) A facility which is part of a project described in paragraph (6)(O). The aggregate face amount of bonds to which this subparagraph applies shall not exceed \$20,000,000."

(45) Paragraph (49) of section 1317 of the Reform Act is amended—

(A) by striking out "149(d)" and inserting in lieu thereof "149(d)(2)", and

(B) by inserting "United States" before "Housing Act of 1937".

(46) Paragraph (50) of section 1317 of the Reform Act is amended to read as follows:

"(50) TRANSITIONED BONDS SUBJECT TO CERTAIN RULES.—In the case of any bond to which any provision of this section applies, except as otherwise expressly provided, sections 103 and 103A of the 1954 Code shall be applied as if the requirements of sections 147(g), 148, and 149(d) of the 1986 Code were included in each such section."

(47) Paragraph (51) of section 1317 of the Reform Act is amended—

(A) by striking out "Section 141(a)" and inserting in lieu thereof "Section 141(b)", and

(B) by striking out "141(a)(3)" and inserting in lieu thereof "141(b)(3)".

(48) Paragraph (52) of section 1317 of the Reform Act is amended by striking out "This section" and inserting in lieu thereof "Except as otherwise provided in this section, this section".

(49) The material preceding subparagraph (A) of section 1317(2) of the Reform Act is amended by striking out "section 103(b)(4)(C)" and inserting in lieu thereof "section 103(b)(4)(F)".

(50) Clause (ii) of section 1317(27)(H) of the Reform Act is amended by striking out "November 14, 1985" and inserting in lieu thereof "November 13, 1985".

(51) Subparagraph (I) of section 1317(33) of the Reform Act is amended by striking out "November 11, 1985" and inserting in lieu thereof "November 1, 1985".

(52) Subparagraph (J) of section 1317(3) of the Reform Act is amended by striking out "October 29" in clause (iv) and inserting in lieu thereof "November 5".

26 USC 141 note. (h) AMENDMENTS RELATED TO SECTION 1318 OF THE REFORM ACT.—Section 1318 of the Reform Act (relating to definitions, etc., relating to effective dates and transitional rules) is amended—

(1) by inserting "(a) DEFINITIONS.—" before "For purposes of this subtitle—", and

(2) by adding at the end thereof the following new subsections:

"(b) MINIMUM TAX TREATMENT.—

"(1) IN GENERAL.—Any bond described in paragraph (2) shall not be treated as a private activity bond for purposes of section 57 of the 1986 Code unless such bond would (if issued on August 7, 1986) be—

"(A) an industrial development bond (as defined in section 103(b)(2) of the 1954 Code), or

"(B) a private loan bond (as defined in section 103(o)(2)(A) of the 1954 Code, without regard to any exception from such definition other than section 103(o)(2)(C) of such Code).

"(2) BONDS DESCRIBED.—For purposes of paragraph (1), a bond is described in this paragraph if—

"(A) the amendments made by section 1301 do not apply to such bond by reason of section 1312 or 1316(g),

"(B) any provision of section 1317 applies to such bond, or

"(C) the proceeds of such bond are used to refund any bond referred to in subparagraph (A) or (B) (or any bond which is part of a series of refundings of such a bond) if the requirements of paragraphs (1), (2), and (3) of subsection (c) are met with respect to the refunding bond.

"(c) CURRENT REFUNDINGS NOT TAKEN INTO ACCOUNT IN APPLYING AGGREGATE LIMIT ON BONDS TO WHICH TRANSITIONAL RULES APPLY.—The limitation on the aggregate face amount of bonds to which any provision of section 1316(g) or 1317 applies shall not be reduced by the face amount of any bond the proceeds of which are to be used exclusively to refund any bond to which such provision applies (or any bond which is part of a series of refundings of such bond) if—

"(1) the average maturity date of the issue of which the refunding bond is a part is not later than the average maturity date of the bonds to be refunded by such issue,

"(2) the amount of the refunding bond does not exceed the outstanding amount of the refunded bond, and

"(3) the net proceeds of the refunding bond are used to redeem the refunded bond not later than 90 days after the date of the issuance of the refunding bond.

For purposes of paragraph (1), average maturity shall be determined in accordance with section 147(b)(2)(A) of the 1986 Code. No limitation in section 1316(g) or 1317 on the period during which bonds may be issued under such section shall apply to any refunding bond which meets the requirements of this subsection.

"(d) SPECIAL RULE PERMITTING CARRYFORWARD OF VOLUME CAP FOR CERTAIN TRANSITIONED PROJECTS.—A bond to which section 1312 or 1317 applies shall be treated as having a carryforward purpose described in section 146(f)(5) of the 1986 Code, and the requirement

of section 146(f)(2)(A) of the 1986 Code shall be treated as met if such project is identified with reasonable specificity. The preceding sentence shall not apply so as to permit a carryforward with respect to any qualified small issue bond."

(i) APPLICATION TO 501 (c) (3) BONDS.—In accordance with section 1302 of the Reform Act, each amendment and other provision of this Act which applies to private activity bonds shall, unless otherwise expressly provided, apply to qualified 501(c)(3) bonds.

26 USC 501 note.

SEC. 1014. AMENDMENTS RELATED TO TITLE XIV OF THE REFORM ACT.

(a) AMENDMENTS RELATED TO SECTION 1401 OF THE REFORM ACT.—

(1) Subsection (e) of section 672 of the 1986 Code is amended to read as follows:

"(e) GRANTOR TREATED AS HOLDING ANY POWER OR INTEREST OF GRANTOR'S SPOUSE.—

"(1) IN GENERAL.—For purposes of this subpart, a grantor shall be treated as holding any power or interest held by—

"(A) any individual who was the spouse of the grantor at the time of the creation of such power or interest, or

"(B) any individual who became the spouse of the grantor after the creation of such power or interest, but only with respect to periods after such individual became the spouse of the grantor.

"(2) MARITAL STATUS.—For purposes of paragraph (1)(A), an individual legally separated from his spouse under a decree of divorce or of separate maintenance shall not be considered as married."

(2) Paragraph (3) of section 675 of the 1986 Code is amended by adding at the end thereof the following new sentence:

"For periods during which an individual is the spouse of the grantor (within the meaning of section 672(e)(2)), any reference in this paragraph to the grantor shall be treated as including a reference to such individual."

(3) Subsection (c) of section 674 of the 1986 Code is amended by adding at the end thereof the following new sentence: "For periods during which an individual is the spouse of the grantor (within the meaning of section 672(e)(2)), any reference in this subsection to the grantor shall be treated as including a reference to such individual."

(b) AMENDMENT RELATED TO SECTION 1402 OF THE REFORM ACT.—Section 673 of the 1986 Code is amended by adding at the end thereof the following new subsections:

"(c) SPECIAL RULE FOR DETERMINING VALUE OF REVERSIONARY INTEREST.—For purposes of subsection (a), the value of the grantor's reversionary interest shall be determined by assuming the maximum exercise of discretion in favor of the grantor.

"(d) POSTPONEMENT OF DATE SPECIFIED FOR REACQUISITION.—Any postponement of the date specified for the reacquisition of possession or enjoyment of the reversionary interest shall be treated as a new transfer in trust commencing with the date on which the postponement is effective and terminating with the date prescribed by the postponement. However, income for any period shall not be included in the income of the grantor by reason of the preceding sentence if such income would not be so includible in the absence of such postponement."

(c) AMENDMENTS RELATED TO SECTION 1403 OF THE REFORM ACT.—

26 USC 645 note.

(1) If a beneficiary of a trust to which section 664 of the 1986 Code applies elects (at such time and in such manner as the Secretary of the Treasury or his delegate may prescribe) to have this paragraph apply, such beneficiary shall be entitled to the benefits of section 1403(c)(2) of the Reform Act with respect to amounts included in gross income under section 664(b) of the 1986 Code in the same manner as if such amounts were included in gross income under section 652(a) of the 1986 Code.

(2) Any trust beneficiary may elect (at such time and in such manner as the Secretary of the Treasury or his delegate may prescribe) to waive the benefits of section 1403(c)(2) of the Reform Act.

(3)(A) For purposes of determining the gross income of any pass-thru entity, such pass-thru entity shall not be allowed the benefits of section 806(e)(2)(C) (other than with respect to income from a common trust fund) or 1403(c)(2) of the Reform Act if such pass-thru entity is required to change its taxable year by reason of the amendments made by section 806 or 1403 of the Reform Act.

(B) For purposes of subparagraph (A), the term "pass-thru entity" means any trust, partnership, S corporation, or common trust fund.

(4) If any trust was required to change its taxable year by the amendments made by section 1403 of the Reform Act, such change shall be treated as initiated by such trust and approved by the Secretary of the Treasury or his delegate.

(d) AMENDMENTS RELATED TO SECTION 1404 OF THE REFORM ACT.—

(1) Subsection (a) of section 1404 of the Reform Act is amended—

(A) by striking out "Subsection (k) of section 6654" and inserting in lieu thereof "Subsection (l) of section 6654, as amended by section 1841 of this Act", and

(B) by striking out "(k) TRUSTS" and inserting in lieu thereof "(l) TRUSTS".

(2) Subsection (l) of section 6654 of the 1986 Code is amended to read as follows:

"(l) ESTATES AND TRUSTS.—

"(1) IN GENERAL.—Except as otherwise provided in this subsection, this subsection shall apply to any estate or trust.

"(2) EXCEPTION FOR ESTATES AND CERTAIN TRUSTS.—With respect to any taxable year ending before the date 2 years after the date of the decedent's death, this section shall not apply to—

"(A) the estate of such decedent, or

"(B) any trust—

"(i) all of which was treated (under subpart E of part I of subchapter J of chapter 1) as owned by the decedent, and

"(ii) to which the residue of the decedent's estate will pass under his will.

"(3) EXCEPTION FOR CHARITABLE TRUSTS AND PRIVATE FOUNDATIONS.—This section shall not apply to any trust which is subject to the tax imposed by section 511 or which is a private foundation.

"(4) SPECIAL RULE FOR ANNUALIZATIONS.—In the case of any estate or trust to which this section applies, subsection (d)(2)(B)(i) shall be applied by substituting 'ending before the

date 1 month before the due date for the installment' for 'ending before the due date for the installment'."

(3) Subsection (g) of section 643 of the 1986 Code is amended—

- (A) by striking out the last sentence of paragraph (1), and
- (B) by amending paragraph (2) to read as follows:

"(2) TIME FOR MAKING ELECTION.—An election under paragraph (1) shall be made on or before the 65th day after the close of the taxable year of the trust and in such manner as the Secretary may prescribe."

(4) Subsection (g) of section 643 of the 1986 Code is amended by adding at the end thereof the following new paragraph:

"(3) EXTENSION TO LAST YEAR OF ESTATE.—In the case of a taxable year reasonably expected to be the last taxable year of an estate—

"(A) any reference in this subsection to a trust shall be treated as including a reference to an estate, and

"(B) the fiduciary of the estate shall be treated as the trustee."

(e) AMENDMENTS RELATED TO SECTION 1411 OF THE REFORM ACT.—

(1) Paragraph (3) of section 1(i) of the 1986 Code is amended by adding at the end thereof the following new subparagraph:

"(C) COORDINATION WITH SECTION 644.—If tax is imposed under section 644(a)(1) with respect to the sale or exchange of any property of which the parent was the transferor, for purposes of applying subparagraph (A) to the taxable year of the parent in which such sale or exchange occurs—

"(i) taxable income of the parent shall be increased by the amount treated as included in gross income under section 644(a)(2)(A)(i), and

"(ii) the amount described in subparagraph (A)(ii) shall be increased by the amount of the excess referred to in section 644(a)(2)(A)."

(2) The last sentence of subparagraph (A) of section 1(i)(3) of the 1986 Code is amended by striking out "any deduction or credit" and inserting in lieu thereof "any exclusion, deduction, or credit".

(3) Subparagraph (A) of section 1(i)(4) of the 1986 Code is amended—

(A) by striking out "gross income for the taxable year which is not earned income" in clause (i) and inserting in lieu thereof "adjusted gross income for the taxable year which is not attributable to earned income",

(B) by striking out "his deduction" in clause (ii)(II) and inserting in lieu thereof "his deductions",

(C) by striking out "the deductions allowed" in clause (ii)(II) and inserting in lieu thereof "the itemized deductions allowed", and

(D) by striking out "gross income" in clause (ii)(II) and inserting in lieu thereof "adjusted gross income".

(4) Clause (iv) of section 6103(e)(1)(A) of the 1986 Code is amended by striking out "section 1(j)" and inserting in lieu thereof "section 1(i) or 59(j)".

(5)(A) Section 59 of the 1986 Code is amended by adding at the end thereof the following new subsection:

"(j) TREATMENT OF UNEARNED INCOME OF MINOR CHILDREN.—

“(1) **LIMITATION ON EXEMPTION AMOUNT.**—In the case of a child to whom section 1(i) applies, the exemption amount for purposes of section 55 shall not exceed the sum of—

“(A) such child’s earned income (as defined in section 911(d)(2)) for the taxable year, plus

“(B) \$1,000.

“(2) **LIMITATION BASED ON PARENTAL MINIMUM TAX.**—

“(A) **IN GENERAL.**—In the case of a child to whom section 1(i) applies, the amount of the tax imposed by section 55 shall not exceed such child’s share of the allocable parental minimum tax.

“(B) **ALLOCABLE PARENTAL MINIMUM TAX.**—For purposes of this paragraph, the term ‘allocable parental minimum tax’ means the excess of—

“(i) the tax which would be imposed by section 55 on the parent if—

“(I) the amount of the parent’s tentative minimum tax were increased by the aggregate of the tentative minimum taxes of all children of the parent to whom section 1(i) applies, and

“(II) the amount of the parent’s regular tax were increased by the aggregate of the regular taxes of all children of the parent to whom section 1(i) applies, over

“(ii) the tax imposed by section 55 on the parent without regard to this subparagraph.

“(C) **CHILD SHARE.**—A child’s share of any allocable parental minimum tax shall be determined under rules similar to the rules of section 1(i)(3)(B).

“(D) **OTHERS RULES MADE APPLICABLE.**—For purposes of this paragraph, rules similar to the rules of paragraphs (5) and (6) of section 1(i) shall apply.”

26 USC 59 note.

(B) The amendment made by subparagraph (A) shall apply to taxable years beginning after December 31, 1988.

(6) Subparagraph (A) of section 1(i)(5) of the 1986 Code is amended by striking out “custodial parent” and inserting in lieu thereof “custodial parent (within the meaning of section 152(e))”.

(7) Paragraph (3) of section 1(i) of the 1986 Code is amended by adding at the end thereof the following new subparagraph:

“(C) **SPECIAL RULE WHERE PARENT HAS DIFFERENT TAXABLE YEAR.**—Except as provided in regulations, if the parent does not have the same taxable year as the child, the allocable parental tax shall be determined on the basis of the taxable year of the parent ending in the child’s taxable year.”

26 USC 2032A note.

(f) **AMENDMENT RELATED TO SECTION 1421 OF THE REFORM ACT.**—Subsection (a) of section 1421 of the Reform Act is amended by striking out “within the time prescribed for filing such return (including extensions thereof)”.

(g) **AMENDMENTS RELATED TO SECTION 1431 OF THE REFORM ACT.**—

(1) Subsection (a) of section 2611 of the 1986 Code is amended by striking out “generation-skipping transfers” and inserting in lieu thereof “generation-skipping transfer”.

(2) Subsection (b) of section 2611 of the 1986 Code is amended by striking out paragraph (1) and by redesignating paragraphs (2) and (3) as paragraphs (1) and (2), respectively.

(3)(A) Section 2642 of the 1986 Code is amended by adding at the end thereof the following new subsection:

(e) SPECIAL RULES FOR CHARITABLE LEAD ANNUITY TRUSTS.—

“(1) IN GENERAL.—For purposes of determining the inclusion ratio for any charitable lead annuity trust, the applicable fraction shall be a fraction—

“(A) the numerator of which is the adjusted GST exemption, and

“(B) the denominator of which is the value of all of the property in such trust immediately after the termination of the charitable lead annuity.

“(2) ADJUSTED GST EXEMPTION.—For purposes of paragraph (1), the adjusted GST exemption is an amount equal to the GST exemption allocated to the trust increased by interest determined—

“(A) at the interest rate used in determining the amount of the deduction under section 2055 or 2522 (as the case may be) for the charitable lead annuity, and

“(B) for the actual period of the charitable lead annuity.

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

“(A) CHARITABLE LEAD ANNUITY TRUST.—The term ‘charitable lead annuity trust’ means any trust in which there is a charitable lead annuity.

“(B) CHARITABLE LEAD ANNUITY.—The term ‘charitable lead annuity’ means any interest in the form of a guaranteed annuity with respect to which a deduction was allowed under section 2055 or 2522 (as the case may be).

“(4) COORDINATION WITH SUBSECTION (d).—Under regulations, appropriate adjustments shall be made in the application of subsection (d) to take into account the provisions of this subsection.”

(B) The amendment made by subparagraph (A) shall apply for purposes of determining the inclusion ratio with respect to property transferred after October 13, 1987.

26 USC 2642
note.

(4)(A) Section 2642 of the 1986 Code is amended by adding at the end thereof the following new subsection:

“(f) SPECIAL RULES FOR CERTAIN INTER VIVOS TRANSFERS.—Except as provided in regulations—

Real property.

“(1) IN GENERAL.—For purposes of determining the inclusion ratio, if—

“(A) an individual makes an inter vivos transfer of property, and

“(B) the value of such property would be includible in the gross estate of such individual under chapter 11 if such individual died immediately after making such transfer (other than by reason of section 2035),

any allocation of GST exemption to such property shall not be made before the close of the estate tax inclusion period (and the value of such property shall be determined under paragraph (2)). If such transfer is a direct skip, such skip shall be treated as occurring as of the close of the estate tax inclusion period.

“(2) VALUATION.—In the case of any property to which paragraph (1) applies, the value of such property shall be—

“(A) if such property is includible in the gross estate of the transferor (other than by reason of section 2035), its value for purposes of chapter 11, or

“(B) if subparagraph (A) does not apply, its value as of the close of the estate tax inclusion period (or, if any allocation of GST exemption to such property is not made on a timely filed gift tax return for the calendar year in which such period ends, its value as of the time such allocation is filed with the Secretary).

“(3) ESTATE TAX INCLUSION PERIOD.—For purposes of this subsection, the term ‘estate tax inclusion period’ means any period after the transfer described in paragraph (1) during which the value of the property involved in such transfer would be includible in the gross estate of the transferor under chapter 11 if he died. Such period shall in no event extend beyond the earlier of—

“(A) the date on which there is a generation-skipping transfer with respect to such property, or

“(B) the date of the death of the transferor.

“(4) TREATMENT OF SPOUSE.—Except as provided in regulations, any reference in this subsection to an individual or transferor shall be treated as including a reference to the spouse of such individual or transferor.

“(5) COORDINATION WITH SUBSECTION (d).—Under regulations, appropriate adjustments shall be made in the application of subsection (d) to take into account the provisions of this subsection.”

(B) Paragraph (2) of section 2642(a) of the 1986 Code is amended by striking out the last sentence.

(C) Subparagraph (A) of section 2642(b)(2) of the 1986 Code is amended by inserting before the period at the end thereof the following: “; except that, if the requirements prescribed by the Secretary respecting allocation of post-death changes in value are not met, the value of such property shall be determined as of the time of the distribution concerned.”

(D) Subsection (b) of section 2642 of the 1986 Code is amended by inserting “Except as provided in subsection (f)—” immediately after the subsection heading.

(E) Subparagraph (B) of section 2642(b)(2) of the 1986 Code is amended—

(i) by striking out “at or after the death of the transferor” and inserting in lieu thereof “to property transferred as a result of the death of the transferor”; and

(ii) by striking out “AT OR AFTER DEATH” in the subparagraph heading and inserting in lieu thereof “TO PROPERTY TRANSFERRED AT DEATH”.

(F) Paragraph (3) of section 2642(b) of the 1986 Code is amended—

(i) by striking out “to any property is made during the life of the transferor but is” and inserting in lieu thereof “to any property not transferred as a result of the death of the transferor is”; and

(ii) by striking out “INTER VIVOS ALLOCATIONS” in the subparagraph heading and inserting in lieu thereof “ALLOCATIONS TO INTER VIVOS TRANSFERS”.

(5)(A) Paragraph (1) of section 2613(a) of the 1986 Code is amended by striking out “a person assigned” and inserting in lieu thereof “a natural person assigned”.

(B) Subsection (c) of section 2612 of the 1986 Code is amended by adding at the end thereof the following new paragraph:

“(3) LOOK-THRU RULES NOT TO APPLY.—Solely for purposes of determining whether any transfer to a trust is a direct skip, the rules of section 2651(e)(2) shall not apply.”

(6) Subsection (c) of section 2652 of the 1986 Code is amended by adding at the end thereof the following new paragraph:

“(3) CERTAIN SUPPORT OBLIGATIONS DISREGARDED.—The fact that income or corpus of the trust may be used to satisfy an obligation of support arising under State law shall be disregarded in determining whether a person has an interest in the trust, if—

Gifts and
property.

“(A) such use is discretionary, or

“(B) such use is pursuant to the provisions of any State law substantially equivalent to the Uniform Gifts to Minors Act.”

(7) Paragraph (2) of section 2612(c) of the 1986 Code is amended by adding at the end thereof the following new sentence: “If any transfer of property to a trust would be a direct skip but for this paragraph, any generation assignment under this paragraph shall apply also for purposes of applying this chapter to transfers from the portion of the trust attributable to such property.”

(8) Paragraph (2) of section 2652(c) of the 1986 Code is amended—

(A) by striking out “NOMINAL INTERESTS” in the paragraph heading and inserting in lieu thereof “INTERESTS”, and

(B) by striking out “the tax” and inserting in lieu thereof “any tax”.

(9) Paragraph (1) of section 2652(a) of the 1986 Code is amended—

(A) by striking out “a transfer of a kind” each place it appears and inserting in lieu thereof “any property”, and

(B) by adding at the end thereof the following new sentence:

“An individual shall be treated as transferring any property with respect to which such individual is the transferor.”

(10) Section 2663 of the 1986 Code is amended by striking out “and” at the end of paragraph (1), by striking out the period at the end of paragraph (2) and inserting in lieu thereof “, and”, and by adding at the end thereof the following new paragraph:

“(3) regulations providing for such adjustments as may be necessary to the application of this chapter in the case of any arrangement which, although not a trust, is treated as a trust under section 2652(b).”

(11) Paragraph (3) of section 2651(e) of the 1986 Code is amended to read as follows:

“(3) TREATMENT OF CERTAIN CHARITABLE ORGANIZATIONS AND GOVERNMENTAL ENTITIES.—Any—

“(A) organization described in section 511(a)(2),

“(B) charitable trust described in section 511(b)(2), and

“(C) governmental entity,

shall be assigned to the transferor’s generation.”

(12) Paragraph (2) of section 2654(a) of the 1986 Code is amended—

(A) by striking out “any increase” and inserting in lieu thereof “any increase or decrease”, and

(B) by striking out "such increase" and inserting in lieu thereof "such increase or decrease (as the case may be)".

(13) Subsection (b) of section 2654 of the 1986 Code is amended to read as follows:

"(b) CERTAIN TRUSTS TREATED AS SEPARATE TRUSTS.—For purposes of this chapter—

"(1) the portions of a trust attributable to transfers from different transferors shall be treated as separate trusts, and
 "(2) substantially separate and independent shares of different beneficiaries in a trust shall be treated as separate trusts. Except as provided in the preceding sentence, nothing in this chapter shall be construed as authorizing a single trust to be treated as 2 or more trusts."

(14) Paragraph (3) of section 2652(a) of the 1986 Code is amended—

(A) by striking out "any property" in subparagraphs (A) and (B) and inserting in lieu thereof "any trust", and

(B) by striking out "may elect to treat such property" and inserting in lieu thereof "may elect to treat all of the property in such trust".

(15) Paragraph (2) of section 2612(a) of the 1986 Code is amended to read as follows:

"(2) CERTAIN PARTIAL TERMINATIONS TREATED AS TAXABLE.—If, upon the termination of an interest in property held in trust by reason of the death of a lineal descendant of the transferor, a specified portion of the trust's assets are distributed to 1 or more skip persons (or 1 or more trusts for the exclusive benefit of such persons), such termination shall constitute a taxable termination with respect to such portion of the trust property."

(16) Paragraph (2) of section 2632(b) of the 1986 Code is amended by striking out "paragraph (1)" with respect to a prior direct skip" and inserting in lieu thereof "paragraph (1) with respect to a prior direct skip)".

(17)(A) Subsection (c) of section 2642 of the 1986 Code is amended to read as follows:

"(c) TREATMENT OF CERTAIN DIRECT SKIPS WHICH ARE NONTAXABLE GIFTS.—

"(1) IN GENERAL.—In the case of a direct skip which is a nontaxable gift, the inclusion ratio shall be zero.

"(2) EXCEPTION FOR CERTAIN TRANSFERS IN TRUST.—Paragraph (1) shall not apply to any transfer to a trust for the benefit of an individual unless—

"(A) during the life of such individual, no portion of the corpus or income of the trust may be distributed to (or for the benefit of) any person other than such individual, and

"(B) if such individual dies before the trust is terminated, the assets of such trust will be includible in the gross estate of such individual.

"(3) NONTAXABLE GIFT.—For purposes of this subsection, the term 'nontaxable gift' means any transfer of property to the extent such transfer is not treated as a taxable gift by reason of—

"(A) section 2503(b) (taking into account the application of section 2513), or

"(B) section 2503(e)."

(B) Paragraph (1) of section 2642(d) of the 1986 Code is amended by striking out "(other than a nontaxable gift)".

(C) The amendments made by this paragraph shall apply to transfers after March 31, 1988.

26 USC 2642
note.

(18) Clause (i) of section 2642(d)(2)(B) of the 1986 Code is amended to read as follows:

“(i) the value of the property involved in such transfer reduced by the sum of—

“(I) any Federal estate tax or state death tax actually recovered from the trust attributable to such property, and

“(II) any charitable deduction allowed under section 2055 or 2522 with respect to such property, and”.

(19) Paragraph (2) of section 2651(b) of the 1986 Code is amended by striking out “a spouse of the transferor” and inserting in lieu thereof “a spouse (or former spouse) of the transferor”.

(20) Section 2652 of the 1986 Code is amended by adding at the end thereof the following new subsection:

“(d) Executor.—For purposes of this chapter, the term ‘executor’ has the meaning given such term by section 2203.”

(h) AMENDMENTS RELATED TO SECTION 1433 OF THE REFORM ACT.—

(1) Subsection (a) of section 1433 of the Reform Act is amended by striking out “this part” and inserting in lieu thereof “this subtitle”.

26 USC 2601
note.

(2) Paragraph (2) of section 1433(b) of the Reform Act is amended—

(A) by striking out “this part” in the material preceding subparagraph (A) and inserting in lieu thereof “this subtitle”,

(B) by inserting before the comma at the end of subparagraph (A) the following: “(or out of income attributable to corpus so added)”, and

(C) by inserting “or revocable trust” after “a will” in subparagraph (B).

(3)(A) Subsection (b) of section 1433 of the Reform Act is amended by striking out paragraph (3) and inserting in lieu thereof the following new paragraphs:

“(3) TREATMENT OF CERTAIN TRANSFERS TO GRANDCHILDREN.—

“(A) IN GENERAL.—For purposes of chapter 13 of the Internal Revenue Code of 1986, the term ‘direct skip’ shall not include any transfer before January 1, 1990, from a transferor to a grandchild of the transferor to the extent the aggregate transfers from such transferor to such grandchild do not exceed \$2,000,000.

“(B) TREATMENT OF TRANSFERS IN TRUST.—For purposes of subparagraph (A), a transfer in trust for the benefit of a grandchild shall be treated as a transfer to such grandchild if (and only if)—

“(i) during the life of the grandchild, no portion of the corpus or income of the trust may be distributed to (or for the benefit of) any person other than such grandchild,

“(ii) the assets of the trust will be includible in the gross estate of the grandchild if the grandchild dies before the trust is terminated, and

“(iii) all of the income of the trust for periods after the grandchild has attained age 21 will be distributed

to (or for the benefit of) such grandchild not less frequently than annually.

“(C) COORDINATION WITH SECTION 2653 (a) OF THE 1986 CODE.—In the case of any transfer which would be a generation-skipping transfer but for subparagraph (A), the rules of section 2653(a) of the Internal Revenue Code of 1986 shall apply as if such transfer were a generation-skipping transfer.

“(D) COORDINATION WITH TAXABLE TERMINATIONS AND TAXABLE DISTRIBUTIONS.—For purposes of chapter 13 of the Internal Revenue Code of 1986, the terms ‘taxable termination’ and ‘taxable distribution’ shall not include any transfer which would be a direct skip but for subparagraph (A).

“(4) DEFINITIONS.—Terms used in this section shall have the same respective meanings as when used in chapter 13 of the Internal Revenue Code of 1986; except that section 2612(c)(2) of such Code shall not apply in determining whether an individual is a grandchild of the transferor.”

(B) Clause (iii) of section 1443(b)(3)(B) of the Reform Act (as amended by subparagraph (A)) shall apply only to transfers after June 10, 1987.

(4) Subsection (d) of section 1433 of the Reform Act is amended—

(A) by striking out “shall be treated as a direct skip” and inserting in lieu thereof “shall be treated as a direct skip to such grandchild”,

(B) by striking out “would be a direct skip” in subparagraph (B) and inserting in lieu thereof “would be a direct skip to a grandchild”, and

(C) by adding at the end thereof the following new sentence: “Unless the grandchild otherwise directs by will, the estate of such grandchild shall be entitled to recover from the person receiving the property on the death of the grandchild any increase in Federal estate tax on the estate of the grandchild by reason of the preceding sentence.”

(5) Subparagraph (C) of section 1433(b)(2) of the Reform Act shall not exempt any direct skip from the amendments made by subtitle D of title XIV of the Reform Act if—

(A) such direct skip results from the application of section 2044 of the 1986 Code, and

(B) such direct skip is attributable to property transferred to the trust after October 21, 1988.

SEC. 1015. AMENDMENTS RELATED TO TITLE XV OF THE REFORM ACT.

(a) AMENDMENT RELATED TO SECTION 1501 OF THE REFORM ACT.—Subparagraph (B) of section 6724(d)(2) of the 1986 Code is amended by striking out “6031(b)” and inserting in lieu thereof “6031(b) or (c)”.

(b) AMENDMENTS RELATED TO SECTION 1503 OF THE REFORM ACT.—

(1) Subparagraph (A) of section 6013(b)(5) of the 1986 Code is amended to read as follows:

“(A) COORDINATION WITH SECTION 6653.—For purposes of section 6653, where the sum of the amounts shown as tax on the separate returns of each spouse is less than the amount shown as tax on the joint return made under this subsection—

26 USC 2601
note.

26 USC 2601
note.

26 USC 2601
note.

“(i) such sum shall be treated as the amount shown on the joint return,

“(ii) any negligence (or disregard of rules or regulations) on either separate return shall be treated as negligence (or such disregard) on the joint return, and

“(iii) any fraud on either separate return shall be treated as fraud on the joint return.”

Fraud.

(2)(A) Paragraph (1) of section 6653(a) of the 1986 Code is amended to read as follows:

“(1) IN GENERAL.—If any part of any underpayment (as defined in subsection (c)) of tax required to be shown on a return is due to negligence (or disregard of rules or regulations), there shall be added to the tax an amount equal to 5 percent of the underpayment.”

Fraud.

(B) Paragraph (1) of section 6653(b) of the 1986 Code is amended to read as follows:

“(1) IN GENERAL.—If any part of any underpayment (as defined in subsection (c)) of tax required to be shown on a return is due to fraud, there shall be added to the tax an amount equal to 75 percent of the portion of the underpayment which is attributable to fraud.”

(C) Paragraph (2) of section 6601(e) of the 1986 Code is amended by striking out “6659” each place it appears and inserting in lieu thereof “6653, 6659”.

(3) Subsection (g) of section 6653 of the 1986 Code is amended by adding at the end thereof the following new sentence: “If any penalty is imposed under subsection (a) by reason of the preceding sentence, only the portion of the underpayment which is attributable to the failure described in the preceding sentence shall be taken into account in determining the amount of the penalty under subsection (a).”

(4) The amendments made by this subsection (other than paragraph (3)) shall apply to returns the due date for which (determined without regard to extensions) is after December 31, 1988.

26 USC 6001
note.

(c) AMENDMENT RELATED TO SECTION 1504 OF THE REFORM ACT.—The repeal made by section 8002(c) of the Omnibus Budget Reconciliation Act of 1986 shall take effect as if the Tax Reform Act of 1986 had been enacted on the day before the date of the enactment of the Omnibus Budget Reconciliation Act of 1986.

Effective date.
26 USC 6661
note.

(d) AMENDMENTS RELATED TO SECTION 1511 OF THE REFORM ACT.—Section 6621 of the 1986 Code is amended—

(1) by striking out “short-term Federal rate” each place it appears in subsections (a) and (b)(1) and inserting in lieu thereof “Federal short-term rate”, and

(2) by striking out “SHORT-TERM FEDERAL RATE” in the heading of subsection (b) and inserting in lieu thereof “FEDERAL SHORT-TERM RATE”.

(e) AMENDMENTS RELATED TO SECTION 1521 OF THE REFORM ACT.—

(1)(A) Paragraph (1) of section 6045(c) of the 1986 Code is amended by adding at the end thereof the following new sentence:

“A person shall not be treated as a broker with respect to activities consisting of managing a farm on behalf of another person.”

Agriculture and
agricultural
commodities.

Effective date.
26 USC 6045
note.

(B) The amendment made by subparagraph (A) shall take effect as if included in the amendments made by section 311(a)(1) of the Tax Equity and Fiscal Responsibility Act of 1982.

Real property.

(2)(A) Subsection (e) of section 6045 of the 1986 Code is amended by adding at the end thereof the following new paragraph:
“(3) PROHIBITION OF SEPARATE CHARGE FOR FILING RETURN.—It shall be unlawful for any real estate reporting person to separately charge any customer for complying with any requirement of paragraph (1).”

Effective date.
26 USC 6045
note.

(B) The amendment made by subparagraph (A) shall take effect on the date of the enactment of this Act.

(3) Subsection (e) of section 6045 of the 1986 Code is amended—

(A) by striking out “real estate broker” each place it appears in the text and inserting in lieu thereof “real estate reporting person”, and

(B) by striking out “REAL ESTATE BROKER” in the heading of paragraph (2) and inserting in lieu thereof “REAL ESTATE REPORTING PERSON”.

(f) AMENDMENT RELATED TO SECTION 1522 OF THE REFORM ACT.—Section 6050M of the 1986 Code is amended by adding at the end thereof the following new subsection:

“(e) EXCEPTION FOR CERTAIN CLASSIFIED OR CONFIDENTIAL CONTRACTS.—

“(1) IN GENERAL.—Except as provided in paragraph (2), this section shall not apply in the case of a contract described in paragraph (3).

“(2) REPORTING REQUIREMENT.—Each Federal executive agency which has entered into a contract described in paragraph (3) shall, upon a request of the Secretary which identifies a particular person, acknowledge whether such person has entered into such a contract with such agency and, if so, provide to the Secretary—

“(A) the information required under this section with respect to such person, and

“(B) such other information with respect to such person which the Secretary and the head of such Federal executive agency agree is appropriate.

“(3) DESCRIPTION OF CONTRACT.—For purposes of this subsection, a contract between a Federal executive agency and another person is described in this paragraph if—

“(A) the fact of the existence of such contract or the subject matter of such contract has been designated and clearly marked or clearly represented, pursuant to the provisions of Federal law or an Executive order, as requiring a specific degree of protection against unauthorized disclosure for reasons of national security, or

“(B) the head of such Federal executive agency (or his designee) pursuant to regulations issued by such agency determines, in writing, that filing the required return under this section would interfere with the effective conduct of a confidential law enforcement or foreign counterintelligence activity.”

(g) AMENDMENTS RELATED TO SECTION 1523 OF THE REFORM ACT.—Section 6676 of the 1986 Code is amended—

(1) by striking out “6049, or 6050N” in subsection (a)(3) and inserting in lieu thereof “or 6049”,

Classified
information.
Defense and
national
security.

(2) by striking out "6049, or 6050N" in subsection (b)(1)(A) and inserting in lieu thereof "or 6049", and

(3) by striking out ", DIVIDENDS, AND ROYALTIES" in the heading for subsection (b) and inserting in lieu thereof "AND DIVIDEND".

(h) AMENDMENTS RELATED TO SECTION 1542 OF THE REFORM ACT.—Subsection (h) of section 6154 of the 1986 Code (as in effect before its repeal by the Revenue Act of 1987) is amended—

(1) by striking out "subject to the tax imposed by section 4940" in paragraph (1),

(2) by amending paragraph (2) to read as follows:

"(2) any tax imposed by section 511, and any tax imposed by section 1 or 4940 on a private foundation, shall be treated as a tax imposed by section 11, and", and

(3) by adding at the end thereof the following new sentence:

"In the case of an organization described in paragraph (1), subsection (c) of section 6655 shall be applied by substituting '5th month' for 'third month' and subsection (d)(3)(A) of section 6655 shall be applied by substituting '2 months' for '3 months' in clause (i), by substituting '4 months' for '5 months' in clause (ii), by substituting '7 months' for '8 months' in clause (iii), and by substituting '10 months' for '11 months' in clause (iv)."

(i) AMENDMENT RELATED TO SECTION 1551 OF THE REFORM ACT.—Clause (iii) of section 7430(c)(2)(A) of the 1986 Code is amended to read as follows:

"(iii) meets the requirements of the 1st sentence of section 2412(d)(1)(B) of title 28, United States Code (as in effect on October 22, 1986) and meets the requirements of section 2412(d)(2)(B) of such title 28 (as so in effect)."

(j) PROVISION RELATED TO SECTION 1556 OF THE REFORM ACT.—To the extent the salary recommendations submitted by the President on January 5, 1987, are inconsistent with the provisions of section 7443A(d)(1) of the 1986 Code, such recommendations shall not be effective for any period.

26 USC 7443A
note.

(k) AMENDMENT RELATED TO SECTION 1557 OF THE REFORM ACT.—

(1) Subsection (d) of section 7447 of the 1986 Code is amended by adding at the end thereof the following new sentence: "In computing the rate of the retired pay under paragraph (1) of this subsection for any individual who is entitled thereto, any period during which such individual performs services under subsection (c) on a substantially full-time basis shall be treated as a period during which he has served as a judge."

(2) The amendment made by paragraph (1) shall apply for purposes of determining the amount of retired pay for months beginning after the date of the enactment of this Act regardless of when the services under section 7447(c) of the 1986 Code were performed.

26 USC 7447
note.

(l) AMENDMENTS RELATED TO SECTION 1561 OF THE REFORM ACT.—

(1) Subsection (e)(2) of section 7609 of the 1986 Code is amended—

(A) by inserting "or the summoned party's response to a summons described in subsection (f)," after "the summons described in subsection (c)," and

(B) by striking out "the summons is issued other" and inserting in lieu thereof "the summons is issued".

(2) Subsection (i) of section 7609 of the 1986 Code is amended—

(A) by striking out “the third-party recordkeeper” in paragraph (4) and inserting in lieu thereof “the summoned party”, and

(B) by inserting “AND SUMMONED PARTY” after “RECORD-KEEPER” in the subsection heading.

Effective date.
26 USC 7609
note.

(3) The amendments made by this subsection shall take effect on the date of the enactment of this Act.

(m) AMENDMENT RELATED TO SECTION 1562 OF THE REFORM ACT.— Subsection (d) of section 6212 of the 1986 Code is amended by adding at the end thereof the following new sentence: “Nothing in this subsection shall affect any suspension of the running of any period of limitations during any period during which the rescinded notice was outstanding.”

(n) AMENDMENT RELATED TO SECTION 1563 OF THE REFORM ACT.— Subparagraph (B) of section 6404(e)(1) of the 1986 Code is amended—

(1) by inserting “error or” before “delay”, and

(2) by inserting “erroneous or” before “dilatatory”.

(o) AMENDMENT RELATED TO SECTION 1565 OF THE REFORM ACT.— Effective with respect to levies made after December 31, 1988, paragraph (10) of section 6334(a) of the 1986 Code is amended—

(1) in subparagraph (A)—

(A) by striking out “IV” and inserting in lieu thereof “III, IV, V”, and

(B) by adding “or” at the end thereof,

(2) in subparagraph (C) by striking out “21,” and inserting in lieu thereof “13, 21, 23,” and

(3) by striking out subparagraph (B) and redesignating subparagraph (C) as subparagraph (B).

26 USC 3402
note.

(p) AMENDMENT RELATED TO SECTION 1581 OF THE REFORM ACT.— Subsection (c) of section 1581 of the Reform Act is amended by adding at the end thereof the following new sentence:

“The preceding sentence shall not apply if its application would result in an increase in the number of withholding allowances for the employee.”

(q) GENERAL REQUIREMENT OF RETURN, STATEMENT, OR LIST.—

(1) Subsection (a) of section 6011 of the 1986 Code is amended by striking out “for the collection thereof” and inserting in lieu thereof “with respect to the collection thereof”.

Effective date.

(2) The amendment made by paragraph (1) shall take effect on the date of the enactment of this Act.

(r) CERTAIN REFUNDABLE CREDITS TO BE ASSESSED UNDER DEFICIENCY PROCEDURES.—

(1) Subsection (a) of section 6201 of the 1986 Code is amended by striking out paragraph (4).

26 USC 6011
note.

(2) Paragraph (4) of section 6211(b) is amended to read as follows:

“(4) For purposes of subsection (a)—

“(A) any excess of the sum of the credits allowable under sections 32 and 34 over the tax imposed by subtitle A (determined without regard to such credits), and

“(B) any excess of the sum of such credits as shown by the taxpayer on his return over the amount shown as the tax by the taxpayer on such return (determined without regard to such credits),

shall be taken into account as negative amounts of tax.”

(3) Subsection (h) of section 6211 of the 1986 Code is amended by striking out paragraph (3) and by redesignating paragraph (4) as paragraph (3).

(4) The amendments made by this subsection shall apply to notices of deficiencies mailed after the date of the enactment of this Act.

26 USC 6201
note.

(s) NOTICE OF LIEN ON PERSONAL PROPERTY.—

(1) Subsection (f) of section 6323 of the 1986 Code is amended—

(A) by inserting “, except that State law merely conforming to or reenacting Federal law establishing a national filing system does not constitute a second office for filing as designated by the laws of such State” after “situated” in paragraph (1)(A)(ii), and

(B) by adding at the end thereof the following new paragraph:

“(5) NATIONAL FILING SYSTEMS.—The filing of a notice of lien shall be governed solely by this title and shall not be subject to any other Federal law establishing a place or places for the filing of liens or encumbrances under a national filing system.”

(2) The amendments made by this subsection shall take effect on the date of the enactment of this Act.

Effective date.
26 USC 6323
note.

(t) EFFECT OF HONORING LEVY.—

(1) Subsection (d) of section 6332 of the 1986 Code is amended—

(A) by inserting “and any other person” after “delinquent taxpayer”, and

(B) by striking out the last sentence thereof.

(2) The amendment made by this subsection shall apply to levies issued after the date of the enactment of this Act.

26 USC 6332
note.

(u) COLLECTION AFTER COMMENCEMENT OF JUDICIAL PROCEEDINGS.—

(1) The last sentence of section 6502(a) of the 1986 Code is amended to read as follows: “If a timely proceeding in court for the collection of a tax is commenced, the period during which such tax may be collected by levy shall be extended and shall not expire until the liability for the tax (or a judgment against the taxpayer arising from such liability) is satisfied or becomes enforceable.”

(2) The amendment made by this subsection shall apply to levies issued after the date of the enactment of this Act.

26 USC 6502
note.

SEC. 1016. AMENDMENTS RELATED TO TITLE XVI OF THE REFORM ACT.

(a) AMENDMENTS RELATED TO SECTION 1603 OF THE REFORM ACT.—

(1)(A) Subparagraph (A) of section 501(c)(25) of the 1986 Code is amended by adding at the end thereof the following new sentence:

“For purposes of clause (iii), the term ‘real property’ shall not include any interest as a tenant in common (or similar interest) and shall not include any indirect interest.”

(B) The amendment made by subparagraph (A) shall apply with respect to property acquired by the organization after June 10, 1987, except that such amendment shall not apply to any property acquired after June 10, 1987, pursuant to a binding written contract in effect on June 10, 1987, and at all times thereafter before such acquisition.

Real property.
Contracts.
Corporations.
26 USC 501 note.

(2) Subparagraph (D) of section 501(c)(25) of the 1986 Code is amended by striking out so much of such subparagraph as precedes clause (i) and inserting in lieu thereof the following:

“(D) A corporation or trust shall in no event be treated as described in subparagraph (A) unless such corporation or trust permits its shareholders or beneficiaries—”.

(3)(A) Paragraph (25) of section 501(c) of the 1986 Code is amended by adding at the end thereof the following new subparagraph:

“(E)(i) For purposes of this title—

“(I) a corporation which is a qualified subsidiary shall not be treated as a separate corporation, and

“(II) all assets, liabilities, and items of income, deduction, and credit of a qualified subsidiary shall be treated as assets, liabilities, and such items (as the case may be) of the corporation or trust described in subparagraph (A).

“(ii) For purposes of this subparagraph, the term ‘qualified subsidiary’ means any corporation if, at all times during the period such corporation was in existence, 100 percent of the stock of such corporation is held by the corporation or trust described in subparagraph (A).

“(iii) For purposes of this subtitle, if any corporation which was a qualified subsidiary ceases to meet the requirements of clause (ii), such corporation shall be treated as a new corporation acquiring all of its assets (and assuming all of its liabilities) immediately before such cessation from the corporation or trust described in subparagraph (A) in exchange for its stock.”

(B) Subparagraph (C) of section 501(c)(25) of the 1986 Code is amended by inserting “or” at the end of clause (iii), by striking out “, or” at the end of clause (iv) and inserting in lieu thereof a period, and by striking out clause (v).

(4) Paragraph (25) of section 501(c) of the 1986 Code is amended by adding at the end thereof the following new subparagraph:

“(F) For purposes of subparagraph (A), the term ‘real property’ includes any personal property which is leased under, or in connection with, a lease of real property, but only if the rent attributable to such personal property (determined under the rules of section 856(d)(1)) for the taxable year does not exceed 15 percent of the total rent for the taxable year attributable to both the real and personal property leased under, or in connection with, such lease.”

(5)(A) Paragraph (9) of section 514(c) of the 1986 Code is amended by adding at the end thereof the following new subparagraph:

“(E) SPECIAL RULES FOR ORGANIZATIONS DESCRIBED IN SECTION 501(C)(25).—

“(i) IN GENERAL.—In computing under section 512 the unrelated business taxable income of a disqualified holder of an interest in an organization described in section 501(c)(25), there shall be taken into account—

“(I) as gross income derived from an unrelated trade or business, such holder’s pro rata share of the items of income described in clause (ii)(I) of such organization, and

“(II) as deductions allowable in computing unrelated business taxable income, such holder’s pro rata share of the items of deduction described in clause (ii)(II) of such organization.

Such amounts shall be taken into account for the taxable year of the holder in which (or with which) the taxable year of such organization ends.

“(ii) DESCRIPTION OF AMOUNTS.—For purposes of clause (i)—

“(I) gross income is described in this clause to the extent such income would (but for this paragraph) be treated under subsection (a) as derived from an unrelated trade or business, and

“(II) any deduction is described in this clause to the extent it would (but for this paragraph) be allowable under subsection (a)(2) in computing unrelated business taxable income.

“(iii) DISQUALIFIED HOLDER.—For purposes of this subparagraph, the term ‘disqualified holder’ means any shareholder (or beneficiary) which is not described in clause (i) or (ii) of subparagraph (C).”

(B) The amendment made by subparagraph (A) shall apply with respect to interests in the organization acquired after June 10, 1987, except that such amendment shall not apply to any such interest acquired after June 10, 1987, pursuant to a binding written contract in effect on June 10, 1987, and at all times thereafter before such acquisition.

26 USC 514 note.

(6) The last sentence of section 514(c)(9)(B) of the 1986 Code is amended by striking out “clause (vi)” and inserting in lieu thereof “this paragraph”.

(b) REPEAL OF SECTION 1608 OF THE REFORM ACT.—Section 1608 of the Reform Act is hereby repealed.

26 USC 170 note.

SEC. 1017. AMENDMENTS RELATED TO TITLE XVII OF THE REFORM ACT.

(a) AMENDMENTS RELATED TO SECTION 1701 OF THE REFORM ACT.—Clause (i) of section 51(d)(12)(B) of the 1986 Code is amended by striking out “subsection (a)(1)” and inserting in lieu thereof “subsection (a)”.

(b) AMENDMENT RELATED TO SECTION 1702 OF THE REFORM ACT.—Subsection (j) of section 6652 of the 1986 Code, as added by section 1702(b) of the Reform Act and as in effect before its repeal by the Revenue Act of 1987, is amended by inserting “(and the corresponding provision of section 4041(d)(1))” after “section 4041(a)(1)”.

(c) AMENDMENTS RELATED TO SECTION 1703 OF THE REFORM ACT.—

(1)(A) Subsection (a) of section 4081 of the 1986 Code, as amended by section 1703 of the Reform Act, is amended by redesignating paragraph (2) as paragraph (3) and by striking out paragraph (1) and inserting in lieu thereof the following new paragraphs:

“(1) IN GENERAL.—There is hereby imposed a tax at the rate specified in paragraph (2) on the earlier of—

“(A) the removal, or

“(B) the sale,

of gasoline by the refiner or importer thereof or the terminal operator.

“(2) RATES OF TAX.—

“(A) IN GENERAL.—The rate of the tax imposed by this section is the sum of—

- “(i) the Highway Trust Fund financing rate, and
- “(ii) the Leaking Underground Storage Tank Trust Fund financing rate.

“(B) RATES.—For purposes of subparagraph (A)—

- “(i) the Highway Trust Fund financing rate is 9 cents a gallon, and
- “(ii) the Leaking Underground Storage Tank Trust Fund financing rate is 0.1 cent a gallon.”

(B) Subsections (b) and (c) of section 4081 of the 1986 Code, as amended by section 1703 of the Reform Act, are each amended by striking out “subsection (d)” and inserting in lieu thereof “subsection (a)”.

(C) Subsection (e) of section 4081 of the 1986 Code, as amended by section 1703 of the Reform Act, is amended—

- (i) by striking out “subsection (d)(2)(A)” in paragraph (1) and inserting in lieu thereof “subsection (a)(2)”, and
- (ii) by striking out “subsection (d)(2)(B)” each place it appears in paragraph (2) and inserting in lieu thereof “subsection (a)(2)”.

(D) Section 4081 of the 1986 Code, as amended by section 1703 of the Reform Act, is amended by striking out subsection (d) and by redesignating subsection (e) as subsection (d).

(2) Subsection (b) of section 34 of the 1986 Code is amended by striking out “section 6421(i) or 6427(j)” and inserting in lieu thereof “section 6421(j) or 6427(k)”.

(3) Sections 4041(b)(1)(C) and 6427(m)(3) of the 1986 Code are each amended by striking out “section 6421(d)(2)” and inserting in lieu thereof “section 6421(e)(2)”.

(4) Paragraph (3) of section 4041(f) of the 1986 Code is amended to read as follows:

“(3) TERMINATION.—Except with respect to the taxes imposed by subsection (d), paragraph (1) shall not apply on and after October 1, 1993.”

(5) The amendment made by section 10502(d)(4) of the Revenue Act of 1987 shall be treated as if included in the amendments made by section 1703 of the Reform Act except that the reference to section 4091 of the Internal Revenue Code of 1986 shall not apply to sales before April 1, 1988.

(6) Section 6421 of the 1986 Code is amended by redesignating subsection (i) (relating to income tax credit in lieu of payment) and subsection (j) (relating to cross references) as subsections (j) and (k), respectively.

(7) Subsections (a) and (b)(1) of section 6421 of the 1986 Code are each amended by striking out “subsection (i)” and inserting in lieu thereof “subsection (j)”.

(8) Paragraph (2) of section 6421(j) of the 1986 Code (as redesignated by paragraph (6)) is amended by striking out “subsection (c)(2)” and inserting in lieu thereof “subsection (d)(2)”.

(9) Sections 7210, 7603, 7604(b), 7604(c)(2), 7605(a), 7609(c)(1), and 7610(c) of the 1986 Code are each amended by striking out “6421(f)(2)” and inserting in lieu thereof “6421(g)(2)”.

(10) Paragraph (2) of section 6427(k) of the 1986 Code is amended by striking out “subsection” and all that follows and inserting in lieu thereof “paragraph (2) or (3) of subsection (i).”

(11) Paragraph (6) of section 6511(i) of the 1986 Code is amended by striking out "section 6421(c)" and inserting in lieu thereof "section 6421(d)".

(12) Subparagraph (G) of section 1703(e)(2) of the Reform Act is amended by striking out all that follows "are amended" and inserting in lieu thereof "by striking out '6427(i)(2)' and inserting in lieu thereof '6427(j)(2)'."

100 Stat. 2774.

(13) Paragraph (2) of section 1703(f) of the Reform Act is amended by adding at the end thereof the following new sentence: "All other provisions of law, including penalties, applicable with respect to the taxes imposed by section 4081 of the Internal Revenue Code of 1986 shall apply to the floor stocks taxes imposed by this section."

26 USC 4081
note.

(14) Paragraph (1) of section 4081(c) of the 1986 Code, as amended by section 1703 of the Reform Act, is amended by striking out "3 cents" and inserting in lieu thereof "3½ cents".

(15) Subsection (d) of section 6421 of the 1986 Code is amended by adding at the end thereof the following new paragraph:

"(3) APPLICATION TO SALES UNDER SUBSECTION (c).—For purposes of this subsection, gasoline shall be treated as used for a purpose referred to in subsection (c) when it is sold for such a purpose."

Petroleum and
petroleum
products.

(16) Section 4222(d) of the 1986 Code is amended by striking out "4083" and inserting in lieu thereof "4101".

SEC. 1018. AMENDMENTS RELATED TO TITLE XVIII OF THE REFORM ACT.

(a) AMENDMENT RELATED TO SECTION 1801 OF THE REFORM ACT.—Clause (iii) of section 1801(a)(2)(A) of the Reform Act is amended to read as follows:

26 USC 168 note.

"(iii) a person became a partner in such partnership (or a beneficiary in such trust) after its formation but before September 26, 1985,".

(b) AMENDMENTS RELATED TO SECTION 1802 OF THE REFORM ACT.—

(1) The last sentence of section 31(g)(17)(L) of the Tax Reform Act of 1984, as added by section 1802(a)(10)(G) of the Reform Act, is amended—

26 USC 168 note.

(A) by striking out "Registry of Deeds" each place it appears and inserting in lieu thereof "Register of Deed", and

(B) by striking out "May 7, 1985" and inserting in lieu thereof "May 7, 1984".

(2) Subparagraph (E) of section 168(j)(9) of the 1986 Code (as amended by section 1802(a)(2) of the Reform Act and as in effect before the amendments made by section 201 of the Reform Act) is amended—

(A) by striking out "this paragraph" in clauses (i) and (ii)(I) and inserting in lieu thereof "this paragraph and paragraph (8)", and

(B) by striking out clause (iii) and inserting in lieu thereof the following:

"(iii) TAX-EXEMPT CONTROLLED ENTITY.—

"(I) IN GENERAL.—The term 'tax-exempt controlled entity' means any corporation (which is not a tax-exempt entity determined without regard to this subparagraph and paragraph (4)(E)) if 50 percent or more (in value) of the stock in such corpora-

tion is held by 1 or more tax-exempt entities (other than a foreign person or entity).

“(II) ONLY 5-PERCENT SHAREHOLDERS TAKEN INTO ACCOUNT IN CASE OF PUBLICLY TRADED STOCK.—For purposes of subclause (I), in the case of a corporation the stock of which is publicly traded on an established securities market, stock held by a tax-exempt entity shall not be taken into account unless such entity holds at least 5 percent (in value) of the stock in such corporation. For purposes of this subclause, related entities (within the meaning of paragraph (7)) shall be treated as 1 entity.

“(III) SECTION 318 TO APPLY.—For purposes of this clause, a tax-exempt entity shall be treated as holding stock which it holds through application of section 318 (determined without regard to the 50-percent limitation contained in subsection (a)(2)(C) thereof.”

(c) AMENDMENT RELATED TO SECTION 1803 OF THE REFORM ACT.—

26 USC 1281
note.

(1) Subparagraph (A) of section 1803(a)(8) of the Reform Act is amended by striking out “September 27, 1985” and inserting in lieu thereof “December 31, 1985”.

(2) Subsection (c) of section 1278 of the 1986 Code is amended by inserting before the period “, including regulations providing proper adjustments in the case of a bond the principal of which may be paid in 2 or more payments”.

(3) Section 1278(b) of the 1986 Code is amended by adding at the end thereof the following new paragraph:

“(4) BASIS ADJUSTMENT.—The basis of any bond in the hands of the taxpayer shall be increased by the amount included in gross income pursuant to this subsection.”

(d) AMENDMENTS RELATED TO SECTION 1804 OF THE REFORM ACT.—

26 USC 311 note.

(1) Paragraph (3) of section 1804(b) of the Reform Act is amended by striking out “Paragraph (3) of section 54” and inserting “Paragraph (3) of section 54(d)”.

26 USC 311 note.

(2) Clause (i) of section 54(d)(3)(D) of the Tax Reform Act of 1984 is amended by striking out “subtitle D of title VI” and inserting “subtitle D of title VI of the Tax Reform Act of 1986”.

(3) Clause (ii) of section 54(d)(3)(D) of the Tax Reform Act of 1984 (as added by section 1804(b)(3) of the Tax Reform Act of 1986) is amended—

(A) by striking out “December 9, 1968,” each place it appears and inserting in lieu thereof “December 10, 1968,” and

(B) by striking out “October 5, 1981” and inserting in lieu thereof “March 2, 1978,”.

(4) Subsection (b) of section 312 of the 1986 Code is amended by striking out “of any property” and inserting in lieu thereof “of any property (other than an obligation of such corporation)”.

(5)(A) Section 361 of the 1986 Code is amended to read as follows:

“SEC. 361. NONRECOGNITION OF GAIN OR LOSS TO CORPORATIONS;
TREATMENT OF DISTRIBUTIONS.

“(a) GENERAL RULE.—No gain or loss shall be recognized to a corporation if such corporation is a party to a reorganization and

exchanges property, in pursuance of the plan of reorganization, solely for stock or securities in another corporation a party to the reorganization.

“(b) EXCHANGES NOT SOLELY IN KIND.—

“(1) GAIN.—If subsection (a) would apply to an exchange but for the fact that the property received in exchange consists not only of stock or securities permitted by subsection (a) to be received without the recognition of gain, but also of other property or money, then—

“(A) PROPERTY DISTRIBUTED.—If the corporation receiving such other property or money distributes it in pursuance of the plan of reorganization, no gain to the corporation shall be recognized from the exchange, but

“(B) PROPERTY NOT DISTRIBUTED.—If the corporation receiving such other property or money does not distribute it in pursuance of the plan of reorganization, the gain, if any, to the corporation shall be recognized.

The amount of gain recognized under subparagraph (B) shall not exceed the sum of the money and the fair market value of the other property so received which is not so distributed.

“(2) LOSS.—If subsection (a) would apply to an exchange but for the fact that the property received in exchange consists not only of property permitted by subsection (a) to be received without the recognition of gain or loss, but also of other property or money, then no loss from the exchange shall be recognized.

“(3) TREATMENT OF TRANSFERS TO CREDITORS.—For purposes of paragraph (1), any transfer of the other property or money received in the exchange by the corporation to its creditors in connection with the reorganization shall be treated as a distribution in pursuance of the plan of reorganization. The Secretary may prescribe such regulations as may be necessary to prevent avoidance of tax through abuse of the preceding sentence or subsection (c)(3).

“(c) TREATMENT OF DISTRIBUTIONS.—

“(1) IN GENERAL.—Except as provided in paragraph (2), no gain or loss shall be recognized to a corporation a party to a reorganization on the distribution to its shareholders of property in pursuance of the plan of reorganization.

“(2) DISTRIBUTIONS OF APPRECIATED PROPERTY.—

“(A) IN GENERAL.—If—

“(i) in a distribution referred to in paragraph (1), the corporation distributes property other than qualified property, and

“(ii) the fair market value of such property exceeds its adjusted basis (in the hands of the distributing corporation),

then gain shall be recognized to the distributing corporation as if such property were sold to the distributee at its fair market value.

“(B) QUALIFIED PROPERTY.—For purposes of this subsection, the term ‘qualified property’ means—

“(i) any stock in (or right to acquire stock in) the distributing corporation or obligation of the distributing corporation, or

“(ii) any stock in (or right to acquire stock in) another corporation which is a party to the reorganization or

obligation of another corporation which is such a party if such stock (or right) or obligation is received by the distributing corporation in the exchange.

“(C) TREATMENT OF LIABILITIES.—If any property distributed in the distribution referred to in paragraph (1) is subject to a liability or the shareholder assumes a liability of the distributing corporation in connection with the distribution, then, for purposes of subparagraph (A), the fair market value of such property shall be treated as not less than the amount of such liability.

“(3) TREATMENT OF CERTAIN TRANSFERS TO CREDITORS.—For purposes of this subsection, any transfer of qualified property by the corporation to its creditors in connection with the reorganization shall be treated as a distribution to its shareholders pursuant to the plan of reorganization.

“(4) COORDINATION WITH OTHER PROVISIONS.—Section 311 and subpart B of part II of this subchapter shall not apply to any distribution referred to in paragraph (1).”

(B) Section 358 of the 1986 Code is amended by adding at the end thereof the following new subsection:

“(f) DEFINITION OF NONRECOGNITION PROPERTY IN CASE OF SECTION 361 EXCHANGE.—For purposes of this section, the property permitted to be received under section 361 without the recognition of gain or loss shall be treated as consisting only of stock or securities in another corporation a party to the reorganization.”

(C) Section 355 of the 1986 Code is amended by adding at the end thereof the following new subsection:

“(c) TAXABILITY OF CORPORATION ON DISTRIBUTION.—Section 311 shall apply to any distribution—

“(1) to which this section (or so much of section 356 as relates to this section) applies, and

“(2) which is not in pursuance of a plan of reorganization, in the same manner as if such distribution were a distribution to which subpart A of part I applies; except that subsection (b) of section 311 shall not apply to any distribution of stock or securities in the controlled corporation.”

(D) Subsection (c) of section 336 of the 1986 Code (as amended by section 631 of the Reform Act) is amended to read as follows:

“(c) EXCEPTION FOR LIQUIDATIONS WHICH ARE PART OF A REORGANIZATION.—

“For provision providing that this subpart does not apply to distributions in pursuance of a plan of reorganization, see section 361(c)(4).”

(E) Subsection (a) of section 311 of the 1986 Code is amended by striking out “distribution, with respect to its stock,” and inserting in lieu thereof “distribution (not in complete liquidation) with respect to its stock”.

(F) The table of sections for subpart C of part III of subchapter C of chapter 1 of the 1986 Code is amended by striking out the item relating to section 361 and inserting in lieu thereof the following new item:

“Sec. 361. Nonrecognition of gain or loss to corporations; treatment of distributions.”

(G) Effective with respect to transfers on or after June 21, 1988, section 351 of the 1986 Code is amended by redesignating

subsection (f) as subsection (g) and by inserting after subsection (e) the following new subsection:

“(f) TREATMENT OF CONTROLLED CORPORATION.—If—

“(1) property is transferred to a corporation (hereinafter in this subsection referred to as the ‘controlled corporation’) in an exchange with respect to which gain or loss is not recognized (in whole or in part) to the transferor under this section, and

“(2) such exchange is not in pursuance of a plan of reorganization,

section 311 shall apply to any transfer in such exchange by the controlled corporation in the same manner as if such transfer were a distribution to which subpart A of part I applies.”

(6) Subparagraph (A) of section 280G(b)(5) of the 1986 Code is amended—

(A) in clause (i) by striking out “section 1361(b))” and inserting in lieu thereof “section 1361(b) but without regard to paragraph (1)(C) thereof”, and

(B) by adding at the end thereof the following: “Stock described in section 1504(a)(4) shall not be taken into account under clause (ii)(I) if the payment does not adversely affect the shareholder’s redemption and liquidation rights.”

(7) Subparagraph (B) of section 280G(b)(5) of the 1986 Code (relating to shareholder approval requirements) is amended by adding at the end thereof the following new sentence:

“The regulations prescribed under subsection (e) shall include regulations providing for the application of this subparagraph in the case of shareholders which are not individuals (including the treatment of nonvoting interests in an entity which is a shareholder) and where an entity holds a de minimis amount of stock in the corporation.”

(8) Paragraph (5) of section 280G(d) of the 1986 Code is amended by striking out “officer or any member” and inserting in lieu thereof “officer of any member”.

(9) Paragraph (3) of section 338(e) of the 1986 Code is amended by striking out “which meet the 80 percent requirements of subparagraphs (A) and (B) of subsection (d)(3)” and inserting in lieu thereof “which meet the requirements of section 1504(a)(2)”.

(10)(A) Paragraph (7) of section 1504(b) of the 1986 Code is amended to read as follows:

“(7) A DISC (as defined in section 992(a)(1)).”

(B) Section 1504 of the 1986 Code is amended by adding at the end thereof the following new subsection:

“(f) SPECIAL RULE FOR CERTAIN AMOUNTS DERIVED FROM A CORPORATION PREVIOUSLY TREATED AS A DISC.—In determining the consolidated taxable income of an affiliated group for any taxable year beginning after December 31, 1984, a corporation which had been a DISC and which would otherwise be a member of such group shall not be treated as such a member with respect to—

“(1) any distribution (or deemed distribution) of accumulated DISC income which was not treated as previously taxed income under section 805(b)(2)(A) of the Tax Reform Act of 1984, and

“(2) any amount treated as received under section 805(b)(3) of such Act.”

(e) PROVISION RELATED TO SECTION 1806 OF THE REFORM ACT.—If—

(1) on a return for the 1st taxable year of the trusts involved beginning after March 1, 1984, 2 or more trusts were treated as

a single trust for purposes of the tax imposed by chapter 1 of the Internal Revenue Code of 1954,

(2) such trusts would have been required to be so treated but for the amendment made by section 1806(b) of the Reform Act, and

(3) such trusts did not accumulate any income during such taxable year and did not make any accumulation distributions during such taxable year,

then, notwithstanding the amendment made by section 1806(b) of the Reform Act, such trusts shall be treated as one trust for purposes of such taxable year.

(f) AMENDMENTS RELATED TO SECTION 1807 OF THE REFORM ACT.—

(1) Paragraphs (1)(A) and (2)(E) of section 468B(d) of the 1986 Code are each amended by striking out “the taxpayer” and inserting in lieu thereof “the taxpayer (or any related person)”.

(2) Subparagraph (A) of section 468B(d)(2) of the 1986 Code is amended to read as follows:

“(A) which is established pursuant to a court order and which extinguishes completely the taxpayer’s tort liability with respect to claims described in subparagraph (D),”.

(3) Clause (i) of section 1807(a)(7)(C) of the Reform Act is amended to read as follows:

“(i) any portion of such fund which is established pursuant to a court order and with qualified payments, which meets the requirements of subparagraphs (C) and (D) of section 468B(d)(2) of the Internal Revenue Code of 1954 (as added by this paragraph), and with respect to which an election is made under subparagraph (F) thereof, shall be treated as a designated settlement fund for purposes of section 468B of such Code,”.

(4) Paragraph (2) of section 468B(b) of the 1986 Code is amended—

(A) by striking out “the corporation,” and inserting in lieu thereof “a corporation,” and

(B) by striking out “no other” and inserting in lieu thereof “No other”.

(5)(A) Section 468B of the 1986 Code is amended by adding at the end thereof the following new subsection:

“(g) CLARIFICATION OF TAXATION OF CERTAIN FUNDS.—Nothing in any provision of law shall be construed as providing that an escrow account, settlement fund, or similar fund is not subject to current income tax. The Secretary shall prescribe regulations providing for the taxation of any such account or fund whether as a grantor trust or otherwise.”

(B) Subparagraph (D) of section 1807(a)(7) of the Reform Act is hereby repealed.

(g) AMENDMENTS RELATED TO SECTION 1810 OF THE REFORM ACT.—

(1) Paragraph (5) of section 1810(a) of the Reform Act is amended by striking out “section 125(b)(5)” each place it appears and inserting in lieu thereof “section 121(b)(5)”.

(2) Section 133(d)(3)(B)(iii) of the Tax Reform Act of 1984, as amended by section 1810(i)(2) of the Reform Act, is amended by striking out “Tax Reform Act of 1985” and inserting in lieu thereof “Tax Reform Act of 1986”.

26 USC 468B
note.

Regulations.

26 USC 904 note.

26 USC 959 note.

(3) Clause (iv) of section 7701(b)(5)(A) of the 1986 Code is amended by striking out "section 274(k)(2)" and inserting in lieu thereof "section 274(l)(1)(B)".

(h) AMENDMENT RELATED TO SECTION 1821 OF THE REFORM ACT.—

(1) Subsection (e) of section 812 of the 1986 Code (relating to dividends from certain subsidiaries not included in gross investment income) is amended to read as follows:

"(e) DIVIDENDS FROM CERTAIN SUBSIDIARIES NOT INCLUDED IN GROSS INVESTMENT INCOME.—

"(1) IN GENERAL.—For purposes of this section, the term 'gross investment income' shall not include any dividend received by the life insurance company which is a 100 percent dividend.

"(2) 100 PERCENT DIVIDEND DEFINED.—

"(A) IN GENERAL.—Except as provided in subparagraphs (B) and (C), the term '100 percent dividend' means any dividend if the percentage used for purposes of determining the deduction allowable under section 243, 244, or 245(b) is 100 percent.

"(B) CERTAIN DIVIDENDS OUT OF TAX-EXEMPT INTEREST, ETC.—The term '100 percent dividend' does not include any distribution by a corporation to the extent such distribution is out of tax-exempt interest or out of dividends which are not 100 percent dividends (determined with the application of this subparagraph).

"(C) CERTAIN DIVIDENDS RECEIVED BY FOREIGN CORPORATIONS.—The term '100 percent dividends' does not include any dividend described in section 805(a)(4)(E) (relating to certain dividends in the case of foreign corporations)."

(2) The amendment made by paragraph (1) shall take effect as if included in the amendments made by section 211 of the Tax Reform Act of 1984.

Effective date.
26 USC 812 note.

(i) AMENDMENT RELATED TO SECTION 1822 OF THE REFORM ACT.—Clause (i) of section 216(b)(4)(C) of the Tax Reform Act of 1984 (relating to section 818(c) elections made by certain acquired companies) is amended by striking out "clause (i)" and inserting in lieu thereof "subclause (I)".

26 USC 801 note.

(j) AMENDMENT RELATED TO SECTION 1825 OF THE REFORM ACT.—Paragraph (4) of section 1825(a) of the Reform Act (relating to amendments related to section 221 of the Tax Reform Act of 1984) is amended by striking out "Section 7702(e)(2)" and inserting in lieu thereof "Effective with respect to contracts entered into after October 22, 1986, section 7702(e)(2)".

Contracts.

26 USC 7702
note.

(k) AMENDMENTS RELATED TO SECTION 1826 OF THE REFORM ACT.—

(1) Paragraph (5) of section 72(s) of the 1986 Code is amended by striking out "or" at the end of subparagraph (B), by striking out the period at the end of subparagraph (C) and inserting in lieu thereof ", or", and by adding at the end thereof the following new subparagraph:

"(D) which is a qualified funding asset (as defined in section 130(d), but without regard to whether there is a qualified assignment)."

(2) The paragraph heading of paragraph (5) of section 72(s) of the 1986 Code is amended by striking out "ANNUITY CONTRACTS WHICH ARE PART OF QUALIFIED PLANS" and inserting in lieu thereof "CERTAIN ANNUITY CONTRACTS".

(l) AMENDMENTS RELATED TO SECTION 1842 OF THE REFORM ACT.

(1) Subsection (c) of section 425 of the 1986 Code is amended by adding at the end thereof the following new paragraph:

“(4) TRANSFERS BETWEEN SPOUSES OR INCIDENT TO DIVORCE.—In the case of any transfer described in subsection (a) of section 1041—

“(A) such transfer shall not be treated as a disposition for purposes of this part, and

“(B) the same tax treatment under this part with respect to the transferred property shall apply to the transferee as would have applied to the transferor.”

(2) Paragraph (1) of section 425(c) of the 1986 Code is amended by striking out “paragraph (2) and (3)” and inserting in lieu thereof “paragraphs (2), (3), and (4)”.

(3) Effective with respect to transfers after June 21, 1988, subsection (d) of section 1041 of the 1986 Code is amended—

(A) by striking out “Paragraph (1) of subsection (a)” and inserting in lieu thereof “Subsection (a)”, and

(B) by striking out “the spouse” and inserting in lieu thereof “the spouse (or former spouse)”.

(m) AMENDMENTS RELATED TO SECTION 1866 OF THE REFORM ACT.—

26 USC 103 note.

(1) Section 1866 of the Reform Act is amended by striking out “obligation issued to refund” and inserting in lieu thereof “obligation (or series of obligations) issued to refund”.

(2)(A) Paragraph (1) of section 1866 of the Reform Act is amended to read as follows:

“(1) the average maturity of the issue of which the refunding obligation is a part does not exceed the average maturity of the obligations to be refunded by such issue,”.

(B) Section 1866 of the Reform Act is amended by adding at the end thereof the following new sentence: “For purposes of paragraph (1), average maturity shall be determined in accordance with subsection (b)(14)(B)(i) of such Code.”

(3) Paragraph (4) of section 1866 of the Reform Act is amended by striking out “30 days” and inserting in lieu thereof “90 days”.

(4) Section 1866 of the Reform Act is amended by adding “and” at the end of paragraph (2), by striking out paragraph (3), and by redesignating paragraph (4) as paragraph (3).

26 USC 103 note.

(5) A refunding obligation issued before July 1, 1987, shall be treated as meeting the requirement of paragraph (1) of section 1866 of the Reform Act if such obligation met the requirement of such paragraph as enacted by the Reform Act.

(n) AMENDMENTS RELATED TO SECTION 1869 OF THE REFORM ACT.—

26 USC 103 note.

(1) Clause (ii) of section 1869(c)(3)(A) of the Reform Act is amended by striking out “pursuant to the exercise of eminent domain” and inserting in lieu thereof “(by a governmental unit having the power to exercise eminent domain)”.

(2) Subparagraph (C) of section 1869(c)(3) of the Reform Act is amended by inserting “(or similar issues)” after “resulting from the issue”.

(o) AMENDMENTS RELATED TO SECTION 1875 OF THE REFORM ACT.—

(1) Clause (ii) of section 6230(a)(2)(A) of the 1986 Code is amended by striking out “nonpartnership items” and inserting in lieu thereof “nonpartnership items (other than by reason of section 6231(b)(1)(C))”.

(2) Subsection (g) of section 1246 of the 1986 Code (as redesignated by this Act) is amended by striking out "1248(g)(3)" and inserting in lieu thereof "1248(g)(2)".

(3) Subsection (f) of section 6229 of the 1986 Code is amended by adding at the end thereof the following new sentence: "The period described in the preceding sentence (including any extension period under this sentence) may be extended with respect to any partner by agreement entered into by the Secretary and such partner."

Contracts.

(p) AMENDMENT RELATED TO SECTION 1878 OF THE REFORM ACT.— Paragraph (1) of section 852(e) of the 1986 Code is amended by striking out "subsection (a)(3)" and inserting in lieu thereof "subsection (a)(2)".

(q) AMENDMENTS RELATED TO SECTION 1879 OF THE REFORM ACT.—

(1) Subclause (II) of section 28(b)(2)(A)(ii) of the 1986 Code is amended to read as follows:

"(II) before the date on which an application with respect to such drug is approved under section 505(b) or 507 of such Act or, if the drug is a biological product, before the date on which a license for such drug is issued under section 351 of the Public Health Service Act; and".

(2) The last sentence of section 1361(d)(3) of the 1986 Code is amended by striking out "treated as a separate trust under section 663(c)" and inserting in lieu thereof "within the meaning of section 663(c)".

(3) Subsection (p) of section 1879 of the Reform Act is amended—

26 USC 83 note.

(A) by striking out "Subsection (a)" in paragraph (2) and inserting "Paragraph (1)", and

(B) by striking out "subsection (a)" each place it appears in paragraphs (2) and (3) and inserting in lieu thereof "paragraph (1)".

(4)(A) Subsection (d) of section 1286 of the 1986 Code is amended to read as follows:

"(d) SPECIAL RULES FOR TAX-EXEMPT OBLIGATIONS.—

"(1) IN GENERAL.—In the case of any tax-exempt obligation (as defined in section 1275(a)(3)) from which 1 or more coupons have been stripped—

"(A) the amount of the original issue discount determined under subsection (a) with respect to any stripped bond or stripped coupon—

"(i) shall be treated as original issue discount on a tax-exempt obligation to the extent such discount does not exceed the tax-exempt portion of such discount, and

"(ii) shall be treated as original issue discount on an obligation which is not a tax-exempt obligation to the extent such discount exceeds the tax-exempt portion of such discount,

"(B) subsection (b)(1)(A) shall not apply, and

"(C) subsection (b)(2) shall be applied by increasing the basis of the bond or coupon by the sum of—

"(i) the interest accrued but not paid before such bond or coupon was disposed of (and not previously reflected in basis), plus

"(ii) the amount included in gross income under subsection (b)(1)(B).

“(2) **TAX-EXEMPT PORTION.**—For purposes of paragraph (1), the tax-exempt portion of the original issue discount determined under subsection (a) is the excess of—

“(A) the amount referred to in subsection (a)(1), over

“(B) an issue price which would produce a yield to maturity as of the purchase date equal to the lower of—

“(i) the coupon rate of interest on the obligation from which the coupons were separated, or

“(ii) the yield to maturity (on the basis of the purchase price) of the stripped obligation or coupon.

The purchaser of any stripped obligation or coupon may elect to apply clause (i) by substituting ‘original yield to maturity of’ for ‘coupon rate of interest on.’”

(B)(i) Except as provided in clause (ii), the amendment made by subparagraph (A) shall apply to any purchase or sale after June 10, 1987, of any stripped tax-exempt obligation or stripped coupon from such an obligation.

(ii) If—

(I) any person held any obligation or coupon in stripped form on June 10, 1987, and

(II) such obligation or coupon was held by such person on such date for sale in the ordinary course of such person’s trade or business,

the amendment made by subparagraph (A) shall not apply to any sale of such obligation or coupon by such person and shall not apply to any such obligation or coupon while held by another person who purchased such obligation or coupon from the person referred to in subclause (I).

(5) Clause (ii) of section 368(a)(2)(F) of the 1986 Code is amended—

(A) by striking out the two parenthetical phrases in the first sentence, and

(B) by adding at the end thereof the following new sentence: “For purposes of this clause, a person holding stock in a regulated investment company, a real estate investment trust, or an investment company which meets the requirements of this clause shall, except as provided in regulations, be treated as holding its proportionate share of the assets held by such company or trust.”

(r) **AMENDMENTS RELATED TO SECTION 1895 OF THE REFORM ACT.**—

(1) Subsection (b) of section 1895 of the Reform Act is amended by striking out paragraphs (1) and (2).

(2)(A) Clause (ii) of section 3121(u)(2)(B) of the 1986 Code is amended by striking out “or” at the end of subclause (IV), by striking out the period at the end of subclause (V) and inserting in lieu thereof “, or”, and by inserting after subclause (V) the following new subclause:

“(VI) by an individual in a position described in section 1402(c)(2)(E).”

(B) The amendment made by subparagraph (A) shall apply to services performed after March 31, 1986.

(s) **MISCELLANEOUS PROVISIONS.**—

(1) Subsection (a) of section 8021 of the 1986 Code is amended by striking out “6103(d)” and inserting in lieu thereof “6103(f)”.

(2)(A) Section 2503 of the 1986 Code is amended by adding at the end thereof the following new subsection:

“(f) **TREATMENT OF CERTAIN LOANS OF ARTWORKS.**—

26 USC 1286
note.

42 USC 1395ww
and note.

“(1) **IN GENERAL.**—For purposes of this subtitle, any loan of a qualified work of art shall not be treated as a transfer (and the value of such qualified work of art shall be determined as if such loan had not been made) if—

Loans.

“(A) such loan is to an organization described in section 501(c)(3) and exempt from tax under section 501(c) (other than a private foundation), and

“(B) the use of such work by such organization is related to the purpose or function constituting the basis for its exemption under section 501.

“(2) **DEFINITIONS.**—For purposes of this section—

“(A) **QUALIFIED WORK OF ART.**—The term ‘qualified work of art’ means any archaeological, historic, or creative tangible personal property.

“(B) **PRIVATE FOUNDATION.**—The term ‘private foundation’ has the meaning given such term by section 509, except that such term shall not include any private operating foundation (as defined in section 4942(j)(3)).”

(B) The amendment made by subparagraph (A) shall apply to loans after July 31, 1969.

26 USC 2503 note.

(3)(A) Subparagraph (B) of section 1563(d)(1) of the 1986 Code is amended by striking out “subsection (e)(1)” and inserting in lieu thereof “paragraphs (1), (2), and (3) of subsection (e)”

(B) The amendment made by subparagraph (A) shall apply to taxable years beginning after the date of the enactment of this Act.

26 USC 1563 note.

(t) **ADDITIONAL AMENDMENTS RELATED TO PENSION PLANS.—**

(1) **AMENDMENTS RELATED TO SECTION 1826 OF THE REFORM ACT.—**

(A) Section 72(s)(7) of the 1986 Code is amended by striking out “primary annuity” and inserting in lieu thereof “primary annuitant”.

(B) Section 72(q)(2)(B) of the 1986 Code is amended by striking out the last parenthesis.

(C) Section 419A(f)(5) of the 1986 Code is amended by striking out “accounts” and inserting in lieu thereof “account”.

(D) Section 1826(c) of the Reform Act is amended by striking out “made” and inserting in lieu thereof “commencing”.

26 USC 72 note.

(2) **AMENDMENTS RELATED TO SECTION 1851 OF THE REFORM ACT.—**

(A) Section 1851(a) of the Reform Act is amended by striking out paragraph (4) thereof.

26 USC 419A.

(B) Subclause (II) of section 512(a)(3)(E)(ii) of the 1986 Code is amended, (i) by striking out “subclause (II)” and inserting in lieu thereof “subclause (I)”, and (ii) by striking out the comma at the end thereof and inserting in lieu thereof a period.

(C) Section 419(a)(1) of the 1986 Code is amended by striking out “subchapter” and inserting in lieu thereof “chapter”.

(D) Subparagraph (B) of section 1851(a)(3) of the Reform Act is amended by inserting “, section 505, and section 4976(b)(1)(B)” after “section 419A”.

26 USC 419A note.

(3) **AMENDMENTS RELATED TO SECTION 1852 OF THE REFORM ACT.—**

26 USC 401 note.

(A) Paragraph (4) of section 1852(a) of the Reform Act is amended by adding at the end thereof the following new subparagraph:

“(C) An individual whose required beginning date would, but for the amendment made by subparagraph (A), occur after December 31, 1986, but whose required beginning date after such amendment occurs before January 1, 1987, shall be treated as if such individual had become a 5-percent owner during the plan year ending in 1986.”

26 USC 415.

(B) Section 1852(h)(2) of the Reform Act is amended by striking out “section 416(1)” and inserting in lieu thereof “section 415(1)”.

26 USC 401 note.

(C) Section 1852(h)(1) of the Reform Act is amended by striking out “Subsection” and inserting in lieu thereof “Effective for years beginning after December 31, 1985, subsection”.

(D) Subparagraph (E) of section 408(d)(3) of the 1986 Code is amended by striking out “subparagraph” and inserting in lieu thereof “paragraph”.

(4) AMENDMENTS RELATED TO SECTION 1854 OF THE REFORM ACT.—

(A) Section 404(k) of the 1986 Code is amended by striking out “avoidance” in the 4th sentence and inserting in lieu thereof “evasion”.

(B) Section 409(h)(2) of the 1986 Code (relating to plan may distribute cash) is amended by striking out “section 409(o)” and inserting in lieu thereof “paragraph (1)(B)”.

(C) Subparagraph (C) of section 409(n)(3) of the 1986 Code (defining nonallocation period) is amended to read as follows:

“(C) NONALLOCATION PERIOD.—The term ‘nonallocation period’ means the period beginning on the date of the sale of the qualified securities and ending on the later of—

“(i) the date which is 10 years after the date of sale,

or

“(ii) the date of the plan allocation attributable to the final payment of acquisition indebtedness incurred in connection with such sale.”

(D) Subparagraph (A) of section 1042(c)(4) of the 1986 Code (defining qualified replacement property) is amended by inserting “(as in effect immediately before the Tax Reform Act of 1986)” after “section 954(c)(3)”.

(E) Clause (i) of section 1042(c)(4)(B) of the 1986 Code (relating to operating corporation) is amended by striking out “placement period” and inserting in lieu thereof “replacement period”.

(F) Section 1854(a)(3)(B) of the Reform Act is amended by striking out “1042(b)(3)” and inserting in lieu thereof “1042(b)”.

26 USC 409 note.

(G) Subparagraph (C) of section 1854(a)(3) of the Reform Act is amended to read as follows:

“(C)(i) Except as provided in clause (ii), the amendments made by this paragraph shall apply to sales of securities after the date of the enactment of this Act.

“(ii) A taxpayer or executor may elect to have section 1042(b)(3) of the Internal Revenue Code of 1954 (as in effect before the amendment made by subparagraph (B)) apply to sales

before the date of the enactment of this Act as if such section included the last sentence of section 409(n)(1) of the Internal Revenue Code of 1986 (as added by subparagraph (A)).”

(H) Section 409(e)(5) of the 1986 Code is amended by striking out “(2) or”.

(5) AMENDMENT RELATED TO SECTION 1875 OF THE REFORM ACT.—Section 1875(c)(7)(B) of the Reform Act is amended by striking out “and section 405(c)”. 26 USC 404.

(6) AMENDMENT RELATED TO SECTION 1879 OF THE REFORM ACT.—Subparagraph (B) of section 125(c)(2) of the 1986 Code (relating to exception for cash and deferred arrangements) is amended by inserting “or rural electric cooperative plan (within the meaning of section 401(k)(7))” after “stock bonus plan”.

(7) AMENDMENTS RELATED TO SECTION 1895 OF THE REFORM ACT.—

(A) Section 106(b)(1) of the 1986 Code (relating to exception for highly compensated individuals where plan fails to provide certain continuation coverage) is amended—

(i) by striking out “any amount contributed by an employer” and inserting in lieu thereof “any employer-provided coverage”, and

(ii) by striking out “to a group” and inserting in lieu thereof “under a group”.

(B) Section 1895(d)(5)(A) of the Reform Act is amended by striking out “section 162(k)(2)” and inserting in lieu thereof “section 162(k)(5)”. 26 USC 162.

(8) AMENDMENTS RELATED TO SECTION 1898 OF THE REFORM ACT.—

(A) Subparagraph (G) of section 402(a)(6) of the 1986 Code (relating to treatment of potential future vesting), as added by section 1898(a)(3) of the Reform Act, is redesignated as subparagraph (I).

(B) Subparagraph (A) of section 411(a)(11) of the 1986 Code is amended by striking out “vested” and inserting in lieu thereof “nonforfeitable”.

(C) Section 402(f)(1) of the 1986 Code is amended by striking out “a eligible” and inserting in lieu thereof “an eligible”.

(D) Section 1899A of the Reform Act is amended by striking out paragraph (13). 26 USC 415.

(E) Subparagraph (B) of section 414(p)(4) of the 1986 Code is amended—

(i) by striking out “means earlier of” and inserting in lieu thereof “means the earlier of”, and

(ii) by striking out “in” each place it appears.

(F) Section 414(p)(10) of the 1986 Code (relating to waiver of certain distribution requirements) is amended by inserting “, 403(b),” after “section 401”.

(G) Section 414(p)(9) of the 1986 Code is amended by adding at the end thereof the following new sentence: “For purposes of this title, except as provided in regulations, any distribution from an annuity contract under section 403(b) pursuant to a qualified domestic relations order shall be treated in the same manner as a distribution from a plan to which section 401(a)(13) applies.” Contracts.

(u) ADDITIONAL CLERICAL AMENDMENTS.—

26 USC 402.

(1) Paragraph (5) of section 104(b) of the Reform Act is amended by striking out "1222(b)" and inserting in lieu thereof "1122(b)".

26 USC 274 note.

(2) The amendment made by section 122(c)(2) of the Reform Act shall be applied as if it also struck out the comma at the end of section 274(b)(1)(B) of the 1986 Code.

(3) Clause (i) of section 280F(b)(3)(B) of the 1986 Code is amended by striking out "recovery deductions" and inserting in lieu thereof "depreciation deductions".

26 USC 312.

(4) Subparagraph (A) of section 803(b)(3) of the Reform Act is amended by inserting closing quotation marks after "section 189)" and by striking out the closing quotation marks following "subparagraph (B)".

26 USC 461.

(5) Paragraph (1) of section 823(b) of the Reform Act is amended to read as follows:

"(1) Paragraph (5) of section 461(h), as amended by section 805(c)(5), is amended by striking out subparagraph (B) and by redesignating subparagraph (C) as subparagraph (B)."

26 USC 402 note.

(6) The amendment made by section 1122(b)(2)(B)(iii) of the Reform Act shall be applied as if it struck out "Initial separate tax".

26 USC 402 note.

(7) The amendment made by section 1122(b)(2)(C) of the Reform Act shall be applied as if it did not strike out "the"

(8) Paragraph (2) of section 72(q)(2) of the 1986 Code is amended by striking out the period at the end of subparagraph (D) and inserting in lieu thereof a comma.

(9) Subparagraph (A) of section 417(e)(3) of the 1986 Code is amended by striking out "subclause (II)" and inserting in lieu thereof "clause (ii)".

(10) Subparagraph (A) of section 246(c)(1) of the 1986 Code is amended by striking out "Which" and inserting in lieu thereof "which".

(11) Subsection (a) of section 164 of the 1986 Code is amended by striking out "the GST tax" and inserting in lieu thereof "The GST tax".

26 USC 419A.

(12) Subparagraph (B) of section 1851(a)(6) of the Reform Act is amended by striking out "Subsection (b)" and inserting in lieu thereof "Subsection (a)".

26 USC 514.

(13)(A) Paragraph (1) of section 1878(e) of the Reform Act is amended by striking out "last sentence of section 514(c)(9)(B) (relating to exceptions)" and inserting in lieu thereof "second to the last sentence of section 514(c)(9)(B) (as amended by paragraph (3))".

(B) Paragraph (3) of section 1878(e) of the Reform Act is amended by striking out "is amended" and inserting in lieu thereof ", and the last sentence of such section, are amended".

(14) Paragraph (23) of section 501(c) of the 1986 Code is amended by striking out "any association" and inserting in lieu thereof "Any association".

(15) Paragraph (1) of section 501(c) of the 1986 Code is amended by striking out "any corporation organized" and inserting in lieu thereof "Any corporation organized".

(16) The table of chapters for subtitle E of the 1986 Code is amended by inserting "smokeless tobacco," after "cigarettes," in the item relating to chapter 52.

(17) Paragraph (4) of section 3321(c) of the 1986 Code is amended by adding a period at the end thereof.

(18) Paragraph (3) of section 521(b) of the Superfund Revenue Act of 1986 is amended by striking out "Paragraph (1) of section 9506(b)" and inserting in lieu thereof "Subsection (b) of section 9506". 26 USC 9506.

(19) Paragraph (2) of section 5054(a) of the 1986 Code is amended by adding a period at the end thereof.

(20) Paragraph (3) of section 9507(b) of the 1986 Code is amended by striking out "Deep Water" each place it appears and inserting in lieu thereof "Deepwater".

(21) Subparagraph (I) of section 231(d)(3) of the Reform Act is amended by striking out "section 6511(d)(6)" and inserting in lieu thereof "section 6511(d)(4)". 26 USC 6511.

(22) Subsection (a) of section 1016 of the 1986 Code is amended by striking out all that follows paragraph (20) and inserting in lieu thereof the following:

"(21) to the extent provided in section 48(q), in the case of expenditures with respect to which a credit has been allowed under section 38;

"(22) for amounts allowed as deductions under section 59(e) (relating to optional 10-year writeoff of certain tax preferences);

"(23) to the extent provided in section 1059 (relating to reduction in basis for extraordinary dividends); and

"(24) in the case of qualified replacement property the acquisition of which resulted under section 1042 in the nonrecognition of any part of the gain realized on the sale or exchange of any property, to the extent provided in section 1042(d)."

(23) Paragraph (1) of section 7518(g) of the 1986 Code is amended by striking out "not qualified withdrawal" and inserting in lieu thereof "not a qualified withdrawal".

(24) The table of sections for part IV of subchapter P of chapter 1 of the 1986 Code is amended by striking out the item relating to section 1254 and inserting in lieu thereof the following:

"Sec. 1254. Gain from disposition of interest in oil, gas, geothermal, or other mineral properties."

(25) Paragraph (1) of section 453(f) of the 1986 Code is amended by striking out "subsection (g)" and inserting in lieu thereof "subsections (g)".

(26) Paragraph (8) of section 453(f) of the 1986 Code is amended by striking out "payment to be" and inserting in lieu thereof "payments to be".

(27) Subparagraph (B) of section 668(b)(1) of the Reform Act is amended by striking out "section 856" and inserting in lieu thereof "section 858". 26 USC 858.

(28) The second to the last sentence of section 857(b)(3)(C) of the 1986 Code is amended by striking out "such capital loss such" and inserting in lieu thereof "such capital loss shall".

(29) Subsection (a) of section 669 of the Reform Act is amended by striking out "this part" and inserting in lieu thereof "this subtitle". 26 USC 856 note.

(30) The table of parts for subchapter M of chapter 1 of the 1986 Code is amended by adding at the end thereof the following new item:

"Part IV. Real estate mortgage investment conduits."

(31) Subsection (c) of section 1277 of the 1986 Code is amended by inserting a closing parenthesis after "section 585(a)(2)".

(32) The table of parts for subchapter L of chapter 1 of the 1986 Code is amended by striking out the items relating to parts II, III, and IV and inserting in lieu thereof the following:

"Part II. Other insurance companies.

"Part III. Provisions of general application."

(33) Paragraph (7) of section 6051(a) of the 1986 Code is amended by adding a comma at the end thereof.

26 USC 501.

(34) Paragraph (14) of section 1114(b) of the Reform Act is amended—

(A) by striking out "section 501(c)(17)" and inserting in lieu thereof "section 501(c)(17)(A)", and

(B) by striking out "duties consists" and inserting in lieu thereof "duties consist".

(35) Subparagraph (C) of section 3121(v)(3) of the 1986 Code is amended by striking out "Saving" and inserting in lieu thereof "Savings".

(36) Paragraph (4) of section 6652(k) of the 1986 Code is amended by striking out "or section 6678" and inserting in lieu thereof "or part II of subchapter B of this chapter".

(37) The table of sections for part I of subchapter N of chapter 1 of the 1986 Code is amended by adding at the end thereof the following new item:

"Sec. 865. Source rules for personal property sales."

26 USC 954 note.

(38) The amendment made by section 1221(b)(3)(B) of the Reform Act shall be construed as striking out paragraph (3) of section 954(e) of the 1986 Code.

(39) The heading of section 861(a)(6) of the 1986 Code is amended by striking out "personal property" and inserting in lieu thereof "inventory property".

(40) Subsection (a) of section 1296 of the 1986 Code is amended by inserting a comma after "this subpart".

(41) Subsection (b) of section 7703 of the 1986 Code is amended by striking out "section 151(e)(3)" and inserting in lieu thereof "section 151(c)(3)".

26 USC 6601.

(42) Paragraph (3) of section 1404(c) of the Reform Act is amended by striking out "section 6601" and inserting in lieu thereof "section 6601(b)".

(43) Subsection (a) of section 2611 of the 1986 Code is amended by striking out "mean" and inserting in lieu thereof "means".

(44) Subparagraph (D) of section 3406(h)(5) of the 1986 Code is amended by adding a period at the end thereof.

(45) The table of sections for part III of subchapter C of chapter 76 of the 1986 Code is amended by adding at the end thereof the following new item:

"Sec. 7475. Practice fee."

(46) The paragraph added to section 1276(b) of the 1986 Code by section 1803(a)(13)(A)(iii) of the Reform Act is amended—

(A) by inserting "(3)" before "SPECIAL" in the paragraph heading,

(B) by inserting a 1 em dash after "PAYMENTS." in the heading, and

(C) by adding a period at the end thereof.

(47) Subparagraph (C) of section 809(d)(4) of the 1986 Code is amended by striking out “the Secretary—” and inserting in lieu thereof “The Secretary—”.

(48) Subsection (f) of section 7872 of the 1986 Code is amended by redesignating the paragraph (11) added by section 1854 of the Reform Act as paragraph (12).

(49) Paragraph (5) of section 7611(i) of the 1986 Code is amended by striking out “the title” and inserting in lieu thereof “this title”.

(50) Section 13303(a) of Public Law 99-272 is amended (in the matter proposed to be inserted in section 3306(c) of the Internal Revenue Code of 1954), effective as of the date of its enactment, by inserting a comma immediately after “1988”.

26 USC 3306
note.

(51) Subsection (f) of section 6511 of the 1986 Code is amended—

(A) by striking out “chapter 42” in the text and inserting in lieu thereof “section 4912, chapter 42,” and

(B) by striking out “CERTAIN CHAPTER 43 TAXES” in the subsection heading and inserting in lieu thereof “SIMILAR TAXES”.

(52) Section 2503(e)(2)(B) of the 1986 Code is amended by striking out “section 213(e)” and inserting in lieu thereof “section 213(d)”.

SEC. 1019. EFFECTIVE DATE.

26 USC 1 note.

(a) **GENERAL RULE.**—Except as otherwise provided in this title, any amendment made by this title shall take effect as if included in the provision of the Reform Act to which such amendment relates.

(b) **WAIVER OF ESTIMATED TAX PENALTIES.**—No addition to tax shall be made under section 6654 or 6655 of the 1986 Code for any period before April 16, 1989 (March 16, 1989 in the case of a taxpayer subject to section 6655 of the 1986 Code) with respect to any underpayment to the extent such underpayment was created or increased by any provision of this title or title II.

TITLE II—AMENDMENTS RELATED TO TAX PROVISIONS IN OTHER LEGISLATION

SEC. 2001. AMENDMENTS RELATED TO SUPERFUND REVENUE ACT OF 1986.

(a) **AMENDMENTS RELATED TO SECTION 513 OF THE ACT.**—

(1) Subsection (e) of section 4662 of the 1986 Code is amended by redesignating paragraph (3) as paragraph (4) and by inserting after paragraph (2) the following new paragraph:

“(3) **REFUNDS DIRECTLY TO EXPORTER.**—The Secretary shall provide, in regulations, the circumstances under which a credit or refund (without interest) of the tax under section 4661 shall be allowed or made to the person who exported the taxable chemical or taxable substance, where—

Regulations.

“(A) the person who paid the tax waives his claim to the amount of such credit or refund, and

“(B) the person exporting the taxable chemical or taxable substance provides such information as the Secretary may require in such regulations.”

(2) Subparagraph (A) of section 4662(b)(10) of the 1986 Code is amended by striking out "a mixture of" and inserting in lieu thereof "one or more".

(b) AMENDMENTS RELATED TO SECTION 515 OF THE ACT.—

(1) Subparagraph (B) of section 4672(a)(2) of the 1986 Code is amended by inserting "(or more than 50 percent of the value)" after "more than 50 percent of the weight".

(2) Paragraph (2) of section 4672(a) of the 1986 Code is amended by adding at the end thereof the following new sentence:

Imports.
Exports.

"If an importer or exporter of any substance requests that the Secretary determine whether such substance be listed as a taxable substance under paragraph (1) or be removed from such listing, the Secretary shall make such determination within 180 days after the date the request was filed."

(3) Paragraph (4) of section 4672(a) of such Code is amended to read as follows:

"(4) MODIFICATIONS TO LIST.—The Secretary shall add to the list under paragraph (3) substances which meet either the weight or value tests of paragraph (2)(B) and may remove from such list only substances which meet neither of such tests."

(c) AMENDMENTS RELATED TO SECTION 516 OF THE ACT.—

(1) Section 59A of the 1986 Code (relating to environmental tax) is amended by redesignating subsections (c) and (d) as subsections (d) and (e), respectively, and by inserting after subsection (b) the following new subsection:

"(c) EXCEPTION FOR RIC'S AND REIT'S.—The tax imposed by subsection (a) shall not apply to—

"(1) a regulated investment company to which part I of subchapter M applies, and

"(2) a real estate investment trust to which part II of subchapter M applies."

(2) Paragraph (1) of section 882(a) of the 1986 Code is amended by inserting "59A," after "55".

(3)(A) Subparagraph (B) of section 56(f)(2) of the 1986 Code is amended by adding at the end thereof the following new sentence: "No adjustment shall be made under this subparagraph for the tax imposed by section 59A."

(B) Paragraph (2) of section 59A(b) of the 1986 Code is amended by inserting "(and the last sentence of section 56(f)(2)(B))" before the period at the end thereof.

(d) AMENDMENTS RELATED TO SECTION 521 OF THE ACT.—

(1)(A) The amendments made by subsections (b)(3) and (d)(17) of section 10502 of the Revenue Act of 1987 shall be treated as if included in the amendments made by section 521 of the Superfund Revenue Act of 1986 except that the last sentence of paragraphs (2) and (3) of section 4041(d) of the Internal Revenue Code of 1986 (as amended by such subsection (b)(3)) and the reference to section 4091 of such Code in section 9508(c)(2)(A) of such Code (as amended by such subsection (d)(1)) shall not apply to sales before April 1, 1988.

(B) Paragraph (2) of section 6416(b) of the 1986 Code is amended by striking out "(or under paragraph (1)(A) or (2)(A) of section 4041(a) or under paragraph (1)(A) or (2)(A) of section 4041(d) or under section 4051)" and inserting in lieu thereof "(or under subsection (a) or (d) of section 4041 in respect of sales or under section 4051)".

26 USC 4041
note.

(2) Paragraph (3) of section 4041(c) of the 1986 Code is amended by striking out "the rate at which" and inserting in lieu thereof "the Highway Trust Fund financing rate at which".

(3)(A) Subparagraph (A) of section 4041(b)(1) of the 1986 Code is amended by striking out "subsection (a)" and inserting in lieu thereof "subsection (a) or (d)(1)".

(B) Subparagraph (B) of section 4041(b)(1) of the 1986 Code is amended by inserting before the period "and by the corresponding provision of subsection (d)(1)".

(C) Subsection (b) of section 4041 of the 1986 Code is amended by striking out paragraph (3).

(D) Subparagraph (A) of section 4041(b)(2) of the 1986 Code is amended to read as follows:

"(A) **IN GENERAL.**—In the case of any qualified methanol or ethanol fuel—

"(i) subsection (a)(2) shall be applied by substituting '3 cents' for '9 cents', and

"(ii) subsection (d)(1) shall be applied by substituting '0.05 cent' for '0.1 cent' with respect to the sales and uses to which clause (i) applies."

(E) Subsection (f) of section 6421 of the 1986 Code is amended by striking out all that follows paragraph (1) and inserting in lieu thereof the following new paragraphs:

"(2) **GASOLINE USED IN AVIATION.**—This section shall not apply in respect of gasoline which is used as a fuel in an aircraft—

"(A) in noncommercial aviation (as defined in section 4041(c)(4)), or

"(B) in aviation which is not noncommercial aviation (as so defined) with respect to the tax imposed by section 4081 at the Leaking Underground Storage Tank Trust Fund financing rate.

"(3) **LEAKING UNDERGROUND STORAGE TANK TRUST FUND TAX ON GASOLINE USED IN TRAINS.**—This section shall not apply with respect to the tax imposed by section 4081 at the Leaking Underground Storage Tank Trust Fund financing rate on gasoline used as a fuel in a train."

(F) The second sentence of section 6421(a) of the 1986 Code is amended by striking out "paragraph (3) of subsection (e)" and inserting in lieu thereof "paragraph (2) of subsection (f)".

(4)(A) Paragraph (1) of section 1703(f) of the Reform Act (relating to floor stock taxes) is amended by striking out "9 cents" and inserting in lieu thereof "9.1 cents".

(B) Paragraph (4) of section 1703(f) of the Reform Act is amended to read as follows:

"(4) **TRANSFER OF FLOOR STOCK TAX REVENUES TO TRUST FUNDS.**—For purposes of determining the amount transferred to any trust fund, the tax imposed by this section shall be treated as imposed by section 4081 of the Internal Revenue Code of 1986—

"(A) at the Highway Trust Fund financing rate under such section to the extent of 9 cents per gallon, and

"(B) at the Leaking Underground Storage Tank Trust Fund financing rate under such section to the extent of 0.1 cent per gallon."

(5)(A) Paragraph (1) of section 4081(c) of the 1986 Code, as amended by section 1703 of the Reform Act, is amended by

inserting "and by substituting '½ cent' for '0.1 cent'" before "in the case of the removal".

(B) The last sentence of section 4081(c)(2) of the 1986 Code, as amended by such section 1703, is amended by striking out "5½ cents a gallon" and inserting in lieu thereof "reduced by the amount of tax imposed (and not credited or refunded) on any prior removal or sale of such fuel".

(6)(A) Paragraph (1) of section 4091(c) of the 1986 Code is amended by adding at the end thereof the following new sentence:

"In the case of a sale described in subparagraph (B), the Leaking Underground Storage Tank Trust Fund financing rate shall be ½ cent per gallon."

(B) Paragraph (4) of section 4091(b) of the 1986 Code is amended by inserting "except as provided in subsection (c)," after "paragraph (1),".

(C) The last sentence of section 4091(c)(2) of the 1986 Code is amended by striking out "5 cents a gallon" and inserting in lieu thereof "reduced by the amount of tax imposed (and not credited or refunded) on any prior sale of such fuel".

(D) The amendments made by this paragraph shall take effect as if included in the amendments made by section 10502 of the Revenue Act of 1987.

(7)(A) The amendment made by section 10502(c)(4) of the Revenue Act of 1987 shall be treated as if included in the amendments made by section 1703 of the Reform Act except that references to section 4091 of the Internal Revenue Code of 1986 shall not apply to sales before April 1, 1988.

(B) Subparagraph (A) of section 6427(f)(1) of the 1986 Code is amended—

(i) by striking out "regular Highway Trust Fund financing rate" each place it appears and inserting in lieu thereof "regular tax rate", and

(ii) by striking out "incentive Highway Trust Fund financing rate" and inserting in lieu thereof "incentive tax rate".

(C) Subparagraph (B) of section 6427(g)(1) of the 1986 Code is amended to read as follows:

"(B) DEFINITIONS.—For purposes of subparagraph (A)—

"(i) REGULAR TAX RATE.—The term 'regular tax rate' means—

"(I) in the case of gasoline, the aggregate rate of tax imposed by section 4081 determined without regard to subsection (c) thereof, and

"(II) in the case of diesel fuel, the aggregate rate of tax imposed by section 4091 on such fuel determined without regard to subsection (c) thereof.

"(ii) INCENTIVE TAX RATE.—The term 'incentive tax rate' means—

"(I) in the case of gasoline, the aggregate rate of tax imposed by section 4081 with respect to fuel described in subsection (c)(1) thereof, and

"(II) in the case of diesel fuel, the aggregate rate of tax imposed by section 4091 with respect to fuel described in subsection (c)(1)(B) thereof."

(D) Paragraph (2) of section 6427(l) of the 1986 Code is amended by inserting "under section 4041" after "exempt".

Effective date.

26 USC 4091
note.

26 USC 6427
note.

(E) The amendments made by this paragraph shall take effect as if included in the amendments made by section 10502 of the Revenue Act of 1987.

Effective date.
26 USC 6427
note.

(e) **EFFECTIVE DATE.**—Except as otherwise provided in this section, the amendments made by this section shall take effect as if included in the provision of the Superfund Revenue Act of 1986 to which it relates.

26 USC 56 note.

SEC. 2002. AMENDMENTS RELATED TO HARBOR MAINTENANCE REVENUE ACT OF 1986.

(a) **ORDER OF ENACTMENTS.**—

(1) For purposes of section 4042 of the 1986 Code, the amendment made by section 521(a)(3) of the Superfund Revenue Act of 1986 shall be treated as enacted after the amendment made by section 1404(a) of the Harbor Maintenance Revenue Act of 1986.

26 USC 4042
note.

(2) Paragraph (2) of section 4042(b) of the 1986 Code is amended to read as follows:

“(2) **RATES.**—For purposes of paragraph (1)—

“(A) The Inland Waterways Trust Fund financing rate is the rate determined in accordance with the following table:

| If the use occurs: | The tax per gallon is: |
|--------------------|---------------------------|
| Before 1990..... | 10 cents |
| During 1990..... | 11 cents |
| During 1991..... | 13 cents |
| During 1992..... | 15 cents |
| During 1993..... | 17 cents |
| During 1994..... | 19 cents |
| After 1994..... | 20 cents. |

“(B) The Leaking Underground Storage Tank Trust Fund financing rate is 0.1 cent per gallon.”

(b) **CARGO TRANSPORTED BETWEEN POSSESSIONS, ETC.**—Subparagraph (B) of section 4462(b)(1) of the 1986 Code is amended to read as follows:

“(B) cargo loaded on a vessel in Alaska, Hawaii, or any possession of the United States for transportation to the United States mainland, Alaska, Hawaii, or such a possession for ultimate use or consumption in the United States mainland, Alaska, Hawaii, or such a possession,”

(c) **DELAY IN DUE DATE FOR STUDY OF CARGO DIVERSION.**—Section 1407 of the Harbor Maintenance Revenue Act of 1986 is amended by striking out “1 year from the date of the enactment of this Act” and inserting in lieu thereof “December 1, 1988”.

26 USC 4461
note.

(d) **EFFECTIVE DATE.**—The amendments made by this section shall take effect as if included in the provision of the Harbor Maintenance Revenue Act of 1986 to which it relates.

26 USC 4042
note.

SEC. 2003. AMENDMENTS RELATED TO OMNIBUS BUDGET RECONCILIATION ACT OF 1986.

(a) **AMENDMENT RELATED TO SECTION 1011 OF THE ACT.**—

(1) Subparagraph (B) of section 501(c)(12) of the 1986 Code is amended by striking out “or” at the end of clause (ii), by striking out the period at the end of clause (iii), and inserting in lieu thereof “, or”, and by adding at the end thereof the following new clause:

“(iv) from the prepayment of a loan under section 306A, 306B, or 311 of the Rural Electrification Act of 1936 (as in effect on January 1, 1987).”

(2) Subparagraph (C) of section 501(c)(12) of the 1986 Code is amended to read as follows:

“(C) In the case of a mutual or cooperative electric company, subparagraph (A) shall be applied without taking into account any income received or accrued—

“(i) from qualified pole rentals, or

“(ii) from the prepayment of a loan under section 306A, 306B, or 311 of the Rural Electrification Act of 1936 (as in effect on January 1, 1987).”

26 USC 501 note.

(3) The amendments made by this subsection shall apply to taxable years ending after the date of the enactment of the Omnibus Budget Reconciliation Act of 1986.

(b) AMENDMENTS RELATED TO SECTION 8011 OF THE ACT.—

(1) The following provisions of the 1986 Code are each amended by striking out “the 14th day after the date on which” and inserting in lieu thereof “the 14th day after the last day of the semimonthly period during which”:

(A) Subparagraphs (A) and (B) of section 5061(d)(2).

(B) Paragraph (3) of section 5061(d).

(C) Clauses (i) and (ii) of section 5703(b)(2)(B).

(D) Subparagraph (C) of section 5703(b)(2).

Effective date.

26 USC 5061
note.

(2) The amendments made by paragraph (1) shall take effect as if included in the amendments made by section 8011 of the Omnibus Budget Reconciliation Act of 1986.

(c) AMENDMENT RELATED TO SECTION 8041 OF THE ACT.—

(1) IN GENERAL.—Paragraph (3) of section 901(j) of the 1986 Code is amended—

(A) by striking out “Section 275” and inserting in lieu thereof “Sections 275 and 78”, and

(B) by inserting “, Etc.” after “DEDUCTION” in the paragraph heading.

26 USC 901 note.

(2) EFFECTIVE DATE.—The amendments made by paragraph (1) shall take effect on January 1, 1987.

(d) AMENDMENT RELATED TO SECTION 9002 OF THE ACT.—Paragraph (3) of section 3509(d) of the 1986 Code is amended by striking out “subsection (d)(3)” and inserting in lieu thereof “subsection (d)(4)”.

SEC. 2004. AMENDMENTS RELATED TO THE REVENUE ACT OF 1987.

(a) AMENDMENT RELATED TO SECTION 10101 OF THE ACT.—Section 10101(b) of the Revenue Act of 1987 is amended to read as follows:

26 USC 21 note.

“(b) EFFECTIVE DATE.—

“(1) IN GENERAL.—The amendment made by subsection (a) shall apply to expenses paid in taxable years beginning after December 31, 1987.

“(2) SPECIAL RULE FOR CAFETERIA PLANS.—For purposes of section 125 of the Internal Revenue Code of 1986, a plan shall not be treated as failing to be a cafeteria plan solely because under the plan a participant elected before January 1, 1988, to receive reimbursement under the plan for dependent care assistance for periods after December 31, 1987, and such assistance included reimbursement for expenses at a camp where the dependent stays overnight.”

(b) AMENDMENTS RELATED TO SECTION 10102 OF THE ACT.—

(1) Subsection (h) of section 163 of the 1986 Code is amended by redesignating paragraph (6) as paragraph (5).

(2) Clause (ii) of section 56(b)(1)(C) of the 1986 Code is amended by striking out "163(h)(6)" and inserting in lieu thereof "163(h)(5)".

(3) Paragraph (1) of section 56(e) of the 1986 Code is amended—

(A) by striking out "substantially rehabilitating" and inserting in lieu thereof "substantially improving", and

(B) by striking out "or is paid" in subparagraph (A).

(c) AMENDMENT RELATED TO SECTION 10103.—Paragraph (1) of section 10103(a) of the Revenue Act of 1987 is amended by inserting "in a plan established for its employees by the United States" after "participant".

26 USC 219 note.

(d) AMENDMENTS RELATED TO SECTION 10202 OF THE ACT.—

(1) Subparagraph (A) of section 453(l)(1) of the 1986 Code, is amended by striking out "disposes of personal property" and inserting in lieu thereof "disposes of personal property of the same type".

(2) Section 453A of the 1986 Code is amended by adding at the end thereof the following new subsection:

"(e) REGULATIONS.—The Secretary shall prescribe such regulations as may be necessary to carry out the purposes of this section, including regulations—

"(1) disallowing the use of the installment method in whole or in part for transactions in which the rules of this section otherwise would be avoided through the use of related persons, pass-thru entities, or intermediaries, and

"(2) providing that the sale of an interest in a partnership or other pass-thru entity will be treated as a sale of the proportionate share of the assets of the partnership or other entity."

(3) Paragraph (3) of section 10202(e) of the Revenue Act of 1987 is amended by adding at the end thereof the following new subparagraph:

26 USC 453 note.

"(C) CERTAIN DISPOSITIONS DEEMED MADE ON 1ST DAY OF TAXABLE YEAR.—If the taxpayer makes an election under subparagraph (A), in the case of the taxpayer's 1st taxable year ending after December 31, 1986—

"(i) dispositions after August 16, 1986, and before the 1st day of such taxable year shall be treated as made on such 1st day, and

"(ii) subsections (b)(2)(B) and (c)(4) of section 453A of such Code shall be applied separately with respect to such dispositions by substituting for '\$5,000,000' the amount which bears the same ratio to \$5,000,000 as the number of days after August 16, 1986, and before such 1st day bears to 365."

(4) Paragraph (2) of section 10202(e) of the Revenue Act of 1987 is amended by adding at the end thereof the following new subparagraph:

"(C) CERTAIN RULES MADE APPLICABLE.—For purposes of this paragraph, rules similar to the rules of paragraphs (4) and (5) of section 812(c) of the Tax Reform Act of 1986 (as added by the Technical and Miscellaneous Revenue Act of 1988) shall apply."

(5) Subsection (k) of section 453 of the 1986 Code is amended by striking out "and section 453A".

26 USC 453
note.

(6) Subparagraph (A) of section 10202(e)(2) of the Revenue Act of 1987 is amended by striking out "section 453A of the Internal Revenue Code of 1986" and inserting in lieu thereof "section 453(l)(1) of the Internal Revenue Code of 1986 as added by this section".

(7) Paragraph (2) of section 453A(b) of the 1986 Code is amended by striking out "for purposes of this paragraph" and inserting in lieu thereof "for purposes of this paragraph and subsection (c)(4)".

(8) Paragraph (3) of section 453A(b) of the 1986 Code is amended to read as follows:

"(3) EXCEPTION FOR FARM PROPERTY.—An installment obligation shall not be treated as described in paragraph (1) if it arises from the disposition of any property used or produced in the trade or business of farming (within the meaning of section 2032A(e) (4) or (5))."

(e) AMENDMENTS RELATED TO SECTION 10206 OF THE ACT.—

(1)(A) Subsection (a) of section 444 of the 1986 Code is amended by striking out "as provided in subsections (b) and (c)" and inserting in lieu thereof "as otherwise provided in this section".

(B) Paragraph (3) of section 444(d) of the 1986 Code is amended to read as follows:

"(3) TIERED STRUCTURES, ETC.—

"(A) IN GENERAL.—Except as otherwise provided in this paragraph—

"(i) no election may be under subsection (a) with respect to any entity which is part of a tiered structure, and

"(ii) an election under subsection (a) with respect to any entity shall be terminated if such entity becomes part of a tiered structure.

"(B) EXCEPTIONS FOR STRUCTURES CONSISTING OF CERTAIN ENTITIES WITH SAME TAXABLE YEAR.—Subparagraph (A) shall not apply to any tiered structure which consists only of partnerships or S corporations (or both) all of which have the same taxable year."

(C) Subparagraph (B) of section 444(d)(2) of the 1986 Code is amended by striking out "under subparagraph (A)" and inserting in lieu thereof "under subparagraph (A) or paragraph (3)(A)".

(2)(A) Section 444 of the 1986 Code is amended by redesignating subsection (f) as subsection (g) and inserting after subsection (e) the following new subsection:

"(f) PERSONAL SERVICE CORPORATION.—For purposes of this section, the term 'personal service corporation' has the meaning given to such term by section 441(i)(2)."

(B) Subsection (f) of section 280H of the 1986 Code is amended by adding at the end thereof the following new paragraph:

"(5) PERSONAL SERVICE CORPORATION.—The term 'personal service corporation' has the meaning given to such term by section 441(i)(2)."

(3) Paragraph (2) of section 280H(f) of the 1986 Code is amended by striking out "section 296A(b)(2)" and inserting in lieu thereof "section 269A(b)(2) (as modified by section 441(i)(2))".

(4)(A) Paragraph (2) of section 7519(b) of the 1986 Code is amended to read as follows:

“(2) the net required payment balance.”

(B) Subsection (e) of section 7519 of the 1986 Code is amended by adding at the end thereof the following new paragraph:

“(4) NET REQUIRED PAYMENT BALANCE.—The term ‘net required payment balance’ means the excess (if any) of—

“(A) the aggregate of the required payments under this section for all preceding applicable election years, over

“(B) the aggregate amount allowable as a refund to the entity under subsection (c) for all preceding applicable election years.”

(5) Subsection (c) of section 7519 of the 1986 Code is amended to read as follows:

“(c) REFUND OF PAYMENTS.—

“(1) IN GENERAL.—If, for any applicable election year, the amount determined under subsection (b)(2) exceeds the amount determined under subsection (b)(1), the entity shall be entitled to a refund of such excess for such year.

“(2) TERMINATION OF ELECTIONS, ETC.—If—

“(A) an election under section 444 is terminated effective with respect to any year, or

“(B) the entity is liquidated during any year, the entity shall be entitled to a refund of the net required payment balance.

“(3) DATE ON WHICH REFUND PAYABLE.—Any refund under this subsection shall be payable on later of—

“(A) April 15 of the calendar year following—

“(i) in the case of the year referred to in paragraph

(1), the calendar year in which it begins,

“(ii) in the case of the year referred to in paragraph

(2), the calendar year in which it ends, or

“(B) the day 90 days after the day on which claim therefor is filed with the Secretary.”

(6) Subsection (g) of section 7519 of the 1986 Code is amended by striking out “including regulations” and all that follows down through the period at the end thereof and inserting in lieu thereof

“including regulations providing for appropriate adjustments in the application of this section and sections 280H and 444 in cases where—

“(1) 2 or more applicable election years begin in the same calendar year, or

“(2) the base year is a taxable year of less than 12 months.”

(7) Subparagraph (B) of section 7519(d)(2) of the 1986 Code is amended by inserting before the period at the end thereof the following: “(and such corporation shall be treated as an S corporation for such taxable year for purposes of paragraph (3)).”

(8) Subsection (d) of section 7519 of the 1986 Code is amended by adding at the end thereof the following new paragraph:

“(5) TREATMENT OF GUARANTEED PAYMENTS.—

“(A) IN GENERAL.—Any guaranteed payment by a partnership shall not be treated as an applicable payment, and the amount of the net income of the partnership shall be determined by not taking such guaranteed payment into account.

“(B) **GUARANTEED PAYMENT.**—For purposes of subparagraph (A), the term ‘guaranteed payment’ means any payment referred to in section 707(c).”

(9) Paragraph (4) of section 7519(d) of the 1986 Code is amended by adding at the end thereof the following new sentence: “Notwithstanding the preceding provisions of this paragraph, for taxable years beginning after 1987, the applicable percentage for any partnership or S corporation shall be 100 percent if more than 50 percent of such entity’s net income for the short taxable year which would have resulted if the entity had not made an election under section 444 would have been allocated to partners or shareholders who would not have been entitled to the benefits of section 806(e)(2)(C) of the Tax Reform Act of 1986 with respect to such income.”

(10) Subparagraphs (A) and (B) of section 7519(d)(2) of the 1986 Code are each amended by striking out “(other than credits)” and inserting in lieu thereof “(other than credits and tax-exempt income)”.

26 USC 444 note.

(11) Paragraph (4) of section 10206(d) of the Revenue Act of 1987 is amended by adding at the end thereof the following new sentence: “The preceding sentence shall apply only in the case of an election under section 444 of such Code made for a taxable year beginning before 1989.”

(12) Subparagraph (A) of section 444(d)(2) of the 1986 Code is amended by inserting “or otherwise terminates such election” before the period at the end of the first sentence thereof.

(13) Paragraph (4) of section 444(b) of the 1986 Code is amended by striking out “the term” and inserting in lieu thereof “except as provided in regulations, the term”.

(14)(A) Paragraph (4) of section 280H(f) of the 1986 Code is amended to read as follows:

“(4) **ADJUSTED TAXABLE INCOME.**—The term ‘adjusted taxable income’ means taxable income determined without regard to—

“(A) any amount paid to an employee-owner which is includible in the gross income of such employee-owner, and

“(B) any net operating loss carryover to the extent such carryover is attributable to amounts described in subparagraph (A).”

(B) Subparagraph (A) of section 7519(d)(3) of the 1986 Code is amended by striking out “or incurred”.

(C) Subsections (c)(1)(A)(i) and (d)(1) of section 280H of the 1986 Code are each amended by striking out “or incurred”.

(f) AMENDMENTS RELATED TO SECTION 10211 OF THE ACT.—

(1) Paragraph (4) of section 7704(e) of the 1986 Code is amended by striking out “as may be required” and inserting in lieu thereof “or to pay such amounts as may be required”.

(2) Paragraph (2) of section 10211(c) of the Revenue Act of 1987 is amended by adding at the end thereof the following new subparagraph:

26 USC 7704 note.

“(C) **COORDINATION WITH PASSIVE-TYPE INCOME REQUIREMENTS.**—In the case of an existing partnership, paragraph (1) of section 7704(c) of the Internal Revenue Code of 1986 (as added by this section) shall be applied by substituting for ‘December 31, 1987’ the earlier of—

“(i) December 31, 1997, or

“(ii) the day (if any) as of which such partnership ceases to be treated as an existing partnership by reason of subparagraph (B).”

(3) Paragraph (1) of section 7704(c) of the 1986 Code is amended by adding at the end thereof the following new sentence: “For purposes of the preceding sentence, a partnership shall not be treated as being in existence during any period before the 1st taxable year in which such partnership (or a predecessor) was a publicly traded partnership.”

(4) Paragraph (1) of section 7704(d) of the 1986 Code is amended by adding at the end thereof the following new sentence: “For purposes of subparagraph (E), the term ‘mineral or natural resource’ means any product of a character with respect to which a deduction for depletion is allowable under section 611; except that such term shall not include any product described in subparagraph (A) or (B) of section 613(b)(7).”

(5) Paragraph (3) of section 7704(d) of the 1986 Code is amended to read as follows:

“(3) REAL PROPERTY RENT.—The term ‘real property rent’ means amounts which would qualify as rent from real property under section 856(d) if—

“(A) such section were applied without regard to paragraph (2)(C) thereof (relating to independent contractor requirements), and

“(B) stock owned, directly or indirectly, by or for a partner would not be considered as owned under section 318(a)(3)(A) by the partnership unless 5 percent or more (by value) of the interests in such partnership are owned, directly or indirectly, by or for such partner.”

(g) AMENDMENT RELATED TO SECTION 10212 OF THE ACT.—Subsection (k) of section 469 of the 1986 Code is amended by adding at the end thereof the following new paragraph:

“(3) COORDINATION WITH SUBSECTION (g).—For purposes of subsection (g), a taxpayer shall not be treated as having disposed of his entire interest in an activity of a publicly traded partnership until he disposes of his entire interest in such partnership.”

(h) AMENDMENTS RELATED TO SECTION 10214 OF THE ACT.—

(1) Subparagraph (E) of section 514(c)(9) of the 1986 Code is amended by adding at the end thereof the following new clause:

“(iii) REGULATIONS.—The Secretary shall prescribe such regulations as may be necessary to carry out the purposes of this subparagraph, including regulations which may provide for exclusion or segregation of items.”

(2) Clause (i) of section 514(c)(9)(E) of the 1986 Code is amended by striking out subclause (I) and by redesignating subclauses (II) and (III) as subclauses (I) and (II), respectively.

(i) AMENDMENTS RELATED TO SECTION 10221 OF THE ACT.—

(1) Paragraph (2) of section 10221(e) of the Revenue Act of 1987 is amended by striking out “amendments made by subsection (b)” and inserting in lieu thereof “amendments made by subsection (c)”.

(2) Subsection (b) of section 244 of the 1986 Code is amended by striking out “section 243(c)(4)” and inserting in lieu thereof “section 243(d)(4)”.

(j) AMENDMENTS RELATED TO SECTION 10222 OF THE ACT.—

(1)(A) Paragraph (1) of section 1503(e) of the 1986 Code is amended by striking out so much of such paragraph as precedes subparagraph (A) thereof and inserting in lieu thereof the following:

“(1) **IN GENERAL.**—Solely for purposes of determining gain or loss on the disposition of intragroup stock and the amount of any inclusion by reason of an excess loss account, in determining the adjustments to the basis of such intragroup stock on account of the earnings and profits of any member of an affiliated group for any consolidated year (and in determining the amount in such account)—”

(B) Paragraph (2) of section 10222(a) of the Revenue Act of 1987 is amended by adding at the end thereof the following new subparagraph:

“(C) **TREATMENT OF CERTAIN EXCESS LOSS ACCOUNTS.**—

“(i) **IN GENERAL.**—If—

“(I) any disposition on or before December 15, 1987, of stock resulted in an inclusion of an excess loss account (or would have so resulted if the amendments made by paragraph (1) had applied to such disposition), and

“(II) there is an unrecaptured amount with respect to such disposition,

the portion of such unrecaptured amount allocable to stock disposed of in a disposition to which the amendment made by paragraph (1) applies shall be taken into account as negative basis. To the extent permitted by the Secretary of the Treasury or his delegate, the preceding sentence shall not apply to the extent the taxpayer elects to reduce its basis in indebtedness of the corporation with respect to which there would have been an excess loss account.

“(ii) **SPECIAL RULES.**—For purposes of this subparagraph—

“(I) **UNRECAPTURED AMOUNT.**—The term ‘unrecaptured amount’ means the amount by which the inclusion referred to in clause (i)(I) would have been increased if the amendment made by paragraph (1) and applied to the disposition.

“(II) **COORDINATION WITH BINDING CONTRACT EXCEPTION.**—A disposition shall be treated as occurring on or before December 15, 1987, if the amendment made by paragraph (1) does not apply to such disposition by reason of subparagraph (B).”

(2) Subsection (e) of section 1503 of the 1986 Code is amended by adding at the end thereof the following new paragraph:

“(3) **ADJUSTMENTS.**—Under regulations prescribed by the Secretary, proper adjustments shall be made in the application of paragraph (1)—

“(A) in the case of any property acquired by the corporation before consolidation, for the difference between the adjusted basis of such property for purposes of computing taxable income and its adjusted basis for purposes of computing earnings and profits, and

“(B) in the case of any property, for any basis adjustment under section 48(q).”

(3)(A) Paragraph (2) of section 1503(e) of the 1986 Code is amended by adding at the end thereof the following new subparagraph:

“(C) APPLICATION OF SECTION 312 (n) (7) NOT AFFECTED.—

The reference in paragraph (1) to subsection (n) of section 312 shall be treated as not including a reference to paragraph (7) of such subsection.”

(B) Subsection (e) of section 301 of the 1986 Code (as redesignated by section 106(e)(12) of this Act) is amended by redesignating paragraph (3) as paragraph (4) and by inserting after paragraph (2) the following new paragraph:

“(3) APPLICATION OF SECTION 312 (n) (7) NOT AFFECTED.—The reference in paragraph (1) to subsection (n) of section 312 shall be treated as not including a reference to paragraph (7) of such subsection.”

(4) Subparagraph (B) of section 10222(b)(2) of the Revenue Act of 1987 is amended to read as follows:

“(B) EXCEPTION.—The amendment made by paragraph (1) shall not apply for purposes of determining gain or loss on any disposition of stock after December 15, 1987, and before January 1, 1989, if such disposition is pursuant to a written binding contract, governmental order, letter of intent or preliminary agreement, or stock acquisition agreement, in effect on or before December 15, 1987.”

26 USC 301 note.

(k) AMENDMENTS RELATED TO SECTION 10223 OF THE ACT.—

(1) Subparagraph (D) of section 355(b)(2) of the 1986 Code is amended by striking out clauses (i) and (ii) and inserting in lieu thereof the following:

“(i) was not acquired by any distributee corporation directly (or through 1 or more corporations, whether through the distributing corporation or otherwise) within the period described in subparagraph (B) and was not acquired by the distributing corporation directly (or through 1 or more corporations) within such period, or

“(ii) was so acquired by any such corporation within such period, but, in each case in which such control was so acquired, it was so acquired, only by reason of transactions in which gain or loss was not recognized in whole or in part, or only by reason of such transactions combined with acquisitions before the beginning of such period.”

(2) Subparagraph (A) of section 304(b)(4) of the 1986 Code is amended by striking out “stock of 1 member” and inserting in lieu thereof “stock from 1 member”.

(3) Paragraph (2) of section 10223(d) of the Revenue Act of 1987 is amended by adding at the end thereof the following new subparagraph:

26 USC 304 note.

“(D) TREATMENT OF CERTAIN MEMBERS OF AFFILIATED GROUP.—

“(i) IN GENERAL.—For purposes of subparagraph (A), all corporations which were in existence on the designated date and were members of the same affiliated group which included the distributees on such date shall be treated as 1 distributee.

“(ii) LIMITATION TO STOCK HELD ON DESIGNATED DATE.—Clause (i) shall not exempt any distribution

from the amendments made by this section if such distribution is with respect to stock not held by the distributee (determined without regard to clause (i)) on the designated date directly or indirectly through a corporation which goes out of existence in the transaction.

“(iii) DESIGNATED DATE.—For purposes of this subparagraph, the term ‘designated date’ means the later of—

“(I) December 15, 1987, or

“(II) the date on which the acquisition meeting the requirements of subparagraph (A) occurred.”

(4) Subparagraph (B) of section 10223(d)(2) of the Revenue Act of 1987 is amended—

(A) by striking out “before January 1, 1993” and inserting in lieu thereof “on or before March 31, 1988”, and

(B) by striking out “before January 1, 1989”.

(1) AMENDMENT RELATED TO SECTION 10224 OF THE ACT.—Sections 1201(a) and 1561(a) of the 1986 Code, and section 904(b)(3)(D)(ii) of the 1986 Code (as amended by section 106(b)(2) of this Act), are each amended by striking out “section 11(b)” and inserting in lieu thereof “section 11(b)(1)”.

(m) AMENDMENTS RELATED TO SECTION 10226 OF THE ACT.—

(1)(A) Subsection (a) of section 384 of the 1986 Code is amended to read as follows:

“(a) GENERAL RULE.—If—

“(1)(A) a corporation acquires directly (or through 1 or more other corporations) control of another corporation, or

“(B) the assets of a corporation are acquired by another corporation in a reorganization described in subparagraph (A), (C), or (D) of section 368(a)(1), and

“(2) either of such corporations is a gain corporation, income for any recognition period taxable year (to the extent attributable to recognized built-in gains) shall not be offset by any preacquisition loss (other than a preacquisition loss of the gain corporation).”

(B) Subsection (c) of section 384 of the 1986 Code is amended by redesignating paragraph (4) as paragraph (8) and by inserting after paragraph (3) the following new paragraphs:

“(4) GAIN CORPORATION.—The term ‘gain corporation’ means any corporation with a net unrealized built-in gain.

“(5) CONTROL.—The term ‘control’ means ownership of stock in a corporation which meets the requirements of section 1504(a)(2).

“(6) TREATMENT OF MEMBERS OF SAME GROUP.—Except as provided in regulations and except for purposes of subsection (b), all corporations which are members of the same affiliated group immediately before the acquisition date shall be treated as 1 corporation. To the extent provided in regulations, section 1504 shall be applied without regard to subsection (b) thereof for purposes of the preceding sentence.

“(7) TREATMENT OF PREDECESSORS AND SUCCESSORS.—Any reference in this section to a corporation shall include a reference to any predecessor or successor thereof.”

(C) Paragraph (2) of section 384(c) of the 1986 Code is amended to read as follows:

“(2) ACQUISITION DATE.—The term ‘acquisition date’ means

“(A) in any case described in subsection (a)(1)(A), the date on which the acquisition of control occurs, or

“(B) in any case described in subsection (a)(1)(B), the date of the transfer in the reorganization.”

(D) Paragraph (1) of section 384(c) of the 1986 Code is amended by striking out “subsection (a)(2)” and inserting in lieu thereof “subsection (a)(1)(B)”.

(2) Paragraph (2) of section 384(e) of the 1986 Code is amended by striking out “the gain corporation” and inserting in lieu thereof “a corporation”.

(3) Subsection (b) of section 384 of the 1986 Code is amended to read as follows:

“(b) EXCEPTION WHERE CORPORATIONS UNDER COMMON CONTROL.—

“(1) IN GENERAL.—Subsection (a) shall not apply to the preacquisition loss of any corporation if such corporation and the gain corporation were members of the same controlled group at all times during the 5-year period ending on the acquisition date.

“(2) CONTROLLED GROUP.—For purposes of this subsection, the term ‘controlled group’ means a controlled group of corporations (as defined in section 1563(a)); except that—

“(A) ‘more than 50 percent’ shall be substituted for ‘at least 80 percent’ each place it appears,

“(B) the ownership requirements of section 1563(a) must be met both with respect to voting power and value, and

“(C) the determination shall be made without regard to subsection (a)(4) of section 1563.

“(3) SHORTER PERIOD WHERE CORPORATIONS NOT IN EXISTENCE FOR 5 YEARS.—If either of the corporations referred to in paragraph (1) was not in existence throughout the 5-year period referred to in paragraph (1), the period during which such corporation was in existence (or if both, the shorter of such periods) shall be substituted for such 5-year period.”

(4) Section 384 of the 1986 Code is amended by redesignating subsection (e) as subsection (f) and by inserting after subsection (d) the following new subsection:

“(e) ORDERING RULES FOR NET OPERATING LOSSES, ETC.—

“(1) CARRYOVER RULES.—If any preacquisition loss may not offset a recognized build-in gain by reason of this section, such gain shall not be taken into account in determining under section 172(b)(2) the amount of such loss which may be carried to other taxable years. A similar rule shall apply in the case of any excess credit or net capital loss limited by reason of subsection (d).

“(2) ORDERING RULE FOR LOSSES CARRIED FROM SAME TAXABLE YEAR.—In any case in which—

“(A) a preacquisition loss for any taxable year is subject to limitation under subsection (a), and

“(B) a net operating loss from such taxable year is not subject to such limitation,

taxable income shall be treated as having been offset 1st by the loss subject to such limitation.”

(5) In any case where the acquisition date (as defined in section 384(c)(2) of the 1986 Code as amended by this subsection) is before March 31, 1988, the acquiring corporation may elect to have the amendments made by this subsection not apply. Such an election shall be made in such manner as the Secretary of

26 USC 384 note.

the Treasury or his delegate shall prescribe and shall be made not later than the later of the due date (including extensions) for filing the return for the taxable year of the acquiring corporation in which the acquisition date occurs or the date 120 days after the date of the enactment of this Act. Such an election, once made, shall be irrevocable.

(n) AMENDMENTS RELATED TO SECTION 10227 OF THE ACT.—Paragraph (4) of section 1363(d) of the 1986 Code (relating to recapture of LIFO benefits) is amended by adding at the end thereof the following new subparagraph:

“(D) NOT TREATED AS MEMBER OF AFFILIATED GROUP.—Except as provided in regulations, the corporation referred to in paragraph (1) shall not be treated as a member of an affiliated group with respect to the amount included in gross income under paragraph (1).”

(o) AMENDMENTS RELATED TO SECTION 10228 OF THE ACT.—

(1)(A) Subsection (a) of section 5881 of the 1986 Code is amended by striking out “gain realized by such person on such receipt” and inserting in lieu thereof “gain or other income of such person by reason of such receipt”.

(B)(i) Subsection (b) of section 5881 of the 1986 Code is amended by striking out “a corporation to directly or indirectly acquire its stock” and inserting in lieu thereof “a corporation (or any person acting in concert with such corporation) to directly or indirectly acquire stock of such corporation”.

(ii) The amendment made by clause (i) shall apply to transactions occurring on or after March 31, 1988.

(C) Subsection (d) of section 5881 of the 1986 Code is amended—

(i) by striking out “the gain” and inserting in lieu thereof “the gain or other income”, and

(ii) by striking out “GAIN RECOGNIZED” in the subsection heading and inserting in lieu thereof “AMOUNT RECOGNIZED”.

(2) Section 5881 of the 1986 Code is amended by adding at the end thereof the following new subsection:

“(e) ADMINISTRATIVE PROVISIONS.—For purposes of the deficiency procedures of subtitle F, any tax imposed by this section shall be treated as a tax imposed by subtitle A.”

(p) AMENDMENTS RELATED TO SECTION 10241 OF THE ACT.—

(1) Paragraph (1) of section 811(d) of the 1986 Code is amended by striking out “the prevailing State assumed interest rate for the contract” and inserting in lieu thereof “the greater of the prevailing State assumed interest rate or applicable Federal interest rate in effect under section 807 for the contract”.

(2) Paragraph (2) of section 812(b) of the 1986 Code is amended by striking out the last sentence and inserting in lieu thereof the following:

“In any case where neither the prevailing State assumed interest rate nor the applicable Federal interest rate is used, another appropriate rate shall be used for purposes of subparagraph (A).”

(q) AMENDMENTS RELATED TO SECTION 10242 OF THE ACT.—

(1) Subsection (h) of section 816 of the 1986 Code is amended by striking out “section 842(c)(1)(A)” and inserting in lieu thereof “section 842(b)(2)(B)(i)”.

(2)(A) Subparagraph (B) of section 842(b)(3) of the 1986 Code is amended by striking out "held for the production of such income".

(B) Subparagraph (B) of section 842(b)(4) of the 1986 Code is amended by striking out "held for the production of investment income".

(3) Subparagraph (d) of section 842 of the 1986 Code is amended by striking out "and" at the end of paragraph (2), by striking out the period at the end of paragraph (3) and inserting in lieu thereof ", and", and by adding at the end thereof the following new paragraph:

"(4) which may provide that, in the case of companies taxable under part II of this subchapter, determinations under subsection (b) will be made separately for categories of such companies established in such regulations."

(r) AMENDMENT RELATED TO SECTION 10301 OF THE ACT.—Paragraph (3) of section 6655(g) of the 1986 Code is amended by striking the sentence following subparagraph (C) and inserting in lieu thereof the following:

"In the case of any organization described in subparagraph (A), subsection (b)(2)(A) shall be applied by substituting '5th month' for '3rd month', and subsection (e)(2)(A) shall be applied by substituting '2 months' for '3 months' and in clause (i)(I), by substituting '4 months' for '5 months' in clause (i)(II), by substituting '7 months' for '8 months' in clause (i)(III), and by substituting '10 months' for '11 months' in clause (i)(IV)".

(s) AMENDMENTS RELATED TO SECTION 10502 OF THE ACT.—

(1) Section 4093 of the 1986 Code is amended by redesignating subsections (d) and (e) as subsections (e) and (f), respectively, and by inserting after subsection (c) the following new subsection:

"(d) CERTAIN AVIATION FUEL SALES.—Under regulations prescribed by the Secretary, the Leaking Underground Storage Tank Trust Fund financing rate under section 4091 shall not apply to aviation fuel sold for use or used as supplies for vessels or aircraft (within the meaning of section 4221(d)(3))."

(2) Subparagraph (B) of section 6427(1)(3) of the 1986 Code (relating to no refund of Leaking Underground Storage Tank Trust Fund financing tax) is amended by inserting "(except as supplies for vessels or aircraft within the meaning of section 4221(d)(3))" after "aircraft".

(3) Section 6427 of the 1986 Code is amended by redesignating the subsection (p) relating to gasoline used in noncommercial aviation during period rate reduction in effect and subsection (q) (relating to cross references) as subsections (q) and (r), respectively.

(t) AMENDMENTS RELATED TO SECTION 10512 OF THE ACT.—

(1) Section 5276 of the 1986 Code is amended by adding at the end thereof the following new subsection:

"(c) EXCEPTION FOR UNITED STATES.—Subsection (a) shall not apply to any permit issued to an agency or instrumentality of the United States."

(2) Subsection (a) of section 5113 of the 1986 Code is amended—

(A) by inserting "taxpaid wine bottling house," after "bonded wine cellar," each place it appears, and

(B) by striking out "DISTILLED SPIRITS PLANTS, BONDED WINE CELLARS, OR BREWERIES" in the heading and inserting in lieu thereof "CONTROLLED PREMISES".

(3) Section 5123 of the 1986 Code is amended by redesignating subsection (c) as subsection (d) and by inserting after subsection (b) the following new subsection:

"(c) COORDINATION OF TAXES UNDER SECTION 5121.—No tax shall be imposed by section 5121(a) with respect to a person's activities at any place during a year if such person has paid the tax imposed by section 5121(b) with respect to such place for such year."

(4) Section 5113 of the 1986 Code is amended by adding at the end thereof the following new subsection:

"(g) COORDINATION OF TAXES UNDER SECTION 5111.—No tax shall be imposed by section 5111(a) with respect to a person's activities at any place during a year if such person has paid the tax imposed by section 5111(b) with respect to such place for such year."

26 USC 56 note.

(u) EFFECTIVE DATE.—Except as otherwise provided in this section, any amendment made by this section shall take effect as if included in the provisions of the Revenue Act of 1987 to which such amendment relates.

SEC. 2005. AMENDMENTS RELATED TO PENSION PROTECTION ACT AND FULL FUNDING LIMITATIONS.

(a) AMENDMENT RELATED TO SECTION 9303.—

(1) Section 4972(c) of the 1986 Code is amended by redesignating paragraph (4) as paragraph (5) and by inserting after paragraph (3) the following new paragraph:

"(4) SPECIAL RULE FOR SELF-EMPLOYED INDIVIDUALS.—For purposes of paragraph (1), if—

"(A) the amount which is required to be contributed to a plan under section 412 on behalf of an individual who is an employee (within the meaning of section 401(c)(1)), exceeds

"(B) the earned income (within the meaning of section 404(a)(8)) of such individual derived from the trade or business with respect to which such plan is established, such excess shall be treated as an amount allowable as a deduction under section 404."

(2)(A) Subparagraph (C) of section 412(1)(3) of the 1986 Code is amended—

(i) by striking out "October 17, 1987" in clause (i) and inserting in lieu thereof "October 29, 1987", and

(ii) by striking out "October 16, 1987" in clause (iii) and inserting in lieu thereof "October 28, 1987".

(B) Subparagraph (C) of section 302(d)(3) of the Employee Retirement Income Security Act of 1974 is amended—

(i) by striking out "October 17, 1987" in clause (i) and inserting in lieu thereof "October 29, 1987", and

(ii) by striking out "October 16, 1987" in clause (iii) and inserting in lieu thereof "October 28, 1987".

29 USC 1082.

(b) AMENDMENTS RELATED TO SECTION 9307.—

(1) The last sentence of section 404(a)(1)(D) of the 1986 Code is amended by striking out "For purposes of this subparagraph" and inserting in lieu thereof "For purposes of determining whether a plan has more than 100 participants".

(2) Section 404(a)(7)(A) of the 1986 Code is amended by adding at the end thereof the following new sentence: "For purposes of clause (ii), if paragraph (1)(D) applies to a defined benefit plan

for any plan year, the amount necessary to satisfy the minimum funding standard provided by section 412 with respect to such plan for such plan year shall not be less than the unfunded current liability of such plan under section 412(1).”

(3) Section 404(a)(1)(D) of the 1986 Code is amended by striking out “(without regard to any reduction by the credit balance in the funding standard account)”.

(c) AMENDMENTS RELATED TO SECTION 9301.—

(1) Section 414(l) of the 1986 Code is amended by adding at the end thereof the following new paragraph:

“(2) ALLOCATION OF ASSETS IN PLAN SPIN-OFFS, ETC.—

“(A) IN GENERAL.—In the case of a plan spin-off of a defined benefit plan, a trust which forms part of—

“(i) the original plan, or

“(ii) any plan spun off from such plan,

shall not constitute a qualified trust under this section unless the applicable percentage of excess assets are allocated to each of such plans.

“(B) APPLICABLE PERCENTAGE.—For purposes of subparagraph (A), the term ‘applicable percentage’ means, with respect to each of the plans described in clauses (i) and (ii) of subparagraph (A), the percentage determined by dividing—

“(i) the excess (if any) of—

“(I) the amount determined under section 412(c)(7)(A)(i) with respect to the plan, over

“(II) the amount of the assets required to be allocated to the plan after the spin-off (without regard to this paragraph), by

“(ii) the sum of the excess amounts determined separately under clause (i) for all such plans.

“(C) EXCESS ASSETS.—For purposes of subparagraph (A), the term ‘excess assets’ means an amount equal to the excess (if any) of—

“(i) the fair market value of the assets of the original plan immediately before the spin-off, over

“(ii) the amount of assets required to be allocated after the spin-off to all plans (determined without regard to this paragraph).

“(D) CERTAIN SPUN-OFF PLANS NOT TAKEN INTO ACCOUNT.—

“(i) IN GENERAL.—A plan involved in a spin-off which is described in clause (ii), (iii), or (iv) shall not be taken into account for purposes of this paragraph, except that the amount determined under subparagraph (C)(ii) shall be increased by the amount of assets allocated to such plan.

“(ii) PLANS TRANSFERRED OUT OF CONTROLLED GROUPS.—A plan is described in this clause if, after such spin-off, such plan is maintained by an employer who is not a member of the same controlled group as the employer maintaining the original plan.

“(iii) PLANS TRANSFERRED OUT OF MULTIPLE EMPLOYER PLANS.—A plan as described in this clause if, after the spin-off, any employer maintaining such plan (and any member of the same controlled group as such employer) does not maintain any other plan remaining after the spin-off which is also maintained by another employer (or member of the same controlled group as

such other employer) which maintained the plan in existence before the spin-off.

“(iv) **TERMINATED PLANS.**—A plan is described in this clause if, pursuant to the transaction involving the spin-off, the plan is terminated.

“(v) **CONTROLLED GROUP.**—For purposes of this subparagraph, the term ‘controlled group’ means any group treated as a single employer under subsection (b), (c), (m), or (o).

“(E) **PARAGRAPH NOT TO APPLY TO MULTIEMPLOYER PLANS.**—This paragraph does not apply to any multiemployer plan with respect to any spin-off to the extent that participants either before or after the spin-off are covered under a multiemployer plan to which title IV of the Employee Retirement Income Security Act of 1974 applies.

“(F) **APPLICATION TO SIMILAR TRANSACTION.**—Except as provided by the Secretary, rules similar to the rules of this paragraph shall apply to transactions similar to spin-offs.”

(2) Section 414(1) of the 1986 Code is amended by striking out the heading and inserting in lieu thereof:

“(1) **MERGER AND CONSOLIDATIONS OF PLANS OR TRANSFERS OF PLAN ASSETS.**—

“(1) **IN GENERAL.**—”

26 USC 414 note.

(3)(A) Except as provided in subparagraph (B), the amendments made by this subsection shall apply with respect to transactions occurring after July 26, 1988.

(B) The amendments made by this subsection shall not apply to any transaction occurring after July 26, 1988, if on or before such date the board of directors of the employer, approves such transaction or the employer took similar binding action.

(d) **OTHER PROVISIONS.**—

(1) Subparagraph (C) of section 412(1)(3) of the 1986 Code is amended—

(A) by striking out “October 17, 1987” in clause (i) and inserting in lieu thereof “October 29, 1987”, and

(B) by striking out “October 16, 1987” in clause (iii) and inserting in lieu thereof “October 28, 1987”.

29 USC 1082.

(2) Subparagraph (B) of section 302(d)(3) of the Employee Retirement Income Security Act of 1974 is amended—

(A) by striking out “October 17, 1987” in clause (i) and inserting in lieu thereof “October 29, 1987”, and

(B) by striking out “October 16, 1987” in clause (iii) and inserting in lieu thereof “October 28, 1987”.

26 USC 404 note.

(e) **EFFECTIVE DATE.**—The amendments made by this section shall take effect as if included in the amendments made by the provisions of the Omnibus Budget Reconciliation Act of 1987 to which it relates.

SEC. 2006. AMENDMENTS RELATED TO SECTION 9201 OF THE OMNIBUS BUDGET RECONCILIATION ACT OF 1987.

(a) Subsection (c) of section 4132 of the 1986 Code (relating to imposition of tax on certain vaccines) is amended by redesignating paragraphs (1) and (2) as paragraphs (3) and (4), respectively, and by inserting before paragraph (3) (as so redesignated) the following new paragraphs:

“(1) **CERTAIN USES TREATED AS SALES.**—Any manufacturer, producer, or importer of a vaccine which uses such vaccine

before it is sold shall be liable for the tax imposed by section 4131 in the same manner as if such vaccine were sold by such manufacturer, producer, or importer.

“(2) TREATMENT OF VACCINES SHIPPED TO UNITED STATES POSSESSIONS.—Section 4221(a)(2) shall not apply to any vaccine shipped to a possession of the United States.”

(b) Subsection (a) of section 9510 of the 1986 Code is amended—

(1) by inserting “appropriated or” before “credited”, and

(2) by inserting “this section or” before “section 9602(b)”.

(c) The amendments made by this section shall take effect as if included in the amendments made by section 9201 of the Omnibus Budget Reconciliation Act of 1987.

Effective date.
26 USC 4132
note.

TITLE III—ADDITIONAL SIMPLIFICATION AND CLARIFICATION PROVISIONS

Subtitle A—Diesel Fuel Excise Tax Collection and Exemption Procedures

SEC. 3001. TAX-FREE PURCHASES OF CERTAIN FUELS.

(a) IN GENERAL.—Subsection (c) of section 4093 of the 1986 Code (relating to exceptions; special rule) is amended to read as follows:

“(c) EXEMPTION FOR NONTAXABLE USES AND BUS USES.—

“(1) IN GENERAL.—No tax shall be imposed by section 4091 on fuel sold by a producer or importer for use by the purchaser in a nontaxable use (as defined in section 6427(1)(2)) or a use described in section 6427(b)(1).

“(2) EXCEPTIONS.—

“(A) CERTAIN LEAKING UNDERGROUND STORAGE TANK TRUST FUND TAXES.—In the case of fuel sold for use in—

“(i) a diesel-powered train, and

“(ii) an aircraft,

paragraph (1) shall not apply to so much of the tax imposed by section 4091 as is attributable to the Leaking Underground Storage Tank Trust Fund financing rate imposed by such section.

“(B) CERTAIN BUS USES.—Paragraph (1) shall not apply to so much of the tax imposed by section 4091 as is not refundable by reason of the application of section 6427(b)(2)(A).

“(3) REGISTRATION REQUIRED.—Except to the extent provided by the Secretary, paragraph (1) shall not apply to any sale unless—

“(A) both the seller and the purchaser are registered under section 4101, and

“(B) the purchaser's name, address, and registration number under such section are provided to the seller.

“(4) INFORMATION REPORTING.—

“(A) RETURNS BY PRODUCERS AND IMPORTERS.—Each producer or importer who makes a reduced-tax sale during the calendar year shall make a return (at such time and in such form as the Secretary may by regulations prescribe) showing with respect to each such sale—

“(i) the name, address, and registration number under section 4101 of the purchaser,

“(ii) the amount of fuel sold, and

“(iii) such other information as the Secretary may require.

“(B) STATEMENTS TO PURCHASERS.—Every person required to make a return under subparagraph (A) shall furnish to each purchaser whose name is required to be set forth on such return a written statement showing the name and address of the person required to make such return, the registration number under section 4101 of such person, and the information required to be shown on the return with respect to such purchaser. The written statement required under the preceding sentence shall be furnished to the purchaser on or before January 31 of the year following the calendar year for which the return under subparagraph (A) is required to be made.

“(C) RETURNS BY PURCHASERS.—Each person who uses during the calendar year fuel purchased in a reduced-tax sale shall make a return (at such time and in such form as the Secretary may by regulations prescribe) showing—

“(i) whether such use was a nontaxable use (as defined in section 6427(1)(2)) or a use described in section 6427(b)(1) and the amount of fuel so used,

“(ii) the date of the sale of the fuel so used,

“(iii) the name, address, and registration number under section 4101 of the seller, and

“(iv) such other information as the Secretary may require.

“(D) REDUCED-TAX SALE.—For purposes of this paragraph, the term ‘reduced tax sale’ means any sale of taxable fuel on which the amount of tax otherwise required to be paid under section 4091 is reduced by reason of paragraph (1) (other than sales described in subsections (a) and (b) of this section).”

(b) PENALTY FOR FAILING TO PROVIDE INFORMATION.—

(1) Subparagraph (B) of section 6724(d)(1) of the 1986 Code (defining information return) is amended by striking out “or” at the end of clause (ix), by striking out the period at the end of clause (x) and inserting in lieu thereof “, or”, and by adding at the end thereof the following new clause:

“(xi) subparagraph (A) or (C) of subsection (c)(4), or subsection (d), of section 4093 (relating to information reporting with respect to tax on diesel and aviation fuels).”

(2) Paragraph (2) of section 6724(d) of the 1986 Code (defining payee statement) is amended by striking out “or” at the end of subparagraph (S), by striking out the period at the end of subparagraph (T) and inserting in lieu thereof “, or”, and by adding at the end thereof the following new subparagraph:

“(U) section 4093(c)(4)(B) (relating to certain purchasers of diesel and aviation fuels).”

(3)(A) The text of section 7232 of the 1986 Code is amended by striking out “or lubricating oil” and inserting in lieu thereof “, lubricating oil, diesel fuel, or aviation fuel”.

(B) The heading for section 7232 of the 1986 Code is amended by striking out “OR LUBRICATING OIL” and inserting in lieu

thereof “, LUBRICATING OIL, DIESEL FUEL, OR AVIATION FUEL”.

(C) The table of sections for part II of subchapter A of chapter 75 of the 1986 Code is amended by striking out “or lubricating oil” in the item relating to section 7232 and inserting in lieu thereof “, lubricating oil, diesel fuel, or aviation fuel”.

(c) EFFECTIVE DATE.—

26 USC 4093
note.

(1) IN GENERAL.—The amendments made by this section shall take effect on January 1, 1989.

(2) REFUNDS WITH INTEREST FOR PRE-EFFECTIVE DATE PURCHASES.—

(A) IN GENERAL.—In the case of fuel—

(i) which is purchased from a producer or importer during the period beginning on April 1, 1988, and ending on December 31, 1988,

Imports.

(ii) which is used (before the claim under this subparagraph is filed) by any person in a nontaxable use (as defined in section 6427(1)(2) of the 1986 Code), and

Claims.

(iii) with respect to which a claim is not permitted to be filed for any quarter under section 6427(i) of the 1986 Code,

Claims.

the Secretary of the Treasury or the Secretary's delegate shall pay (with interest) to such person the amount of tax imposed on such fuel under section 4091 of the 1986 Code (to the extent not attributable to amounts described in section 6427(1)(3) of the 1986 Code) if claim therefor is filed not later than June 30, 1989. Not more than 1 claim may be filed under the preceding sentence and such claim shall not be taken into account under section 6427(i) of the 1986 Code. Any claim for refund filed under this paragraph shall be considered a claim for refund under section 6427(1) of the 1986 Code.

(B) INTEREST.—The amount of interest payable under subparagraph (A) shall be determined under section 6611 of the 1986 Code except that the date of the overpayment with respect to fuel purchased during any month shall be treated as being the 1st day of the succeeding month. No interest shall be paid under this paragraph with respect to fuel used by any agency of the United States.

(C) REGISTRATION PROCEDURES REQUIRED TO BE SPECIFIED.—Not later than the 30th day after the date of the enactment of this Act, the Secretary of the Treasury or the Secretary's delegate shall prescribe the procedures for complying with the requirements of section 4093(c)(3) of the 1986 Code (as added by this section).

SEC. 3002. EXPEDITED REFUND FOR CERTAIN FUELS USED IN NONTAXABLE USES.

(a) EXPEDITED REFUND.—Section 6427(i) of the 1986 Code (relating to time for filing claims; period covered) is amended by adding at the end thereof the following new paragraph:

“(4) SPECIAL RULE FOR NONTAXABLE USES OF DIESEL FUEL AND AVIATION FUEL TAXED UNDER SECTION 4091.—

“(A) IN GENERAL.—If at the close of any of the 1st 3 quarters of the taxable year of any person, at least \$750 is payable under subsection (1) to such person with respect to

Claims.

fuel used during such quarter or any prior quarter during the taxable year (and for which no other claim has been filed), a claim may be filed under subsection (1) with respect to such fuel.

“(B) TIME FOR FILING CLAIM.—No claim filed under this paragraph shall be allowed unless filed during the 1st quarter following the last quarter included in the claim.”

(b) ALLOWANCE OF PAYMENT.—Paragraph (2) of section 6427(k) of the 1986 Code (relating to income tax credit in lieu of payment), as amended by title I, is amended by striking out “paragraph (2) or (3)” and inserting in lieu thereof “paragraph (2), (3), or (4)”.

(c) CONFORMING AMENDMENTS.—

(1) Paragraph (1) of section 6427(i) of the 1986 Code is amended by striking out “paragraph (2)” and inserting in lieu thereof “paragraphs (2), (3), and (4)”.

(2) Paragraph (2)(A) of section 6427(i) of the 1986 Code is amended by striking out “(1),”.

(d) EFFECTIVE DATE.—The amendments made by this section shall apply to fuel used after December 31, 1988.

26 USC 6427
note.

SEC. 3003. MARINE RETAILERS TREATED AS PRODUCERS.

(a) IN GENERAL.—Subparagraph (B) of section 4092(b)(1) of the 1986 Code (relating to certain persons treated as producers) is amended by striking out the period at the end of clause (ii) and inserting in lieu thereof “, or” and by adding at the end thereof the following:

“(iii) a retailer selling diesel fuel exclusively to purchasers as supplies for commercial and noncommercial vessels.

To the extent provided in regulations, a retailer shall not be treated as not described in clause (iii) by reason of selling de minimis amounts of diesel fuel other than as supplies for commercial and noncommercial vessels.”

26 USC 4092
note.

(b) EFFECTIVE DATE.—The amendments made by this section shall apply to sales after December 31, 1988.

Subtitle B—Health Care Continuation Rules

SEC. 3011. FAILURE TO SATISFY CONTINUATION COVERAGE REQUIREMENTS OF GROUP HEALTH PLANS.

(a) IN GENERAL.—Chapter 43 of the 1986 Code (relating to qualified pension, etc., plans) is amended by adding at the end thereof the following new section:

“SEC. 4980B. FAILURE TO SATISFY CONTINUATION COVERAGE REQUIREMENTS OF GROUP HEALTH PLANS.

“(a) GENERAL RULE.—There is hereby imposed a tax on the failure of a group health plan to meet the requirements of subsection (f) with respect to any qualified beneficiary.

“(b) AMOUNT OF TAX.—

“(1) IN GENERAL.—The amount of the tax imposed by subsection (a) on any failure with respect to a qualified beneficiary shall be \$100 for each day in the noncompliance period with respect to such failure.

“(2) **NONCOMPLIANCE PERIOD.**—For purposes of this section, the term ‘noncompliance period’ means, with respect to any failure, the period—

“(A) beginning on the date such failure first occurs, and

“(B) ending on the earlier of—

“(i) the date such failure is corrected, or

“(ii) the date which is 6 months after the last day in the period applicable to the qualified beneficiary under subsection (f)(2)(B) (determined without regard to clause (iii) thereof).

If a person is liable for tax under subsection (e)(1)(B) by reason of subsection (e)(2)(B) with respect to any failure, the noncompliance period for such person with respect to such failure shall not begin before the 45th day after the written request described in subsection (e)(2)(B) is provided to such person.

“(3) **MINIMUM TAX FOR NONCOMPLIANCE PERIOD WHERE FAILURE DISCOVERED AFTER NOTICE OF EXAMINATION.**—Notwithstanding paragraphs (1) and (2) of subsection (c)—

“(A) **IN GENERAL.**—In the case of 1 or more failures with respect to a qualified beneficiary—

“(i) which are not corrected before the date a notice of examination of income tax liability is sent to the employer, and

“(ii) which occurred or continued during the period under examination,

the amount of tax imposed by subsection (a) by reason of such failures with respect to such beneficiary shall not be less than the lesser of \$2,500 or the amount of tax which would be imposed by subsection (a) without regard to such paragraphs.

“(B) **HIGHER MINIMUM TAX WHERE VIOLATIONS ARE MORE THAN DE MINIMIS.**—To the extent violations by the employer (or the plan in the case of a multiemployer plan) for any year are more than de minimis, subparagraph (A) shall be applied by substituting ‘\$15,000’ for ‘\$2,500’ with respect to the employer (or such plan).

“(c) **LIMITATIONS ON AMOUNT OF TAX.**—

“(1) **TAX NOT TO APPLY WHERE FAILURE NOT DISCOVERED EXERCISING REASONABLE DILIGENCE.**—No tax shall be imposed by subsection (a) on any failure during any period for which it is established to the satisfaction of the Secretary that none of the persons referred to in subsection (e) knew, or exercising reasonable diligence would have known, that such failure existed.

“(2) **TAX NOT TO APPLY TO FAILURES CORRECTED WITHIN 30 DAYS.**—No tax shall be imposed by subsection (a) on any failure if—

“(A) such failure was due to reasonable cause and not to willful neglect, and

“(B) such failure is corrected during the 30-day period beginning on the 1st date any of the persons referred to in subsection (e) knew, or exercising reasonable diligence would have known, that such failure existed.

“(3) **\$100 LIMIT ON AMOUNT OF TAX FOR FAILURES ON ANY DAY WITH RESPECT TO A QUALIFIED BENEFICIARY.**—

“(A) **IN GENERAL.**—Except as provided in subparagraph (B), the maximum amount of tax imposed by subsection (a)

on failures on any day during the noncompliance period with respect to a qualified beneficiary shall be \$100.

“(B) SPECIAL RULE WHERE MORE THAN 1 QUALIFIED BENEFICIARY.—If there is more than 1 qualified beneficiary with respect to the same qualifying event, the maximum amount of tax imposed by subsection (a) on all failures on any day during the noncompliance period with respect to such qualified beneficiaries shall be \$200.

“(4) OVERALL LIMITATION FOR UNINTENTIONAL FAILURES.—In the case of failures which are due to reasonable cause and not to willful neglect—

“(A) SINGLE EMPLOYER PLANS.—

“(i) IN GENERAL.—In the case of failures with respect to plans other than multiemployer plans, the tax imposed by subsection (a) for failures during the taxable year of the employer shall not exceed the amount equal to the lesser of—

“(I) 10 percent of the aggregate amount paid or incurred by the employer (or predecessor employer) during the preceding taxable year for group health plans, or

“(II) \$500,000.

“(ii) TAXABLE YEARS IN THE CASE OF CERTAIN CONTROLLED GROUPS.—For purposes of this subparagraph, if not all persons who are treated as a single employer for purposes of this section have the same taxable year, the taxable years taken into account shall be determined under principles similar to the principles of section 1561.

“(B) MULTIEMPLOYER PLANS.—

“(i) IN GENERAL.—In the case of failures with respect to a multiemployer plan, the tax imposed by subsection (a) for failures during the taxable year of the trust forming part of such plan shall not exceed the amount equal to the lesser of—

“(I) 10 percent of the amount paid or incurred by such trust during such taxable year to provide medical care (as defined in section 213(d)) directly or through insurance, reimbursement, or otherwise, or

“(II) \$500,000.

For purposes of the preceding sentence, all plans of which the same trust forms a part shall be treated as 1 plan.

“(ii) SPECIAL RULE FOR EMPLOYERS REQUIRED TO PAY TAX.—If an employer is assessed a tax imposed by subsection (a) by reason of a failure with respect to a multiemployer plan, the limit shall be determined under subparagraph (A) (and not under this subparagraph) and as if such plan were not a multiemployer plan.

“(C) SPECIAL RULE FOR PERSONS PROVIDING BENEFITS.—In the case of a person described in subsection (e)(1)(B) (and not subsection (e)(1)(A)), the aggregate amount of tax imposed by subsection (a) for failures during a taxable year with respect to all plans shall not exceed \$2,000,000.

“(5) **WAIVER BY SECRETARY.**—In the case of a failure which is due to reasonable cause and not to willful neglect, the Secretary may waive part or all of the tax imposed by subsection (a) to the extent that the payment of such tax would be excessive relative to the failure involved.

“(d) **TAX NOT TO APPLY TO CERTAIN PLANS.**—This section shall not apply to—

“(1) any failure of a group health plan to meet the requirements of subsection (f) if all employers maintaining such plan normally employed fewer than 20 employees on a typical business day during the preceding calendar year,

“(2) any governmental plan (within the meaning of section 414(d)), or

“(3) any church plan (within the meaning of section 414(e)).

“(e) **LIABILITY FOR TAX.**—

“(1) **IN GENERAL.**—Except as otherwise provided in this subsection, the following shall be liable for the tax imposed by subsection (a) on a failure:

“(A)(i) In the case of a plan other than a multiemployer plan, the employer.

“(ii) In the case of a multiemployer plan, the plan.

“(B) Each person who is responsible (other than in a capacity as an employee) for administering or providing benefits under the plan and whose act or failure to act caused (in whole or in part) the failure.

“(2) **SPECIAL RULES FOR PERSONS DESCRIBED IN PARAGRAPH**

(1) (B).—

“(A) **NO LIABILITY UNLESS WRITTEN AGREEMENT.**—Except in the case of liability resulting from the application of subparagraph (B) of this paragraph, a person described in subparagraph (B) (and not in subparagraph (A)) of paragraph (1) shall be liable for the tax imposed by subsection (a) on any failure only if such person assumed (under a legally enforceable written agreement) responsibility for the performance of the act to which the failure relates.

“(B) **FAILURE TO COVER QUALIFIED BENEFICIARIES WHERE CURRENT EMPLOYEES ARE COVERED.**—A person shall be treated as described in paragraph (1)(B) with respect to a qualified beneficiary if—

“(i) such person provides coverage under a group health plan for any similarly situated beneficiary under the plan with respect to whom a qualifying event has not occurred, and

“(ii) the—

“(I) employer or plan administrator, or

“(II) in the case of a qualifying event described in subparagraph (C) or (E) of subsection (f)(3) where the person described in clause (i) is the plan administrator, the qualified beneficiary,

submits to such person a written request that such person make available to such qualified beneficiary the same coverage which such person provides to the beneficiary referred to in clause (i).

“(f) **CONTINUATION COVERAGE REQUIREMENTS OF GROUP HEALTH PLANS.**—

“(1) **IN GENERAL.**—A group health plan meets the requirements of this subsection only if each qualified beneficiary who

would lose coverage under the plan as a result of a qualifying event is entitled to elect, within the election period, continuation coverage under the plan.

“(2) CONTINUATION COVERAGE.—For purposes of paragraph (1), the term ‘continuation coverage’ means coverage under the plan which meets the following requirements:

“(A) TYPE OF BENEFIT COVERAGE.—The coverage must consist of coverage which, as of the time the coverage is being provided, is identical to the coverage provided under the plan to similarly situated beneficiaries under the plan with respect to whom a qualifying event has not occurred. If coverage under the plan is modified for any group of similarly situated beneficiaries, the coverage shall also be modified in the same manner for all individuals who are qualified beneficiaries under the plan pursuant to this subsection in connection with such group.

“(B) PERIOD OF COVERAGE.—The coverage must extend for at least the period beginning on the date of the qualifying event and ending not earlier than the earliest of the following:

“(i) MAXIMUM REQUIRED PERIOD.—

“(I) GENERAL RULE FOR TERMINATIONS AND REDUCED HOURS.—In the case of a qualifying event described in paragraph (3)(B), except as provided in subclause (II), the date which is 18 months after the date of the qualifying event.

“(II) SPECIAL RULE FOR MULTIPLE QUALIFYING EVENTS.—If a qualifying event (other than a qualifying event described in paragraph (3)(F)) occurs during the 18 months after the date of a qualifying event described in paragraph (3)(B), the date which is 36 months after the date of the qualifying event described in paragraph (3)(B).

“(III) SPECIAL RULE FOR CERTAIN BANKRUPTCY PROCEEDINGS.—In the case of a qualifying event described in paragraph (3)(F) (relating to bankruptcy proceedings), the date of the death of the covered employee or qualified beneficiary (described in subsection (g)(1)(D)(iii)), or in the case of the surviving spouse or dependent children of the covered employee, 36 months after the date of the death of the covered employee.

“(IV) GENERAL RULE FOR OTHER QUALIFYING EVENTS.—In the case of a qualifying event not described in paragraph (3)(B) or (3)(F), the date which is 36 months after the date of the qualifying event.

“(ii) END OF PLAN.—The date on which the employer ceases to provide any group health plan to any employee.

“(iii) FAILURE TO PAY PREMIUM.—The date on which coverage ceases under the plan by reason of a failure to make timely payment of any premium required under the plan with respect to the qualified beneficiary. The payment of any premium (other than any payment referred to in the last sentence of subparagraph (C)) shall be considered to be timely if made within 30 days

after the date due or within such longer period as applies to or under the plan.

“(iv) **GROUP HEALTH PLAN COVERAGE OR MEDICARE ELIGIBILITY.**—The date on which the qualified beneficiary first becomes, after the date of the election—

“(I) covered under any other group health plan (as an employee or otherwise), or

“(II) in the case of a qualified beneficiary other than a qualified beneficiary described in subsection (g)(1)(D) entitled to benefits under title XVIII of the Social Security Act.

“(C) **PREMIUM REQUIREMENTS.**—The plan may require payment of a premium for any period of continuation coverage, except that such premium—

“(i) shall not exceed 102 percent of the applicable premium for such period, and

“(ii) may, at the election of the payor, be made in monthly installments.

If an election is made after the qualifying event, the plan shall permit payment for continuation coverage during the period preceding the election to be made within 45 days of the date of the election.

“(D) **NO REQUIREMENT OF INSURABILITY.**—The coverage may not be conditioned upon, or discriminate on the basis of lack of, evidence of insurability.

“(E) **CONVERSION OPTION.**—In the case of a qualified beneficiary whose period of continuation coverage expires under subparagraph (B)(i), the plan must, during the 180-day period ending on such expiration date, provide to the qualified beneficiary the option of enrollment under a conversion health plan otherwise generally available under the plan.

“(3) **QUALIFYING EVENT.**—For purposes of this subsection, the term ‘qualifying event’ means, with respect to any covered employee, any of the following events which, but for the continuation coverage required under this subsection, would result in the loss of coverage of a qualified beneficiary—

“(A) The death of the covered employee.

“(B) The termination (other than by reason of such employee’s gross misconduct), or reduction of hours, of the covered employee’s employment.

“(C) The divorce or legal separation of the covered employee from the employee’s spouse.

“(D) The covered employee becoming entitled to benefits under title XVIII of the Social Security Act.

“(E) A dependent child ceasing to be a dependent child under the generally applicable requirements of the plan.

“(F) A proceeding in a case under title 11, United States Code, commencing on or after July 1, 1986, with respect to the employer from whose employment the covered employee retired at any time.

In the case of an event described in subparagraph (F), a loss of coverage includes a substantial elimination of coverage with respect to a qualified beneficiary described in subsection (g)(1)(D) within one year before or after the date of commencement of the proceeding.

“(4) **APPLICABLE PREMIUM.**—For purposes of this subsection—

“(A) **IN GENERAL.**—The term ‘applicable premium’ means, with respect to any period of continuation coverage of qualified beneficiaries, the cost to the plan for such period of the coverage for similarly situated beneficiaries with respect to whom a qualifying event has not occurred (without regard to whether such cost is paid by the employer or employee).

“(B) **SPECIAL RULE FOR SELF-INSURED PLANS.**—To the extent that a plan is a self-insured plan—

“(i) **IN GENERAL.**—Except as provided in clause (ii), the applicable premium for any period of continuation coverage of qualified beneficiaries shall be equal to a reasonable estimate of the cost of providing coverage for such period for similarly situated beneficiaries which—

“(I) is determined on an actuarial basis, and

“(II) takes into account such factors as the Secretary may prescribe in regulations.

“(ii) **DETERMINATION ON BASIS OF PAST COST.**—If a plan administrator elects to have this clause apply, the applicable premium for any period of continuation coverage of qualified beneficiaries shall be equal to—

“(I) the cost to the plan for similarly situated beneficiaries for the same period occurring during the preceding determination period under subparagraph (C), adjusted by

“(II) the percentage increase or decrease in the implicit price deflator of the gross national product (calculated by the Department of Commerce and published in the Survey of Current Business) for the 12-month period ending on the last day of the sixth month of such preceding determination period.

“(iii) **CLAUSE (ii) NOT TO APPLY WHERE SIGNIFICANT CHANGE.**—A plan administrator may not elect to have clause (ii) apply in any case in which there is any significant difference between the determination period and the preceding determination period, in coverage under, or in employees covered by, the plan. The determination under the preceding sentence for any determination period shall be made at the same time as the determination under subparagraph (C).

“(C) **DETERMINATION PERIOD.**—The determination of any applicable premium shall be made for a period of 12 months and shall be made before the beginning of such period.

“(5) **ELECTION.**—For purposes of this subsection—

“(A) **ELECTION PERIOD.**—The term ‘election period’ means the period which—

“(i) begins not later than the date on which coverage terminates under the plan by reason of a qualifying event,

“(ii) is of at least 60 days’ duration, and

“(iii) ends not earlier than 60 days after the later of—

“(I) the date described in clause (i), or

“(II) in the case of any qualified beneficiary who receives notice under paragraph (6)(D), the date of such notice.

“(B) EFFECT OF ELECTION ON OTHER BENEFICIARIES.—Except as otherwise specified in an election, any election of continuation coverage by a qualified beneficiary described in subparagraph (A)(i) or (B) of subsection (g)(1) shall be deemed to include an election of continuation coverage on behalf of any other qualified beneficiary who would lose coverage under the plan by reason of the qualifying event. If there is a choice among types of coverage under the plan, each qualified beneficiary is entitled to make a separate selection among such types of coverage.

“(6) NOTICE REQUIREMENT.—In accordance with regulations prescribed by the Secretary—

“(A) The group health plan shall provide, at the time of commencement of coverage under the plan, written notice to each covered employee and spouse of the employee (if any) of the rights provided under this subsection.

“(B) The employer of an employee under a plan must notify the plan administrator of a qualifying event described in subparagraph (A), (B), (D), or (F) of paragraph (3) with respect to such employee within 30 days of the date of the qualifying event.

“(C) Each covered employee or qualified beneficiary is responsible for notifying the plan administrator of the occurrence of any qualifying event described in subparagraph (C) or (E) of paragraph (3) within 60 days after the date of the qualifying event.

“(D) The plan administrator shall notify—

“(i) in the case of a qualifying event described in subparagraph (A), (B), (D), or (F) of paragraph (3), any qualified beneficiary with respect to such event, and

“(ii) in the case of a qualifying event described in subparagraph (C) or (E) of paragraph (3) where the covered employee notifies the plan administrator under subparagraph (C), any qualified beneficiary with respect to such event,

of such beneficiary's rights under this subsection.

For purposes of subparagraph (D), any notification shall be made within 14 days of the date on which the plan administrator is notified under subparagraph (B) or (C), whichever is applicable, and any such notification to an individual who is a qualified beneficiary as the spouse of the covered employee shall be treated as notification to all other qualified beneficiaries residing with such spouse at the time such notification is made.

“(7) COVERED EMPLOYEE.—For purposes of this subsection, the term ‘covered employee’ means an individual who is (or was) provided coverage under a group health plan by virtue of the individual's employment or previous employment with an employer.

“(g) DEFINITIONS.—For purposes of this section—

“(1) QUALIFIED BENEFICIARY.—

“(A) IN GENERAL.—The term ‘qualified beneficiary’ means, with respect to a covered employee under a group health plan, any other individual who, on the day before the qualifying event for that employee, is a beneficiary under the plan—

“(i) as the spouse of the covered employee, or

“(ii) as the dependent child of the employee.

“(B) SPECIAL RULE FOR TERMINATIONS AND REDUCED EMPLOYMENT.—In the case of a qualifying event described in subsection (f)(3)(B), the term ‘qualified beneficiary’ includes the covered employee.

“(C) EXCEPTION FOR NONRESIDENT ALIENS.—Notwithstanding subparagraphs (A) and (B), the term ‘qualified beneficiary’ does not include an individual whose status as a covered employee is attributable to a period in which such individual was a nonresident alien who received no earned income (within the meaning of section 911(d)(2)) from the employer which constituted income from sources within the United States (within the meaning of section 861(a)(3)). If an individual is not a qualified beneficiary pursuant to the previous sentence, a spouse or dependent child of such individual shall not be considered a qualified beneficiary by virtue of the relationship of the individual.

“(D) SPECIAL RULE FOR RETIREES AND WIDOWS.—In the case of a qualifying event described in subsection (f)(3)(F), the term ‘qualified beneficiary’ includes a covered employee who had retired on or before the date of substantial elimination of coverage and any other individual who, on the day before such qualifying event, is a beneficiary under the plan—

“(i) as the spouse of the covered employee,

“(ii) as the dependent child of the covered employee,

or

“(iii) as the surviving spouse of the covered employee.

“(2) GROUP HEALTH PLAN.—The term ‘group health plan’ has the meaning given such term by section 162(i).”

“(3) PLAN ADMINISTRATOR.—The term ‘plan administrator’ has the meaning given the term ‘administrator’ by section 3(16)(A) of the Employee Retirement Income Security Act of 1974.

“(4) CORRECTION.—A failure of a group health plan to meet the requirements of subsection (f) with respect to any qualified beneficiary shall be treated as corrected if—

“(A) such failure is retroactively undone to the extent possible, and

“(B) the qualified beneficiary is placed in a financial position which is as good as such beneficiary would have been in had such failure not occurred.

For purposes of applying subparagraph (B), the qualified beneficiary shall be treated as if he had elected the most favorable coverage in light of the expenses he incurred since the failure first occurred.”

(b) TECHNICAL AMENDMENTS.—

(1) Section 106 of the 1986 Code (relating to contributions by employer to accident and health plans) is amended to read as follows:

“SEC. 106. CONTRIBUTIONS BY EMPLOYER TO ACCIDENT AND HEALTH PLANS.

“Gross income of an employee does not include employer-provided coverage under an accident or health plan.”

(2) Subsection (i) of section 162 of the 1986 Code (relating to group health plans) is amended by striking out paragraph (2) and by redesignating paragraph (3) as paragraph (2).

(3) Section 162 of the 1986 Code is amended by striking out subsection (k) and by redesignating—

(A) the subsection relating to stock redemption expenses as subsection (k),

(B) the subsection relating to special rules for health insurance costs of self-employed individuals as subsection (l), and

(C) the subsection relating to cross references as subsection (m).

(4) Subparagraph (C) of section 414(n)(3) of the 1986 Code, as amended by section 111B(a) of this Act, is amended by striking out “162(i)(2), 162(k)(2),” and by striking out “and 505” and inserting in lieu thereof “505, and 4980B”.

(5) Paragraph (2) of section 414(t) of the 1986 Code, as amended by section 111B(a) of this Act, is amended by striking out “162(i)(2), 162(k)(2),” and by striking out “or 505” and inserting in lieu thereof “505, or 4980B”.

(6) Paragraph (1) of section 607 of the Employee Retirement Income Security Act of 1974 is amended by striking out “section 162(i)(3) of the Internal Revenue Code of 1954” and inserting in lieu thereof “section 162(i)(2) of the Internal Revenue Code of 1986”.

29 USC 1167.

(7) Paragraph (1) of section 2208 of the Public Health Service Act is amended by striking out “section 162(i)(3) of the Internal Revenue Code of 1954” and inserting in lieu thereof “section 162(i)(2) of the Internal Revenue Code of 1986”.

42 USC 300bb-8.

(c) **CLERICAL AMENDMENT.**—The table of sections for chapter 43 of the 1986 Code is amended by adding at the end thereof the following new item:

“Sec. 4980B. Failure to satisfy continuation coverage requirements of group health plans.”

(d) **EFFECTIVE DATE.**—The amendments made by this section shall apply to taxable years beginning after December 31, 1988, but shall not apply to any plan for any plan year to which section 162(k) of the Internal Revenue Code of 1986 (as in effect on the day before the date of the enactment of this Act) did not apply by reason of section 10001(e)(2) of the Consolidated Omnibus Budget Reconciliation Act of 1985.

26 USC 162 note.

Subtitle C—Employee Benefit Nondiscrimination Rules

SEC. 3021. MODIFICATIONS TO DISCRIMINATION RULES APPLICABLE TO CERTAIN EMPLOYEE BENEFIT PLANS.

(a) **MODIFICATIONS TO SECTION 89.**—

(1) **DETERMINATIONS BASED ON TESTING YEAR.**—

(A) Section 89 of the 1986 Code (as amended by title I) is amended by striking out “plan year” each place it appears and inserting in lieu thereof “testing year”.

(B) Subsection (j) of section 89 of the 1986 Code is amended by adding at the end thereof the following new paragraph:

“(13) **TESTING YEAR.**—The term ‘testing year’ means—

“(A) any 12-month period beginning with the calendar month designated in the plan for purposes of this section, or

“(B) if there is no such designation, the calendar year. No period may be designated under subparagraph (A) unless the same period is designated with respect to all other plans of the employer of the same type. Any designation under subparagraph (A) may be changed only with the consent of the Secretary.”

(C) Subsection (c) of section 4976 of the 1986 Code (as added by title I) is amended—

(i) by striking out “any plan year” in paragraph (1) and inserting in lieu thereof “any testing year (as defined in section 89(j)(13))”; and

(ii) by striking out “such plan year” each place it appears in paragraph (2)(A) and inserting in lieu thereof “such testing year”.

(2) TIME FOR TESTING.—

(A) IN GENERAL.—Subsection (g) of section 89 is amended by adding at the end thereof the following new paragraph:

“(6) TIME FOR TESTING.—

“(A) IN GENERAL.—Except as otherwise provided in this paragraph, the determination of whether any plan is a discriminatory employee benefit plan for any testing year shall be made on the basis of the facts as of the testing day.

“(B) ADJUSTMENT WHERE BENEFIT OF HIGHLY COMPENSATED EMPLOYEE CHANGES.—If the employer-provided benefit (actually provided or made available) of a highly compensated employee changes during the testing year by reason of any change in the terms of the plan or the making of an election by such employee, the amount taken into account as such employee’s employer-provided benefit shall be adjusted to take into account such change and the portion of the testing year during which the changed benefit is provided (or made available).

“(C) TREATMENT OF NON-HIGHLY COMPENSATED EMPLOYEES WHERE CHANGE IN PLAN.—Rules similar to the rules of subparagraph (B) shall apply in the case of employees who are not highly compensated employees and who are affected by any change in the terms of the plan, except that the determination of such employees’ employer-provided benefits (actually provided or made available) shall be determined as of the date after such change selected by the employer and permitted under regulations prescribed by the Secretary.

“(D) TESTING DAY.—For purposes of this paragraph, the term ‘testing day’ means—

“(i) the day designated in the plan as the testing day for purposes of this paragraph, or

“(ii) if there is no day so designated, the last day of the testing year.

“(E) LIMITATIONS.—

“(i) DESIGNATION MUST BE CONSISTENT FOR ALL PLANS OF SAME TYPE.—No day may be designated under subparagraph (D)(i) with respect to any plan unless the same day is so designated with respect to all other plans of the employer of the same type.

“(ii) DESIGNATION BINDING.—Any designation under subparagraph (D)(i) shall apply to the testing year for

which made and all subsequent years unless revoked with the consent of the Secretary.

“(F) SPECIAL RULE FOR MULTIPLE EMPLOYER PLAN.—In the case of a multiemployer plan or any other plan maintained by more than 1 employer, each employer may, subject to such rules as the Secretary may prescribe, elect its own testing year under paragraph (13) of subsection (j) and its own testing date under this paragraph.”

(B) DESIGNATIONS FOR 1989 NOT BINDING.—Any designation of a testing day for a year beginning in 1989 shall be disregarded in determining the day which may be designated as the testing day for years beginning after 1989.

26 USC 89 note.

(3) SAMPLING.—Subsection (g) of section 89 of the 1986 Code is amended by adding at the end thereof the following new paragraph:

“(7) SAMPLING.—For purposes of determining whether a plan is a discriminatory employee benefit plan (but not for purposes of identifying the highly compensated employees who have a discriminatory excess or the amount of any such excess), determinations under this section may be made on the basis of a statistically valid random sample. The preceding sentence shall apply only if—

Discrimination,
prohibition.

“(A) the sampling is conducted by an independent person in a manner not inconsistent with regulations prescribed by the Secretary, and

“(B) the statistical method and sample size result in a 95 percent probability that the results will have a margin of error not greater than 3 percent.”

(4) SPECIAL VALUATION RULE FOR MULTIEMPLOYER PLANS.—Paragraph (3) of section 89(g) of the 1986 Code is amended by adding at the end thereof the following new subparagraph:

“(E) SPECIAL RULE FOR MULTIEMPLOYER PLANS.—

“(i) IN GENERAL.—Except as provided in regulations and clause (ii), an employer may treat the contribution such employer makes to a multiemployer plan on behalf of an employee as the employer-provided benefit of such employee under such plan.

“(ii) ADJUSTMENT.—If—

“(I) the allocation of plan benefits between highly compensated employees and other employees under a multiemployer plan (or within either of such groups) varies materially from the allocation of employer contributions to such plan, or

“(II) the employer contributions relate to benefits of different types,

the employer-provided benefit determined under clause (i) shall be appropriately adjusted to take into account such material variation or such employer contribution.

“(iii) EXCEPTION FOR PROFESSIONALS.—This subparagraph shall not apply to any employer maintaining a multiemployer plan if such employer makes contributions to such plan on behalf of any individual performing services in the field of health, law, engineering, architecture, accounting, actuarial science, financial services, or consulting or in such other field as the Secretary may prescribe.”

(5) EXCLUDED EMPLOYEE REQUIREMENTS.—

(A) **MULTIEMPLOYER PLANS.**—Subsection (h) of section 89 of the 1986 Code is amended by adding at the end thereof the following new paragraph:

“(6) **SPECIAL RULE FOR MULTIEMPLOYER PLAN.**—Except as provided in regulations, any multiemployer plan shall not be taken into account in applying subparagraph (A), (B), (C), or (D) of paragraph (1) with respect to other plans of the employer. For purposes of this paragraph, a rule similar to the rule of subsection (g)(3)(E)(iii) shall apply.”

(B) **STUDENTS.**—Paragraph (1) of section 89(h) of the 1986 Code is amended by adding after subparagraph (F) the following new subparagraph:

“(G) Employees who are students if—

“(i) such students are performing services described in section 3121(b)(10), and

“(ii) core health coverage is made available to such students by such employer.”

(6) **COMPARABILITY RULES.**—Paragraph (1) of section 89(g) of the 1986 Code, as amended by section 111B(a)(3), is amended by adding at the end thereof the following new subparagraphs:

“(D) **SPECIAL RULES FOR APPLYING SUBSECTION (f).**—

“(i) **IN GENERAL.**—For purposes of applying subsection (f)—

“(I) except as provided in clause (ii), subparagraph (B) shall be applied by substituting ‘90 percent’ for ‘95 percent’, and

“(II) a group of plans of the same type shall be treated as comparable plans if the requirements of subparagraph (E) are met.

“(ii) **ELECTION TO USE LOWER PERCENTAGE IN DETERMINING COMPARABILITY.**—If an election by the employer under this clause applies for the testing year—

“(I) subclause (I) of clause (i) shall not apply,

“(II) for purposes of applying subsection (f), subparagraph (B) of this paragraph shall be applied by substituting ‘80 percent’ for ‘95 percent’, and

“(III) subsection (f) shall be applied with respect to all health plans maintained by the employer by substituting ‘90 percent’ for ‘80 percent’.

“(E) **PLANS TREATED AS COMPARABLE IF EMPLOYEE COST DIFFERENCE IS \$100 OR LESS.**—

“(i) **IN GENERAL.**—A group of plans of the same type shall be treated as comparable with respect to a group of employees if—

“(I) such plans are available to all employees in the group on the same terms, and

“(II) the difference in annual cost to employees between the plans with the lowest and highest annual employee cost is not greater than \$100.

“(ii) **COORDINATION WITH SUBPARAGRAPH (B).**—A plan not in the group of plans described in clause (i) shall be treated as part of such group if, under subparagraph (B) (without regard to clause (iii) of this subparagraph), such plan is comparable to the plan in such group with the largest employer-provided benefit.

“(iii) OTHER PLANS PROVIDING COMPARABLE BENEFITS.—A plan not in the group of plans described in clause (i) shall be treated as part of such group with respect to an employee if—

“(I) in the case of an employee who is not a highly compensated employee, such employee is eligible to participate in the plan in such group with the largest employer-provided benefit (without regard to clause (ii)),

“(II) in the case of an employee who is not a highly compensated employee, the annual cost to such employee under such plan is not lower than the lowest cost permitted within such group, and

“(III) the employer-provided benefit under such plan is less than the employer-provided benefit under the plan in such group with the largest such benefit (without regard to clause (ii)).

“(iv) SEPARATE APPLICATION OF REQUIREMENTS.—If an employer elects the application of paragraph (2)(A)(ii), the amount under clause (i) shall be allocated among plans covering spouses and dependents and plans covering employees in such manner as the employer specifies.

“(v) COST-OF-LIVING ADJUSTMENT.—In the case of testing years beginning after 1989, the \$100 amount under clause (i) shall be increased by the percentage (if any) by which—

“(I) the CPI for the calendar year preceding the year in which the testing year begins, exceeds

“(II) the CPI for 1988.

For purposes of this clause, the CPI for any calendar year shall be determined under section 1(f).”

(7) OTHER COVERAGE.—

(A) Subparagraph (A) of section 89(g)(2) of the 1986 Code is amended—

(i) by striking out “subsection (e)” each place it appears and inserting in lieu thereof “subsection (e) or (f)”, and

(ii) by adding at the end thereof the following new sentence: “The provisions of the preceding sentence shall not apply for purposes of applying subsection (f) unless the requirements of subsection (f) would be met if such subsection were applied without regard to the preceding sentence and on the basis of eligibility to participate rather than coverage.”

(B) Subparagraph (D) of section 89(g)(2) of the 1986 Code is amended by adding at the end thereof the following sentence: “The Secretary shall make such adjustments as are necessary in applying the rules of the preceding sentence to subsection (f).”

(8) SWORN STATEMENTS.—Paragraph (2) of section 89(g) of the 1986 Code is amended—

(A) by adding at the end thereof the following new subparagraph:

“(E) SPECIAL RULE.—No employee who is not a highly compensated employee may be disregarded under subparagraph (A)(i) with respect to any health plan of the employer

unless under such plan such employee is entitled, when the coverage under the other health plan referred to in subparagraph (A)(i) ceases, to elect coverage under the plan of the employer (whether or not an election is otherwise available). Such election is to be on the same terms as if such employee was making such election during a subsequent open season. Rules similar to the rules of the preceding sentences of this subparagraph shall apply in the case of an employee treated as not having a spouse or dependents or having a spouse or dependents covered by a health plan of another employer providing core benefits.”;

(B) by striking out “and” at the end of subparagraph (B)(i), by striking out the period at the end of subparagraph (B)(ii) and inserting in lieu thereof “, and”, and by adding at the end thereof the following new clause:

“(iii) the health coverage (if any) received by the employee from the employer.”

(9) **DEFINITION OF PLAN.**—Paragraph (11) of section 89(j) of the 1986 Code is amended by striking out “Each option” and inserting in lieu thereof “Except as provided in subsection (g)(1), each option”.

(10) **MODIFICATION OF PENALTY.**—Subparagraph (B) of section 6652(k)(2) of the 1986 Code is amended to read as follows:

“(B) the amount which bears the same ratio to the employer-provided benefit (within the meaning of section 89 without regard to subsection (g)(3)(C)(i) thereof) with respect to the employee to whom such failure relates as the amount of such benefit required to be but not shown on timely statements under sections 6051(a) and 6051(d) bears to the amount required to be shown.”.

(11) **CAFETERIA PLANS.**—Subparagraph (D) of section 89(g)(3) of the 1986 Code is amended to read as follows:

“(D) **SALARY REDUCTIONS.**—

“(i) **IN GENERAL.**—Except for purposes of subsections (d)(1)(A)(ii) and (j)(5), any salary reduction shall be treated as an employer-provided benefit.

“(ii) **SPECIAL RULE FOR SUBSECTION (d)(1)(A)(ii).**—Notwithstanding clause (i), any salary reduction under a cafeteria plan (within the meaning of section 125) shall be treated as an employer-provided benefit for purposes of subsection (d)(1)(A)(ii) if—

“(I) the percentage of employees who are not highly compensated employees eligible to participate in the plan is not greater than the percentage of highly compensated employees so eligible,

“(II) all employees eligible to participate in the plan are eligible under the same terms and conditions, and

“(III) no highly compensated employee eligible under the plan is eligible to participate in any other plan maintained by the employer for any benefit of the same type unless the benefit is available on the same terms and conditions to every employee who is not a highly compensated employee eligible to participate in the plan.

“(iii) **REGULATIONS.**—Notwithstanding clause (i) or (ii), the Secretary may by regulations provide that any

salary reduction shall or shall not be treated as an employer-provided benefit to prevent avoidance of the purposes of this section.”

(12) **PART-TIME EMPLOYEES.**—Paragraph (5) of section 89(j) of the 1986 Code is amended by striking out the last sentence thereof.

(13) **ACQUISITIONS AND DISPOSITIONS.**—

(A) Clause (ii) of section 89(j)(8)(A) of the 1986 Code is amended to read as follows:

“(ii) either—

“(I) the coverage under such plan is not significantly changed during the transition period (other than by reason of the change in members in such group), or

“(II) such plan meets such other requirements as the Secretary may prescribe by regulation.”

(B) Subclause (II) of section 410(b)(6)(C)(i) of the 1986 Code is amended by inserting “or such plan meets such other requirements as the Secretary may prescribe by regulation” before the end period.

(14) **DEPENDENT CARE ASSISTANCE.**—Subparagraph (B) of section 129(d)(7) of the 1986 Code (as redesignated and amended by section 111B of this Act) is amended—

(A) by striking out “(within the meaning of section 414(q)(7))”, and

(B) by adding at the end thereof the following new sentence: “For purposes of this subparagraph, the term ‘compensation’ has the meaning given such term by section 414(q)(7), except that, under rules prescribed by the Secretary, an employer may elect to determine compensation on any other basis which does not discriminate in favor of highly compensated employees.”

(15) **REPORTING REQUIREMENTS.**—

(A) Section 6039D(d) of the 1986 Code is amended—

(i) by adding at the end thereof the following new paragraph:

“(3) **SPECIAL RULE FOR MULTIEMPLOYER PLANS.**—In the case of a multiemployer plan, the plan shall be required to provide any information required by this section which the Secretary determines, on the basis of the agreement between the plan and employer, is held by the plan (and not the employer)”, and

(ii) by inserting “AND SPECIAL RULES” after “DEFINITIONS” in the heading thereof.

(B) The amendments made by this paragraph shall apply to years beginning after 1984.

(b) **MODIFICATION TO DEFINITIONS OF HIGHLY COMPENSATED AND COMPENSATION AND TO SEPARATE LINE OF BUSINESS RULES.**—

(1) **DEFINITION OF HIGHLY COMPENSATED.**—Subsection (q) of section 414 of the 1986 Code is amended by adding at the end thereof the following new paragraph:

“(12) **SIMPLIFIED METHOD FOR DETERMINING HIGHLY COMPENSATED EMPLOYEES.**—

“(A) **IN GENERAL.**—If an election by the employer under this paragraph applies to any year, in determining whether an employee is a highly compensated employee for such year—

“(i) subparagraph (B) of paragraph (1) shall be applied by substituting ‘\$50,000’ for ‘\$75,000’, and

“(ii) subparagraph (C) of paragraph (1) shall not apply.

“(B) REQUIREMENT FOR ELECTION.—An election under this paragraph shall not apply to any year unless—

“(i) at all times during such year, the employer maintained significant business activities (and employed employees) in at least 2 significantly separate geographic areas, and

“(ii) the employer satisfies such other conditions as the Secretary may prescribe.”

(2) LINE OF BUSINESS REQUIREMENTS.—

(A) SAFE HARBOR RULE.—Paragraph (3) of section 414(r) of the 1986 Code is amended to read as follows:

“(3) SAFE HARBOR RULE.—

“(A) IN GENERAL.—The requirements of subparagraph (C) of paragraph (2) shall not apply to any line of business if the highly compensated employee percentage with respect to such line of business is—

“(i) not less than one-half, and

“(ii) not more than twice,

the percentage which highly compensated employees are of all employees of the employer. An employer shall be treated as meeting the requirements of clause (i) if at least 10 percent of all highly compensated employees of the employer perform services solely for such line of business.

“(B) DETERMINATION MAY BE BASED ON PRECEDING YEAR.—The requirements of subparagraph (A) shall be treated as met with respect to any line of business if such requirements were met with respect to such line of business for the preceding year and if—

“(i) no more than a de minimis number of employees were shifted to or from the line of business after the close of the preceding year, or

“(ii) the employees shifted to or from the line of business after the close of the preceding year contained a substantially proportional number of highly compensated employees.”

(B) SEPARATE OPERATING UNITS.—Section 89(g)(5) of the 1986 Code is amended by adding at the end thereof the following new sentence: “In applying section 414(r)(7) for purposes of this section, an operating unit shall be treated as in a separate geographic area from another unit if such units are at least 35 miles apart.”

(3) COMPENSATION FOR GROUP-LIFE INSURANCE PLANS.—

(A) Paragraph (4) of section 89(j) of the 1986 Code is amended by adding at the end thereof the following new subparagraph:

“(D) COMPENSATION.—For purposes of applying this paragraph—

“(i) IN GENERAL.—Compensation shall be determined on any basis determined by the employer which does not discriminate in favor of highly compensated employees.

“(ii) SPECIAL RULES FOR 1989 AND 1990.—In the case of testing years beginning in 1989 or 1990, the employer

may elect to treat base compensation as compensation.”

(B) Subparagraph (A) of section 89(j)(4) of the 1986 Code is amended by striking out “(within the meaning of section 414(s))”.

(c) **TRANSITIONAL PROVISIONS FOR PURPOSES OF SECTION 89.—**

26 USC 89 note.

(1) **TEMPORARY VALUATION RULES.**—In the case of testing years beginning before the later of January 1, 1991, or the date 1 year after the Secretary of the Treasury or his delegate first issues such valuation rules as are necessary to apply the provisions of section 89 of the 1986 Code to health plans (or if later the effective date of such rules)—

(A) Section 89(g)(3)(B) of the 1986 Code shall not apply.

(B)(i) Except as provided in clause (ii), the value of coverage under a health plan for purposes of section 89 of the 1986 Code shall be determined in substantially the same manner as costs under a health plan are determined under section 4980B(f)(4) of the 1986 Code.

(ii) For purposes of determining whether an employer meets the requirements of subsections (d), (e), and (f) of section 89 of the 1986 Code, value under clause (i) may be determined under any other reasonable method selected by the employer.

(2) **FORMER EMPLOYEES.**—The amendments made by section 1151 of the Reform Act shall not apply to former employees who separated from service with the employer before January 1, 1989 (and were not reemployed on or after such date), and such former employees shall not be taken into account in determining whether the requirements of section 89 of the 1986 Code are met with respect to other former employees. The preceding sentence shall not apply to the extent that—

(A) the value of employer-provided benefits provided to any such former employee exceeds the value of such benefits which were provided under the terms of the plan as in effect on December 31, 1988, or

(B) the employer-provided benefits provided to such former employees are modified so as to discriminate in favor of such former employees who are highly compensated employees.

Any excess value under the preceding sentence shall be determined without regard to any increase required by Federal law, regulation or rule or any increase which is the same for employees separating on or before December 31, 1988, and employees separating after such date and which does not discriminate in favor of highly compensated employees who separated from service after December 31, 1988.

(3) **WRITTEN PLAN REQUIREMENT.**—The requirements of section 89(k)(1)(A) of the 1986 Code shall be treated as met with respect to any testing year beginning in 1989, if—

(A) the plan is in writing before the close of such year,

(B) the employees had reasonable notice of the plan's essential features on or before the beginning of such year, and

(C) the provisions of the written plan apply for the entire year.

(4) **RULES TO BE PRESCRIBED BEFORE NOVEMBER 15, 1988.**—Not later than November 15, 1988, the Secretary of the Treasury or

his delegate shall issue such rules as may be necessary to carry out the provisions of section 89 of the 1986 Code.

26 USC 89 note.

(d) **EFFECTIVE DATES.**—

(1) **SUBSECTION (a).**—The amendments made by subsection (a) shall take effect as if included in the amendments made by section 1151 of the Tax Reform Act of 1986; except that the amendment made by subsection (a)(8) shall apply to testing years beginning after December 31, 1989.

(2) **SUBSECTION (b).**—The amendments made by subsection (b) shall apply to years beginning after December 31, 1986.

Subtitle D—Estate and Gift Taxes

SEC. 3031. ESTATE TAX VALUATION FREEZES.

(a) **DEEMED GIFT.**—

(1) **IN GENERAL.**—Paragraph (4) of section 2036(c) of the 1986 Code is amended to read as follows:

“(4) **TREATMENT OF CERTAIN TRANSFERS.**—

“(A) **IN GENERAL.**—For purposes of this subtitle, if, before the death of the original transferor—

“(i) the original transferor transfers all (or any portion of) the retained interest referred to in paragraph (1), or

“(ii) the original transferee transfers all (or any portion of) the transferred property referred to in paragraph (1) to a person who is not a member of the original transferor’s family,

the original transferor shall be treated as having made a transfer by gift of property to the original transferee equal to the paragraph (1) inclusion (or proportionate amount thereof). Proper adjustments shall be made in the amount treated as a gift by reason of the preceding sentence to take into account prior transfers to which this subparagraph applied and take into account any right of recovery (whether or not exercised) under section 2207B.

“(B) **COORDINATION WITH PARAGRAPH (1).**—In any case to which subparagraph (A) applies, nothing in paragraph (1) or section 2035(d)(2) shall require the inclusion of the transferred property (or proportionate amount thereof).

“(C) **SPECIAL RULE WHERE PROPERTY RETRANSFERRED.**—In the case of a transfer described in subparagraph (A)(ii) from the original transferee to the original transferor, the paragraph (1) inclusion (or proportion thereof) shall be reduced by the excess (if any) of—

“(i) the fair market value of the property so transferred, over

“(ii) the amount of the consideration paid by the original transferor in exchange for such property.

“(D) **DEFINITIONS.**—For purposes of this paragraph—

“(i) **ORIGINAL TRANSFEROR.**—The term ‘original transferor’ means the person making the transfer referred to in paragraph (1).

“(ii) **ORIGINAL TRANSFEREE.**—The term ‘original transferee’ means the person to whom the transfer referred to in paragraph (1) is made. Such term in-

cludes any member of the original transferor's family to whom the property is subsequently transferred.

“(iii) **PARAGRAPH (1) INCLUSION.**—The term ‘paragraph (1) inclusion’ means the amount which would have been included in the gross estate of the original transferor under subsection (a) by reason of paragraph (1) (determined without regard to sections 2032 and 2032A) if the original transferor died immediately before the transfer referred to in subparagraph (A). The amount determined under the preceding sentence shall be reduced by the amount (if any) of the taxable gift resulting from the transfer referred to in paragraph (1)(B).

“(iv) **TRANSFERS TO INCLUDE TERMINATIONS, ETC.**—Terminations, lapses, and other changes in any interest in property of the original transferor or original transferee shall be treated as transfers.

“(E) **CONTINUING INTEREST IN TRANSFERRED PROPERTY MAY NOT BE RETAINED.**—A transfer (to which subparagraph (A) would otherwise apply) shall not be taken into account under subparagraph (A) if the original transferor or the original transferee (as the case may be) retains a direct or indirect continuing interest in the property transferred in such transfer.”

(2) **CROSS REFERENCE.**—Subsection (d) of section 2501 of the 1986 Code is amended by adding at the end thereof the following:

“(3) For treatment of certain transfers related to estate tax valuation freezes as gifts to which this chapter applies, see section 2036(c)(4).”

(b) **TREATMENT OF CERTAIN GRANTOR RETAINED INCOME TRUSTS.**—Subsection (c) of section 2036 of the 1986 Code is amended by adding at the end thereof the following new paragraph:

“(6) **TREATMENT OF CERTAIN GRANTOR RETAINED INTEREST TRUSTS.**—

“(A) **IN GENERAL.**—For purposes of this subsection, any retention of a qualified trust income interest shall be disregarded and the property with respect to which such interest exists shall be treated as held by the transferor while such income interest continues.

“(B) **QUALIFIED TRUST INCOME INTEREST.**—For purposes of subparagraph (A), the term ‘qualified trust income interest’ means any right to receive amounts determined solely by reference to the income from property held in trust if—

“(i) such right is for a period not exceeding 10 years,

“(ii) the person holding such right transferred the property to the trust, and

“(iii) such person is not a trustee of such trust.”

(b) **EXCEPTIONS.**—Subsection (c) of section 2036 of the 1986 Code is amended by adding at the end thereof the following new paragraphs:

“(7) **EXCEPTIONS.**—

“(A) **IN GENERAL.**—Paragraph (1) shall not apply to a transaction solely by reason of 1 or more of the following:

“(i) The receipt (or retention) of qualified debt.

“(ii) Except as provided in regulations, the existence of an agreement for the sale or lease of goods or other

property to be used in the enterprise or the providing of services and—

“(I) the agreement is an arm’s length agreement for fair market value, and

“(II) the agreement does not otherwise involve any change in interests in the enterprise.

“(iii) An option or other agreement to buy or sell property at the fair market value of such property as of the time the option is (or the rights under the agreement are) exercised.

“(B) LIMITATIONS.—

“(i) SERVICES PERFORMED AFTER TRANSFER.—In the case of compensation for services performed after the transfer referred to in paragraph (1)(B), clause (ii) of subparagraph (A) shall not apply if such services were performed under an agreement providing for the performance of services over a period greater than 3 years after the date of the transfer. For purposes of the preceding sentence, the term of any agreement includes any period for which the agreement may be extended at the option of the service provider.

“(ii) AMOUNTS MUST NOT BE CONTINGENT ON PROFITS, ETC.—Clause (ii) of subparagraph (A) shall not apply to any amount determined (in whole or in part) by reference to gross receipts, income, profits, or similar items of the enterprise.

“(C) QUALIFIED DEBT.—For purposes of this paragraph, except as provided in subparagraph (D), the term ‘qualified debt’ means any indebtedness if—

“(i) such indebtedness—

“(I) unconditionally requires the payment of a sum certain in money in 1 or more fixed payments on specified dates, and

“(II) has a fixed maturity date not more than 15 years from the date of issue (or, in the case of indebtedness secured by real property, not more than 30 years from the date of issue).

“(ii) the only other amount payable under such indebtedness is interest determined at—

“(I) a fixed rate, or

“(II) a rate which bears a fixed relationship to a specified market interest rate,

(iii) the interest payment dates are fixed,

“(iv) such indebtedness is not by its terms subordinated to the claims of general creditors,

“(v) except in a case where such indebtedness is in default as to interest or principal, such indebtedness does not grant voting rights to the person to whom the debt is owed or place any limitation on the exercise of voting rights by others, and

“(vi) such indebtedness—

“(I) is not (directly or indirectly) convertible into an interest in the enterprise which would not be qualified debt, and

“(II) does not otherwise grant any right to acquire such an interest.

The requirement of clause (i)(I) that the principal be payable on 1 or more specified dates and the requirement of clause (i)(II) shall not apply to indebtedness payable on demand if such indebtedness is issued in return for cash to be used to meet normal business needs of the enterprise.

“(D) SPECIAL RULE FOR STARTUP DEBT.—

“(i) IN GENERAL.—For purposes of this paragraph, the term ‘qualified debt’ includes any qualified startup debt.

“(ii) QUALIFIED STARTUP DEBT.—For purposes of clause (i), the term ‘qualified startup debt’ means any indebtedness if—

“(I) such indebtedness unconditionally requires the payment of a sum certain in money,

“(II) such indebtedness was received in exchange for cash to be used in any enterprise involving the active conduct of a trade or business,

“(III) the person to whom the indebtedness is owed has not at any time (whether before, on, or after the exchange referred to in subclause (II)) transferred any property (including goodwill) which was not cash to the enterprise or transferred customers or other business opportunities to the enterprise,

“(IV) the person to whom the indebtedness is owed has not at any time (whether before, on, or after the exchange referred to in subclause (II)) held any interest in the enterprise (including an interest as an officer, director, or employee) which was not qualified startup debt,

“(V) any person who (but for subparagraph (A)(i)) would have been an original transferee (as defined in paragraph (4)(C)) participates in the active management (as defined in section 2032A(e)(12)) of the enterprise, and

“(VI) such indebtedness meets the requirements of clauses (v) and (vi) of subparagraph (C).

“(8) REGULATIONS.—The Secretary shall prescribe such regulations as may be necessary or appropriate to carry out the purposes of this subsection, including such regulations as may be necessary or appropriate to prevent avoidance of the purposes of this subsection through distributions or otherwise.”

(d) TREATMENT OF SPOUSE.—Subparagraph (C) of section 2036(c)(3) of the 1986 Code is amended by striking out “An individual” and inserting in lieu thereof “Except as provided in regulations, an individual”.

(e) CLARIFICATION OF RETENTION TEST.—Subparagraph (B) of section 2036(c)(1) of the 1986 Code is amended by striking out “while” and all that follows down through the comma at the end of such subparagraph and inserting in lieu thereof “while retaining an interest in the income of, or rights in, the enterprise.”

(f) RIGHT OF RECOVERY.—

(1) IN GENERAL.—Subchapter C of chapter 11 of the 1986 Code is amended by inserting after section 2207A the following new section:

"SEC. 2207B. RIGHT OF RECOVERY WHERE DECEDENT RETAINED INTEREST.

"(a) ESTATE TAX.—

"(1) IN GENERAL.—If any part of the gross estate on which tax has been paid consists of the value of property included in the gross estate by reason of section 2036 (relating to transfers with retained life estate), the decedent's estate shall be entitled to recover from the person receiving the property the amount which bears the same ratio to the total tax under this chapter which has been paid as—

"(A) the value of such property, bears to

"(B) the taxable estate.

"(2) DECEDENT MAY OTHERWISE DIRECT BY WILL.—Paragraph (1) shall not apply if the decedent otherwise directs in a provision of his will (or a revocable trust) specifically referring to this section.

"(b) GIFT TAX.—If for any calendar year tax is paid under chapter 12 with respect to any person by reason of property treated as transferred by such person under section 2036(c)(4), such person shall be entitled to recover from the original transferee (as defined in section 2036(c)(4)(C)(ii)) the amount which bears the same ratio to the total tax for such year under chapter 12 as—

"(1) the value of such property for purposes of chapter 12, bears to

"(2) the total amount of the taxable gifts for such year.

"(c) MORE THAN ONE RECIPIENT.—For purposes of this section, if there is more than 1 person receiving the property, the right of recovery shall be against each such person.

"(d) PENALTIES AND INTEREST.—In the case of penalties and interest attributable to the additional taxes described in subsections (a) and (b), rules similar to the rules of subsections (a), (b), and (c) shall apply.

"(e) NO RIGHT OF RECOVERY AGAINST CHARITABLE REMAINDER TRUSTS.—No person shall be entitled to recover any amount by reason of this section from a trust to which section 664 applies (determined without regard to this section)."

(2) CONFORMING AMENDMENT.—The table of sections for subchapter C of chapter 11 of the 1986 Code is amended by inserting after the item relating to section 2207A the following new item:

"Sec. 2207B. Right of recovery where decedent retained interest."

(g) TREATMENT OF CONSIDERATION.—

(1) Paragraph (2) of section 2036(c) of the 1986 Code is amended to read as follows:

"(2) SPECIAL RULES FOR CONSIDERATION FURNISHED BY FAMILY MEMBERS.—

"(A) IN GENERAL.—The exception contained in subsection (a) for a bona fide sale shall not apply to a transfer described in paragraph (1) if such transfer is to a member of the transferor's family.

"(B) TREATMENT OF CONSIDERATION.—

(i) IN GENERAL.—In the case of a transfer described in paragraph (1), if—

"(I) a member of the transferor's family provides consideration in money or money's worth for such member's interest in the enterprise, and

“(II) it is established to the satisfaction of the Secretary that such consideration originally belonged to such member and was never received or acquired (directly or indirectly) by such member from the transferor for less than full and adequate consideration in money or money’s worth,

paragraph (1) shall not apply to the applicable fraction of the portion of the enterprise which would (but for this subparagraph) have been included in the gross estate of the transferor by reason of this subsection (determined without regard to any reduction under paragraph (5) for the value of the retained interest).

“(ii) **APPLICABLE FRACTION.**—For purposes of clause (i), the applicable fraction is a fraction—

“(I) the numerator of which is the amount of the consideration referred to in clause (i), and

“(II) the denominator of which is the value of the portion referred to in clause (i) immediately after the transfer described in paragraph (1).

“(iii) **SECTION 2043 NOT TO APPLY.**—The provisions of this subparagraph shall be in lieu of any adjustment under section 2043.”

(2) Paragraph (5) of section 2036(c) of the 1986 Code is amended to read as follows:

“(5) **ADJUSTMENTS.**—Appropriate adjustments shall be made in the amount included in the gross estate by reason of this subsection for the value of the retained interest, extraordinary distributions, and changes in the capital structure of the enterprise after the transfer described in paragraph (1).

(h) **EFFECTIVE DATE.**—

(1) **IN GENERAL.**—Except as provided in this subsection, any amendment made by this section shall take effect as if included in the provisions of the Revenue Act of 1987 to which such amendment relates.

(2) **SUBSECTION (a).**—The amendments made by subsection (a) shall apply in cases where the transfer referred to in section 2036(c)(1)(B) of the 1986 Code is on or after June 21, 1988.

(3) **SUBSECTION (f).**—If an amount is included in the gross estate of a decedent under section 2036 of the 1986 Code other than solely by reason of section 2036(c) of the 1986 Code, the amendments made by subsection (f) shall apply to such amount only with respect to property transferred after the date of the enactment of this Act.

(4) **CORRECTION PERIOD.**—If section 2036(c)(1) of the 1986 Code would (but for this paragraph) apply to any interest arising from a transaction entered into during the period beginning after December 17, 1987, and ending before January 1, 1990, such section shall not apply to such interest if—

(A) during such period, such actions are taken as are necessary to have such section 2036(c)(1) not apply to such transaction (and any such interest), or

(B) the original transferor and his spouse on January 1, 1990 (or, if earlier, the date of the original transferor’s death), does not hold any interest in the enterprise involved.

26 USC 2036
note.

(5) **CLARIFICATION OF EFFECTIVE DATE.**—For purposes of section 10402(b) of the Revenue Act of 1987, with respect to property transferred on or before December 17, 1987—

(A) any failure to exercise a right of conversion,

(B) any failure to pay dividends, and

(c) failures to exercise other rights specified in regulations,

shall not be treated as a subsequent transfer.

Subtitle E—Indian Fishing Rights

SEC. 3041. FEDERAL TAX TREATMENT OF INCOME DERIVED BY INDIANS FROM EXERCISE OF FISHING RIGHTS SECURED BY TREATY, ETC.

(a) **GENERAL RULES.**—Subchapter C of chapter 80 of the 1986 Code (relating to provisions affecting more than one subtitle) is amended by adding at the end thereof the following new section:

“SEC. 7873. INCOME DERIVED BY INDIANS FROM EXERCISE OF FISHING RIGHTS.

“(a) **IN GENERAL.**—

“(1) **INCOME AND SELF-EMPLOYMENT TAXES.**—No tax shall be imposed by subtitle A on income derived—

“(A) by a member of an Indian tribe directly or through a qualified Indian entity, or

“(B) by a qualified Indian entity, from a fishing rights-related activity of such tribe.

“(2) **EMPLOYMENT TAXES.**—No tax shall be imposed by subtitle C on remuneration paid for services performed in a fishing rights-related activity of an Indian tribe by a member of such tribe for another member of such tribe or for a qualified Indian entity.

“(b) **DEFINITIONS.**—For purposes of this section—

“(1) **FISHING RIGHTS-RELATED ACTIVITY.**—The term ‘fishing rights-related activity’ means, with respect to an Indian tribe, any activity directly related to harvesting, processing, or transporting fish harvested in the exercise of a recognized fishing right of such tribe or to selling such fish but only if substantially all of such harvesting was performed by members of such tribe.

“(2) **RECOGNIZED FISHING RIGHTS.**—The term ‘recognized fishing rights’ means, with respect to an Indian tribe, fishing rights secured as of March 17, 1988, by a treaty between such tribe and the United States or by an Executive order or an Act of Congress.

“(3) **QUALIFIED INDIAN ENTITY.**—

“(A) **IN GENERAL.**—The term ‘qualified Indian entity’ means, with respect to an Indian tribe, any entity if—

“(i) such entity is engaged in a fishing rights-related activity of such tribe,

“(ii) all of the equity interests in the entity are owned by qualified Indian tribes, members of such tribes, or their spouses,

“(iii) except as provided in regulations, in the case of an entity which engages to any extent in any substantial processing or transporting of fish, 90 percent or

more of the annual gross receipts of the entity is derived from fishing rights-related activities of one or more qualified Indian tribes each of which owns at least 10 percent of the equity interests in the entity, and

“(iv) substantially all of the management functions of the entity are performed by members of qualified Indian tribes.

For purposes of clause (iii), equity interests owned by a member (or the spouse of a member) of a qualified Indian tribe shall be treated as owned by the tribe.

“(B) QUALIFIED INDIAN TRIBE.—For purposes of subparagraph (A), an Indian tribe is a qualified Indian tribe with respect to an entity if such entity is engaged in a fishing rights-related activity of such tribe.

“(c) SPECIAL RULES.—

“(1) DISTRIBUTIONS FROM QUALIFIED INDIAN ENTITY.—For purposes of this section, any distribution with respect to an equity interest in a qualified Indian entity of an Indian tribe to a member of such tribe shall be treated as derived by such member from a fishing rights-related activity of such tribe to the extent such distribution is attributable to income derived by such entity from a fishing rights-related activity of such tribe.

“(2) DE MINIMIS UNRELATED AMOUNTS MAY BE EXCLUDED.—If, but for this paragraph, all but a de minimis amount—

“(A) derived by a qualified Indian tribal entity, or by an individual through such an entity, is entitled to the benefits of paragraph (1) of subsection (a), or

“(B) paid to an individual for services is entitled to the benefits of paragraph (2) of subsection (a),

then the entire amount shall be entitled to the benefits of such paragraph.”

(b) CLERICAL AMENDMENT.—The table of sections for such subchapter C is amended by adding at the end thereof the following new item:

“Sec. 7873. Income derived by Indians from exercise of fishing rights.”

SEC. 3042. STATE TAX TREATMENT OF INCOME DERIVED BY INDIANS FROM EXERCISE OF FISHING RIGHTS SECURED BY TREATY, ETC.

Section 2079 of the Revised Statutes (25 U.S.C. 71) is amended by adding at the end thereof the following new sentence: “Such treaties, and any Executive orders and Acts of Congress under which the rights of any Indian tribe to fish are secured, shall be construed to prohibit (in addition to any other prohibition) the imposition under any law of a State or political subdivision thereof of any tax on any income derived from the exercise of rights to fish secured by such treaty, Executive order, or Act of Congress if section 7873 of the Internal Revenue Code of 1986 does not permit a like Federal tax to be imposed on such income.”

SEC. 3043. CONFORMING AMENDMENTS RELATING TO COVERAGE UNDER OLD-AGE, SURVIVORS, AND DISABILITY INSURANCE PROGRAM.

(a) EXCLUSION FROM WAGES OF INCOME DERIVED BY INDIANS FROM EXERCISE OF FISHING RIGHTS.—Section 209 of the Social Security Act (42 U.S.C. 409) is amended—

- (1) in subsection (r), by striking out "or" at the end;
- (2) in subsection (s), by striking out the period and inserting in lieu thereof "; or"; and
- (3) by inserting after subsection (s) the following new subsection:

"(t) Remuneration consisting of income excluded from taxation under section 7873 of the Internal Revenue Code of 1986 (relating to income derived by Indians from exercise of fishing rights)."

(b) EXCLUSION FROM NET EARNINGS FROM SELF-EMPLOYMENT OF INCOME DERIVED BY INDIANS FROM EXERCISE OF FISHING RIGHTS.—Section 211(a) of such Act (42 U.S.C. 411(a)) is amended—

- (1) in paragraph (12), by striking out "and" at the end;
- (2) in paragraph (13), by striking out the period and inserting in lieu thereof "; and"; and
- (3) by inserting after paragraph (13) the following new paragraph:

"(14) There shall be excluded income excluded from taxation under section 7873 of the Internal Revenue Code of 1986 (relating to income derived by Indians from exercise of fishing rights)."

(c) CROSS-REFERENCES IN SECA AND FICA TO APPLICABLE INDIAN FISHING RIGHTS PROVISIONS.—

(1) SECA.—Subsection (a) of section 1402 of the 1986 Code (relating to net earnings from self-employment) is amended by striking out "and" at the end of paragraph (13), by striking out the period at the end of paragraph (14) and inserting in lieu thereof "; and", and by inserting after paragraph (14) the following new paragraph:

"(15) in the case of a member of an Indian tribe, the special rules of section 7873 (relating to income derived by Indians from exercise of fishing rights) shall apply."

(2) FICA.—Subsection (a) of section 3121 of the 1986 Code (relating to wages) is amended by striking out "or" at the end of paragraph (19), by striking out the period at the end of paragraph (20) and inserting in lieu thereof "; or", and by inserting after paragraph (20) the following new paragraph:

"(21) in the case of a member of an Indian tribe, any remuneration on which no tax is imposed by this chapter by reason of section 7873 (relating to income derived by Indians from exercise of fishing rights)."

26 USC 7873
note.

SEC. 3044. EFFECTIVE DATE; NO INFERENCE CREATED.

(a) **EFFECTIVE DATE.**—The amendments made by this subtitle shall apply to all periods beginning before, on, or after the date of the enactment of this Act.

(b) **NO INFERENCE CREATED.**—Nothing in the amendments made by this subtitle shall create any inference as to the existence or non-existence or scope of any exemption from tax for income derived from fishing rights secured as of March 17, 1988, by any treaty, law, or Executive Order.

TITLE IV—EXTENSIONS AND MODIFICATIONS OF EXPIRING TAX PROVISIONS

SEC. 4001. EXTENSION AND MODIFICATION OF EXCLUSION FOR EMPLOYER-PROVIDED EDUCATIONAL ASSISTANCE.

(a) **EXTENSION.**—Subsection (d) of section 127 of the 1986 Code (relating to educational assistance programs) is amended by striking out “December 31, 1987” and inserting in lieu thereof “December 31, 1988”.

(b) **RESTRICTIONS RELATING TO EDUCATION AT THE GRADUATE LEVEL.**—

(1) **IN GENERAL.**—Paragraph (1) of section 127(c) of the 1986 Code is amended by adding at the end thereof the following new sentence: “The term ‘educational assistance’ also does not include any payment for, or the provision of any benefits with respect to, any graduate level course of a kind normally taken by an individual pursuing a program leading to a law, business, medical, or other advanced academic or professional degree.”

(2) **SPECIAL RULE FOR TEACHING AND RESEARCH ASSISTANTS.**—Subsection (d) of section 117 of the 1986 Code is amended by adding at the end thereof the following new paragraph:

“(5) **SPECIAL RULES FOR TEACHING AND RESEARCH ASSISTANTS.**—In the case of the education of an individual who is a graduate student at an educational organization described in section 170(b)(1)(A)(ii) and who is engaged in teaching or research activities for such organization, paragraph (2) shall be applied as if it did not contain the phrase ‘(below the graduate level)’.”

(c) **EFFECTIVE DATES.**—The amendments made by this section shall apply to taxable years beginning after December 31, 1987.

26 USC 117 note.

SEC. 4002. EXTENSION AND MODIFICATION OF EXCLUSION OF AMOUNTS RECEIVED UNDER GROUP LEGAL SERVICES PLANS.

(a) **EXTENSION.**—Section 120(e) of the 1986 Code is amended by striking out “1987” and inserting in lieu thereof “1988”.

(b) **LIMITATION ON VALUE OF INSURANCE PROTECTION WHICH MAY BE EXCLUDED.**—

(1) **IN GENERAL.**—Section 120(a) of the 1986 Code is amended by adding at the end thereof the following new sentence: “No exclusion shall be allowed under this section with respect to an individual for any taxable year to the extent that the value of insurance (whether through an insurer or self-insurance) against legal costs incurred by the individual (or his spouse or dependents) provided under a qualified group legal services plan exceeds \$70.”

(2) **CONFORMING AMENDMENT.**—Subparagraph (A) of section 125(e)(2) of the 1986 Code is amended by inserting “or any insurance under a qualified group legal services plan the value of which is so includable only because it exceeds the limitation of section 120(a)” after “section 79”.

(c) **EFFECTIVE DATE.**—The amendments made by this section shall apply to taxable years ending after December 31, 1987.

26 USC 120 note.

SEC. 4003. CARRYOVER OF POST-1987 LOW-INCOME HOUSING CREDIT DOLLAR AMOUNTS PERMITTED.

(a) **IN GENERAL.**—Section 42(h)(1) of the 1986 Code (relating to housing credit dollar amount may not be carried over, etc.), as

amended by section 1002(l)(14)(A) of this Act, is amended by adding at the end thereof the following new subparagraph:

“(E) EXCEPTION WHERE 10 PERCENT OF COST INCURRED.—

“(i) IN GENERAL.—An allocation meets the requirements of this subparagraph if such allocation is made with respect to a qualified building which is placed in service not later than the close of the second calendar year following the calendar year in which the allocation is made.

“(ii) QUALIFIED BUILDING.—For purposes of clause (i), the term ‘qualified building’ means any building which is part of a project if the taxpayer’s basis in such project (as of the close of the calendar year in which the allocation is made) is more than 10 percent of the taxpayer’s reasonably expected basis in such project (as of the close of the second calendar year referred to in clause (i)). Such term does not include any existing building unless a credit is allowable under subsection (e) for rehabilitation expenditures paid or incurred by the taxpayer with respect to such building for a taxable year ending during the second calendar year referred to in clause (i) or the prior taxable year.”

(b) CONFORMING AMENDMENTS.—

(1) Section 42(h)(1)(B) of the 1986 Code, as amended by section 1002 of this Act, is amended by striking out “(C) or (D)” and inserting in lieu thereof “(C), (D), or (E)”.

26 USC 469 note.

(2) Paragraph (3) of section 501(c) of the Reform Act is hereby repealed.

(3) Subsection (n) of section 42 of the 1986 Code, as amended by title I of this Act, is amended to read as follows:

“(n) TERMINATION.—The State housing credit ceiling under subsection (h) shall be zero for any calendar year after 1989 and subsection (h)(4) shall not apply to any building placed in service after 1989.”

26 USC 42 note.

(c) EFFECTIVE DATE.—The amendments made by this section shall apply to amounts allocated in calendar years after 1987.

SEC. 4004. SIMPLIFICATION OF RULE WHERE PARTNERSHIP HOLDS QUALIFIED LOW-INCOME BUILDING.

(a) IN GENERAL.—Subparagraph (B) of section 42(j)(5) of the 1986 Code, as amended by title I of this Act, is amended to read as follows:

“(B) PARTNERSHIPS TO WHICH PARAGRAPH APPLIES.—This paragraph shall apply to any partnership which has 35 or more partners unless the partnership elects not to have this paragraph apply.”

26 USC 42 note.

(b) EFFECTIVE DATES.—

(1) IN GENERAL.—The amendment made by subsection (a) shall take effect as if included in the amendments made by section 252 of the Reform Act.

(2) PERIOD FOR ELECTION.—The period for electing not to have section 42(j)(5) of the 1986 Code apply to any partnership shall not expire before the date which is 6 months after the date of the enactment of this Act.

SEC. 4005. PROVISIONS RELATING TO MORTGAGE REVENUE BONDS AND MORTGAGE CREDIT CERTIFICATES.**(a) EXTENSION OF AUTHORITY TO ISSUE BONDS AND CERTIFICATES.—**

(1) Subparagraph (B) of section 143(a)(1) of the 1986 Code (relating to termination) is amended by striking out "December 31, 1988" each place it appears and inserting in lieu thereof "December 31, 1989".

(2) Subsection (h) of section 25 of the 1986 Code (relating to credit for interest on certain home mortgages), as amended by section 1013(a)(26) of this Act, is amended by striking out "1988" and inserting in lieu thereof "1989".

(b) CALCULATION OF INCOME LIMITS FOR QUALIFIED MORTGAGE BOND FINANCED HOMES IN HIGH HOUSING COST AREAS.—Section 143(f) of the 1986 Code (relating to income requirements) is amended by adding at the end thereof the following new paragraph:

"(5) ADJUSTMENT OF INCOME REQUIREMENT BASED ON RELATION OF HIGH HOUSING COSTS TO INCOME.—

"(A) IN GENERAL.—If the residence (for which financing is provided under the issue) is located in a high housing cost area and the limitation determined under this paragraph is greater than the limitation otherwise applicable under paragraph (1), there shall be substituted for the income limitation in paragraph (1), a limitation equal to the percentage determined under subparagraph (B) of the area median gross income for such area.

"(B) INCOME REQUIREMENTS FOR RESIDENCES IN HIGH HOUSING COST AREA.—The percentage determined under this subparagraph for a residence located in a high housing cost area is the percentage (not greater than 140 percent) equal to the product of—

"(I) 115 percent, and

"(II) the amount by which the housing cost/income ratio for such area exceeds 0.2.

"(C) HIGH HOUSING COST AREAS.—For purposes of this paragraph, the term 'high housing cost area' means any statistical area for which the housing cost/income ratio is greater than 1.2.

"(D) HOUSING COST/INCOME RATIO.—For purposes of this paragraph—

"(i) IN GENERAL.—The term 'housing cost/income ratio' means, with respect to any statistical area, the number determined by dividing—

"(I) the applicable housing price ratio for such area, by

"(II) the ratio which the area median gross income for such area bears to the median gross income for the United States.

"(ii) APPLICABLE HOUSING PRICE RATIO.—For purposes of clause (i), the applicable housing price ratio for any area is the new housing price ratio or the existing housing price ratio, whichever results in the housing cost/income ratio being closer to 1.

"(iii) NEW HOUSING PRICE RATIO.—The new housing price ratio for any area is the ratio which—

“(I) the average area purchase price (as defined in subsection (e)(2)) for residences described in subsection (e)(3)(A) which are located in such area bears to

“(II) the average purchase price (determined in accordance with the principles of subsection (e)(2)) for residences so described which are located in the United States.

“(iv) EXISTING HOUSING PRICE RATIO.—The existing housing price ratio for any area is the ratio determined in accordance with clause (iii) but with respect to residences described in subsection (e)(3)(B).”

(c) DETERMINATIONS OF FAMILY INCOME TO BE BASED ON FAMILY SIZE.—Subsection (f) of section 143 of the 1986 Code (relating to income requirements) is further amended by adding at the end thereof the following new paragraph:

“(6) ADJUSTMENT TO INCOME REQUIREMENTS BASED ON FAMILY SIZE.—In the case of a mortgagor having a family of fewer than 3 individuals, the preceding provisions of this subsection shall be applied by substituting—

“(A) ‘100 percent’ for ‘115 percent’ each place it appears, and

“(B) ‘120 percent’ for ‘140 percent’ each place it appears.”

(d) QUALIFIED MORTGAGE BONDS SUBJECT TO ARBITRAGE REBATE RULES APPLICABLE TO OTHER TAX-EXEMPT BONDS.—

(1) Paragraph (1) of section 143(g) of the 1986 Code (relating to requirements related to arbitrage) is amended—

(A) by striking out “paragraphs (2) and (3) of this subsection” and inserting in lieu thereof “paragraph (2) of this subsection and, in the case of an issue described in subsection (b)(1), such issue also meets the requirements of paragraph (3) of this subsection”, and

(B) by striking out “(other than subsection (f) thereof)”.

(2) Paragraph (1) of section 148(f) of the 1986 Code is amended by striking out “qualified mortgage bond or”.

(e) LOANS PROVIDED THROUGH QUALIFIED MORTGAGE ISSUE MUST ORIGINATE WITHIN 42 MONTHS OF DATE OF ISSUE.—Paragraph (2) of section 143(a) of the 1986 Code (defining qualified mortgage issue) is amended by adding at the end thereof the following new subparagraph:

“(D) PROCEEDS MUST BE USED WITHIN 42 MONTHS OF DATE OF ISSUANCE.—

“(i) IN GENERAL.—Except as otherwise provided in this subparagraph, an issue shall not meet the requirement of subparagraph (A)(i) unless—

“(I) all proceeds of the issue required to be used to finance owner-occupied residences are so used within the 42-month period beginning on the date of issuance of the issue (or, in the case of a refunding bond, within the 42-month period beginning on the date of issuance of the original bond) or, to the extent not so used within such period, are used within such period to redeem bonds which are part of such issue, and

“(II) no portion of the proceeds of the issue are used to make or finance any loan (other than a loan which is a nonpurpose investment within the

meaning of section 148(f)(6)(A)) after the close of such period.

“(ii) EXCEPTION.—Clause (i) (and clause (iv) of subparagraph (A)) shall not be construed to require amounts of less than \$250,000 to be used to redeem bonds. The Secretary may by regulation treat related issues as 1 issue for purposes of the preceding sentence.”

(f) REPAYMENTS OF FINANCING PROVIDED BY A QUALIFIED MORTGAGE ISSUE MUST BE USED TO REDEEM BONDS.—Subparagraph (A) of section 143(a)(2) of the 1986 Code is amended by striking out “and” at the end of clause (ii), by striking out the period at the end of clause (iii) and inserting in lieu thereof “, and”, and by adding at the end thereof the following:

“(iv) except as provided in subparagraph (D)(ii), repayments of principal on financing provided by the issue are used not later than the close of the 1st semiannual period beginning after the date the prepayment (or complete repayment) is received to redeem bonds which are part of such issue.

Clause (iv) shall not apply to amounts received within 10 years after the date of issuance of the issue (or, in the case of refunding bond, the date of issuance of the original bond).”

(g) RECAPTURE OF PORTION OF FEDERAL SUBSIDY FROM USE OF MORTGAGE BONDS AND MORTGAGE CREDIT CERTIFICATES.—

(1) IN GENERAL.—Section 143 of the 1986 Code (relating to mortgage revenue bonds) is amended by adding at the end thereof the following new subsection:

“(m) RECAPTURE OF PORTION OF FEDERAL SUBSIDY FROM USE OF QUALIFIED MORTGAGE BONDS AND MORTGAGE CREDIT CERTIFICATES.—

“(1) IN GENERAL.—If, during the taxable year, any taxpayer disposes of an interest in a residence with respect to which there is or was any federally-subsidized indebtedness for the payment of which the taxpayer was liable in whole or part, then the taxpayer’s tax imposed by this chapter for such taxable year shall be increased by the recapture amount with respect to such indebtedness.

“(2) EXCEPTIONS.—Paragraph (1) shall not apply to—

“(A) any disposition by reason of death, and

“(B) any disposition which is more than 10 years after the testing date.

“(3) FEDERALLY-SUBSIDIZED INDEBTEDNESS.—For purposes of this subsection—

“(A) IN GENERAL.—The term ‘federally-subsidized indebtedness’ means any indebtedness if—

“(i) financing for the indebtedness was provided in whole or part from the proceeds of any tax-exempt qualified mortgage bond, or

“(ii) any credit was allowed under section 25 (relating to interest on certain home mortgages) to the taxpayer for interest paid or incurred on such indebtedness.

“(B) EXCEPTION FOR HOME IMPROVEMENT LOANS.—Such term shall not include any indebtedness to the extent such indebtedness is federally-subsidized indebtedness solely by reason of being a qualified home improvement loan (as defined in subsection (k)(4)).

“(4) RECAPTURE AMOUNT.—For purposes of this subsection—

“(A) IN GENERAL.—The recapture amount with respect to any indebtedness is the amount equal to the product of—

“(i) the federally-subsidized amount with respect to the indebtedness, and

“(ii) the holding period percentage.

“(B) FEDERALLY-SUBSIDIZED AMOUNT.—The federally-subsidized amount with respect to any indebtedness is the amount equal to 6.25 percent of the highest principal amount of the indebtedness for which the taxpayer was liable.

“(C) HOLDING PERIOD PERCENTAGE.—

“(i) DISPOSITIONS DURING 1ST 5 YEARS.—If the disposition of the taxpayer’s interest in the residence occurs during the 5-year period beginning on the testing date, the holding period percentage is the percentage determined by dividing the number of full months during which the requirements of subparagraph (D) were met by 60.

“(ii) DISPOSITIONS DURING 2D 5 YEARS.—If the disposition of the taxpayer’s interest in the residence occurs during the 5-year period following the 5-year period described in clause (i), the holding period percentage is the percentage determined by dividing—

“(I) the excess of 120 over the number of full months during which such requirements were met by

“(II) 60.

“(iii) RETIREMENTS OF INDEBTEDNESS.—If the federally-subsidized indebtedness is completely repaid during any month of the 10-year period beginning on the testing date, the holding period percentage for succeeding months shall be determined by reducing ratably over the remainder of such period (or, if lesser, 5 years) the holding period percentage which would have been determined under this subparagraph had the taxpayer disposed of his interest in the residence on the date of the repayment.

“(D) TESTING DATE.—The term ‘testing date’ means the earliest date on which all of the following requirements are met:

“(i) The indebtedness is federally-subsidized indebtedness.

“(ii) The taxpayer is liable in whole or part for payment of the indebtedness.

“(5) REDUCTION OF RECAPTURE AMOUNT IF TAXPAYER MEETS CERTAIN INCOME LIMITATIONS.—

“(A) IN GENERAL.—The recapture amount which would (but for this paragraph) apply with respect to any disposition during a taxable year shall be reduced (but not below zero) by 2 percent of such amount for each \$100 by which adjusted qualifying income exceeds the modified adjusted gross income of the taxpayer for such year.

“(B) ADJUSTED QUALIFYING INCOME.—For purposes of this paragraph, the term ‘adjusted qualifying income’ means the amount equal to the sum of—

“(i) \$5,000, plus

“(ii) the product of—

“(I) the highest family income which (as of the date the financing was provided) would have met the requirement of subsection (f) with respect to the residence, and

“(II) the percentage equal to the sum of 100 percent plus 5 percent for each full year during the period beginning on such date and ending on the date of the disposition.

For purposes of clause (ii)(I), highest family income shall be determined without regard to subsection (f)(3)(A) and on the basis of the number of members of the taxpayer's family as of the date of the disposition.

“(C) MODIFIED ADJUSTED GROSS INCOME.—For purposes of this paragraph, the term ‘modified adjusted gross income’ means adjusted gross income—

“(i) increased by the amount of interest received or accrued by the taxpayer during the taxable year which is excluded from gross income under section 103, and

“(ii) decreased by the amount of gain (if any) included in gross income of the taxpayer by reason of the disposition to which this subsection applies.

“(6) LIMITATION ON RECAPTURE AMOUNT BASED ON GAIN REALIZED.—

“(A) IN GENERAL.—In no event shall the recapture amount of the taxpayer with respect to any indebtedness exceed 50 percent of the gain (if any) on the disposition of the taxpayer's interest in the residence. For purposes of the preceding sentence, gain shall be taken into account whether or not recognized, and the adjusted basis of the taxpayer's interest in the residence shall be determined without regard to sections 1033(b) and 1034(e) for purposes of determining gain.

“(B) DISPOSITIONS OTHER THAN SALES, EXCHANGES, AND INVOLUNTARY CONVERSIONS.—In the case of a disposition other than a sale, exchange, or involuntary conversion, gain shall be determined as if the interest had been sold for its fair market value.

“(C) INVOLUNTARY CONVERSIONS RESULTING FROM CASUALTIES.—In the case of property which (as a result of its destruction in whole or in part by fire, storm, or other casualty) is compulsorily or involuntarily converted, paragraph (1) shall not apply to such conversion if the taxpayer purchases (during the period specified in section 1033(a)(2)(B)) property for use as his principal residence on the site of the converted property. For purposes of subparagraph (A), the adjusted basis of the taxpayer in the residence shall not be adjusted for any gain or loss on a conversion to which this subparagraph applies.

“(7) ISSUER TO INFORM MORTGAGOR OF FEDERALLY-SUBSIDIZED AMOUNT AND FAMILY INCOME LIMITS.—The issuer of the issue which provided the federally-subsidized indebtedness to the mortgagor shall—

“(A) at the time of settlement, provide a written statement informing the mortgagor of the potential recapture under this subsection, and

“(B) not later than 90 days after the date such indebtedness is provided, provide a written statement to the mortgagor specifying—

“(i) the federally-subsidized amount with respect to such indebtedness, and

“(ii) the amounts described in paragraph (5)(B)(ii) for each category of family size for each year of the 10-year period beginning on the date the financing was provided.

“(8) SPECIAL RULES.—

“(A) NO BASIS ADJUSTMENT.—No adjustment shall be made to the basis of any property for the increase in tax under this subsection.

“(B) SPECIAL RULE WHERE 2 OR MORE PERSONS HOLD INTERESTS IN RESIDENCE.—Except as provided in subparagraph (C) and in regulations prescribed by the Secretary, if 2 or more persons hold interests in any residence and are jointly liable for the federally-subsidized indebtedness, the recapture amount shall be determined separately with respect to their respective interests in the residence.

“(C) TRANSFERS TO SPOUSES AND FORMER SPOUSES.—Paragraph (1) shall not apply to any transfer on which no gain or loss is recognized under section 1041. In any such case, the transferee shall be treated under this subsection in the same manner as the transferor would have been treated had such transfer not occurred.

“(D) REGULATIONS.—The Secretary shall prescribe such regulations as may be necessary or appropriate to carry out this subsection, including regulations dealing with dispositions of partial interests in a residence.”

(2) ISSUER INFORMATION REQUIREMENT.—

(A) Subparagraph (A) of section 143(a)(2) of the 1986 Code is amended by striking out “and (i)” and inserting in lieu thereof “(i), and (m)(7)”.

(B) Subparagraph (C) of section 143(a)(2) of the 1986 Code is amended by striking out “and (h)” and inserting in lieu thereof “, (h), and (m)(7)”.

(3) BROKER REPORTING.—Subsection (e) of section 6045 of the 1986 Code is amended by adding at the end thereof the following new paragraph:

“(3) WHETHER SELLER'S FINANCING WAS FEDERALLY-SUBSIDIZED.—In the case of a real estate transaction involving a residence, the real estate broker shall specify on the return under subsection (a) and the statement under subsection (b) whether or not the financing (if any) of the seller was federally-subsidized indebtedness (as defined in section 143(m)(3)).”

(4) NO CREDITS AGAINST TAX.—Paragraph (2) of section 26(b) of the 1986 Code (relating to limitation based on tax liability; definition of tax liability), as amended by title I of this Act, is amended by striking out “and” at the end of subparagraph (K), by striking out the period at the end of subparagraph (L) and inserting in lieu thereof “, and”, and by adding at the end thereof the following new subparagraph:

“(M) section 143(m) (relating to recapture of portion of federal subsidy from use of mortgage bonds and mortgage credit certificates).”

(5) **RECAPTURE TAX NOT INCLUDED IN ESTIMATED TAXES.**—Paragraph (1) of section 6654(f) of the 1986 Code (relating to failure by individual to pay estimated income tax) is amended by inserting “(other than any increase in such tax by reason of section 143(m))” after “chapter 1”.

(6) **AUTHORITY TO CHANGE PREPAYMENT ASSUMPTIONS FOR ARBITRAGE RESTRICTIONS.**—Clause (iv) of section 143(g)(2)(B) of the 1986 Code is amended by adding at the end thereof the following new sentence:

“The Secretary may by regulation adjust the mortgage prepayment rate otherwise used in determining the effective rate of interest to the extent the Secretary determines that such an adjustment is appropriate by reason of the impact of subsection (m).”

(7) **CROSS REFERENCE.**—Section 25 of the 1986 Code is amended by adding at the end thereof the following new subsection:

“(j) **RECAPTURE OF PORTION OF FEDERAL SUBSIDY FROM USE OF MORTGAGE CREDIT CERTIFICATES.**—

“For provisions increasing the tax imposed by this chapter to recapture a portion of the Federal subsidy from the use of mortgage credit certificates, see section 143(m).”

(h) **EFFECTIVE DATES.**—

26 USC 143 note.

(1) **IN GENERAL.**—Except as otherwise provided in this subsection, the amendments made by this section shall apply to bonds issued, and nonissued bond amounts elected, after December 31, 1988.

(2) **SPECIAL RULES RELATING TO CERTAIN REQUIREMENTS AND REFUNDING BONDS.**—In the case of a bond issued to refund (or which is part of a series of bonds issued to refund) a bond issued before January 1, 1989—

(A) the amendments made by subsections (b) and (c) shall apply to financing provided after the date of issuance of the refunding issue, and

(B) the amendment made by subsection (f) shall apply to payments (including on loans made before such date of issuance) received on or after such date of issuance.

(3) **SUBSECTION (g).**—

(A) **IN GENERAL.**—Except as provided in subparagraph (B), the amendments made by subsection (g) shall apply to financing provided, and mortgage credit certificates issued, after December 31, 1990.

(B) **EXCEPTION.**—The amendments made by subsection (g) shall not apply to financing provided pursuant to a binding contract (entered into before June 23, 1988) with a homebuilder, lender, or mortgagor if the bonds (the proceeds of which are used to provide such financing) are issued—

(i) before June 23, 1988, or

(ii) before August 1, 1988, pursuant to a written application (made before July 1, 1988) for State bond volume authority.

(i) **STUDY OF RECAPTURE PROVISIONS.**—The Comptroller General of the United States shall conduct a study of section 143(m) of the 1986 Code (as added by this section) and of alternatives to accomplish the purposes of such section. A report of such study shall be submitted not later than July 1, 1990, to the Committee on Ways and Means of the House of Representatives and the Committee on Finance of the Senate.

26 USC 143 note.

Reports.

SEC. 4006. EXTENSION OF CERTAIN BUSINESS ENERGY CREDITS.

Each of the following provisions in the table under section 46(b)(2)(A) of the 1986 Code are amended by striking out "December 31, 1988" and inserting in lieu thereof "December 31, 1989":

- (1) The item relating to the 10 percent credit in clause (viii).
- (2) The item relating to the 10 percent credit in clause (ix).
- (3) Clause (x).

SEC. 4007. EXTENSION OF CREDIT FOR INCREASING RESEARCH ACTIVITIES.

(a) **EXTENSION.**—Subsection (h) of section 41 of the 1986 Code (relating to credit for increasing research activities) is amended—

- (1) by striking out "December 31, 1988" each place it appears and inserting in lieu thereof "December 31, 1989", and
- (2) by striking out "January 1, 1989" each place it appears and inserting in lieu thereof "January 1, 1990".

26 USC 41 note.

(b) GAO STUDY.—

(1) **IN GENERAL.**—The Comptroller General of the United States shall conduct a study of the credit provided by section 41 of the 1986 Code.

(2) **REPORT.**—The report of the study under paragraph (1) shall be submitted not later than December 31, 1989, to the Committee on Ways and Means of the House of Representatives and the Committee on Finance of the Senate.

SEC. 4008. DENIAL OF DEDUCTION FOR 50 PERCENT AMOUNTS ALLOWED AS A RESEARCH CREDIT.

(a) **IN GENERAL.**—Section 280C of the 1986 Code (relating to certain expenses for which credits are allowable) is amended by adding at the end thereof the following new subsection:

"(c) CREDIT FOR INCREASING RESEARCH ACTIVITIES.—

"(1) **IN GENERAL.**—No deduction shall be allowed for that portion of the qualified research expenses (as defined in section 41(b)) or basic research expenses (as defined in section 41(e)(2) otherwise allowable as a deduction for the taxable year which is equal to 50 percent of the amount of the credit determined for such taxable year under section 41(a).

"(2) **SIMILAR RULE WHERE TAXPAYER CAPITALIZES RATHER THAN DEDUCTS EXPENSES.**—If—

"(A) 50 percent of the amount of the credit determined for the taxable year under section 41(a)(1), exceeds

"(B) the amount allowable as a deduction for such taxable year for qualified research expenses or basic research expenses (determined without regard to paragraph (1)), the amount chargeable to capital account for the taxable year for such expenses shall be reduced by the amount of such excess.

"(3) **CONTROLLED GROUPS.**—Paragraph (3) of subsection (b) shall apply for purposes of this subsection."

(b) RESEARCH CREDIT TO BE ELECTIVE.—

(1) **IN GENERAL.**—Section 41 of the 1986 Code is amended by redesignating subsection (h) as subsection (i) and by inserting after subsection (g) the following new subsection:

"(h) ELECTION TO HAVE RESEARCH CREDIT NOT APPLY.—

"(1) **IN GENERAL.**—A taxpayer may elect to have this section not apply for any taxable year.

“(2) **TIME FOR MAKING ELECTION.**—An election under paragraph (1) for any taxable year may be made (or revoked) at any time before the expiration of the 3-year period beginning on the last day prescribed by law for filing the return for such taxable year (determined without regard to extensions).

“(3) **MANNER OF MAKING ELECTION.**—An election under paragraph (1) (or revocation thereof) shall be made in such manner as the Secretary may by regulations prescribe.”

(2) **DEDUCTION FOR UNUSED RESEARCH CREDIT.**—

(A) Subsection (c) of section 196 of the 1986 Code is amended by striking out “and” at the end of paragraph (2), by striking out the period at the end of paragraph (3) and inserting in lieu thereof “, and”, and by adding at the end thereof the following new paragraph:

“(4) the research credit determined under section 41(a) for taxable years beginning after December 31, 1988.”

(B) Subsection (d) of section 196 of the 1986 Code is amended to read as follows:

“(d) **SPECIAL RULE FOR INVESTMENT TAX CREDIT AND RESEARCH CREDIT.**—Subsection (a) shall be applied by substituting an amount equal to 50 percent of for an amount equal to in the case of—

“(1) the investment credit determined under section 46(a) (other than a credit to which section 48(q)(3) applies), and
“(2) the research credit determined under section 41(a).”

(c) **TECHNICAL AMENDMENTS.**—

(1) Paragraph (1) of section 28(b) of the 1986 Code is amended by striking out “1988” and inserting in lieu thereof “1989”.

(2) Subsection (n) of section 6501 of the 1986 Code is amended by striking out “or 51(j)” and inserting in lieu thereof “, 41(h), or 51(j)”.

(d) **EFFECTIVE DATE.**—The amendments made by this section shall apply to taxable years beginning after December 31, 1988.

26 USC 41 note.

SEC. 4009. ALLOCATION OF RESEARCH AND EXPERIMENTAL EXPENDITURES.

26 USC 861 note.

(a) **GENERAL RULE.**—For purposes of sections 861(b), 862(b), and 863(b) of the 1986 Code, qualified research and experimental expenditures shall be allocated and apportioned as follows:

(1) Any qualified research and experimental expenditures expended solely to meet legal requirements imposed by a political entity with respect to the improvement or marketing of specific products or processes for purposes not reasonably expected to generate gross income (beyond de minimis amounts) outside the jurisdiction of the political entity shall be allocated only to gross income from sources within such jurisdiction.

(2) In the case of any qualified research and experimental expenditures (not allocated under paragraph (1)) to the extent—

(A) that such expenditures are attributable to activities conducted in the United States, 64 percent of such expenditures shall be allocated and apportioned to income from sources within the United States and deducted from such income in determining the amount of taxable income from sources within the United States, and

(B) that such expenditures are attributable to activities conducted outside the United States, 64 percent of such expenditures shall be allocated and apportioned to income from sources outside the United States and deducted from

such income in determining the amount of taxable income from sources outside the United States.

(3) The remaining portion of qualified research and experimental expenditures (not allocated under paragraphs (1) and (2)) shall be apportioned, at the annual election of the taxpayer, on the basis of gross sales or gross income, except that, if the taxpayer elects to apportion on the basis of gross income, the amount apportioned to income from sources outside the United States shall be at least 30 percent of the amount which would be so apportioned on the basis of gross sales.

(b) **QUALIFIED RESEARCH AND EXPERIMENTAL EXPENDITURES.**—For purposes of this section, the term “qualified research and experimental expenditures” means amounts which are research and experimental expenditures within the meaning of section 174 of the 1986 Code. For purposes of this subsection, rules similar to the rules of subsection (c) of section 174 of the 1986 Code shall apply.

(c) **SPECIAL RULES FOR EXPENDITURES ATTRIBUTABLE TO ACTIVITIES CONDUCTED IN SPACE, ETC.**—

(1) **IN GENERAL.**—Any qualified research and experimental expenditures described in paragraph (2)—

(A) if incurred by a United States person, shall be allocated and apportioned under this section in the same manner as if they were attributable to activities conducted in the United States, and

(B) if incurred by a person other than a United States person, shall be allocated and apportioned under this section in the same manner as if they were attributable to activities conducted outside the United States.

(2) **DESCRIPTION OF EXPENDITURES.**—For purposes of paragraph (1), qualified research and experimental expenditures are described in this paragraph if such expenditures are attributable to activities conducted—

(A) in space,

(B) on or under water not within the jurisdiction (as recognized by the United States) of a foreign country, possession of the United States, or the United States, or

(C) in Antarctica.

(d) **AFFILIATED GROUP.**—

(1) Except as provided in paragraph (2), the allocation and apportionment required by subsection (a) shall be determined as if all members of the affiliated group (as defined in subsection (e)(5) of section 864 of the 1986 Code) were a single corporation.

(2) For purposes of the allocation and apportionment required by subsection (a)—

(A) sales and gross income from products produced in whole or in part in a possession by an electing corporation (within the meaning of section 936(h)(5)(E) of the 1986 Code); and

(B) dividends from an electing corporation, shall not be taken into account, except that this paragraph shall not apply to sales of (and gross income and dividends attributable to sales of) products with respect to which an election under section 936(h)(5)(F) of the 1986 Code is not in effect.

(3) The qualified research and experimental expenditures taken into account for purposes of subsection (a) shall be adjusted to reflect the amount of such expenditures included in

computing the cost-sharing amount (determined under section 936(h)(5)(C)(i)(I) of the 1986 Code).

(4) The Secretary of the Treasury or his delegate may prescribe such regulations as may be necessary to carry out the purposes of this subsection, including regulations providing for the source of gross income and the allocation and apportionment of deductions to take into account the adjustments required by paragraph (3).

(5) Paragraph (6) of section 864(e) of the 1986 Code shall not apply to qualified research and experimental expenditures.

(e) YEARS TO WHICH SECTION APPLIES.—

(1) **IN GENERAL.**—Except as provided in this subsection, this section shall apply to the taxpayer's 1st taxable year beginning after August 1, 1987.

(2) **REDUCTION IN AMOUNTS TO WHICH SECTION APPLIES.**—Notwithstanding paragraph (1), this section shall only apply to that portion of the qualified research and experimental expenditures for the taxable year referred to in paragraph (1) which bears the same ratio to the total amount of such expenditures as—

(A) the lesser of 4 months or the number of months in the taxable year, bears to

(B) the number of months in the taxable year.

SEC. 4010. EXTENSION AND MODIFICATION OF TARGETED JOBS CREDIT.

(a) **2-YEAR EXTENSION.**—Paragraph (4) of section 51(c) of the 1986 Code (relating to termination) is amended by striking out "December 31, 1988" and inserting in lieu thereof "December 31, 1989".

(b) **EXTENSION OF AUTHORIZATION.**—Paragraph (2) of section 261(f) of the Economic Recovery Tax Act of 1981 is amended by striking out "and 1988" and inserting in lieu thereof "1988, and 1989".

26 USC 51 note.

(c) **ECONOMICALLY DISADVANTAGED YOUTH STATUS RESTRICTED TO INDIVIDUALS UNDER AGE 23.**—

(1) **IN GENERAL.**—Subparagraph (B) of section 51(d)(3) of the 1986 Code is amended by striking out "age 25" and inserting in lieu thereof "age 23".

(2) **EFFECTIVE DATE.**—The amendment made by paragraph (1) shall apply to individuals who begin work for the employer after December 31, 1988.

26 USC 51 note.

(d) **REDUCTION IN PERCENTAGE OF CREDIT FOR SUMMER YOUTH EMPLOYEES.**—

(1) **IN GENERAL.**—Subparagraph (B) of section 51(d)(12) of the 1986 Code is amended by striking out clause (i) and by redesignating clauses (ii) and (iii) as clauses (i) and (ii).

(2) **EFFECTIVE DATE.**—The amendment made by paragraph (1) shall apply to individuals who begin work for the employer after December 31, 1988.

26 USC 51 note.

SEC. 4011. TREATMENT OF PUBLICLY OFFERED REGULATED INVESTMENT COMPANIES UNDER 2-PERCENT FLOOR.

(a) **IN GENERAL.**—Subsection (c) of section 67 of the 1986 Code, as amended by section 1001(f) of this Act, is amended to read as follows:

"(c) DISALLOWANCE OF INDIRECT DEDUCTION THROUGH PASS-THRU ENTITY.—

"(1) IN GENERAL.—The Secretary shall prescribe regulations which prohibit the indirect deduction through pass-thru entities of amounts which are not allowable as a deduction if paid or incurred directly by an individual and which contain such

Regulations.

reporting requirements as may be necessary to carry out the purposes of this subsection.

“(2) TREATMENT OF PUBLICLY OFFERED REGULATED INVESTMENT COMPANIES.—

“(A) IN GENERAL.—Paragraph (1) shall not apply with respect to any publicly offered regulated investment company.

“(B) PUBLICLY OFFERED REGULATED INVESTMENT COMPANIES.—For purposes of this subsection—

“(i) IN GENERAL.—The term ‘publicly offered regulated investment company’ means a regulated investment company the shares of which are—

“(I) continuously offered pursuant to a public offering (within the meaning of section 4 of the Securities Act of 1933, as amended (15 U.S.C. 77a to 77aa)),

“(II) regularly traded on an established securities market, or

“(III) held by or for no fewer than 500 persons at all times during the taxable year.

“(ii) SECRETARY MAY REDUCE 500 PERSON REQUIREMENT.—The Secretary may by regulation decrease the minimum shareholder requirement of clause (i)(III) in the case of regulated investment companies which experience a loss of shareholders through net redemptions of their shares.

“(3) TREATMENT OF CERTAIN OTHER ENTITIES.—Paragraph (1) shall not apply—

“(A) with respect to cooperatives and real estate investment trusts, and

“(B) except as provided in regulations, with respect to estates and trusts.

“(4) TERMINATION.—This subsection shall not apply to any taxable year beginning after December 31, 1989.”

26 USC 67 note.

(b) EFFECTIVE DATE.—The amendment made by subsection (a) shall apply to taxable years beginning after December 31, 1987.

SEC. 4012. EXTENSION AND MODIFICATIONS OF PROVISIONS RELATING TO FINANCIAL INSTITUTIONS.

(a) 1-YEAR EXTENSION.—

26 USC 368 note.

(1) REORGANIZATIONS.—Paragraph (1) of section 904(c) of the Reform Act is amended by striking out “December 31, 1988” and inserting in lieu thereof “December 31, 1989”.

26 USC 597 note.

(2) FSLIC FINANCIAL ASSISTANCE.—Paragraph (2)(A) of section 904(c) of the Reform Act is amended by striking out “December 31, 1988” and inserting in lieu thereof “December 31, 1989”.

(3) NET OPERATING LOSS RULES.—The last sentence of section 382(1)(5)(F) of the 1986 Code is amended by striking out “December 31, 1988” and inserting in lieu thereof “December 31, 1989”.

(b) APPLICATION OF CERTAIN PROVISIONS TO BANKS.—

(1) SPECIAL RULES FOR REORGANIZATIONS AND NET OPERATING LOSSES.—

(A) Section 368(a)(3)(D) of the 1986 Code (as in effect before the amendment made by section 904(a) of the Reform Act) is amended by adding at the end thereof the following new clauses:

“(iv) In the case of a financial institution to which section 585 applies—

“(I) the term ‘title 11 or similar case’ means only a case in which the applicable authority (which shall be treated as the court in such case) makes the certification described in subclause (II), and

“(II) clause (ii) shall apply to such institution, except that for purposes of clause (ii)(III), the applicable authority must certify that the grounds set forth in such clause (modified in such manner as the Secretary determines necessary because such institution is not an institution to which section 593 applies) exist with respect to such transferor or will exist in the near future in the absence of action by the applicable authority.

For purposes of this clause, the term ‘applicable authority’ means the Comptroller of the Currency or the Federal Deposit Insurance Corporation, or if neither has the supervisory authority with respect to the transfer, the equivalent State authority.

“(v) For purposes of this subparagraph, in applying section 593, the determination as to whether a corporation is a domestic building and loan association shall be made without regard to section 7701(a)(19)(C).”

(B) Subclause (I) of section 382(1)(5)(F)(iii) of the 1986 Code is amended by inserting “(as modified by section 368(a)(3)(D)(iv))” after “section 368(a)(3)(D)(ii)”.

(C)(i) The amendment made by subparagraph (A) shall apply to acquisitions after the date of the enactment of this Act and before January 1, 1990.

26 USC 368 note.

(ii) The amendment made by subparagraph (B) shall apply to any ownership change occurring after the date of the enactment of this Act and before January 1, 1990.

26 USC 382 note.

(2) ASSISTANCE PAYMENTS.—

(A) Section 597(a) of the 1986 Code (as in effect before the amendments made by section 904(b) of the Reform Act) is amended by adding at the end thereof the following new sentence: “Gross income of a bank does not include any amount of money or other property received from the Federal Deposit Insurance Corporation pursuant to sections 13(c), 15(c)(1), and 15(c)(2) of the Federal Deposit Insurance Act (12 U.S.C. 1821(f) and 1823 (c)(1) and (c)(2)), regardless of whether any note or other instrument is issued in exchange therefor.”

(B) Section 597(b) of the 1986 Code, as amended by subsection (c)(1), is amended by adding at the end thereof the following new subsection:

“(d) DOMESTIC BUILDING AND LOAN ASSOCIATION.—For purposes of this section, the term ‘domestic building and loan association’ has the meaning given such term by section 7701(a)(19) without regard to subparagraph (C) thereof.”

(C) Section 597(b) of the 1986 Code (as so in effect) is amended by inserting “or bank” after “association”.

(D)(i) The heading for section 597 of the 1986 Code (as so in effect) is amended by inserting “or FDIC” after “FSLIC”.

(ii) The item relating to section 597 in part II of subchapter H of chapter 1 of the 1986 Code (as so in effect) is amended by inserting "or FDIC" after "FSLIC".

26 USC 597 note.

(E) The amendments made by this paragraph shall apply to any transfer—

(i) after the date of the enactment of this Act, and before January 1, 1990, unless such transfer is pursuant to an acquisition occurring on or before such date of enactment, and

(ii) after December 31, 1989, if such transfer is pursuant to an acquisition occurring after such date of enactment and before January 1, 1990.

(c) **CERTAIN TAX ATTRIBUTES REDUCED BY 50 PERCENT OF FINANCIAL ASSISTANCE OF FSLIC AND FDIC; APPLICATION OF SECTION 265.**—

(1) **REDUCTION IN TAX ATTRIBUTES.**—Section 597 of the 1986 Code is amended by adding at the end thereof the following new subsection:

“(c) **REDUCTION OF TAX ATTRIBUTES BY 50 PERCENT OF AMOUNTS EXCLUDABLE UNDER SUBSECTION (a).**—

“(1) **IN GENERAL.**—50 percent of any amount excludable under subsection (a) for any taxable year shall be applied to reduce the tax attributes of the taxpayer as provided in paragraph (2).

“(2) **TAX ATTRIBUTES REDUCED; ORDER OF REDUCTION.**—The reduction referred to in paragraph (1) shall be made in the following tax attributes in the following order:

“(A) **NOL.**—Any pre-assistance net operating loss for the taxable year.

“(B) **INTEREST.**—The amount of any interest with respect to which a deduction is allowable for the taxable year.

“(C) **BUILT-IN PORTFOLIO LOSSES.**—Recognized built-in portfolio losses for the taxable year.

“(3) **PRE-ASSISTANCE NET OPERATING LOSS.**—For purposes of paragraph (2)(A)—

“(A) **IN GENERAL.**—The pre-assistance net operating loss shall be determined in the same manner as a pre-change loss under section 382(d), except that—

“(i) the applicable financial institution shall be treated as the old loss corporation, and

“(ii) the determination date shall be substituted for the change date.

“(B) **ORDERING RULE.**—The reduction under paragraph (2)(A) shall be made in the carryovers in the order in which carryovers are taken into account under this chapter for the taxable year.

“(4) **RECOGNIZED BUILT-IN PORTFOLIO LOSSES.**—For purposes of paragraph (2)(C), recognized built-in portfolio losses shall be determined in the same manner as recognized built-in losses under section 382(h), except that—

“(A) the only assets taken into account shall be—

“(i) the loan portfolio,

“(ii) marketable securities (within the meaning of section 453(f)(2)), and

“(iii) property described in section 595(a),

“(B) the rules of clauses (i) and (ii) of paragraph (3)(A) shall apply,

“(C) there shall be no limit on the number of years in the recognition period, and

“(D) section 382(h) shall be applied without regard to paragraph (3)(B) thereof.

“(5) DEFINITIONS AND SPECIAL RULES.—For purposes of this subsection—

“(A) APPLICABLE FINANCIAL INSTITUTION.—The term ‘applicable financial institution’ means the domestic building and loan association or bank the financial condition of which was determined by the Federal Savings and Loan Insurance Corporation or the Federal Deposit Insurance Corporation to require the financial assistance described in subsection (a).

“(B) DETERMINATION DATE.—The term ‘determination date’ means the date of the determination under subparagraph (A). Except as provided by the Secretary, any subsequent revision or modification of such determination shall be treated as made on the original determination date.

“(C) TAXABLE ASSET ACQUISITIONS.—

“(i) IN GENERAL.—In the case of any acquisition of the assets of any applicable financial institution to which section 381 does not apply—

“(I) paragraph (1) shall not apply to any amounts excludable under subsection (a) which are payments made at the time of the acquisition to the person acquiring such assets, and

“(II) rights to receive future payments excludable under subsection (a) in connection with the acquisition shall be treated as provided in clause (ii).

“(ii) TREATMENT OF FUTURE PAYMENTS.—

“(I) IN GENERAL.—Rights to receive future payments described in clause (i)(II) shall be treated as assets to which basis is allocated.

“(II) RECOVERY OF BASIS.—Any basis allocated under subclause (I) shall be recovered in such manner as the Secretary may provide, but in no event shall the amount recovered for any taxable year beginning before the taxable year in which the rights expire exceed the aggregate payments received with respect to such rights for all taxable years reduced by the amount of basis recovered with respect to such rights in preceding taxable years.

“(III) APPLICATION OF PARAGRAPH (1).—Paragraph (1) shall apply to payments described in subclause (I) in a taxable year only to the extent such payments exceed the amount of basis recovered in such taxable year.

“(D) TREATMENT OF REPAYMENTS.—If a taxpayer repays an amount to which paragraph (1) applied in a preceding taxable year, there shall be allowed as a deduction for the taxable year of repayment an amount equal to the reduction in tax attributes under paragraph (1) attributable to the amount repaid.

“(E) CARRYOVERS.—If 50 percent of the amount excludable under subsection (a) for any taxable year exceeds the

amount of the tax attributes described in paragraph (2) for such taxable year, then, for purposes of this subsection, the amount excludable under subsection (a) for the succeeding taxable year shall be increased by an amount equal to twice the amount of such excess.

“(F) REGULATIONS.—The Secretary shall prescribe such regulations as may be necessary to carry out the provisions of this subsection.”

26 USC 597 note.

(2) APPLICATION OF SECTION 265.—Subparagraph (B) of section 904(c)(2) of the Reform Act is amended by striking out “Section 265(a)(1)” and inserting in lieu thereof “Section 265”.

26 USC 597 note.

(3) EFFECTIVE DATE.—The amendments made by this subsection shall apply to any transfer—

(A) after December 31, 1988, and before January 1, 1990, unless such transfer is pursuant to an acquisition occurring before January 1, 1989, and

(B) after December 31, 1989, if such transfer is pursuant to an acquisition occurring after December 31, 1988, and before January 1, 1990.

In the case of a taxpayer to which the amendments made by subsection (b)(1) apply, subparagraphs (A) and (B) shall be applied by substituting “the date of the enactment of this Act” for “December 31, 1988”.

TITLE V—REVENUE INCREASE PROVISIONS

Subtitle A—Corporate Estimated Taxes

SEC. 5001. CORPORATE ESTIMATED TAX PAYMENTS.

(a) GENERAL RULE.—Paragraph (1) of section 6655(e) of the 1986 Code (relating to annualization) is amended by striking out the last sentence.

26 USC 6655
note.

(b) EFFECTIVE DATE.—The amendment made by subsection (a) shall apply to installments required to be made after December 31, 1988.

Subtitle B—Insurance Provisions

SEC. 5011. LIMITATION ON UNREASONABLE MORTALITY AND OTHER EXPENSE CHARGES UNDER SECTION 7702.

(a) GENERAL RULE.—Subparagraph (B) of section 7702(c)(3) of the 1986 Code (relating to guideline premium requirements) is amended by striking out clauses (i) and (ii) and inserting in lieu thereof the following:

“(i) reasonable mortality charges which meet the requirements (if any) prescribed in regulations and which (except as provided in regulations) do not exceed the mortality charges specified in the prevailing commissioners’ standard tables (as defined in section 807(d)(5)) as of the time the contract is issued,

“(ii) any reasonable charges (other than mortality charges) which (on the basis of the company’s experi-

ence, if any, with respect to similar contracts) are reasonably expected to be actually paid, and”.

(b) **SPECIAL RULES.**—Paragraph (3) of section 7702(c) of the 1986 Code is amended by adding at the end thereof the following new subparagraph:

“(D) **SPECIAL RULES FOR SUBPARAGRAPH (B)(ii).**—

“(i) **CHARGES NOT SPECIFIED IN THE CONTRACT.**—If any charge is not specified in the contract, the amount taken into account under subparagraph (B)(ii) for such charge shall be zero.

“(ii) **NEW COMPANIES, ETC.**—If any company does not have adequate experience for purposes of the determination under subparagraph (B)(ii), to the extent provided in regulations, such determination shall be made on the basis of the industry-wide experience.”

(c) **INTERIM RULES.**—

(1) **REGULATIONS.**—Not later than January 1, 1990, the Secretary of the Treasury (or his delegate) shall issue regulations under section 7702(c)(3)(B)(i) of the 1986 Code (as amended by subsection (a)).

(2) **STANDARDS BEFORE REGULATIONS TAKE EFFECT.**—In the case of any contract to which the amendments made by this section apply and which is issued before the effective date of the regulations required under paragraph (1), mortality charges which do not differ materially from the charges actually expected to be imposed by the company (taking into account any relevant characteristic of the insured of which the company is aware) shall be treated as meeting the requirements of clause (i) of section 7702(c)(3)(B) of the 1986 Code (as amended by subsection (a)).

(d) **EFFECTIVE DATE.**—The amendments made by this section shall apply to contracts entered into on or after October 21, 1988.

26 USC 7702
note.

26 USC 7702
note.

SEC. 5012. TREATMENT OF MODIFIED ENDOWMENT CONTRACTS.

(a) **DISTRIBUTION RULES.**—

(1) **IN GENERAL.**—Subsection (e) of section 72 of the 1986 Code (relating to amounts not received as annuities) is amended by adding at the end thereof the following new paragraph:

“(10) **TREATMENT OF MODIFIED ENDOWMENT CONTRACTS.**—

“(A) **IN GENERAL.**—Notwithstanding paragraph (5)(C), in the case of any modified endowment contract (as defined in section 7702A)—

“(i) paragraphs (2)(B) and (4)(A) shall apply, and

“(ii) in applying paragraph (4)(A), ‘any person’ shall be substituted for ‘an individual’.

“(B) **TREATMENT OF CERTAIN BURIAL CONTRACTS.**—Notwithstanding subparagraph (A), paragraph (4)(A) shall not apply to any assignment (or pledge) of a modified endowment contract if such assignment (or pledge) is solely to cover the payment of expenses referred to in section 7702(e)(2)(C)(iii) and if the maximum death benefit under such contract does not exceed \$25,000.”

(2) **TECHNICAL AMENDMENT.**—Subparagraph (C) of section 72(e)(5) of the 1986 Code is amended by striking out “Except to the extent” and inserting in lieu thereof “Except as provided in paragraph (10) and except to the extent”.

(b) **ADDITIONAL TAX.**—

(1) **IN GENERAL.**—Section 72 of the 1986 Code (relating to annuities; certain proceeds of endowment and life insurance contracts) is amended by redesignating subsection (v) as subsection (w) and by inserting after subsection (u) the following new subsection:

“(v) 10-PERCENT ADDITIONAL TAX FOR TAXABLE DISTRIBUTIONS FROM MODIFIED ENDOWMENT CONTRACTS.—

“(1) IMPOSITION OF ADDITIONAL TAX.—If any taxpayer receives any amount under a modified endowment contract (as defined in section 7702A), the taxpayer’s tax under this chapter for the taxable year in which such amount is received shall be increased by an amount equal to 10 percent of the portion of such amount which is includible in gross income.

“(2) SUBSECTION NOT TO APPLY TO CERTAIN DISTRIBUTIONS.—Paragraph (1) shall not apply to any distribution—

“(A) made on or after the date on which the taxpayer attains age 59½,

“(B) which is attributable to the taxpayer’s becoming disabled (within the meaning of subsection (m)(7)), or

“(C) which is part of a series of substantially equal periodic payments (not less frequently than annually) made for the life (or life expectancy) of the taxpayer or the joint lives (or joint life expectancies) of such taxpayer and his beneficiary.”

(2) **TECHNICAL AMENDMENT.**—Subparagraph (C) of section 26(b)(2) of the 1986 Code is amended by striking out “or (q)” and inserting in lieu thereof “(q), or (v)”.

(c) MODIFIED ENDOWMENT CONTRACT DEFINED.—

(1) **IN GENERAL.**—Chapter 79 of the 1986 Code is amended by inserting after section 7702 the following new section:

“SEC. 7702A. MODIFIED ENDOWMENT CONTRACT DEFINED.

“(a) GENERAL RULE.—For purposes of section 72, the term ‘modified endowment contract’ means any contract meeting the requirements of section 7702—

“(1) which—

“(A) is entered into on or after June 21, 1988, and

“(B) fails to meet the 7-pay test of subsection (b), or

“(2) which is received in exchange for a contract described in paragraph (1).

“(b) 7-PAY TEST.—For purposes of subsection (a), a contract fails to meet the 7-pay test of this subsection if the accumulated amount paid under the contract at any time during the 1st 7 contract years exceeds the sum of the net level premiums which would have been paid on or before such time if the contract provided for paid-up future benefits after the payment of 7 level annual premiums.

“(c) COMPUTATIONAL RULES.—

“(1) IN GENERAL.—Except as provided in this subsection, the determination under subsection (b) of the 7 level annual premiums shall be made—

“(A) as of the time the contract is issued, and

“(B) by applying the rules of section 7702(b)(2) and of section 7702(e) (other than paragraph (2)(C) thereof), except that the death benefit provided for the 1st contract year shall be deemed to be provided until the maturity date without regard to any scheduled reduction after the 1st 7 contract years.

“(2) REDUCTION IN BENEFITS DURING 1ST 7 YEARS.—

“(A) IN GENERAL.—If there is a reduction in benefits under the contract within the 1st 7 contract years, this section shall be applied as if the contract had originally been issued at the reduced benefit level.

“(B) REDUCTIONS ATTRIBUTABLE TO NONPAYMENT OF PREMIUMS.—Any reduction in benefits attributable to the nonpayment of premiums due under the contract shall not be taken into account under subparagraph (A) if the benefits are reinstated within 90 days after the reduction in such benefits.

“(3) TREATMENT OF MATERIAL CHANGES.—

“(A) IN GENERAL.—If there is a material change in the benefits under (or in other terms of) the contract which was not reflected in any previous determination under this section, for purposes of this section—

“(i) such contract shall be treated as a new contract entered into on the day on which such material change takes effect, and

“(ii) appropriate adjustments shall be made in determining whether such contract meets the 7-pay test of subsection (b) to take into account the cash surrender value under the contract.

“(B) TREATMENT OF CERTAIN INCREASES IN FUTURE BENEFITS.—For purposes of subparagraph (A), the term ‘material change’ includes any increase in future benefits under the contract.

Such term shall not include—

“(i) any increase which is attributable to the payment of premiums necessary to fund the lowest level of future benefits payable in the 1st 7 contract years (determined after taking into account death benefit increases described in subparagraph (A) or (B) of section 7702(e)(2)) or to crediting of interest or other earnings (including policyholder dividends) in respect of such premiums, and

“(ii) to the extent provided in regulations, any cost-of-living increase based on an established broad-based index if such increase is funded ratably over the remaining life of the the contract.

“(4) SPECIAL RULE FOR CONTRACTS WITH DEATH BENEFITS UNDER \$10,000.—In the case of a contract—

“(A) which provides an initial death benefit of \$10,000 or less, and

“(B) which requires at least 7 nondecreasing annual premium payments,

each of the 7 level annual premiums determined under subsection (b) (without regard to this paragraph) shall be increased by \$75. For purposes of this paragraph, the contract involved and all contracts previously issued to the same insurer by the same company shall be treated as one contract.

“(5) REGULATORY AUTHORITY FOR CERTAIN COLLECTION EXPENSES.—The Secretary may by regulations prescribe rules for taking into account expenses solely attributable to the collection of premiums paid more frequently than annually.

“(d) DISTRIBUTIONS AFFECTED.—If a contract fails to meet the 7-pay test of subsection (b), such contract shall be treated as failing to meet such requirements only in the case of—

“(1) distributions during the contract year in which the failure takes effect and during any subsequent contract year, and

“(2) under regulations prescribed by the Secretary, distributions (not described in paragraph (1)) in anticipation of such failure.

For purposes of the preceding sentence, any distribution which is made within 2 years before the failure to meet the 7-pay test shall be treated as made in anticipation of such failure.

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

“(1) AMOUNT PAID.—

“(A) IN GENERAL.—The term ‘amount paid’ means—

“(i) the premiums paid under the contract, reduced by

“(ii) amounts to which section 72(e) applies (determined without regard to paragraph (4)(A) thereof) but not including amounts includible in gross income.

“(B) TREATMENT OF CERTAIN PREMIUMS RETURNED.—If, in order to comply with the requirements of subsection (b), any portion of any premium paid during any contract year is returned by the insurance company (with interest) within 60 days after the end of such contract year, the amount so returned (excluding interest) shall be deemed to reduce the sum of the premiums paid under the contract during such contract year.

“(C) INTEREST RETURNED INCLUDIBLE IN GROSS INCOME.—Notwithstanding the provisions of section 72(e), the amount of any interest returned as provided in subparagraph (B) shall be includible in the gross income of the recipient.

“(2) CONTRACT YEAR.—The term ‘contract year’ means the 12-month period beginning with the 1st month for which the contract is in effect, and each 12-month period beginning with the corresponding month in subsequent calendar years.

“(3) OTHER TERMS.—Except as otherwise provided in this section, terms used in this section shall have the same meaning as when used in section 7702.”

(2) CLERICAL AMENDMENT.—The table of sections for chapter 79 of the 1986 Code is amended by inserting after the item relating to section 7702 the following new item:

“Sec. 7702A. Modified endowment contract defined.”

(d) OTHER MODIFICATIONS.—

(1) TREATMENT OF LOANS.—Subparagraph (A) of section 72(e)(4) of the 1986 Code (relating to loans treated as distributions) is amended by adding at the end thereof the following new sentence: “The preceding sentence shall not apply for purposes of determining investment in the contract, except that the investment in the contract shall be increased by any amount included in gross income by reason of the amount treated as received under the preceding sentence.”

(2) ANTI-ABUSE RULES.—Subsection (e) of section 72 of the 1986 Code is amended by adding at the end thereof the following new paragraph:

“(11) ANTI-ABUSE RULES.—

“(A) IN GENERAL.—For purposes of determining the amount includible in gross income under this subsection—

“(i) all modified endowment contracts issued by the same company to the same policyholder during any 12-month period shall be treated as 1 modified endowment contract, and

“(ii) all annuity contracts issued by the same company to the same policyholder during any 12-month period shall be treated as 1 annuity contract.

“(B) REGULATORY AUTHORITY.—The Secretary may by regulations prescribe such additional rules as may be necessary or appropriate to prevent avoidance of the purposes of this subsection through serial purchases of contracts or otherwise.”

(e) EFFECTIVE DATES.—

(1) IN GENERAL.—Except as otherwise provided in this subsection, the amendments made by this section shall apply to contracts entered into on or after June 21, 1988.

(2) SPECIAL RULE WHERE DEATH BENEFIT INCREASES BY MORE THAN \$150,000.—If the death benefit under the contract increases by more than \$150,000 over the death benefit under the contract in effect on October 20, 1988, the rules of section 7702A(c)(3) of the 1986 Code (as added by this section) shall apply in determining whether such contract is issued on or after June 21, 1988. The preceding sentence shall not apply in the case of a contract which, as of June 21, 1988, required at least 7 level annual premium payments and under which the policyholder continues to make level annual premium payments over the life of the contract.

(3) CERTAIN OTHER MATERIAL CHANGES TAKEN INTO ACCOUNT.—A contract entered into before June 21, 1988, shall be treated as entered into after such date if—

(A) on or after June 21, 1988, the death benefit under the contract is increased (or a qualified additional benefit is increased or added) and before June 21, 1988, the owner of the contract did not have a unilateral right under the contract to obtain such increase or addition without providing additional evidence of insurability, or

(B) the contract is converted after June 20, 1988, from a term life insurance contract to a life insurance contract providing coverage other than term life insurance coverage without regard to any right of the owner of the contract to such conversion.

(4) CERTAIN EXCHANGES PERMITTED.—In the case of a modified endowment contract which—

(A) required at least 7 annual level premium payments,

(B) is entered into after June 20, 1988, and before the date of the enactment of this Act, and

(C) is exchanged within 3 months after such date of enactment for a life insurance contract which meets the requirements of section 7702A(b),

the contract which is received in exchange for such contract shall not be treated as a modified endowment contract if the taxpayer elects, notwithstanding section 1035 of the 1986 Code, to recognize gain on such exchange.

26 USC 7702A
note.

(5) **SPECIAL RULE FOR ANNUITY CONTRACTS.**—In the case of annuity contracts, the amendments made by subsection (d) shall apply to contracts entered into after October 21, 1988.

SEC. 5013. VALUATION OF GROUP-TERM LIFE INSURANCE.

(a) **GENERAL RULE.**—Subsection (c) of section 79 of the 1986 Code (relating to the determination of the cost of insurance) is amended by striking out the last sentence.

26 USC 79 note.

(b) **EFFECTIVE DATE.**—The amendment made by subsection (a) shall apply to taxable years beginning after December 31, 1988.

SEC. 5014. STUDY.

(a) **GENERAL RULE.**—The Secretary of the Treasury and the Comptroller General of the United States shall each conduct a study on—

(1) the effectiveness of the revised tax treatment of life insurance and annuity products in preventing the sale of life insurance primarily for investment purposes, and

(2) the policy justification for, and the practical implications of, the present-law treatment of the earnings on the cash surrender value of life insurance and annuity contracts in light of the reforms made by the Tax Reform Act of 1986.

(b) **REPORT.**—Not later than June 1, 1989, the Secretary of the Treasury and the Comptroller General of the United States shall each submit a report to the Committee on Ways and Means of the House of Representatives and the Committee on Finance of the Senate on the study conducted under subsection (a), together with such recommendations as they may deem advisable.

Subtitle C—Loss Transfer Rules for Alaska Native Corporations

26 USC 1504
note.

SEC. 5021. REPEAL OF RULES PERMITTING LOSS TRANSFERS BY ALASKA NATIVE CORPORATIONS.

(a) **GENERAL RULE.**—Nothing in section 60(b)(5) of the Tax Reform Act of 1984 (as amended by section 1804(e)(4) of the Tax Reform Act of 1986)—

(1) shall allow any loss (or credit) of any corporation which arises after April 26, 1988, to be used to offset the income (or tax) of another corporation if such use would not be allowable without regard to such section 60(b)(5) as so amended, or

(2) shall allow any loss (or credit) of any corporation which arises on or before such date to be used to offset disqualified income (or tax attributable to such income) of another corporation if such use would not be allowable without regard to such section 60(b)(5) as so amended.

(b) **EXCEPTION FOR EXISTING CONTRACTS.**—

(1) **IN GENERAL.**—Subsection (a) shall not apply to any loss (or credit) of any corporation if—

(A) such corporation was in existence on April 26, 1988, and

(B) such loss (or credit) is used to offset income assigned (or attributable to property contributed) pursuant to a binding contract entered into before July 26, 1988.

(2) **\$40,000,000 LIMITATION.**—The aggregate amount of losses (and the deduction equivalent of credits as determined in the same manner as under section 469(j)(5) of the 1986 Code) to which paragraph (1) applies with respect to any corporation shall not exceed \$40,000,000. For purposes of this paragraph, a Native Corporation and all other corporations all of the stock of which is owned directly by such corporation shall be treated as 1 corporation.

(3) **SPECIAL RULE FOR CORPORATIONS UNDER TITLE 11.**—In the case of a corporation which on April 26, 1988, was under the jurisdiction of a Federal district court under title 11 of the United States Code—

(A) paragraph (1)(B) shall be applied by substituting the date 1 year after the date of the enactment of this Act for “July 26, 1988”,

(B) paragraph (1) shall not apply to any loss or credit which arises on or after the date 1 year after the date of the enactment of this Act, and

(C) paragraph (2) shall be applied by substituting “\$99,000,000” for “\$40,000,000”.

(c) **SPECIAL ADMINISTRATIVE RULES.**—

(1) **NOTICE TO NATIVE CORPORATIONS OF PROPOSED TAX ADJUSTMENTS.**—Notwithstanding section 6103 of the 1986 Code, the Secretary of the Treasury or his delegate shall notify a Native Corporation or its designated representative of any proposed adjustment—

(A) of the tax liability of a taxpayer which has contracted with the Native Corporation (or other corporation all of the stock of which is owned directly by the Native Corporation) for the use of losses of such Native Corporation (or such other corporation), and

(B) which is attributable to an asserted overstatement of losses by, or misassignment of income (or income attributable to property contributed) to, an affiliated group of which the Native Corporation (or such other corporation) is a member.

Such notice shall only include information with respect to the transaction between the taxpayer and the Native Corporation.

(2) **RIGHTS OF NATIVE CORPORATION.**—

(A) **IN GENERAL.**—If a Native Corporation receives a notice under paragraph (1), the Native Corporation shall have the right to—

(i) submit to the Secretary of the Treasury or his delegate a written statement regarding the proposed adjustment, and

(ii) meet with the Secretary of the Treasury or his delegate with respect to such proposed adjustment.

The Secretary of the Treasury or his delegate may discuss such proposed adjustment with the Native Corporation or its designated representative.

(B) **EXTENSION OF STATUTE OF LIMITATIONS.**—Subparagraph (A) shall not apply if the Secretary of the Treasury or his delegate determines that an extension of the statute of limitation is necessary to permit the participation described in subparagraph (A) and the taxpayer and the Secretary or his delegate have not agreed to such extension.

(3) **JUDICIAL PROCEEDINGS.**—In the case of any proceeding in a Federal court or the United States Tax Court involving a proposed adjustment under paragraph (1), the Native Corporation, subject to the rules of such court, may file an amicus brief concerning such adjustment.

(4) **FAILURES.**—For purposes of the 1986 Code, any failure by the Secretary of the Treasury or his delegate to comply with the provisions of this subsection shall not affect the validity of the determination of the Internal Revenue Service of any adjustment of tax liability of any taxpayer described in paragraph (1).

(d) **DISQUALIFIED INCOME DEFINED.**—For purposes of subsection (a), the term “disqualified income” means any income assigned (or attributable to property contributed) after April 26, 1988, by a person who is not a Native Corporation or a corporation all the stock of which is owned directly by a Native Corporation.

(e) **BASIS DETERMINATION.**—For purposes of determining basis for Federal tax purposes, no provision in any law (whether enacted before, on, or after the date of the enactment of this Act) shall affect the date on which the transfer to the Native Corporation is made. The preceding sentence shall apply to all taxable years whether beginning before, on, or after such date of enactment.

Subtitle D—Estate and Gift Tax Provisions

SEC. 5031. VALUATION TABLES.

(a) **GENERAL RULE.**—Chapter 77 of the 1986 Code (relating to miscellaneous provisions) is amended by adding at the end thereof the following new section:

“SEC. 7520. VALUATION TABLES.

“(a) **GENERAL RULE.**—For purposes of this title, the value of any annuity, any interest for life or a term of years, or any remainder or reversionary interest shall be determined—

“(1) under tables prescribed by the Secretary, and

“(2) by using an interest rate (rounded to the nearest $\frac{3}{10}$ ths of 1 percent) equal to 120 percent of the Federal midterm rate in effect under section 1274(d)(1) for the month in which the valuation date falls.

If an income, estate, or gift tax charitable contribution is allowable for any part of the property transferred, the taxpayer may elect to use such Federal midterm rate for either of the 2 months preceding the month in which the valuation date falls for purposes of paragraph (2). In the case of transfers of more than 1 interest in the same property with respect to which the taxpayer may use the same rate under paragraph (2), the taxpayer shall use the same rate with respect to each such interest.

“(b) **SECTION NOT TO APPLY FOR CERTAIN PURPOSES.**—This section shall not apply for purposes of part I of subchapter D of chapter 1 or any other provision specified in regulations.

“(c) **TABLES.**—

“(1) **IN GENERAL.**—The tables prescribed by the Secretary for purposes of subsection (a) shall contain valuation factors for a series of interest rate categories.

“(2) **INITIAL TABLE.**—Not later than the day 3 months after the date of the enactment of this section, the Secretary shall prescribe initial tables for purposes of subsection (a). Such tables

may be based on the same mortality experience as used for purposes of section 2031 on the date of the enactment of this section.

“(3) REVISION FOR RECENT MORTALITY CHARGES.—Not later than December 31, 1989, the Secretary shall revise the initial tables prescribed for purposes of subsection (a) to take into account the most recent mortality experience available as of the time of such revision. Such tables shall be revised not less frequently than once each 10 years thereafter to take into account the most recent mortality experience available as of the time of the revision.

“(d) VALUATION DATE.—For purposes of this section, the term ‘valuation date’ means the date as of which the valuation is made.

“(e) TABLES TO INCLUDE FORMULAS.—For purposes of this section, the term ‘tables’ includes formulas.”

(b) CLERICAL AMENDMENT.—The table of sections for chapter 77 of the 1986 Code is amended by adding at the end thereof the following new item:

“Sec. 7520. Valuation tables.”

(c) EFFECTIVE DATE.—The amendments made by this section shall apply in cases where the date as of which the valuation is to be made occurs on or after the 1st day of the 6th calendar month beginning after the date of the enactment of this Act.

26 USC 7520
note.

SEC. 5032. RATE SCHEDULE FOR TAX ON ESTATES OF NONRESIDENTS NOT CITIZENS.

(a) GENERAL RULE.—Subsection (b) of section 2101 of the 1986 Code (relating to computation of tax) is amended by striking out “a tentative tax computed in accordance with the rate schedule set forth in subsection (d)” each place it appears and inserting in lieu thereof “a tentative tax computed under section 2001(c)”.

(b) AMOUNT OF UNIFIED CREDIT.—

(1) IN GENERAL.—Subsection (c) of section 2102 of the 1986 Code is amended—

(A) by striking out “\$3,600” in paragraphs (1) and (2)(A) and inserting in lieu thereof “\$13,000”, and

(B) by striking out “\$15,075” in paragraph (2)(B) and inserting in lieu thereof “\$46,800”.

(2) COORDINATION WITH TREATIES, ETC.—Paragraph (3) of section 2102(c) of the 1986 Code is amended to read as follows:

“(3) SPECIAL RULES.—

“(A) COORDINATION WITH TREATIES.—To the extent required under any treaty obligation of the United States, the credit allowed under this subsection shall be equal to the amount which bears the same ratio to \$192,800 as the value of the part of the decedent’s gross estate which at the time of his death is situated in the United States bears to the value of his entire gross estate wherever situated.

“(B) COORDINATION WITH GIFT TAX UNIFIED CREDIT.—If a credit has been allowed under section 2505 with respect to any gift made by the decedent, each dollar amount contained in paragraph (1) or (2) or subparagraph (A) of this paragraph (whichever applies) shall be reduced by the amount so allowed.”

(c) TECHNICAL AMENDMENT.—Subsection (d) of section 2101 of the 1986 Code is hereby repealed.

26 USC 2101
note.

(d) **EFFECTIVE DATE.**—The amendments made by this section shall apply to the estates of decedents dying after the date of the enactment of this Act.

SEC. 5033. DISALLOWANCE OF MARITAL DEDUCTION WHERE SPOUSE IS NOT CITIZEN OF UNITED STATES.

(a) **ESTATE TAX.**—

(1) **IN GENERAL.**—Section 2056 of the 1986 Code is amended by adding at the end thereof the following new subsection:

“(d) **DISALLOWANCE OF MARITAL DEDUCTION WHERE SURVIVING SPOUSE NOT UNITED STATES CITIZEN.**—

“(1) **IN GENERAL.**—Except as provided in paragraph (2), if the surviving spouse of the decedent is not a citizen of the United States—

“(A) no deduction shall be allowed under subsection (a), and

“(B) section 2040(b) shall not apply.

“(2) **MARITAL DEDUCTION ALLOWED FOR CERTAIN TRANSFERS IN TRUST.**—

“(A) **IN GENERAL.**—Paragraph (1) shall not apply to any property passing to the surviving spouse in a qualified domestic trust.

“(B) **PROPERTY PASSING OUTSIDE OF PROBATE ESTATE.**—If any property passes from the decedent to the surviving spouse of the decedent outside of the decedent's probate estate, for purposes of subparagraph (A), such property shall be treated as passing to such spouse in a qualified domestic trust if such property is transferred to such a trust before the day on which the return of the tax imposed by section 2001 is made.

“(3) **ALLOWANCE OF CREDIT TO CERTAIN SPOUSES.**—If—

“(A) property passes to the surviving spouse of the decedent (hereinafter in this paragraph referred to as the ‘first decedent’),

“(B) without regard to this subsection, a deduction would be allowable under subsection (a) with respect to such property, and

“(C) such surviving spouse dies and the estate of such surviving spouse is subject to the tax imposed by section 2001,

the Federal estate tax paid (or treated as paid under section 2056A(b)(6)) by the first decedent with respect to such property shall be allowed as a credit under section 2013 to the estate of such surviving spouse and the amount of such credit shall be determined under such section without regard to when the first decedent died.”

(2) **TREATMENT OF QUALIFIED DOMESTIC TRUST.**—Part IV of subchapter A of chapter 11 of the 1986 Code is amended by inserting after section 2056 the following new section:

“**SEC. 2056A. QUALIFIED DOMESTIC TRUST.**

“(a) **QUALIFIED DOMESTIC TRUST DEFINED.**—For purposes of this section and section 2056(d), the term ‘qualified domestic trust’ means, with respect to any decedent, any trust if—

“(1) the trust instrument requires that all trustees of the trust be individual citizens of the United States or domestic corporations,

“(2) the surviving spouse of the decedent is entitled to all the income from the property in such trust, payable annually or at more frequent intervals,

“(3) such trust meets such requirements as the Secretary may by regulations prescribe to ensure the collection of any tax imposed by subsection (b), and

“(4) an election under this section by the executor of the decedent applies to such trust.

“(b) TAX TREATMENT OF TRUST.—

“(1) IMPOSITION OF ESTATE TAX.—There is hereby imposed an estate tax on—

“(A) any distribution before the date of the death of the surviving spouse from a qualified domestic trust other than a distribution of income required under subsection (a)(2), and

“(B) the value of the property remaining in a qualified domestic trust on the date of the death of the surviving spouse.

“(2) AMOUNT OF TAX.—

“(A) IN GENERAL.—In the case of any taxable event, the amount of the estate tax imposed by paragraph (1) shall be the amount equal to—

“(i) the tax which would have been imposed under section 2001 on the estate of the decedent if the taxable estate of the decedent had been increased by the sum of—

“(I) the amount involved in such taxable event, plus

“(II) the aggregate amount involved in previous taxable events with respect to qualified domestic trusts of such decedent, reduced by

“(ii) the tax which would have been imposed under section 2001 on the estate of the decedent if the taxable estate of the decedent had been increased by the amount referred to in clause (i)(II).

“(B) TENTATIVE TAX WHERE TAX OF DECEDENT NOT FINALLY DETERMINED.—

“(i) IN GENERAL.—If the tax imposed on the estate of the decedent under section 2001 is not finally determined before the taxable event, the amount of the tax imposed by paragraph (1) on such event shall be determined by using the highest rate of tax in effect under section 2001 as of the date of the decedent's death.

“(ii) REFUND OF EXCESS WHEN TAX FINALLY DETERMINED.—If—

“(I) the amount of the tax determined under clause (i), exceeds

“(II) the tax determined under subparagraph (A) on the basis of the final determination of the tax imposed by section 2001 on the estate of the decedent,

such excess shall be allowed as a credit or refund if claim therefore is filed not later than 1 year after the date of such final determination.

“(3) TAX IMPOSED WHERE TRUST CEASES TO QUALIFY.—If any person other than an individual citizen of the United States or a domestic corporation becomes a trustee of a qualified domestic

trust (or such trust ceases to meet the requirements of subsection (a)(3)), the tax imposed by paragraph (1) shall apply as if the surviving spouse died on the date on which such person became such a trustee or the date of such cessation, as the case may be.

“(4) **DUE DATE.**—The estate tax imposed by paragraph (1) shall be due and payable on the 15th day of the 4th month following the calendar year in which the taxable event occurs.

“(5) **LIABILITY FOR TAX.**—Each trustee shall be personally liable for the amount of the tax imposed by paragraph (1). Rules similar to the rules of section 2204 shall apply for purposes of the preceding sentence.

“(6) **TREATMENT OF TAX.**—For purposes of section 2056(d), any tax paid under paragraph (1) shall be treated as a tax paid under section 2001 with respect to the estate of the decedent.

“(7) **LIEN FOR TAX.**—For purposes of section 6324, any tax imposed by paragraph (1) shall be treated as an estate tax imposed under this chapter with respect to a decedent dying on the date of the taxable event (and the property involved shall be treated as the gross estate of such decedent).

“(8) **TAXABLE EVENT.**—The term ‘taxable event’ means the event resulting in tax being imposed under paragraph (1).

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

“(1) **PROPERTY INCLUDES INTEREST THEREIN.**—The term ‘property’ includes an interest in property.

“(2) **INCOME.**—The term ‘income’ has the meaning given to such term by section 643(b).

“(d) **ELECTION.**—An election under this section with respect to any trust shall be made by the executor on the return of the tax imposed by section 2001. Such an election, once made, shall be irrevocable.”

(3) **CLERICAL AMENDMENT.**—The table of sections for part IV of subchapter A of chapter 1 of the 1986 Code is amended by inserting after the item relating to section 2056 the following new item:

“Sec. 2056A. Qualified domestic trusts.”

(b) **GIFT TAX.**—Section 2523 of the 1986 Code is amended by adding at the end thereof the following new subsection:

“(i) **DISALLOWANCE OF MARITAL DEDUCTION WHERE SPOUSE NOT CITIZEN.**—If the spouse of the donor is not a citizen of the United States—

“(1) no deduction shall be allowed under this section,

“(2) section 2503(b) shall be applied with respect to gifts made by the donor to such spouse by substituting ‘\$100,000’ for ‘\$10,000’, and

“(3) the principles of sections 2515 and 2515A (as such sections were in effect before their repeal by the Economic Recovery Tax Act of 1981) shall apply, except that the provisions of such section 2515 providing for an election shall not apply.”

(c) **ESTATES OF NONRESIDENTS WHO ARE NOT CITIZENS BUT HAVE CITIZENS AS SPOUSES.**—Subsection (a) of section 2106 of the 1986 Code is amended by adding at the end thereof the following new paragraph:

“(3) **MARITAL DEDUCTION ALLOWED WHERE SPOUSE IS CITIZEN.**—The amount which would be deductible with respect to property situated in the United States at the time of the decedent’s death under the principles of section 2056.”

(d) **EFFECTIVE DATE.**—

(1) The amendments made by subsections (a) and (c) shall apply to estates of the decedents dying after the date of the enactment of this Act.

26 USC 2056
note.

(2) The amendments made by subsection (b) shall apply to gifts on or after July 14, 1988.

26 USC 2523
note.

Subtitle E—Long-Term Contract Provisions

SEC. 5041. LONG-TERM CONTRACT PROVISIONS.

(a) GENERAL RULE.—Subsection (a) of section 460 of the 1986 Code is amended—

(1) by striking out “70 percent” each place it appears (including in the heading of paragraph (2)) and inserting in lieu thereof “90 percent”, and

(2) by striking out “30 percent” in paragraph (1)(B) and inserting in lieu thereof “10 percent”.

(b) SPECIAL RULES FOR RESIDENTIAL CONSTRUCTION CONTRACTS.—

(1) EXCEPTION FOR HOME CONSTRUCTION CONTRACTS.—Paragraph (1) of section 460(e) of the 1986 Code is amended to read as follows:

“(1) IN GENERAL.—Subsections (a), (b), and (c) (1) and (2) shall not apply to—

“(A) any home construction contract, or

“(B) any other construction contract entered into by a taxpayer—

“(i) who estimates (at the time such contract is entered into) that such contract will be completed within the 2-year period beginning on the contract commencement date of such contract, and

“(ii) whose average annual gross receipts for the 3 taxable years preceding the taxable year in which such contract is entered into do not exceed \$10,000,000.

In the case of a home construction contract with respect to which the requirements of clauses (i) and (ii) of subparagraph (B) are not met, section 263A shall apply notwithstanding subsection (c)(4) thereof.”

(2) SPECIAL TREATMENT FOR OTHER RESIDENTIAL CONSTRUCTION CONTRACTS.—Subsection (e) of section 460 of the 1986 Code is amended by adding at the end thereof the following new paragraph:

“(5) SPECIAL RULE FOR RESIDENTIAL CONSTRUCTION CONTRACTS WHICH ARE NOT HOME CONSTRUCTION CONTRACTS.—In the case of any residential construction contract which is not a home construction contract, subsection (a) shall be applied—

“(A) by substituting ‘70 percent’ for ‘90 percent’ each place it appears, and

“(B) by substituting ‘30 percent’ for ‘10 percent’.”

(3) DEFINITIONS.—Subsection (e) of section 460 of the 1986 Code is amended by adding at the end thereof the following new paragraph:

“(6) DEFINITIONS RELATING TO RESIDENTIAL CONSTRUCTION CONTRACTS.—For purposes of this subsection—

“(A) HOME CONSTRUCTION CONTRACT.—The term ‘home construction contract’ means any construction contract if 80 percent or more of the estimated total contract costs (as of the close of the taxable year in which the contract was

entered into) are reasonably expected to be attributable to the building, construction, reconstruction, or rehabilitation of—

“(i) dwelling units contained in buildings containing 4 or fewer dwelling units, and

“(ii) improvements to real property directly related to such dwelling units and located on the site of such dwelling units.

For purposes of clause (i), each townhouse or rowhouse shall be treated as a separate building.

“(B) RESIDENTIAL CONSTRUCTION CONTRACT.—The term ‘residential construction contract’ means any contract which would be described in subparagraph (A) if clause (i) of such subparagraph reads as follows:

“(i) dwelling units (as defined in section 167(k), and’.”

(4) CERTAIN HOME CONSTRUCTION CONTRACTS NOT SUBJECT TO MINIMUM TAX.—Paragraph (3) of section 56(a) of the 1986 Code is amended by adding at the end thereof the following new sentence: “The preceding sentence shall not apply to any home construction contract (as defined in section 460(e)(6)) with respect to which the requirements of clauses (i) and (ii) of section 460(e)(1)(B) are met.”

(c) REGULATORY AUTHORITY.—Section 460 of the 1986 Code is amended by adding at the end thereof the following new subsection:

“(h) REGULATIONS.—The Secretary shall prescribe such regulations as may be necessary or appropriate to carry out the purposes of this section, including regulations to prevent the use of related parties, pass-thru entities, intermediaries, options, or other similar arrangements to avoid the application of this section.”

(d) SIMPLIFIED LOOK-BACK METHOD FOR PASS-THRU ENTITIES.—Subsection (b) of section 460 of the 1986 Code is amended by adding at the end thereof the following new paragraph:

“(5) SIMPLIFIED LOOK-BACK METHOD FOR PASS-THRU ENTITIES.—

“(A) IN GENERAL.—In the case of a pass-thru entity—

“(i) the look-back method of paragraph (3) shall be applied at the entity level,

“(ii) in determining overpayments and underpayments for purposes of applying paragraph (3)(B)—

“(I) any increase in the income under the contract for any taxable year by reason of the allocation under paragraph (3)(A) shall be treated as giving rise to an underpayment determined by applying the highest rate for such year to such increase, and

“(II) any decrease in such income for any taxable year by reason of such allocation shall be treated as giving rise to an overpayment determined by applying the highest rate for such year to such decrease, and

“(iii) any interest required to be paid by the taxpayer under paragraph (3) shall be paid by such entity (and any interest entitled to be received by the taxpayer under paragraph (3) shall be paid to such entity).

“(B) EXCEPTIONS.—

“(i) CLOSELY HELD PASS-THRU ENTITIES.—This paragraph shall not apply to any closely held pass-thru entity.

“(ii) FOREIGN CONTRACTS.—This paragraph shall not apply to any contract unless substantially all of the income from such contract is from sources in the United States.

“(C) OTHER DEFINITIONS.—For purposes of this paragraph—

“(i) HIGHEST RATE.—The term ‘highest rate’ means—
“(I) the highest rate of tax specified in section 11,
or

“(II) if at all times during the year involved more than 50 percent of the interests in the entity are held by individuals directly or through 1 or more other pass-thru entities, the highest rate of tax specified in section 1.

“(ii) PASS-THRU ENTITY.—The term ‘pass-thru entity’ means any—

“(I) partnership,
“(II) S corporation, or
“(III) trust.

“(iii) CLOSELY HELD PASS-THRU ENTITY.—The term ‘closely held pass-thru entity’ means any pass-thru entity if, at any time during any taxable year for which there is income under the contract, 50 percent or more (by value) of the beneficial interests in such entity are held (directly or indirectly) by or for 5 or fewer persons. For purposes of the preceding sentence, rules similar to the constructive ownership rules of section 1563(e) shall apply.”

(e) EFFECTIVE DATES.—

26 USC 460 note.

(1) SUBSECTIONS (a), (b), AND (c).—

(A) IN GENERAL.—Except as otherwise provided in this paragraph, the amendments made by subsections (a), (b), and (c) shall apply to contracts entered into on or after June 21, 1988.

(B) BINDING BIDS.—The amendments made by subsections (a), (b), and (c) shall not apply to any contract resulting from the acceptance of a bid made before June 21, 1988. The preceding sentence shall apply only if the bid could not have been revoked or altered at any time on or after June 21, 1988.

(C) SPECIAL RULE FOR CERTAIN SHIP CONTRACTS.—The amendments made by subsections (a), (b), and (c) shall not apply in the case of a qualified ship contract (as defined in section 10203(b)(2)(B) of the Revenue Act of 1987).

(2) SUBSECTION (d).—The amendment made by subsection (d) shall apply as if included in the amendments made by section 804 of the Reform Act; except that such amendment shall not apply to any contract completed in a taxable year ending before the date of the enactment of this Act, if the due date (determined with regard to extensions) for the return for such year is before such date of enactment.

(d) STUDY.—The Secretary of the Treasury or his delegate shall conduct a study of the revenue realization method of accounting for long-term contracts and of improvements to the percentage of

Reports.

completion method of accounting for such contracts. Not later than the date 6 months after the date of the enactment of this Act, the Secretary shall submit a report on such study to the Committee on Ways and Means of the House of Representatives and the Committee on Finance of the Senate.

Subtitle F—Tax-Exempt Bond Provisions

SEC. 5051. TREATMENT OF CERTAIN POOLED FINANCING BONDS.

(a) IN GENERAL.—Section 149 of the 1986 Code is amended by adding at the end thereof the following new subsection:

“(f) TREATMENT OF CERTAIN POOLED FINANCING BONDS.—

“(1) IN GENERAL.—Section 103(a) shall not apply to any pooled financing bond unless, with respect to the issue of which such bond is a part, the requirements of paragraphs (2) and (3) are met.

“(2) REASONABLE EXPECTATION REQUIREMENT.—

“(A) IN GENERAL.—The requirements of this paragraph are met with respect to an issue if the issuer reasonably expects that as of the close of the 3-year period beginning on the date of issuance of the issue, at least 95 percent of the net proceeds of the issue (as of the close of such period) will have been used directly or indirectly to make or finance loans to ultimate borrowers.

“(B) CERTAIN FACTORS MAY NOT BE TAKEN INTO ACCOUNT IN DETERMINING EXPECTATIONS.—Expectations as to changes in interest rates or in the provisions of this title (or in the regulations or rulings thereunder) may not be taken into account in determining whether expectations are reasonable for purposes of this paragraph.

“(C) NET PROCEEDS.—For purposes of subparagraph (A), the term ‘net proceeds’ has the meaning given such term by section 150 but shall not include proceeds used to finance issuance costs and shall not include proceeds necessary to pay interest (during such period) on the bonds which are part of the issue.

“(D) REFUNDING BONDS.—For purposes of subparagraph (A), in the case of a refunding bond, the date of issuance taken into account is the date of issuance of the original bond.

“(3) COST OF ISSUANCE PAYMENT REQUIREMENTS.—The requirements of this paragraph are met with respect to an issue if—

“(A) the payment of legal and underwriting costs associated with the issuance of the issue is not contingent, and

“(B) at least 95 percent of the reasonably expected legal and underwriting costs associated with the issuance of the issue are paid not later than the 180th day after the date of the issuance of the issue.

“(4) POOLED FINANCING BOND.—For purposes of this subsection—

“(A) IN GENERAL.—The term ‘pooled financing bond’ means any bond issued as part of an issue more than \$5,000,000 of the proceeds of which are reasonably expected (at the time of the issuance of the bonds) to be used (or are intentionally used) directly or indirectly to make or finance loans to 2 or more ultimate borrowers.

“(B) EXCEPTIONS.—Such term shall not include any bond if—

“(i) section 146 applies to the issue of which such bond is a part (other than by reason of section 141(b)(5)) or would apply but for section 146(i), or

“(ii) section 143(l)(3) applies to such issue.

“(5) DEFINITION OF LOAN; TREATMENT OF MIXED USE ISSUES.—

“(A) LOAN.—For purposes of this subsection, the term ‘loan’ does not include—

“(i) any loan which is a nonpurpose investment (within the meaning of section 148(f)(6)(A), determined without regard to section 148(b)(3)), and

“(ii) any use of proceeds by an agency of the issuer unless such agency is a political subdivision or instrumentality of the issuer.

“(B) PORTION OF ISSUE TO BE USED FOR LOANS TREATED AS SEPARATE ISSUE.—If only a portion of the proceeds of an issue is reasonably expected (at the time of issuance of the bond) to be used (or is intentionally used) as described in paragraph (4)(A), such portion and the other portion of such issue shall be treated as separate issues for purposes of determining whether such portion meets the requirements of this subsection.”

(b) EFFECTIVE DATE.—

(1) IN GENERAL.—The amendment made by subsection (a) shall apply to bonds issued after October 21, 1988.

(2) SPECIAL RULE FOR REFUNDING BONDS.—In the case of a bond issued to refund a bond issued before October 22, 1988—

(A) if the 3-year period described in section 149(f)(2)(A) of the 1986 Code would (but for this paragraph) expire on or before October 22, 1989, such period shall expire on October 21, 1990, and

(B) if such period expires after October 22, 1989, the portion of the proceeds of the issue of which the refunded bond is a part which is available (on the date of issuance of the refunding issue) to provide loans shall be treated as proceeds of a separate issue (issued after October 21, 1988) for purposes of applying section 149(f) of the 1986 Code.

26 USC 149 note.

SEC. 5052. TREASURY REGULATIONS RELATING TO STUDENT LOAN BONDS.

If the Secretary of the Treasury or his delegate does not issue regulations under section 625 of the Tax Reform Act of 1984 and section 148(g) of the Internal Revenue Code of 1986 before July 1, 1989, the Secretary or his delegate shall before such date submit to the Committee on Ways and Means of the House of Representatives and the Committee on Finance of the Senate a report explaining why such regulations were not issued.

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SEC. 5053. RESTRICTIONS ON BONDS USED TO PROVIDE RESIDENTIAL RENTAL PROPERTY FOR FAMILY UNITS.

(a) 501(c)(3) BONDS USED TO PROVIDE RESIDENTIAL RENTAL HOUSING FOR FAMILY UNITS MUST MEET TARGETING REQUIREMENTS.—Section 145 of the 1986 Code (defining qualified 501(c)(3) bond) is amended by redesignating subsection (d) as subsection (e) and by inserting after subsection (c) the following new subsection:

“(d) RESTRICTIONS ON BONDS USED TO PROVIDE RESIDENTIAL RENTAL HOUSING FOR FAMILY UNITS.—

“(1) IN GENERAL.—Except as otherwise provided in this subsection, a bond which is part of an issue shall not be a qualified 501(c)(3) bond if any portion of the net proceeds of the issue are to be used directly or indirectly to provide residential rental property for family units.

“(2) EXCEPTION FOR BONDS USED TO PROVIDE QUALIFIED RESIDENTIAL RENTAL PROJECTS.—Paragraph (1) shall not apply to any bond issued as part of an issue if the portion of such issue which is to be used as described in paragraph (1) is to be used to provide—

“(A) a residential rental property for family units if the first use of such property is pursuant to such issue,

“(B) qualified residential rental projects (as defined in section 142(d)), or

“(C) property which is to be substantially rehabilitated in a rehabilitation beginning within the 2-year period ending 1 year after the date of the acquisition of such property

“(3) SUBSTANTIAL REHABILITATION.—

“(A) IN GENERAL.—Except as provided in subparagraph (B), rules similar to the rules of section 48(g)(1)(C) shall apply in determining for purposes of paragraph (2)(C) whether property is substantially rehabilitated.

“(B) EXCEPTION.—For purposes of subparagraph (A), clause (ii) of section 48(g)(1)(C) shall not apply, but the Secretary may extend the 24-month period in section 48(g)(1)(C)(i) where appropriate due to circumstances not within the control of the owner.”

(b) RESIDENTIAL RENTAL PROJECT NOT LOCATED WITHIN JURISDICTION OF ISSUER TREATED AS INVESTMENT PROPERTY.—Paragraph (2) of section 148(b) of the 1986 Code (defining investment property) is amended by striking out “or” at the end of subparagraph (C), by striking out the period at the end of subparagraph (D) and inserting in lieu thereof “, or”, and by adding at the end thereof the following new subparagraph:

“(E) in the case of a bond other than a private activity bond, any residential rental property for family units which is not located within the jurisdiction of the issuer and which is not acquired to implement a court ordered or approved housing desegregation plan.”

26 USC 145 note.

(c) EFFECTIVE DATE.—

(1) IN GENERAL.—The amendments made by this section shall apply to obligations issued after October 21, 1988.

(2) EXCEPTION FOR CONSTRUCTION OR BINDING AGREEMENT.—

(A) The amendments made by this section shall not apply to bonds (other than refunding bonds) with respect to a facility—

(i)(I) the original use of which begins with the taxpayer, and the construction, reconstruction, or rehabilitation of which began before July 14, 1988, and was completed on or after such date, or

(II) the original use of which begins with the taxpayer and with respect to which a binding contract to incur significant expenditures for construction, reconstruction, or rehabilitation was entered into before

July 14, 1988, and some of such expenditures are incurred on or after such date, and

(ii) described in an inducement resolution or other comparable preliminary approval adopted by an issuing authority (or by a voter referendum) before July 14, 1988.

For purposes of the preceding sentence, the term "significant expenditures" means expenditures greater than 10 percent of the reasonably anticipated cost of the construction, reconstruction, or rehabilitation of the facility involved.

(B) Subparagraph (A) shall not apply to any bond issued after December 31, 1989, and shall not apply unless it is reasonably expected (at the time of issuance of the bond) that the facility will be placed in service before January 1, 1990.

(3) REFUNDINGS.—The amendments made by this section shall not apply to any bond issued to refund (or which is part of a series of bonds issued to refund) a bond issued before July 15, 1988, if—

(A) the average maturity date of the issue of which the refunding bond is a part is not later than the average maturity date of the bonds to be refunded by such issue,

(B) the amount of the refunding bond does not exceed the outstanding amount of the refunded bond, and

(C) the proceeds of the refunding bond are used to redeem the refunded bond not later than 90 days after the date of the issuance of the refunding bond.

For purposes of subparagraph (A), average maturity shall be determined in accordance with section 147(b) of the 1986 Code.

Subtitle G—Excise Tax Provisions

SEC. 5061. IMPOSITION OF EXCISE TAX ON MANUFACTURE OR IMPORTATION OF PIPE TOBACCO.

(a) IN GENERAL.—Section 5701 of the 1986 Code (relating to rate of tax on cigarettes, etc.) is amended by redesignating subsection (f) as subsection (g) and by inserting after subsection (e) the following new subsection:

"(f) PIPE TOBACCO.—On pipe tobacco, manufactured in or imported into the United States, there shall be imposed a tax of 45 cents per pound (and a proportionate tax at the like rate on all fractional parts of a pound)."

(b) PIPE TOBACCO DEFINED.—Section 5702 of the 1986 Code (relating to definitions) is amended by adding at the end thereof the following new subsection:

"(c) PIPE TOBACCO.—The term 'pipe tobacco' means any tobacco which, because of its appearance, type, packaging, or labeling, is suitable for use and likely to be offered to, or purchased by, consumers as tobacco to be smoked in a pipe."

(c) TECHNICAL AMENDMENTS.—

(1) Subsection (c) of section 5702 of the 1986 Code (defining tobacco products) is amended by striking out "and smokeless tobacco" and inserting in lieu thereof "smokeless tobacco, and pipe tobacco".

(2) Subsection (d) of section 5702 of the 1986 Code (defining tobacco products) is amended by striking out "or smokeless

tobacco" and inserting in lieu thereof "smokeless tobacco, or pipe tobacco".

(3) The chapter heading for chapter 52 of the 1986 Code is amended to read as follows:

"CHAPTER 52—CIGARS, CIGARETTES, SMOKELESS TOBACCO, PIPE TOBACCO, AND CIGARETTE PAPERS AND TUBES".

(4) The table of chapters for subtitle E is amended by striking the item relating to chapter 52 and inserting in lieu thereof the following new item:

"Chapter 52. Cigars, cigarettes, smokeless tobacco, pipe tobacco, and cigarette papers and tubes".

26 USC 5701
note.

(d) EFFECTIVE DATE.—

(1) **IN GENERAL.**—The amendments made by this section shall apply to pipe tobacco removed (within the meaning of section 5702(k) of the 1986 Code) after December 31, 1988.

(2) **TRANSITIONAL RULE.**—Any person who—

(A) on the date of the enactment of this Act, is engaged in business as a manufacturer of pipe tobacco, and

(B) before January 1, 1989, submits an application under subchapter B of chapter 52 of the 1986 Code to engage in such business,

may, notwithstanding such subchapter B, continue to engage in such business pending final action on such application. Pending such final action, all provisions of chapter 52 of the 1986 Code shall apply to such applicant in the same manner and to the same extent as if such applicant were a holder of a permit to manufacture pipe tobacco under such chapter 52.

(e) FLOOR STOCKS TAX.—

(1) **IMPOSITION OF TAX.**—On pipe tobacco manufactured in or imported into the United States which is removed before January 1, 1989, and held on such date for sale by any person, there is hereby imposed a tax of 45 cents per pound (and a proportionate tax at the like rate on all fractional parts of a pound).

(2) **LIABILITY FOR TAX AND METHOD OF PAYMENT.—**

(A) **LIABILITY FOR TAX.**—A person holding pipe tobacco on January 1, 1989, to which the tax imposed by paragraph (1) applies shall be liable for such tax.

(B) **METHOD OF PAYMENT.**—The tax imposed by paragraph (1) shall be treated as a tax imposed by section 5701 of the 1986 Code and shall be due and payable on February 14, 1989, in the same manner as the tax imposed by such section is payable with respect to pipe tobacco removed on or after January 1, 1989.

(C) **TREATMENT OF PIPE TOBACCO IN FOREIGN TRADE ZONES.**—Notwithstanding the Act of June 18, 1934 (48 Stat. 998, 19 U.S.C. 81a) or any other provision of law, pipe tobacco which is located in a foreign trade zone on January 1, 1989, shall be subject to the tax imposed by paragraph (1) and shall be treated for purposes of this subsection as held on such date for sale if—

(i) internal revenue taxes have been determined, or customs duties liquidated, with respect to such pipe

tobacco before such date pursuant to a request made under the first proviso of section 3(a) of such Act, or (ii) such pipe tobacco is held on such date under the supervision of a customs officer pursuant to the second proviso of such section 3(a).

Under regulations prescribed by the Secretary of the Treasury or his delegate, provisions similar to sections 5706 and 5708 of the 1986 Code shall apply to pipe tobacco with respect to which tax is imposed by paragraph (1) by reason of this subparagraph.

(3) PIPE TOBACCO.—For purposes of this subsection, the term “pipe tobacco” shall have the meaning given to such term by subsection (o) of section 5702 of the 1986 Code.

(4) EXCEPTION WHERE LIABILITY DOES NOT EXCEED \$1,000.—No tax shall be imposed by paragraph (1) on any person if the tax which would but for this paragraph be imposed on such person does not exceed \$1,000. For purposes of the preceding sentence, all persons who are treated as a single taxpayer under section 5061(e)(3) of the 1986 Code shall be treated as 1 person.

SEC. 5063. MODIFICATION OF DISTILLED SPIRITS TAX CREDIT FOR FLAVORS CONTENT.

(a) IN GENERAL.—Subparagraph (B) of section 5010(c)(2) of the 1986 Code (defining flavors content) is amended by striking out the “and” at the end of clause (i), by redesignating clause (ii) as clause (iii), and by inserting after clause (i) the following new clause:

“(ii) alcohol derived from flavors distilled at a distilled spirits plant, and”.

(b) EFFECTIVE DATE.—The amendments made by this section shall apply with respect to distilled spirits withdrawn from bond after the date of the enactment of this Act.

26 USC 5010
note.

Subtitle H—Other Revenue Increase Provisions

SEC. 5071. INCREASE IN PENALTY FOR BAD CHECKS.

(a) GENERAL RULE.—Section 6657 of the 1986 Code (relating to bad checks) is amended—

(1) by striking out “1 percent” and inserting in lieu thereof “2 percent”,

(2) by striking out “\$500” and inserting in lieu thereof “\$750”, and

(3) by striking out “\$5” and inserting in lieu thereof “\$15”.

(b) EFFECTIVE DATE.—The amendment made by subsection (a) shall apply to checks or money orders received after the date of the enactment of this Act.

26 USC 6657
note.

SEC. 5072. TIME FOR PAYMENT OF TAX ON REVERSION OF PENSION PLAN ASSETS.

(a) IN GENERAL.—Section 4980(c) of the 1986 Code is amended by adding at the end thereof the following new paragraph:

“(4) TIME FOR PAYMENT OF TAX.—For purposes of subtitle F, the time for payment of the tax imposed by subsection (a) shall be the last day of the month following the month in which the employer reversion occurs.”

(b) EFFECTIVE DATE.—The amendment made by subsection (a) shall apply to reversions after December 31, 1988.

26 USC 4980
note.

SEC. 5073. DENIAL OF DEDUCTION FOR CERTAIN RESIDENTIAL TELEPHONE SERVICE.

(a) **GENERAL RULE.**—Section 262 of the 1986 Code (relating to personal, living, and family expenses) is amended to read as follows:

“**SEC. 262. PERSONAL, LIVING, AND FAMILY EXPENSES.**

“(a) **GENERAL RULE.**—Except as otherwise expressly provided in this chapter, no deduction shall be allowed for personal, living, or family expenses.

“(b) **TREATMENT OF CERTAIN PHONE EXPENSES.**—For purposes of subsection (a), in the case of an individual, any charge (including taxes thereon) for basic local telephone service with respect to the 1st telephone line provided to any residence of the taxpayer shall be treated as a personal expense.”

26 USC 262 note.

(b) **EFFECTIVE DATE.**—The amendment made by subsection (a) shall apply to taxable years beginning after December 31, 1988.

SEC. 5074. PARTNERSHIP REPORTING OF UNRELATED BUSINESS TAXABLE INCOME.

(a) **IN GENERAL.**—Section 6031 of the 1986 Code is amended by adding at the end thereof the following new subsection:

“(d) **SEPARATE STATEMENT OF ITEMS OF UNRELATED BUSINESS TAXABLE INCOME.**—In the case of any partnership regularly carrying on a trade or business (within the meaning of section 512(c)(1)), the information required under subsection (b) to be furnished to its partners shall include such information as is necessary to enable each partner to compute its distributive share of partnership income or loss from such trade or business in accordance with section 512(a)(1), but without regard to the modifications described in paragraphs (8) through (15) of section 512(b).”

26 USC 6031 note.

(b) **EFFECTIVE DATE.**—The amendment made by subsection (a) shall apply to taxable years beginning after December 31, 1988.

SEC. 5075. OPTIONS SUBJECT TO WASH SALE RULES.

(a) **IN GENERAL.**—Subsection (a) of section 1091 of the 1986 Code (relating to losses from wash sales of stock or securities) is amended by adding at the end thereof the following sentence: “For purposes of this section, the term ‘stock or securities’ shall, except as provided in regulations, include contracts or options to acquire or sell stock or securities.”

26 USC 1091 note.

(b) **EFFECTIVE DATE.**—The amendment made by subsection (a) shall apply with respect to any sale after the date of enactment of this Act, in taxable years ending after such date.

SEC. 5076. INTEREST CHARGE ON INSTALLMENT SALES OF CERTAIN PROPERTY.

(a) **GENERAL RULE.**—Paragraph (1) of section 453A(b) of the 1986 Code is amended to read as follows:

“(1) **IN GENERAL.**—This section shall apply to any obligation which arises from the disposition of any property under the installment method, but only if the sales price of such property exceeds \$150,000.”

(b) **CLERICAL AMENDMENTS.**—

(1) The section heading of section 453A of the 1986 Code is amended by striking out “**OF REAL PROPERTY**”.

(2) The table of sections of subpart B of part II of subchapter A of chapter 1 of the 1986 Code is amended by striking out "of real property" in the item relating to section 453A.

(c) **EFFECTIVE DATE.**—

26 USC 453A
note.

(1) **IN GENERAL.**—Except as provided in paragraph (2), the amendments made by this section shall apply to sales after December 31, 1988.

(2) **BINDING CONTRACT, ETC.**—The amendments made by this section shall not apply to any sale on or before December 31, 1990, if—

(A) such sale is pursuant to a written binding contract in effect on October 21, 1988, and at all times thereafter before such sale,

(B) such sale is pursuant to a letter of intent in effect on October 21, 1988, or

(C) there is a board of directors or shareholder approval for such sale on or before October 21, 1988.

SEC. 5077. APPLICATION OF NET OPERATING LOSS RULES TO STOCK ACQUIRED BY AN EMPLOYEE STOCK OWNERSHIP PLAN.

(a) **IN GENERAL.**—Clause (ii) of section 382(1)(3)(C) of the 1986 Code is amended by striking "and" at the end of subclause (I), by striking the period at the end of subclause (II) and inserting in lieu thereof ", and", and by adding at the end thereof the following:

"(III) immediately after the acquisition the plan has a number of participants which is not less than 50 percent of the average number of employees of the loss corporation during the 3-year period ending with such acquisition.

for purposes of subclause (III), except as provided in regulations, all members of an affiliated group which includes the loss corporation and which files a consolidated return shall be treated as 1 loss corporation."

(b) **EFFECTIVE DATE.**—

26 USC 382 note.

(1) **IN GENERAL.**—The amendment made by subsection (a) shall apply to acquisition after December 31, 1988.

(2) **EXCEPTION.**—The amendment made by subsection (a) shall not apply to acquisitions after December 31, 1988, pursuant to a binding written contract entered into on or before October 21, 1988.

TITLE VI—OTHER SUBSTANTIVE REVENUE PROVISIONS

Subtitle A—Provisions Relating to Individuals

SEC. 6001. TREATMENT OF CERTAIN AMOUNTS PAID TO OR FOR THE BENEFIT OF AN INSTITUTION OF HIGHER EDUCATION.

(a) **IN GENERAL.**—Section 170 of the 1986 Code is amended by redesignating subsection (m) as subsection (n) and by inserting after subsection (l) the following new subsection:

"(m) **TREATMENT OF CERTAIN AMOUNTS PAID TO OR FOR THE BENEFIT OF INSTITUTIONS OF HIGHER EDUCATION.**—

“(1) **IN GENERAL.**—For purposes of this section, 80 percent of any amount described in paragraph (2) shall be treated as a charitable contribution.

“(2) **AMOUNT DESCRIBED.**—For purposes of paragraph (1), an amount is described in this paragraph if—

“(A) the amount is paid by the taxpayer to or for the benefit of an educational organization—

“(i) which is described in subsection (b)(1)(A)(ii), and

“(ii) which is an institution of higher education (as defined in section 3304(f)), and

“(B) such amount would be allowable as a deduction under this section but for the fact that the taxpayer receives (directly or indirectly) as a result of paying such amount the right to purchase tickets for seating at an athletic event in an athletic stadium of such institution.

If any portion of a payment is for the purchase of such tickets, such portion and the remaining portion (if any) of such payment shall be treated as separate amounts for purposes of this subsection.”

26 USC 170 note.

(b) **EFFECTIVE DATE.**—

(1) **IN GENERAL.**—The amendment made by this section shall apply to taxable years beginning after December 31, 1983.

(2) **WAIVER OF STATUTE OF LIMITATIONS.**—If on the date of the enactment of this Act (or at any time within 1 year after such date of enactment) refund or credit of any overpayment of tax resulting from the application of section 170(m) of the 1986 Code (as added by subsection (a)) is barred by any law or rule of law, refund or credit of such overpayment shall, nevertheless, be made or allowed if claim therefore is filed before the date 1 year after the date of the enactment of this Act.

SEC. 6002. NONRECOGNITION OF GAIN WHERE 1 SPOUSE DIES BEFORE OCCUPYING NEW RESIDENCE.

(a) **IN GENERAL.**—Subsection (g) of section 1034 of the 1986 Code (relating to rollover of gain on sale of principal residence) is amended by adding at the end thereof the following: “For purposes of this subsection, except to the extent provided in regulations, in the case of an individual who dies after the date of the sale of the old residence and is married on the date of death, consent to the application of paragraph (2) by such individual’s spouse and use of the new residence as the principal residence of such spouse shall be treated as consent and use by such individual.”

26 USC 1034 note.

(b) **EFFECTIVE DATE.**—The amendment made by paragraph (1) shall apply to sales and exchanges of old residences (within the meaning of section 1034 of the 1986 Code) after December 31, 1984, in taxable years ending after such date.

SEC. 6003. MEALS ON CERTAIN VESSELS AND OFFSHORE OIL PLATFORMS EXEMPT FROM 80 PERCENT LIMITATION ON DEDUCTION FOR MEALS.

(a) **IN GENERAL.**—Paragraph (2) of section 274(n) of the 1986 Code (relating to only 80 percent of meal and entertainment expenses allowed as deduction), as amended by title I of this Act, is amended by striking out “or” at the end of subparagraph (D), by striking out the period at the end of subparagraph (E) and inserting in lieu thereof “, or”, and by adding at the end thereof the following new subparagraph:

“(F) such expense is for food or beverages—

“(i) required by Federal law to be provided to crew members of a commercial vessel,

“(ii) provided to crew members of a commercial vessel—

“(I) which is operating on the Great Lakes, the Saint Lawrence Seaway, or any inland waterway of the United States, and

“(II) which is of a kind which would be required by Federal law to provide food and beverages to crew members if it were operated at sea,

“(iii) provided on an oil or gas platform or drilling rig if the platform or rig is located offshore, or

“(iv) provided on an oil or gas platform or drilling rig, or at a support camp which is in proximity and integral to such platform or rig, if the platform or rig is located in the United States north of 54 degrees north latitude.

Clauses (i) and (ii) of subparagraph (F) shall not apply to vessels primarily engaged in providing luxury water transportation (determined under the principles of subsection (m)).”

(b) EFFECTIVE DATES.—

(1) Clauses (i) and (ii) of section 274(n)(2)(F) of the 1986 Code, as added by subsection (a), shall apply to taxable years beginning after December 31, 1988.

(2) Clauses (iii) and (iv) of section 274(n)(2)(F) of the 1986 Code, as added by subsection (a), shall apply to taxable years beginning after December 31, 1987.

26 USC 274 note.

SEC. 6004. TREATMENT OF CERTAIN INNOCENT SPOUSES.

Subsection (c) of section 424 of the Tax Reform Act of 1984 (relating to innocent spouse relieved of liability in certain cases) is amended by adding at the end thereof the following new paragraph:

“(3) TRANSITIONAL RULE.—If—

“(A) a joint return under section 6013 of the Internal Revenue Code of 1954 was filed before January 1, 1985,

“(B) on such return there is an understatement (as defined in section 6661(b)(2)(A) of such Code) which is attributable to disallowed deductions attributable to activities of one spouse,

“(C) the amount of such disallowed deductions exceeds the taxable income shown on such return,

“(D) without regard to any determination before October 21, 1988, the other spouse establishes that in signing the return he or she did not know, and had no reason to know, that there was such an understatement, and

“(E) the marriage between such spouses terminated and immediately after such termination the net worth of the other spouse was less than \$10,000,

notwithstanding any law or rule of law (including *res judicata*), the other spouse shall be relieved of liability for tax (including interest, penalties, and other amounts) for such taxable year to the extent such liability is attributable to such understatement, and, to the extent the liability so attributable has been collected from such other spouse, it shall be refunded or credited to such other spouse. No credit or refund shall be made under the preceding sentence unless claim therefor has been submitted to

26 USC 6013 note.

the Secretary of the Treasury or his delegate before the date 1 year after the date of the enactment of this paragraph, and no interest on such credit or refund shall be allowed for any period before such date of enactment.”.

20 USC 1113b
note.

SEC. 6005. INTERIM TREATMENT OF CERTAIN AMOUNTS AWARDED TO CHRISTA MCAULIFFE FELLOWS.

(a) **IN GENERAL.**—In the case of an individual who is a Christa McAuliffe Fellow (as defined in section 561(b) of the Higher Education Act of 1965) and is awarded a fellowship pursuant to section 561 of such Act, for purposes of the 1986 Code, gross income shall not include any amount of such fellowship award—

(1) which is expended for a project approved by the Secretary of Education pursuant to section 563(b) of such Act, and

(2) which is not expended directly or indirectly for the personal use or benefit of such individual.

(b) **EFFECTIVE DATE.**—Subsection (a) shall apply to amounts received before July 1, 1990, in taxable years beginning before such date.

SEC. 6006. ELECTION TO CLAIM CERTAIN UNEARNED INCOME OF CHILD ON PARENT'S RETURN.

(a) **IN GENERAL.**—Subsection (i) of section 1 of the 1986 Code (relating to persons required to make returns of income) is amended by adding at the end thereof the following new paragraph:

“(7) **ELECTION TO CLAIM CERTAIN UNEARNED INCOME OF CHILD ON PARENT'S RETURN.**—

“(A) **IN GENERAL.**—If—

“(i) any child to whom this subsection applies has gross income for the taxable year only from interest and dividends (including Alaska Permanent Fund dividends),

“(ii) such gross income is more than \$500 and less than \$5,000,

“(iii) no estimated tax payments for such year are made in the name and TIN of such child, and no amount has been deducted and withheld under section 3406, and

“(iv) the parent of such child (as determined under paragraph (5)) elects the application of subparagraph (B),

such child shall be treated as having no gross income for such year and shall not be required to file a return under section 6012.

“(B) **INCOME INCLUDED ON PARENT'S RETURN.**—In the case of a parent making the election under this paragraph—

“(i) the gross income of each child to whom such election applies (to the extent the gross income of such child exceeds \$1,000) shall be included in such parent's gross income for the taxable year,

“(ii) the tax imposed by this section for such year with respect to such parent shall be the amount equal to the sum of—

“(I) the amount determined under this section after the application of clause (i), plus

“(II) for each such child, the lesser of \$75 or 15 percent of the excess of the gross income of such child over \$500, and

“(iii) any interest which is an item of tax preference under section 57(a)(5) of the child shall be treated as an item of tax preference of such parent (and not of such child).

“(C) REGULATIONS.—The Secretary shall prescribe such regulations as may be necessary or appropriate to carry out the purposes of this paragraph.”

(b) EFFECTIVE DATE.—The amendment made by this section shall apply to taxable years beginning after December 31, 1988. 26 USC 1 note.

SEC. 6007. JURY DUTY PAY REMITTED TO AN INDIVIDUAL'S EMPLOYER ALLOWED AS A DEDUCTION IN COMPUTING GROSS INCOME.

(a) IN GENERAL.—Part VII of subchapter B of chapter 1 of the 1986 Code (relating to additional itemized deductions for individuals) is amended by redesignating section 220 as section 221 and by inserting after section 219 the following new section:

“SEC. 220. JURY DUTY PAY REMITTED TO EMPLOYER.

“If—

“(1) an individual receives payment for the discharge of jury duty, and

“(2) the employer of such individual requires the individual to remit any portion of such payment to the employer in exchange for payment by the employer of compensation for the period the individual was performing jury duty,

then there shall be allowed as a deduction the amount so remitted.”.

(b) DEDUCTION ALLOWED IN ARRIVING AT ADJUSTED GROSS INCOME.—Subsection (a) of section 62 of the 1986 Code (defining adjusted gross income) is amended by inserting after paragraph (12) the following new paragraph:

“(13) JURY DUTY PAY REMITTED TO EMPLOYER.—The deduction allowed by section 220.”.

(c) CLERICAL AMENDMENT.—The table of sections for part VII of subchapter B of chapter 1 of the 1986 Code is amended by striking out the item relating to section 220 and inserting in lieu thereof the following new items:

“Sec. 220. Jury duty pay remitted to employer.

“Sec. 221. Cross references.”.

(d) EFFECTIVE DATE.—The amendments made by this section shall apply as if included in the amendments made by section 132 of the Tax Reform Act of 1986. 26 USC 62 note.

SEC. 6008. BUSINESS USE OF AUTOMOBILES BY RURAL MAIL CARRIERS. 26 USC 162 note.

(a) GENERAL RULE.—In the case of any employee of the United States Postal Service who performs services involving the collection and delivery of mail on a rural route, such employee shall be permitted to compute the amount allowable as a deduction under chapter 1 of the Internal Revenue Code of 1986 for the use of an automobile in performing such services by using a standard mileage rate for all miles of such use equal to 150 percent of the basic standard rate.

(b) SUBSECTION (a) NOT TO APPLY IF EMPLOYEE CLAIMS DEPRECIATION DEDUCTIONS FOR AUTOMOBILE.—Subsection (a) shall not apply with respect to any automobile if, for any taxable year beginning

after December 31, 1987, the taxpayer claimed depreciation deductions for such automobile.

(c) **BASIC STANDARD RATE.**—For purposes of this section, the term “basic standard rate” means the standard mileage rate which is prescribed by the Secretary of the Treasury or his delegate for computing the amount of the deduction for the business use of an automobile and which—

(1) is in effect at the time of the use referred to in subsection (a),

(2) applies to an automobile which is not fully depreciated, and

(3) applies to the first 15,000 miles (or such other number as the Secretary of the Treasury or his delegate may hereafter prescribe) of business use during the taxable year.

(d) **EFFECTIVE DATE.**—The provisions of this section shall apply to taxable years beginning after December 31, 1987.

SEC. 6009. EXCLUSION FROM GROSS INCOME FOR INCOME FROM UNITED STATES SAVINGS BONDS USED TO PAY TUITION AND FEES.

(a) **IN GENERAL.**—Part III of subchapter B of chapter 1 of the 1986 Code (relating to items specifically excluded from gross income) is amended by redesignating section 135 as section 136 and by inserting after section 134 the following new section:

“SEC. 135. INCOME FROM UNITED STATES SAVINGS BONDS USED TO PAY HIGHER EDUCATION TUITION AND FEES.

“(a) **GENERAL RULE.**—In the case of an individual who pays qualified higher education expenses during the taxable year, no amount shall be includible in gross income by reason of the redemption during such year of any qualified United States savings bond.

“(b) **LIMITATIONS.**—

“(1) **LIMITATION WHERE REDEMPTION PROCEEDS EXCEED HIGHER EDUCATION EXPENSES.**—

“(A) **IN GENERAL.**—If—

“(i) the aggregate proceeds of qualified United States savings bonds redeemed by the taxpayer during the taxable year exceed

“(ii) the qualified higher education expenses paid by the taxpayer during such taxable year,

the amount excludable from gross income under subsection (a) shall not exceed the applicable fraction of the amount excludable from gross income under subsection (a) without regard to this subsection.

“(B) **APPLICABLE FRACTION.**—For purposes of subparagraph (A), the term ‘applicable fraction’ means the fraction the numerator of which is the amount described in subparagraph (A)(ii) and the denominator of which is the amount described in subparagraph (A)(i).

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

“(A) **IN GENERAL.**—If the modified adjusted gross income of the taxpayer for the taxable year exceeds \$40,000 (\$60,000 in the case of a joint return), the amount which would (but for this paragraph) be excludable from gross income under subsection (a) shall be reduced (but not below zero) by the amount which bears the same ratio to the amount which would be so excludable as such excess bears to \$15,000 (\$30,000 in the case of a joint return).

“(B) INFLATION ADJUSTMENT.—In the case of any taxable year beginning in a calendar year after 1990, each dollar amount contained in subparagraph (A) shall be increased by an amount equal to—

“(i) such dollar amount, multiplied by

“(ii) the cost-of-living adjustment under section 1(f)(3) for the calendar year in which the taxable year begins, determined by substituting ‘calendar year 1989’ for ‘calendar year 1987’ in subparagraph (B) thereof.

“(C) ROUNDING.—If any amount as adjusted under subparagraph (A) or (B) is not a multiple of \$50, such amount shall be rounded to the nearest multiple of \$50 (or if such amount is a multiple of \$25, such amount shall be rounded to the next highest multiple of \$50).

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

“(1) QUALIFIED UNITED STATES SAVINGS BOND.—The term ‘qualified United States savings bond’ means any United States savings bond issued—

“(A) after December 31, 1989,

“(B) to an individual who has attained age 24 before the date of issuance, and

“(C) at discount under section 3105 of title 31, United States Code.

“(2) QUALIFIED HIGHER EDUCATION EXPENSES.—

“(A) IN GENERAL.—The term ‘qualified higher education expenses’ means tuition and fees required for the enrollment or attendance of—

“(i) the taxpayer,

“(ii) the taxpayer’s spouse, or

“(iii) any dependent of the taxpayer with respect to whom the taxpayer is allowed a deduction under section 151,

at an eligible educational institution.

“(B) EXCEPTION FOR EDUCATION INVOLVING SPORTS, ETC.—Such term shall not include expenses with respect to any course or other education involving sports, games, or hobbies other than as part of a degree program.

“(3) ELIGIBLE EDUCATIONAL INSTITUTION.—The term ‘eligible educational institution’ means—

“(A) an institution described in section 1201(a) or subparagraph (C) or (D) of section 481(a)(1) of the Higher Education Act of 1965 (as in effect on October 21, 1988), and

“(B) an area vocational education school (as defined in subparagraph (C) or (D) of section 521(3) of the Carl D. Perkins Vocational Education Act) which is in any State (as defined in section 521(27) of such Act), as such sections are in effect on October 21, 1988.

“(4) MODIFIED ADJUSTED GROSS INCOME.—The term ‘modified adjusted gross income’ means the adjusted gross income of the taxpayer for the taxable year determined—

“(A) without regard to this section and sections 911, 931, and 933, and

“(B) after the application of sections 86, 469, and 219.

“(d) SPECIAL RULES.—

“(1) ADJUSTMENT FOR CERTAIN SCHOLARSHIPS AND VETERANS BENEFITS.—The amount of qualified higher education expenses otherwise taken into account under subsection (a) respect to the

education of an individual shall be reduced (before the application of subsection (b)) by the sum of the amounts received with respect to such individual for the taxable year as—

“(A) a qualified scholarship which under section 117 is not includable in gross income,

“(B) an educational assistance allowance under chapter 30, 31, 32, 34, or 35 of title 38, United States Code, or

“(C) a payment (other than a gift, bequest, devise, or inheritance within the meaning of section 102(a)) for educational expenses, or attributable to attendance at an eligible educational institution, which is exempt from income taxation by any law of the United States.

“(2) NO EXCLUSION FOR MARRIED INDIVIDUALS FILING SEPARATE RETURNS.—If the taxpayer is a married individual (within the meaning of section 7703), this section shall apply only if the taxpayer and his spouse file a joint return for the taxable year.

“(3) REGULATIONS.—The Secretary may prescribe such regulations as may be necessary or appropriate to carry out this section, including regulations requiring record keeping and information reporting.”

26 USC 135 note.

(b) PROMOTION OF PUBLIC AWARENESS OF PROGRAM.—The Secretary of the Treasury or his delegate shall take such actions as may be necessary to make the general public aware of the program established by this section.

(c) TECHNICAL AMENDMENTS.—

(1) Subparagraph (A) of section 86(b)(2) of the 1986 Code is amended by inserting “135,” before “911”.

(2) Clause (i) of section 219(g)(3)(A) of the 1986 Code is amended by striking “section 911” and inserting “sections 135 and 911”.

(3) Subparagraph (D) of section 469(i)(3) of the 1986 Code is amended by redesignating clauses (ii) and (iii) as clauses (iii) and (iv), respectively, and by inserting after clause (i) the following new clause:

“(ii) the amount excludable from gross income under section 135.”

(4) The table of sections for part III of subchapter B of chapter 1 of the 1986 Code is amended by striking the last item and inserting the following new items:

“Sec. 135. Income from United States savings bonds used to pay higher education tuition and fees.

“Sec. 136. Cross references to other Acts.”

26 USC 86 note.

(d) EFFECTIVE DATE.—The amendments made by this section shall apply to taxable years beginning after December 31, 1989.

26 USC 135 note.

(e) PARENTAL ASSISTANCE WITH TUITION STAMP STUDY.—The Secretary of the Treasury or his delegate, after consultation with the Secretary of Education or his delegate, shall conduct a study of the feasibility of using stamps or similar programs to encourage and facilitate savings by parents towards the purchase of Series EE bonds eligible for the exclusion provided under the amendments made by this section. Not later than December 31, 1989, the Secretary of the Treasury or his delegate shall submit the results of such study, together with any recommendations deemed appropriate, to the Committee on Ways and Means of the House of Representatives and the Committee on Finance of the Senate.

SEC. 6010. MODIFICATION OF ADDITIONAL EXEMPTION FOR STUDENT DEPENDENTS.

(a) **IN GENERAL.**—Clause (ii) of section 151(c)(1)(B) of the 1986 Code (relating to additional exemption for dependents) is amended by inserting “who has not attained the age of 24 at the close of such calendar year” before the period.

(b) **EFFECTIVE DATE.**—The amendment made by subsection (a) shall apply to taxable years beginning after December 31, 1988.

26 USC 151 note.

SEC. 6011. PRINCIPAL RESIDENCE CAPITAL GAINS EXCLUSION.

(a) **IN GENERAL.**—Subsection (d) of section 121 of the Internal Revenue Code of 1986 (relating to one-time exclusion of gain from sale of principal residence by individual who has attained age 55) is amended by adding at the end thereof the following new paragraph:

“(9) **DETERMINATION OF USE DURING PERIODS OF OUT-OF-RESIDENCE CARE.**—In the case of a taxpayer who—

“(A) becomes physically or mentally incapable of self-care, and

“(B) owns property and uses such property as the taxpayer’s principal residence during the 5-year period described in subsection (a)(2) for periods aggregating at least 1 year,

then the taxpayer shall be treated as using such property as the taxpayer’s principal residence during any time during such 5-year period in which the taxpayer owns the property and resides in any facility (including a nursing home) licensed by a State or political subdivision to care for an individual in the taxpayer’s condition.”

(b) **EFFECTIVE DATE.**—The amendment made by subsection (a) shall apply with respect to any sale or exchange after September 30, 1988, in taxable years ending after such date.

26 USC 121 note.

Subtitle B—Provisions Relating to Accounting and Agriculture

SEC. 6026. AMENDMENTS TO UNIFORM CAPITALIZATION RULES.

(a) **TREATMENT OF CERTAIN PRODUCERS OF CREATIVE PROPERTY.**—Section 263A of the 1986 Code is amended by redesignating subsection (h) as subsection (i) and by inserting after subsection (g) the following new subsection:

“(h) **EXEMPTION FOR FREE LANCE AUTHORS, PHOTOGRAPHERS, AND ARTISTS.**—

“(1) **IN GENERAL.**—Nothing in this section shall require the capitalization of any qualified creative expense.

“(2) **QUALIFIED CREATIVE EXPENSE.**—For purposes of this subsection, the term ‘qualified creative expense’ means any expense—

“(A) which is paid or incurred by an individual in the trade or business of such individual (other than as an employee) of being a writer, photographer, or artist, and

“(B) which, without regard to this section, would be allowable as a deduction for the taxable year.

Such term does not include any expense related to printing, photographic plates, motion picture films, video tapes, or similar items.

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

“(A) WRITER.—The term ‘writer’ means any individual if the personal efforts of such individual create (or may reasonably be expected to create) a literary manuscript, musical composition (including any accompanying words), or dance score.

“(B) PHOTOGRAPHER.—The term ‘photographer’ means any individual if the personal efforts of such individual create (or may reasonably be expected to create) a photograph or photographic negative or transparency.

“(C) ARTIST.—

“(i) IN GENERAL.—The term ‘artist’ means any individual if the personal efforts of such individual create (or may reasonably be expected to create) a picture, painting, sculpture, statue, etching, drawing, cartoon, graphic design, or original print edition.

“(ii) CRITERIA.—In determining whether any expense is paid or incurred in the trade or business of being an artist, the following criteria shall be taken into account:

“(I) The originality and uniqueness of the item created (or to be created).

“(II) The predominance of aesthetic value over utilitarian value of the item created (or to be created).

“(D) TREATMENT OF CERTAIN PERSONAL SERVICE CORPORATIONS.—

“(i) IN GENERAL.—In the case of a personal service corporation, this subsection shall apply to any expense of such corporation which directly relates to the activities of the qualified employee-owner in the same manner as if such expense were incurred by such employee-owner.

“(ii) QUALIFIED EMPLOYEE-OWNER.—The term ‘qualified employee-owner’ means any individual who is an employee-owner of the personal service corporation and who is a writer, photographer, or artist, but only if substantially all of the stock of such corporation is owned by such individual and members of his family (as defined in section 267(c)(4)).

“(iii) PERSONAL SERVICE CORPORATION.—For purposes of this subparagraph, the term ‘personal service corporation’ means any personal service corporation (as defined in section 269A(b)).”

(b) TREATMENT OF ANIMALS PRODUCED IN FARMING BUSINESS.—

(1) IN GENERAL.—Subparagraph (A) of section 263A(d)(1) of the 1986 Code (relating to exception for farming businesses) is amended to read as follows:

“(A) IN GENERAL.—This section shall not apply to any of the following which is produced by the taxpayer in a farming business:

“(i) Any animal.

“(ii) Any plant which has a preproductive period of 2 years or less.”

(2) CONFORMING AMENDMENTS.—

(A) The heading of paragraph (1) of section 263A(d) of the 1986 Code is amended to read as follows:

“(1) SECTION NOT TO APPLY TO CERTAIN PROPERTY.—”

(B) Subsections (d)(3) and (e) of section 263A of the 1986 Code are each amended by striking out “or animal” each place it appears.

(c) TREATMENT OF PISTACHIO TREES.—Subparagraph (B) of section 263A(d)(3) of the 1986 Code (relating to certain persons not eligible) is amended to read as follows:

“(B) CERTAIN PERSONS NOT ELIGIBLE.—No election may be made under this paragraph by a corporation, partnership, or tax shelter, if such corporation, partnership, or tax shelter is required to use an accrual method of accounting under section 447 or 448(a)(3).”

(d) EFFECTIVE DATES.—

(1) IN GENERAL.—Except as otherwise provided in this paragraph, the amendments made by this section shall take effect as if included in the amendments made by section 803 of the Tax Reform Act of 1986.

(2) SUBSECTION (b).—

(A) IN GENERAL.—The amendments made by subsection (b) shall apply to costs incurred after December 31, 1988, in taxable years ending after such date.

(B) REVOCATION OF ELECTION.—If the taxpayer made an election under section 263A(d)(3) of the 1986 Code for a taxable year beginning before January 1, 1989, such taxpayer may, without the consent of the Secretary of the Treasury or his delegate, revoke such election effective for the taxpayer’s 1st taxable year beginning after December 31, 1988.

26 USC 263A note.

SEC. 6027. TREATMENT OF SINGLE PURPOSE AGRICULTURAL OR HORTICULTURAL STRUCTURES.

(a) IN GENERAL.—Paragraph (3) of section 168(e) of the 1986 Code (relating to classification of property) is amended by redesignating subparagraphs (D) and (E) as subparagraphs (E) and (F), respectively, and by inserting after subparagraph (C) the following new subparagraph:

“(D) 10-YEAR PROPERTY.—The term ‘10-year property’ includes any single purpose agricultural or horticultural structure (within the meaning of section 48(p)).”

(b) TECHNICAL AMENDMENTS.—

(1) Subparagraph (C) of section 168(e)(3) of the 1986 Code is amended by adding “and” at the end of clause (i), by striking out clause (ii), and by redesignating clause (iii) as clause (ii).

(2) The table contained in subparagraph (B) of section 168(g)(3) of the 1986 Code is amended by striking out all that follows the item relating to subparagraph (C)(i) and inserting in lieu thereof the following new items:

| | |
|----------------|------|
| “(D).....” | 15 |
| “(E)(i).....” | 24 |
| “(E)(ii).....” | 24 |
| “(F).....” | 50”. |

(c) EFFECTIVE DATE.—

(1) IN GENERAL.—Except as provided in paragraph (2), the amendments made by this section shall apply to property placed in service after December 31, 1988.

(2) EXCEPTION.—The amendments made by this section shall not apply to any property if such property is placed in service before January 1, 1990, and if such property—

26 USC 168 note.

(A) is constructed, reconstructed, or acquired by the taxpayer pursuant to a written contract which was binding on July 14, 1988, or

(B) is constructed or reconstructed by the taxpayer and such construction or reconstruction began by July 14, 1988.

SEC. 6028. TREATMENT OF PROPERTY USED IN A FARMING BUSINESS.

(a) **IN GENERAL.**—Paragraph (2) of section 168(b) of the 1986 Code (as amended by title I) is amended by striking out “or” at the end of subparagraph (A), by redesignating subparagraph (B) as subparagraph (C), and by inserting after subparagraph (A) the following new subparagraph:

“(B) any property used in a farming business (within the meaning of section 263A(e)(4)), or”.

26 USC 168 note.

(b) **EFFECTIVE DATE.**—

(1) **IN GENERAL.**—Except as provided in paragraph (2), the amendments made by this section shall apply to property placed in service after December 31, 1988.

(2) **EXCEPTION.**—The amendments made by this section shall not apply to any property if such property is placed in service before July 1, 1989, and if such property—

(A) is constructed, reconstructed, or acquired by the taxpayer pursuant to a written contract which was binding on July 14, 1988, or

(B) is constructed or reconstructed by the taxpayer and such construction or reconstruction began by July 14, 1988.

SEC. 6029. TREATMENT OF CERTAIN TREES.

(a) **IN GENERAL.**—Subparagraph (D) of section 168(e)(3) of the 1986 Code (relating to classification of certain property), as amended by section 6027 of this Act, is amended to read as follows:

“(D) 10-YEAR PROPERTY.—The term ‘10-year property’ includes—

“(i) any single purpose agricultural or horticultural structure (within the meaning of section 48(p)), and
“(ii) any tree or vine bearing fruit or nuts.”

(b) **ONLY STRAIGHT-LINE DEPRECIATION ALLOWED.**—Paragraph (3) of section 168(b) of the 1986 Code is amended by adding at the end thereof the following new subparagraph:

“(D) Property described in subsection (e)(3)(D)(ii).”

(c) **CLASS LIFE DETERMINATION.**—The table contained in subparagraph (B) of section 168(g)(3) of the 1986 Code, as amended by section 6027 of this Act, is amended by striking out the item relating to subparagraph (D) and inserting in lieu thereof the following new item:

| | |
|---------------|------|
| “(D)(i)..... | 15 |
| “(D)(ii)..... | 20”. |

26 USC 168 note.

(d) **EFFECTIVE DATE.**—The amendments made by this section shall apply to property placed in service after December 31, 1988.

SEC. 6030. ONE-YEAR DEFERRAL OF PROCEEDS FROM LIVESTOCK SOLD ON ACCOUNT OF DROUGHT.

(a) **IN GENERAL.**—Paragraph (1) of section 451(e) of the 1986 Code (relating to special rule for proceeds from livestock sold on account of drought) is amended by striking out “(other than livestock described in section 1231(b)(3))”.

26 USC 451 note.

(b) **EFFECTIVE DATE.**—The amendment made by subsection (a) shall apply to sales or exchanges occurring after December 31, 1987.

SEC. 6031. CERTAIN REPLEDGES PERMITTED.26 USC 453A
note.

(a) **GENERAL RULE.**—Section 453A(d) of the 1986 Code (relating to pledges, etc., of installment obligations) shall not apply to any pledge after December 17, 1987, of an installment obligation to secure any indebtedness if such indebtedness is incurred to refinance indebtedness which was outstanding on December 17, 1987, and which was secured on such date and all times thereafter before such refinancing by a pledge of such installment obligation.

(b) **LIMITATION.**—Subsection (a) shall not apply to the extent that the principal amount of the indebtedness resulting from the refinancing exceeds the principal amount of the refinanced indebtedness immediately before the refinancing.

(c) **CERTAIN REFINANCINGS PERMITTED.**—For purposes of subsection (a), if—

(1) a refinancing is attributable to the calling of indebtedness by the creditor, and

(2) such refinancing is not with the creditor under the refinanced indebtedness or a person related to such creditor, such refinancing shall, to the extent the refinanced indebtedness qualifies under subsections (a) and (b), be treated as a continuation of such refinanced indebtedness.

SEC. 6032. TREATMENT OF INDIRECT HOLDINGS THROUGH TRUSTS UNDER SECTION 448 OF THE 1986 CODE.

(a) **GENERAL RULE.**—Paragraph (2) of section 448(d) of the 1986 Code (defining qualified personal service corporation) is amended by adding at the end thereof the following new sentence:

“To the extent provided in regulations which shall be prescribed by the Secretary, indirect holdings through a trust shall be taken into account under subparagraph (B).”

(b) **EFFECTIVE DATE.**—The amendment made by subsection (a) shall apply to taxable years beginning after December 31, 1986.

26 USC 448 note.

SEC. 6033. DISASTER ASSISTANCE ACT PAYMENTS INCLUDED IN SPECIAL RULE FOR TAXABLE YEAR OF INCLUSION.

(a) **DISASTER ASSISTANCE PAYMENTS.**—The second sentence of section 451(d) of the 1986 Code (relating to special rule for crop insurance proceeds or disaster payments) is amended by inserting “or title II of the Disaster Assistance Act of 1988,” after “the Agricultural Act of 1949, as amended.”

(b) **EFFECTIVE DATE.**—The amendment made by paragraph (1) shall apply to payments received before, on, or after the date of enactment of this Act.

26 USC 451 note.

Subtitle C—Pensions and Employee Benefits**SEC. 6051. PROVISIONS RELATING TO BENEFITS UNDER DISCRIMINATORY PLANS.**

(a) **PROVISIONS NOT TO APPLY TO CHURCH PLANS.**—Section 89(i) of the 1986 Code is amended by adding at the end thereof the following new paragraph:

“(4) **CHURCH PLANS.**—The term ‘statutory employee benefit plan’ shall not include a plan maintained by a church for church employees. For purposes of this paragraph, the term ‘church’ has the meaning given such term by section

3121(w)(3)(A), including a qualified church-controlled organization (as defined in section 3121(w)(3)(B)).”

(b) **CAFETERIA PLANS MAINTAINED BY EDUCATIONAL INSTITUTIONS.**—Section 125(c)(2)(C) of the 1986 Code is amended by adding at the end thereof the following new sentence: “In applying section 89 to a plan described in this subparagraph, contributions under the plan shall be tested as of the time the contributions were made.”

26 USC 89 note.

(c) **EFFECTIVE DATE.**—The amendments made by this section shall take effect as if included in the amendments made by section 1151 of the Reform Act.

SEC. 6052. MODIFICATIONS OF DISCRIMINATION RULES APPLICABLE TO CERTAIN ANNUITY CONTRACTS.

(a) **EXCLUDED EMPLOYEES.**—

(1) **IN GENERAL.**—The last sentence of section 403(b)(12)(A) of the 1986 Code is amended to read as follows: “Subject to the conditions applicable under section 410(b)(4), there may be excluded for purposes of this subparagraph employees who are students performing services described in section 3121(b)(10) and employees who normally work less than 20 hours per week.”

26 USC 403 note.

(2) **EFFECTIVE DATE.**—The amendment made by paragraph (1) shall take effect as if included in the amendment made by section 1120(b) of the Reform Act.

26 USC 403 note.

(b) **SAMPLING.**—In the case of plan years beginning in 1989, 1990, or 1991, determinations as to whether a plan meets the requirements of section 403(b)(12) of the 1986 Code may be made on the basis of a statistically valid random sample. The preceding sentence shall apply only if—

(1) the sampling is conducted by an independent person in a manner not inconsistent with regulations prescribed by the Secretary, and

(2) the statistical method and sample size result in a 95 percent probability that the results will have a margin of error not greater than 3 percent.

SEC. 6053. REQUIRED DISTRIBUTION BEGINNING DATE FOR GOVERNMENTAL AND CHURCH PLANS.

(a) **IN GENERAL.**—Section 401(a)(9)(C) of the 1986 Code is amended by adding at the end thereof the following new sentence: “In the case of a governmental plan or church plan (as defined in section 89(i)(4)), the required beginning date shall be the later of the date determined under the preceding sentence or April 1 of the calendar year following the calendar year in which the employee retires.”

26 USC 401 note.

(b) **EFFECTIVE DATE.**—The amendment made by subsection (a) shall take effect as if included in the amendments made by section 1121 of the Reform Act.

SEC. 6054. SECTION 415 LIMITATION FOR STATE AND LOCAL PLANS.

(a) **MODIFIED LIMITATIONS.**—Section 415(b) of the 1986 Code is amended by adding at the end thereof the following new paragraph:

“(10) **SPECIAL RULE FOR STATE AND LOCAL GOVERNMENT PLANS.**—

“(A) **LIMITATION TO EQUAL ACCRUED BENEFIT.**—In the case of a plan maintained for its employees by any State or political subdivision thereof, or by any agency or instrumentality of the foregoing, the limitation with respect to a qualified participant under this subsection shall

not be less than the accrued benefit of the participant under the plan (determined without regard to any amendment of the plan made after October 14, 1987).

“(B) **QUALIFIED PARTICIPANT.**—For purposes of this paragraph, the term ‘qualified participant’ means a participant who first became a participant in the plan maintained by the employer before January 1, 1990.

“(C) **ELECTION.**—This paragraph shall not apply to any plan unless each employer maintaining the plan elects before the close of the 1st plan year beginning after December 31, 1989, to have this subsection (other than paragraph (2)(G)) applied without regard to paragraph (2)(F).”

(b) **EFFECTIVE DATES.**—

26 USC 415 note.

(1) **IN GENERAL.**—Except as provided in this subsection, the amendment made by this subsection apply to years beginning after December 31, 1982.

(2) **ELECTION.**—Section 415(b)(10)(C) of the 1986 Code (as added by subsection (a)) shall not apply to any year beginning before January 1, 1990.

SEC. 6055. MINIMUM PARTICIPATION STANDARDS.

(a) **IN GENERAL.**—Section 401(a)(26) of the 1986 Code, as amended by this Act, is amended by redesignating subparagraph (H) as subparagraph (I) and by inserting after subparagraph (G) the following new subparagraph:

“(H) **SPECIAL RULE FOR CERTAIN POLICE OR FIREFIGHTERS.**—

“(i) **IN GENERAL.**—An employer may elect to have this paragraph applied separately with respect to any classification of qualified public safety employees for whom a separate plan is maintained.

“(ii) **QUALIFIED PUBLIC SAFETY EMPLOYEE.**—For purposes of this subparagraph, the term ‘qualified public safety employee’ means any employee of any police department or fire department organized and operated by a State or political subdivision if the employee provides police protection, firefighting services, or emergency medical services for any area within the jurisdiction of such State or political subdivision.”

(b) **EFFECTIVE DATE.**—The amendment made by this section shall take effect as if included in the amendments made by section 1112(b) of the Reform Act.

26 USC 401 note.

SEC. 6056. STUDY OF EFFECT OF MINIMUM PARTICIPATION RULE ON EMPLOYERS REQUIRED TO PROVIDE CERTAIN RETIREMENT BENEFITS.

(a) **STUDY.**—The Secretary of the Treasury or his delegate shall conduct a study on the application of section 401(a)(26) of the Internal Revenue Code of 1986 to Government contractors who—

(1) are required by Federal law to provide certain employees specified retirement benefits, and

(2) establish a separate plan for such employees while maintaining a separate plan for employees who are not entitled to such benefits.

Such study shall consider the Federal requirements with respect to employee benefits for employees of Government contractors, whether a special minimum participation rule should apply to such

employees, and methods by which plans may be modified to satisfy minimum participation requirements.

(b) **REPORT.**—The Secretary of the Treasury or his delegate shall report the results of the study under subsection (a) to the Committee on Finance of the Senate and the Committee on Ways and Means of the House of Representatives not later than September 1, 1989.

SEC. 6057. PROHIBITION ON COLLECTIBLES NOT TO INCLUDE STATE COINS.

(a) **IN GENERAL.**—Paragraph (3) of section 408(m) of the 1986 Code is amended to read as follows:

“(3) **EXCEPTION FOR CERTAIN COINS.**—In the case of an individual retirement account, paragraph (2) shall not apply to—

“(A) any gold coin described in paragraph (7), (8), (9), or (10) of section 5112(a) of title 31,

“(B) any silver coin described in section 5112(e) of title 31, or

“(C) any coin issued under the laws of any State.”

26 USC 408 note.

(b) **EFFECTIVE DATE.**—The amendments made by subsection (a) shall apply to acquisitions after the date of the enactment of this Act.

SEC. 6058. APPLICATION OF FUNDING RULES TO MULTIPLE EMPLOYER PLANS.

(a) **IN GENERAL.**—Paragraph (4) of section 413(c) of the 1986 Code is amended to read as follows:

“(4) **FUNDING.**—

“(A) **IN GENERAL.**—In the case of a plan established after December 31, 1988, each employer shall be treated as maintaining a separate plan for purposes of section 412 unless such plan uses a method for determining required contributions which provides that any employer contributes not less than the amount which would be required if such employer maintained a separate plan.

“(B) **OTHER PLANS.**—In the case of a plan not described in subparagraph (A), the requirements of section 412 shall be determined as if all participants in the plan were employed by a single employer unless the plan administrator elects not later than the close of the first plan year of the plan beginning after the date of enactment of the Technical and Miscellaneous Revenue Act of 1988 to have the provisions of subparagraph (A) apply. An election under the preceding sentence shall take effect for the plan year in which made and, once made, may be revoked only with the consent of the Secretary.”

(b) **DEDUCTION LIMITATIONS.**—Paragraph (6) of section 413(c) of the 1986 Code is amended to read as follows:

“(6) **DEDUCTION LIMITATIONS.**—

“(A) **IN GENERAL.**—In the case of a plan established after December 31, 1988, each applicable limitation provided by section 404(a) shall be determined as if each employer were maintaining a separate plan.

“(B) **OTHER PLANS.**—

“(i) **IN GENERAL.**—In the case of a plan not described in subparagraph (A), each applicable limitation provided by section 404(a) shall be determined as if all participants in the plan were employed by a single

employer, except that if an election is made under paragraph (4)(B), subparagraph (A) shall apply to such plan.

“(ii) SPECIAL RULE.—If this subparagraph applies, the amounts contributed to or under the plan by each employer who maintains the plan (for the portion of the taxable year included within a plan year) shall be considered not to exceed any such limitation if the anticipated employer contributions for such plan year (determined in a reasonable manner not inconsistent with regulations prescribed by the Secretary) do not exceed such limitation. If such anticipated contributions exceed such a limitation, the portion of each such employer’s contributions which is not deductible under section 404 shall be determined in accordance with regulations prescribed by the Secretary.”

(c) CONFORMING AMENDMENT.—Section 413(c) of the 1986 Code is amended by striking out the last sentence and by inserting after paragraph (6) the following new paragraph:

“(7) ALLOCATIONS.—

“(A) IN GENERAL.—Except as provided in subparagraph (B), allocations of amounts under paragraphs (4), (5), and (6) among the employers maintaining the plan shall not be inconsistent with regulations prescribed for this purpose by the Secretary.

“(B) ASSET AND LIABILITIES OF PLAN.—For purposes of applying paragraphs (4)(A) and (6)(A), the assets and liabilities of each plan shall be treated as the assets and liabilities which would be allocated to a plan maintained by the employer if the employer withdrew from the multiple employer plan.”

(d) EFFECTIVE DATE.—Except as provided in paragraph (2), the amendments made by this section shall apply to plan years beginning after the date of the enactment of this Act.

26 USC 413 note.

SEC. 6059. APPLICATION OF SECTION 415 LIMITATIONS TO POLICE AND FIREFIGHTERS.

(a) IN GENERAL.—Clause (ii) of section 415(b)(2)(H) of the 1986 Code is amended by striking out “20 years” and inserting in lieu thereof “15 years”.

(b) EFFECTIVE DATE.—The amendment made by this section shall apply as if included in the amendments made by section 1106(b)(2) of the Reform Act.

26 USC 415 note.

SEC. 6060. EXCISE TAX ON DISPOSITION OF STOCK BY AN ESOP NOT TO APPLY TO CERTAIN FORCED DISPOSITIONS.

(a) IN GENERAL.—Subsection (e) of section 4978A of the 1986 Code is amended by adding at the end thereof the following new paragraph:

“(4) FORCED DISPOSITION OCCURRING BY OPERATION OF A STATE LAW.—Any forced disposition of qualified employer securities by the employee stock ownership plan of a corporation occurring by operation of a State law shall not be treated as a disposition. This paragraph shall only apply to securities which, at the time such securities were purchased by the employee stock ownership plan, were regularly traded on an established securities market.”

26 USC 4978
note.

(b) **EFFECTIVE DATE.**—The amendment made by subsection (a) shall take effect as if included in the amendment made by section 10413 of the Revenue Act of 1987.

26 USC 133 note.

SEC. 6061. LOANS TO ACQUIRE EMPLOYER SECURITIES.

Notwithstanding the last sentence of section 111B(h)(5)(A) of this Act, the amendments made by paragraphs (1) and (2) of section 111B(h) of this Act shall not apply to any loan used to refinance a loan described in section 133(b)(1)(A) of the 1986 Code which is made before October 22, 1986, if the terms of the refinanced loan do not extend the total commitment period beyond the later of—

- (1) the term of the original securities acquisition loan, or
- (2) the amortization period used to determine the regular payments (prior to any final or balloon payment) applicable to the original securities acquisition loan.

SEC. 6062. EFFECTIVE DATE OF SECTION 415 LIMITATIONS OF COLLECTIVELY BARGAINED AGREEMENTS.

26 USC 415 note.

(a) **IN GENERAL.**—Paragraph (2) of section 1106(i) of the Reform Act is amended to read as follows:

“(2) **COLLECTIVE BARGAINING AGREEMENTS.**—In the case of a plan in effect before March 1, 1986, pursuant to 1 or more collective bargaining agreements between employee representatives and 1 or more employers, the amendments made by this section (other than subsection (d)) shall not apply to contributions or benefits pursuant to such agreement in years beginning before October 1, 1991.”

26 USC 415 note.

(b) **EFFECTIVE DATE.**—The amendment made by this section shall take effect as if included in the provisions of section 1106 of the Reform Act.

26 USC 125 note.

SEC. 6063. TREATMENT OF PRE-1989 ELECTIONS FOR DEPENDENT CARE ASSISTANCE UNDER CAFETERIA PLANS.

For purposes of section 125 of the 1986 Code, a plan shall not be treated as failing to be a cafeteria plan solely because under the plan a participant elected before January 1, 1989, to receive reimbursement under the plan for dependent care assistance for periods after December 31, 1988, and such assistance is includible in gross income under the provisions of the Family Support Act of 1988.

SEC. 6064. MODIFICATIONS TO SECTION 457.

Government
organization
and employees.

(a) **CODIFICATION OF EXCEPTION FOR CERTAIN PLANS.**—

(1) Subsection (e) of section 457 of the 1986 Code (as amended by section 1107 of the Reform Act) is amended by adding at the end thereof the following new paragraph:

“(11) **CERTAIN PLANS EXCEPTED.**—Any bona fide vacation leave, sick leave, compensatory time, severance pay, disability pay, or death benefit plan shall be treated as a plan not providing for the deferral of compensation.”

(2) Subsection (d) of section 457 of the 1986 Code (as in effect on the day before the date of the enactment of the Reform Act) is amended by adding at the end thereof the following new paragraph:

“(10) **CERTAIN PLANS EXCEPTED.**—Any bona fide vacation leave, sick leave, compensatory time, severance pay, disability

pay, or death benefit plan shall be treated as a plan not providing for the deferral of compensation.”

(b) TREATMENT OF NONELECTIVE DEFERRED COMPENSATION OF NONEMPLOYEES.—

(1) Subsection (e) of section 457 of the 1986 Code (as amended by section 1107 of the Reform Act) is amended by adding at the end thereof the following new paragraph:

“(12) EXCEPTION FOR NONELECTIVE DEFERRED COMPENSATION OF NONEMPLOYEES.—

“(A) IN GENERAL.—This section shall not apply to nonelective deferred compensation attributable to services not performed as an employee.

“(B) NONELECTIVE DEFERRED COMPENSATION.—For purposes of subparagraph (A), deferred compensation shall be treated as nonelective only if all individuals (other than those who have not satisfied any applicable initial service requirement) with the same relationship to the payor are covered under the same plan with no individual variations or options under the plan.”

(2) Subsection (d) of section 457 of the 1986 Code (as in effect on the day before the date of the enactment of the Reform Act) is amended by adding at the end thereof the following new paragraph:

“(11) EXCEPTION FOR NONELECTIVE DEFERRED COMPENSATION OF NONEMPLOYEES.—

“(A) IN GENERAL.—This section shall not apply to nonelective deferred compensation attributable to services not performed as an employee.

“(B) NONELECTIVE DEFERRED COMPENSATION.—For purposes of subparagraph (a), deferred compensation shall be treated as nonelective only if all individuals (other than those who have not satisfied any applicable initial service requirement) with the same relationship to the payor are covered under the same plan with no individual variations or options under the plan.”

(c) SECTION NOT TO APPLY TO CHURCH PLANS.—Section 457(e) of the 1986 Code (as amended by section 1107 of the Reform Act) is amended by adding at the end thereof the following new paragraph:

“(13) EXCEPTION FOR CHURCH PLANS.—The term ‘eligible deferred compensation plan’ shall not include a plan maintained by a church for church employees. For purposes of this paragraph, the term ‘church’ has the meaning given such term by section 3121(w)(3)(A), including a qualified church-controlled organization (as defined in section 3121(w)(3)(B)).”

(d) EFFECTIVE DATE.—

(1) **IN GENERAL.—**The amendments made by this section shall apply to taxable years beginning after December 31, 1987.

(2) EXCEPTION FOR CERTAIN COLLECTIVELY BARGAINED PLANS.—

(A) IN GENERAL.—Section 457 of the 1986 Code (as in effect before and after the amendments made by section 1107 of the Reform Act) shall not apply to nonelective deferred compensation provided under a plan in existence on December 31, 1987, and maintained pursuant to a collective bargaining agreement.

(B) NONELECTIVE PLAN.—For purposes of this paragraph, a nonelective plan is a plan which covers a broad group of employees and under which the covered employees earn

26 USC 457 note.

nonelective deferred compensation under a definite, fixed and uniform benefit formula.

(C) **TERMINATION.**—This paragraph shall cease to apply to a plan as of the effective date of the first material modification of the plan agreed to after December 31, 1987.

(3) **TREATMENT OF CERTAIN NONELECTIVE DEFERRED COMPENSATION.**—Section 457 of the 1986 Code shall not apply to amounts deferred under a nonelective deferred compensation plan maintained by an eligible employer described in section 457(e)(1)(A) of the 1986 Code (as in effect after the Reform Act)—

(A) if such amounts were deferred from periods before July 14, 1988, or

(B) if—

(i) such amounts are deferred from periods on or after such date pursuant to an agreement which—

(I) was in writing on such date, and

(II) on such date provides for a deferral for each taxable year covered by the agreement of a fixed amount or of an amount determined pursuant to a fixed formula, and

(ii) the individual with respect to whom the deferral is made was covered under such agreement on such date.

Subparagraph (B) shall not apply to any taxable year ending after the date on which any modification of the amount or formula described in subparagraph (B)(i)(II) agreed to in writing before January 1, 1989, is effective. The preceding sentence shall not apply to a modification agreed to in writing before January 1, 1989, which does not increase any benefit of a participant. Amounts described in the first sentence of this paragraph shall be taken into account for purposes of applying section 457 of the 1986 Code to other amounts deferred under any eligible deferred compensation plan.

(4) **STUDY.**—The Secretary of the Treasury or his delegate shall conduct a study on the tax treatment of deferred compensation paid by State and local governments and tax-exempt organizations (including deferred compensation paid to independent contractors). Not later than January 1, 1990, the Secretary shall submit to the Committee on Ways and Means of the House of Representatives and the Committee on Finance of the Senate a report on the study conducted under this paragraph together with such recommendations as he may deem advisable.

Reports.

26 USC 401 note. **SEC. 6065. EXCEPTION FOR GOVERNMENTAL PLANS.**

In the case of plan years beginning before January 1, 1993, section 401(a)(26) of the 1986 Code shall not apply to any governmental plan (within the meaning of section 414(d) of such Code) with respect to employees who were participants in such plan on July 14, 1988.

SEC. 6066. AIR TRANSPORTATION OF CARGO AND OF PASSENGERS TREATED AS SAME SERVICE FOR PURPOSES OF FRINGE BENEFITS INCLUSION.

(a) **IN GENERAL.**—Subsection (h) of section 132 of the 1986 Code is amended by adding at the end thereof the following new paragraph:

“(8) AIR CARGO.—For purposes of subsection (b), the transportation of cargo by air and the transportation of passengers by air shall be treated as the same service.”

(b) **EFFECTIVE DATE.**—The amendment made by subsection (a) shall apply to transportation furnished after December 31, 1987, in taxable years ending after such date.

26 USC 132 note.

SEC. 6067. SPECIAL RULE FOR APPLYING SPIN-OFF RULES TO BRIDGE BANKS.

(a) **IN GENERAL.**—Section 414(1)(2) of the 1986 Code is amended by adding at the end thereof the following new subparagraph:

“(G) **SPECIAL RULES FOR BRIDGE BANKS.**—For purposes of this paragraph, in the case of a bridge bank established under section 11(i) of the Federal Deposit Insurance Act (12 U.S.C. 1821(i))—

“(i) such bank shall be treated as a member of any controlled group which includes any insured bank (as defined in section 3(h) of such Act (12 U.S.C. 1813(h)))—

“(I) which maintains a defined benefit plan,

“(II) which is closed by the appropriate bank regulatory authorities, and

“(III) any asset and liabilities of which are received by the bridge bank, and

“(ii) the requirements of this paragraph shall not be treated as met with respect to such plan unless during the 180-day period beginning on the date such insured bank is closed—

“(I) the bridge bank has the right to require the plan to transfer (subject to the provisions of this paragraph) not more than 50 percent of the excess assets (as defined in subparagraph (C)) to a defined benefit plan maintained by the bridge bank with respect to participants or former participants (including retirees and beneficiaries) in the original plan employed by the bridge bank or formerly employed by the closed bank, and

“(II) no other merger, spin-off, termination, or similar transaction involving the portion of the excess assets described in subclause (I) may occur without the prior written consent of the bridge bank.”

(b) **STUDY.**—The Secretary of the Treasury or his delegate, in consultation with the Federal Deposit Insurance Corporation, shall conduct a study with respect to the proper method of allocating assets in the case of a transaction to which the amendment made by this subsection applies. The Secretary of the Treasury shall not later than January 1, 1990, report the results of such study to the Committee on Ways and Means of the House of Representatives and to the Committee on Finance of the Senate.

26 USC 414 note.

Reports.

(c) **EFFECTIVE DATE.**—The amendment made by this section shall take effect as if included in the amendments made by section 205(c) of this Act.

26 USC 414 note.

SEC. 6068. INCOME AVERAGING ALLOWED TO LUMP-SUM DISTRIBUTIONS OF ALTERNATE PAYEES.

(a) **IN GENERAL.**—Section 402(e)(4) of the 1986 Code is amended by adding at the end thereof the following new subparagraph:

“(O) LUMP-SUM DISTRIBUTIONS OF ALTERNATE PAYEES.—If any distribution or payment of the balance to the credit of an employee would be treated as a lump-sum distribution, then, for purposes of this subsection, the payment under a qualified domestic relations order (within the meaning of section 414(p)) of the balance to the credit of an alternate payee who is the spouse or former spouse of the employee shall be treated as a lump-sum distribution. For purposes of this subparagraph, the balance to the credit of the alternate payee shall not include any amount payable to the employee.”

26 USC 402 note. (b) **EFFECTIVE DATE.**—The amendment made by this section shall apply to taxable years ending after December 31, 1984.

SEC. 6069. INCREASE IN EMPLOYER REVERSION TAX.

(a) **IN GENERAL.**—Section 4980(a) of the 1986 Code is amended by striking out “10 percent” and inserting in lieu thereof “15 percent”.

26 USC 4980
note.

(b) **EFFECTIVE DATE.**—

(1) **IN GENERAL.**—The amendment made by subsection (a) shall apply to reversions occurring on or after October 21, 1988.

(2) **EXCEPTION.**—The amendment made by subsection (a) shall not apply to any reversion on or after October 21, 1988, pursuant to a plan termination if—

(A) with respect to plans subject to title IV of the Employee Retirement Income Security Act of 1974, a notice of intent to terminate required under such title was provided to participants (or if no participants, to the Pension Benefit Guaranty Corporation) before October 21, 1988,

(B) with respect to plans subject to title I of such Act, a notice of intent to reduce future accruals required under section 204(h) of such Act was provided to participants in connection with the termination before October 21, 1988,

(C) with respect to plans not subject to title I or IV of such Act, the Board of Directors of the employer approved the termination or the employer took other binding action before October 21, 1988, or

(D) such plan termination was directed by a final order of a court of competent jurisdiction entered before October 21, 1988, and notice of such order was provided to participants before such date.

26 USC 89 note. **SEC. 6070. DEFINITION OF PART-TIME EMPLOYEE FOR PURPOSES OF SECTION 89.**

For purposes of section 89(f) of the 1986 Code, in the case of a plan maintained by an employer which employs fewer than 10 employees on a normal working day during a plan year, section 89(h)(1)(B) of such Code shall be applied—

(1) by substituting “35 hours” for “17½ hours” in the case of a plan year beginning in 1989, and

(2) by substituting “25 hours” for “17½ hours” in the case of plan years beginning in 1990.

All persons treated as 1 employer for purposes of subsection (b), (c), (m), (n), or (o) of section 414 of the 1986 Code shall be treated as 1 employer for purposes of the preceding sentence.

SEC. 6071. RURAL TELEPHONE COOPERATIVES PERMITTED TO HAVE QUALIFIED CASH OR DEFERRED ARRANGEMENTS.

(a) **IN GENERAL.**—Paragraphs (1) and (2) of section 401(k) of the 1986 Code (relating to cash or deferred arrangements) are each amended by striking out “or a rural electric cooperative plan” and inserting in lieu thereof “or a rural cooperative plan”.

(b) RURAL COOPERATIVE PLAN DEFINED.—

(1) Paragraph (7) of section 401(k) of the 1986 Code (as amended by title I) is amended to read as follows:

“(7) **RURAL COOPERATIVE PLAN.**—For purposes of this subsection—

“(A) **IN GENERAL.**—The term ‘rural cooperative plan’ means any pension plan—

“(i) which is a defined contribution plan (as defined in section 414(i)), and

“(ii) which is established and maintained by a rural cooperative.

“(B) **RURAL COOPERATIVE DEFINED.**—For purposes of subparagraph (A), the term ‘rural cooperative’ means—

“(i) any organization which—

“(I) is exempt from tax under this subtitle or which is a State or local government or political subdivision thereof (or agency or instrumentality thereof), and

“(II) is engaged primarily in providing electric service on a mutual or cooperative basis,

“(ii) any organization described in paragraph (4) or (6) of section 501(c) and at least 80 percent of the members of which are organizations described in clause (i),

“(iii) a cooperative telephone company described in section 501(c)(12), and

“(iv) an organization which is a national association of organizations described in clause (i), (ii), or (iii).”

(2) Subparagraph (B) of section 401(k)(4) of the 1986 Code (as amended by title I) is amended by striking out “rural electric plan” and inserting in lieu thereof “rural cooperative plan”.

(c) **AMENDMENTS TO SECTION 457.**—Section 457 of the 1986 Code (as amended by section 1107 of the Reform Act) is amended by striking out “rural electric cooperative plan” in subsection (c)(2) and inserting in lieu thereof “rural cooperative plan”.

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

26 USC 401 note.

SEC. 6072. STUDY OF TREATMENT OF CERTAIN TECHNICAL PERSONNEL.

The Secretary of the Treasury or his delegate shall conduct a study of the treatment provided by section 1706 of the Reform Act (relating to treatment of certain technical personnel). The report of such study shall be submitted not later than September 1, 1989, to the Committee on Ways and Means of the House of Representatives and the Committee on Finance of the Senate.

Reports.

Subtitle D—Insurance Provisions

26 USC 801 note. SEC. 6076. TREATMENT OF CERTAIN WORKERS' COMPENSATION FUNDS.

(a) **TREATMENT FOR TAXABLE YEARS BEGINNING BEFORE 1987.**—In the case of any taxable year beginning before January 1, 1987, a deficiency shall not be assessed against (and if assessed, shall not be collected from) any qualified group self-insurers' fund to the extent such deficiency is attributable to the timing of policyholder dividend deductions.

(b) **QUALIFIED GROUP SELF-INSURERS' FUND.**—For purposes of this section, the term "qualified group self-insurers' fund" means any group of 2 or more employers which has been in existence for not less than 2 years, and who enter into agreements to pool their liabilities under the State workers' disability compensation laws for the purpose of qualifying as a self-insurer under such laws, if—

(1) the group has received a certificate of approval from, and is subject to regulation by, the State board or agency that is responsible for administering the State workers' disability compensation laws,

(2) each employer who is a member of the group, by written agreement, is jointly and severally bound to assume and discharge, by payment, any lawful judgment or award entered by a court of competent jurisdiction or by the State agency responsible for administering the State workers' disability compensation laws against a member of the group,

(3) the group is prohibited by State law or regulation from using the monies collected for a purpose other than to pay, or to reserve against, claims under the State workers' disability compensation laws and expenses,

(4) the group is prohibited by State law or regulation from taking projected investment income into account in determining members' premiums,

(5) the group is required by State law or regulation to submit to the State board or agency that is responsible for administering the State workers' disability compensation laws an audited financial statement,

(6) the group's investments are limited by State law or regulation to bonds, notes, or other evidences of indebtedness issued, assumed or guaranteed by the United States of America, or by an agency or instrumentality thereof, certificates of deposit in a federally insured bank, shares or savings deposits in a federally insured savings and loan association or credit union, and certificates of deposit issued by a commercial bank duly chartered under State law, and other investments which are approved by the State board or agency that is responsible for administering the State workers' disability compensation laws, and

(7) the group exclusively covers workers' compensation liability, is not a commercial insurance carrier or company licensed by the State board, agency, or commissioner responsible for regulating and licensing insurance carriers and companies; and is not subject to filing under the regulatory statements of the National Association of Insurance Commissioners.

SEC. 6077. SPECIAL ESTIMATED TAX PAYMENTS.

(a) **GENERAL RULE.**—Part III of subchapter L of chapter 1 of the 1986 Code (relating to provisions of general application) is amended by adding at the end thereof the following new section:

“SEC. 847. SPECIAL ESTIMATED TAX PAYMENTS.

“In the case of taxable years beginning after December 31, 1987, of an insurance company required to discount unpaid losses (as defined in section 846)—

“(1) **ADDITIONAL DEDUCTION.**—There shall be allowed as a deduction for the taxable year, if separate estimated tax payments are made as required by paragraph (2), an amount not to exceed the excess of—

“(A) the amount of the undiscounted, unpaid losses (as defined in section 846(b)) attributable to losses incurred after December 31, 1986, over

“(B) the amount of the related discounted, unpaid losses determined under section 846,

to the extent such amount was not deducted under this paragraph in a preceding taxable year. Section 6655 shall be applied to any taxable year without regard to the deduction allowed under the preceding sentence.

“(2) **SPECIAL ESTIMATED TAX PAYMENTS.**—The deduction under paragraph (1) shall be allowed only to the extent that special estimated tax payments are made in an amount equal to the tax benefit attributable to such deduction, on or before the date that any taxes (determined without regard to this section) for the taxable year for which the deduction is allowed are due to be paid. If a deduction would be allowed but for the fact that special estimated tax payments were not timely made, such deduction shall be allowed to the extent such payments are made within a reasonable time, as determined by the Secretary, if all interest and penalties, computed as if this sentence did not apply, are paid. If amounts are included in gross income under paragraph (5) or (6) for any taxable year and an additional tax is due for such year (or any other year) as a result of such inclusion, an amount of special estimated tax payments equal to such additional tax shall be applied against such additional tax. If, after any such payment is so applied, there is an adjustment reducing the amount of such additional tax, in lieu of any credit or refund for such reduction, a special estimated tax payment shall be treated as made in an amount equal to the amount otherwise allowable as a credit or refund. To the extent that a special estimated tax payment is not used to offset additional tax due for any of the first 15 taxable years beginning after the year for which the payment was made, such special estimated tax payment shall be treated as an estimated tax payment made under section 6655 for the 16th year after the year for which the payment was made.

“(3) **SPECIAL LOSS DISCOUNT ACCOUNT.**—Each company which is allowed a deduction under paragraph (1) shall, for purposes of this part, establish and maintain a special loss discount account.

“(4) **ADDITIONS TO SPECIAL LOSS DISCOUNT ACCOUNT.**—There shall be added to the special loss discount account for each taxable year an amount equal to the amount allowed as a deduction for the taxable year under paragraph (1).

“(5) **SUBTRACTIONS FROM SPECIAL LOSS DISCOUNT ACCOUNT AND INCLUSION IN GROSS INCOME.**—After applying paragraph (4), there shall be subtracted for the taxable year from the special loss discount account and included in gross income:

“(A) The excess (if any) of the amount in the special loss discount account with respect to losses incurred in each taxable year over the amount of the excess referred to in paragraph (1) with respect to losses incurred in that year, and

“(B) Any amount improperly subtracted from the special loss discount account under subparagraph (A) to the extent special estimated tax payments were used with respect to such amount.

“(6) **RULES IN THE CASE OF LIQUIDATION OR TERMINATION OF TAXPAYER’S INSURANCE BUSINESS.**—

“(A) **IN GENERAL.**—If a company liquidates or otherwise terminates its insurance business and does not transfer or distribute such business in an acquisition of assets referred to in section 381(a), the entire amount remaining in such special loss discount account shall be subtracted and included in gross income. Except in the case where a company transfers or distributes its insurance business in an acquisition of assets, referred to in section 381(a), if the company is not subject to the tax imposed by section 801 or section 831 for any taxable year, the entire amount in the account at the close of the preceding taxable year shall be subtracted from the account in such preceding taxable year and included in gross income.

“(B) **ELIMINATION OF BALANCE OF PAYMENTS.**—In any case to which subparagraph (A) applies, any special estimated tax payment remaining after the credit attributable to the inclusion under subparagraph (A) shall be voided.

“(7) **MODIFICATION OF THE AMOUNT OF SPECIAL ESTIMATED TAX PAYMENTS IN THE EVENT OF SUBSEQUENT MARGINAL RATE REDUCTION OR INCREASE.**—In the event of a reduction in any tax rate provided under section 11 for any tax year after the enactment of this section, the Secretary shall prescribe regulations providing for a reduction in the amount of any special estimated tax payments made for years before the effective date of such section 11 rate reductions. Such reduction in the amount of such payments shall reduce the amount of such payments to the amount that they would have been if the special deduction permitted under paragraph (1) had occurred during a year that the lower marginal rate under section 11 applied. Similar rules shall be applied in the event of a marginal rate increase.

“(8) **TAX BENEFIT DETERMINATION.**—The tax benefit attributable to the deduction under paragraph (1) shall be determined under regulations prescribed by the Secretary, by taking into account tax benefits that would arise from the carryback of any net operating loss for the year, as well as current year tax benefits. Tax benefits for the current year and carryback years shall include those that would arise from the filing of a consolidated return with another insurance company required to determine discounted, unpaid losses under section 846 without regard to the limitations on consolidation contained in section 1503(c).

Regulations.

“(9) REGULATIONS.—The Secretary shall prescribe such regulations as may be necessary or appropriate to carry out the purposes of this section, including regulations—

“(A) providing for the separate application of this section with respect to each accident year, and

“(B) such adjustments in the application of this section as may be necessary to take into account the tax imposed by section 55.”

(b) CLERICAL AMENDMENT.—The table of sections for part III of subchapter L of chapter 1 of the 1986 Code is amended by adding at the end thereof the following new item:

“Sec. 847. Special estimated tax payments.”

(c) EFFECTIVE DATE.—The amendments made by this section shall apply to taxable years beginning after December 31, 1987.

26 USC 847 note.

SEC. 6078. CHURCH SELF-FUNDED DEATH BENEFIT PLANS TREATED AS LIFE INSURANCE.

(a) IN GENERAL.—Section 7702 of the 1986 Code (defining life insurance contract) is amended by redesignating subsection (j) as subsection (k) and by inserting after subsection (i) the following new subsection:

“(j) CERTAIN CHURCH SELF-FUNDED DEATH BENEFIT PLANS TREATED AS LIFE INSURANCE.—

“(1) IN GENERAL.—In determining whether any plan or arrangement described in paragraph (2) is a life insurance contract, the requirement of subsection (a) that the contract be a life insurance contract under applicable law shall not apply.

“(2) DESCRIPTION.—For purposes of this subsection, a plan or arrangement is described in this paragraph if—

“(A) such plan or arrangement provides for the payment of benefits by reason of the death of the individuals covered under such plan or arrangement, and

“(B) such plan or arrangement is provided by a church for the benefit of its employees and their beneficiaries, directly or through an organization described in section 414(e)(3)(A) or an organization described in section 414(e)(3)(B)(ii).

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

“(A) CHURCH.—The term ‘church’ means a church or a convention or association of churches.

“(B) EMPLOYEE.—The term ‘employee’ includes an employee described in section 414(e)(3)(B).”

(b) EFFECTIVE DATE.—The amendment made by subsection (a) shall take effect as if included in the amendment made by section 221(a) of the Tax Reform Act of 1984.

26 USC 7702 note.

SEC. 6079. TREATMENT OF STRUCTURED SETTLEMENTS.

(a) TREATMENT UNDER MINIMUM TAX.—

(1) The last sentence of section 56(g)(4)(B)(iii) of the 1986 Code (as amended by title I) is amended to read as follows: “The preceding sentence shall not apply to any annuity contract which is held under a plan described in section 403(a) or which is described in section 72(u)(3)(C).”

(2) EFFECTIVE DATE.—The amendment made by paragraph (1) shall take effect as if included in the amendments made by section 701 of the Reform Act.

26 USC 56 note.

(b) CERTAIN CREDITOR RIGHTS PERMITTED.—

(1) **IN GENERAL.**—Subsection (c) of section 130 of the 1986 Code (relating to certain personal injury liability assignments) is amended—

(A) by striking out subparagraph (C) of paragraph (2) and redesignating subparagraphs (D) and (E) of paragraph (2) as subparagraphs (C) and (D), respectively, and

(B) by adding at the end thereof the following new sentence:

“The determination for purposes of this chapter of when the recipient is treated as having received any payment with respect to which there has been a qualified assignment shall be made without regard to any provision of such assignment which grants the recipient rights as a creditor greater than those of a general creditor.”

26 USC 130 note.

(2) **EFFECTIVE DATE.**—The amendment made by paragraph (1) shall apply to assignments after the date of the enactment of this Act.

SEC. 6080. VARIABLE CONTRACTS INVESTED IN GOVERNMENT SECURITIES PERMITTED.

(a) **IN GENERAL.**—Subsection (h) of section 817 of the 1986 Code (relating to treatment of certain nondiversified contracts) is amended by adding at the end thereof the following new paragraph:

“(6) **GOVERNMENT SECURITIES FUNDS.**—In determining whether a segregated asset account is adequately diversified for purposes of paragraph (1), each United States Government agency or instrumentality shall be treated as a separate issuer.”

26 USC 817 note.

(b) **EFFECTIVE DATE.**—The amendment made by subsection (a) shall apply to taxable years beginning after December 31, 1987

Subtitle E—Excise Tax Provisions

SEC. 6101. AUTHORITY TO PRESCRIBE TOLERANCES FOR THE VOLUME OF WINE IN BOTTLES FOR PURPOSES OF THE EXCISE TAX ON WINE.

(a) **IN GENERAL.**—Section 5041 of the 1986 Code (relating to imposition and rate of tax on wine) is amended by redesignating subsection (d) as subsection (e) and by inserting after subsection (c) the following new subsection:

“(d) **TOLERANCES.**—Where the Secretary finds that the revenue will not be endangered thereby, he may by regulation prescribe tolerances (but not greater than $\frac{1}{2}$ of 1 percent) for bottles and other containers, and, if such tolerances are prescribed, no assessment shall be made and no tax shall be collected for any excess in any case where the contents of a bottle or other container are within the limit of the applicable tolerance prescribed.”

26 USC 5041 note.

(b) **EFFECTIVE DATE.**—The amendment made by subsection (a) shall apply to wine removed after December 31, 1988.

SEC. 6102. WHOLESALE DISTRIBUTORS TO ADMINISTER CLAIMS FOR REFUND OF GASOLINE TAX.

(a) **IN GENERAL.**—Subsection (a) of section 6416 of the 1986 Code (relating to certain taxes and services) is amended by adding at the end thereof the following new paragraph:

“(4) **WHOLESALE DISTRIBUTORS TO ADMINISTER CREDITS AND REFUNDS OF GASOLINE TAX.**—

“(A) IN GENERAL.—For purposes of this subsection, a wholesale distributor who purchases any product on which tax imposed by section 4081 has been paid and who sells the product to its ultimate purchaser shall be treated as the person (and the only person) who paid such tax.

“(B) WHOLESALE DISTRIBUTOR.—For purposes of subparagraph (A), the term ‘wholesale distributor’ has the meaning given such term by section 4092(b)(2) (determined by substituting ‘any product taxable under section 4081’ for ‘a taxable fuel’ therein).”

(b) EFFECTIVE DATE.—The amendment made by this section shall apply to fuel sold by wholesale distributors (as defined in section 6416(a)(4)(B) of the 1986 Code, as added by this section) after September 30, 1988.

26 USC 6416
note.

SEC. 6103. AUTHORITY TO EXEMPT ARTICLES FROM EXCISE TAX ON HEAVY TRUCKS AND TRAILERS WHERE BENEFIT ACCRUES TO UNITED STATES.

(a) IN GENERAL.—Section 4293 of the 1986 Code is amended by inserting “section 4051,” after “section 4041.”

(b) EFFECTIVE DATE.—The amendment made by subsection (a) shall take effect on the date of the enactment of this Act.

26 USC 4293
note.

SEC. 6104. APPLICATION OF REDUCED GASOLINE TAX RATE TO BLENDERS.

(a) IN GENERAL.—Paragraph (1) of section 4081(c) of the 1986 Code (relating to gasoline mixed with alcohol at refinery, etc.) is amended by adding after the 1st sentence the following new sentence: “Subject to such terms and conditions as the Secretary may prescribe (including the application of section 4101), the treatment under the preceding sentence also shall apply to use in producing gasohol after the time of such removal or sale.”

(b) EFFECTIVE DATE.—The amendment made by this section shall take effect on October 1, 1989.

26 USC 4081
note.

SEC. 6105. CERTAIN EDUCATIONAL INSTITUTIONS EXEMPT FROM USER FEES ON PERMITS FOR INDUSTRIAL USE OF SPECIALLY DENATURED DISTILLED SPIRITS.

(a) IN GENERAL.—Section 5276 of the 1986 Code (relating to occupational tax) is amended by adding at the end thereof the following new subsection:

“(c) EXEMPTION FOR CERTAIN EDUCATIONAL INSTITUTIONS.—Subsection (a) shall not apply with respect to any scientific university, college of learning, or institution of scientific research which—

“(1) is issued a permit under section 5271(a)(2), and

“(2) with respect to any calendar year during which such permit is in effect, procures less than 25 gallons of specially denatured distilled spirits for experimental or research use but not for consumption (other than organoleptic tests) or sale.”

(b) CONFORMING AMENDMENT.—Section 5276(a) of the 1986 Code is amended by striking out “A permit” and inserting in lieu thereof “Except as provided in subsection (c), a permit”.

(c) EFFECTIVE DATE.—The amendments made by this section shall take effect on July 1, 1989.

26 USC 5276
note.

SEC. 6106. SMALL PRODUCERS EXEMPT FROM OCCUPATIONAL TAX ON DISTILLED SPIRITS PLANTS.

(a) **IN GENERAL.**—Section 5081 of the 1986 Code (relating to imposition and rate of occupational tax) is amended by adding at the end thereof the following new subsection:

“(c) **EXEMPTION FOR SMALL PRODUCERS.**—Subsection (a) shall not apply with respect to any taxpayer who is a proprietor of an eligible distilled spirits plant (as defined in section 5181(c)(4)).”

(b) **CONFORMING AMENDMENT.**—Paragraph (1) of section 5081(b) of the 1986 Code (relating to reduced rates for small proprietors) is amended by inserting “not described in subsection (c)” after “taxpayer”.

(c) **EFFECTIVE DATE.**—The amendments made by this section shall take effect on July 1, 1989.

26 USC 5081
note.

SEC. 6107. QUARTERLY PAYMENT OF ARCHERY EXCISE TAX.

(a) **IN GENERAL.**—Subsection (d) of section 6302 of the 1986 Code (relating to mode or time of collection) is amended to read as follows:

“(d) **TIME FOR PAYMENT OF MANUFACTURERS’ EXCISE TAX ON SPORTING GOODS.**—The taxes imposed by subsections (a) and (b) of section 4161 (relating to taxes on sporting goods) shall be due and payable on the date for filing the return for such taxes.”

(b) **EFFECTIVE DATE.**—The amendment made by subsection (a) shall apply with respect to articles sold by the manufacturer, producer, or importer after December 31, 1988.

26 USC 6302
note.

SEC. 6108. EXTENSION OF TIME FOR ENACTING AUTHORIZING LEGISLATION RELATING TO THE OIL SPILL LIABILITY TRUST FUND.

Subparagraph (B) of section 4611(f)(2) of the 1986 Code (defining qualified authorizing legislation) is amended by striking out “September 1, 1987” and inserting in lieu thereof “December 31, 1990”.

SEC. 6109. DONATED CARGO EXEMPT FROM HARBOR MAINTENANCE TAX.

(a) **GENERAL RULE.**—Section 4462 of the 1986 Code (relating to definitions and special rules) is amended by redesignating subsection (h) as subsection (i) and by inserting after subsection (g) the following new subsection:

“(h) **EXEMPTION FOR HUMANITARIAN AND DEVELOPMENT ASSISTANCE CARGOS.**—No tax shall be imposed under this subchapter on any nonprofit organization or cooperative for cargo which is owned or financed by such nonprofit organization or cooperative and which is certified by the United States Customs Service as intended for use in humanitarian or development assistance overseas.”

(b) **EFFECTIVE DATE.**—The amendment made by subsection (a) shall take effect on April 1, 1987.

26 USC 4462
note.

SEC. 6110. RELAY CARGO.

(a) **IN GENERAL.**—Subsection (g) of section 4462 of the 1986 Code is amended by adding at the end thereof the following new paragraph:

“(3) **RELAY CARGO.**—Only 1 tax shall be imposed under section 4461(a) on cargo (moving under a single bill of lading) which is unloaded from one vessel and loaded onto another vessel at any port in the United States for relay to or from any port in Alaska, Hawaii, or any possession of the United States. For purposes of this paragraph, the term ‘cargo’ does not include any item not treated as cargo under subsection (b)(2).”

(b) **EFFECTIVE DATE.**—The amendment made by this section shall take effect on the date of the enactment of this Act. 26 USC 4462 note.

SEC. 6111. CLARIFICATION OF MEANING OF MANUFACTURE UNDER TRUCK EXCISE TAX.

(a) **IN GENERAL.**—Paragraph (1) of section 4052(a) of the 1986 Code (defining first retail sale) is amended by striking out “manufacture, production” and inserting in lieu thereof “production, manufacture”.

(b) **EFFECTIVE DATE.**—The amendment made by subsection (a) shall take effect on January 1, 1988. 26 USC 4052 note.

Subtitle F—Foreign Provisions

SEC. 6126. DUAL RESIDENT COMPANIES.

26 USC 1502 note.

(a) **GENERAL RULE.**—In the case of a transaction which—

(1) involves the transfer after the date of the enactment of this Act by a domestic corporation, with respect to which there is a qualified excess loss account, of its assets and liabilities to a foreign corporation in exchange for all of the stock of such foreign corporation, followed by the complete liquidation of the domestic corporation into the common parent, and

(2) qualifies, pursuant to Revenue Ruling 87-27, as a reorganization which is described in section 368(a)(1)(F) of the 1986 Code,

then, solely for purposes of applying Treasury Regulation section 1.1502-19 to such qualified excess loss account, such foreign corporation shall be treated as a domestic corporation in determining whether such foreign corporation is a member of the affiliated group of the common parent.

(b) **TREATMENT OF INCOME OF NEW FOREIGN CORPORATION.**—

(1) **IN GENERAL.**—In any case to which subsection (a) applies, for purposes of the 1986 Code—

(A) the source and character of any item of income of the foreign corporation referred to in subsection (a) shall be determined as if such foreign corporation were a domestic corporation,

(B) the net amount of any such income shall be treated as subpart F income (without regard to section 952(c) of the 1986 Code), and

(C) the amount in the qualified excess loss account referred to in subsection (a) shall—

(i) be reduced by the net amount of any such income, and

(ii) be increased by the amount of any such income distributed directly or indirectly to the common parent described in subsection (a).

(2) **LIMITATION.**—Paragraph (1) shall apply to any item of income only to the extent that the net amount of such income does not exceed the amount in the qualified excess loss account after being reduced under paragraph (1)(C) for prior income.

(3) **BASIS ADJUSTMENTS NOT APPLICABLE.**—To the extent paragraph (1) applies to any item of income, there shall be no increase in basis under section 961(a) of such Code on account of such income (and there shall be no reduction in basis under

section 961(b) of such Code on account of an exclusion attributable to the inclusion of such income).

(4) **RECOGNITION OF GAIN.**—For purposes of paragraph (1), if the foreign corporation referred to in subsection (a) transfers any property acquired by such foreign corporation in the transaction referred to in subsection (a) (or transfers any other property the basis of which is determined in whole or in part by reference to the basis of property so acquired) and (but for this paragraph) there is not full recognition of gain on such transfer, the excess (if any) of—

(A) the fair market value of the property transferred, over

(B) its adjusted basis,

shall be treated as gain from the sale or exchange of such property and shall be recognized notwithstanding any other provision of law. Proper adjustment shall be made to the basis of any such property for gain recognized under the preceding sentence.

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

(1) **COMMON PARENT.**—The term “common parent” means the common parent of the affiliated group which included the domestic corporation referred to in subsection (a)(1).

(2) **QUALIFIED EXCESS LOSS ACCOUNT.**—The term “qualified excess loss account” means any excess loss account (within the meaning of the consolidated return regulations) to the extent such account is attributable—

(A) to taxable years beginning before January 1, 1988, and

(B) to periods during which the domestic corporation was subject to an income tax of a foreign country on its income on a residence basis or without regard to whether such income is from sources in or outside of such foreign country. The amount of such account shall be determined as of immediately after the transaction referred to in subsection (a) and without, except as provided in subsection (b), diminution for any future adjustment.

(3) **NET AMOUNT.**—The net amount of any item of income is the amount of such income reduced by allocable deductions as determined under the rules of section 954(b)(5) of the 1986 Code.

(4) **SECOND SAME COUNTRY CORPORATION MAY BE TREATED AS DOMESTIC CORPORATION IN CERTAIN CASES.**—If—

(A) another foreign corporation acquires from the common parent stock of the foreign corporation referred to in subsection (a) after the transaction referred to in subsection (a),

(B) both of such foreign corporations are subject to the income tax of the same foreign country on a residence basis, and

(C) such common parent complies with such reporting requirements as the Secretary of the Treasury or his delegate may prescribe for purposes of this paragraph, such other foreign corporation shall be treated as a domestic corporation in determining whether the foreign corporation referred to in subsection (a) is a member of the affiliated group referred to in subsection (a) (and the rules of subsection (b) shall apply (i) to any gain of such other foreign corporation on any disposition of such stock, and (ii) to any other income of such

other foreign corporation except to the extent it establishes to the satisfaction of the Secretary of the Treasury or his delegate that such income is not attributable to property acquired from the foreign corporation referred to in subsection (a)).

SEC. 6127. ELECTION TO BE TREATED AS QUALIFIED ELECTING FUND TO BE MADE BY TAXPAYER.

(a) **GENERAL RULE.**—Section 1295 of the 1986 Code (defining qualified electing fund) is amended to read as follows:

“SEC. 1295. QUALIFIED ELECTING FUND.

“(a) **GENERAL RULE.**—For purposes of this part, any passive foreign investment company shall be treated as a qualified electing fund with respect to the taxpayer if—

“(1) an election by the taxpayer under subsection (b) applies to such company for the taxable year, and

“(2) such company complies with such requirements as the Secretary may prescribe for purposes of—

“(A) determining the ordinary earnings and net capital gain of such company, and

“(B) otherwise carrying out the purposes of this subpart.

“(b) **ELECTION.**—

“(1) **IN GENERAL.**—A taxpayer may make an election under this subsection with respect to any passive foreign investment company for any taxable year of the taxpayer. Such an election, once made with respect to any company, shall apply to all subsequent taxable years of the taxpayer with respect to such company unless revoked by the taxpayer with the consent of the Secretary.

“(2) **WHEN MADE.**—An election under this subsection may be made for any taxable year at any time on or before the due date (determined with regard to extensions) for filing the return of the tax imposed by this chapter for such taxable year. To the extent provided in regulations, such an election may be made later than as required in the preceding sentence where the taxpayer fails to make a timely election because the taxpayer reasonably believed that the company was not a passive foreign investment company.”

(b) **CONFORMING AMENDMENTS.**—

(1) Paragraph (1) of section 1291(d) of the 1986 Code (as amended by title I) is amended by striking out “for each” in the material preceding subparagraph (A) and inserting in lieu thereof “with respect to the taxpayer for each”.

(2) Subparagraphs (A)(i) and (B)(i) of section 1291(d)(2) of the 1986 Code (as amended by title I) are each amended by striking out “for a taxable year” and inserting in lieu thereof “with respect to the taxpayer for a taxable year”.

(c) **EFFECTIVE DATE.**—

(1) **IN GENERAL.**—The amendments made by this section shall take effect as if included in the amendments made by section 1235 of the Reform Act.

(2) **TIME FOR MAKING ELECTION.**—The period during which an election under section 1295(b) of the 1986 Code may be made shall in no event expire before the date 60 days after the date of the enactment of this Act.

SEC. 6128. TREATMENT OF CERTAIN UNITED STATES AFFILIATE OBLIGATIONS.

- 26 USC 871 note. (a) **GENERAL RULE.**—Subparagraph (B) of section 127(g)(3) of the Tax Reform Act of 1984 is amended by inserting before the period at the end thereof the following: “as such principles are applied in Revenue Ruling 86-6, except that the maximum debt-to-equity ratio described in such Revenue Rulings shall be increased from 5-to-1 to 25-to-1”.
- 26 USC 871 note. (b) **EFFECTIVE DATE.**—The amendment made by subsection (a) shall apply to taxable years ending after the date of the enactment of this Act.

SEC. 6129. TREATMENT OF CERTAIN INSURANCE BRANCHES OF FOREIGN CORPORATIONS.

(a) **GENERAL RULE.**—Section 964 of the 1986 Code (relating to miscellaneous provisions) is amended by adding at the end thereof the following new subsection:

“(d) **TREATMENT OF CERTAIN BRANCHES.**—

“(1) **IN GENERAL.**—For purposes of this chapter, section 6038, section 6046, and such other provisions as may be specified in regulations—

“(A) a qualified insurance branch of a controlled foreign corporation shall be treated as a separate foreign corporation created under the laws of the foreign country with respect to which such branch qualifies under paragraph (2), and

“(B) except as provided in regulations, any amount directly or indirectly transferred or credited from such branch to one or more other accounts of such controlled foreign corporation shall be treated as a dividend paid to such controlled foreign corporation.

“(2) **QUALIFIED INSURANCE BRANCH.**—For purposes of paragraph (1), the term ‘qualified insurance branch’ means any branch of a controlled foreign corporation which is licensed and predominantly engaged on a permanent basis in the active conduct of an insurance business in a foreign country if—

“(A) separate books and accounts are maintained for such branch,

“(B) the principal place of business of such branch is in such foreign country,

“(C) such branch would be taxable under subchapter L if it were a separate domestic corporation, and

“(D) an election under this paragraph applies to such branch.

An election under this paragraph shall apply to the taxable year for which made and all subsequent taxable years unless revoked with the consent of the Secretary.

“(3) **REGULATIONS.**—The Secretary shall prescribe such regulations as may be necessary or appropriate to carry out the purposes of this subsection.”

- 26 USC 964 note. (b) **EFFECTIVE DATE.**—The amendment made by subsection (a) shall apply to taxable years of foreign corporations beginning after December 31, 1988.

SEC. 6130. TREATMENT OF CERTAIN INSTRUMENTS UNDER FOREIGN CURRENCY RULES.

(a) **GENERAL RULE.**—Clause (iii) of section 988(c)(1)(B) of the 1986 Code (as amended by title I) is amended by striking out “unless such instrument would be marked to market under section 1256 if held on the last day of the taxable year”.

(b) **SPECIAL RULES.**—Paragraph (1) of section 988(c) of the 1986 Code is amended by adding at the end thereof the following new subparagraphs:

“(D) EXCEPTION FOR CERTAIN INSTRUMENTS MARKED TO MARKET.—

“(i) IN GENERAL.—Clause (iii) of subparagraph (B) shall not apply to any regulated futures contract or nonequity option which would be marked to market under section 1256 if held on the last day of the taxable year.

“(ii) ELECTION OUT.—

“(I) IN GENERAL.—The taxpayer may elect to have clause (i) not apply to such taxpayer. Such an election shall apply to contracts held at any time during the taxable year for which such election is made or any succeeding taxable year unless such election is revoked with the consent of the Secretary.

“(II) TIME FOR MAKING ELECTION.—Except as provided in regulations, an election under subclause (I) for any taxable year shall be made on or before the 1st day of such taxable year (or, if later, on or before the 1st day during such year on which the taxpayer holds a contract described in clause (i)).

“(III) SPECIAL RULE FOR PARTNERSHIPS, ETC.—In the case of a partnership, an election under subclause (I) shall be made by each partner separately. A similar rule shall apply in the case of an S corporation.

“(iii) TREATMENT OF CERTAIN PARTNERSHIPS.—This subparagraph shall not apply to any income or loss of a partnership for any taxable year if such partnership made an election under subparagraph (E)(iii)(V) for such year or any preceding year.

“(E) SPECIAL RULES FOR CERTAIN FUNDS.—

“(i) IN GENERAL.—In the case of a qualified fund, clause (iii) of subparagraph (B) shall not apply to any instrument which would be marked to market under section 1256 if held on the last day of the taxable year (determined after the application of clause (iv)).

“(ii) SPECIAL RULE WHERE ELECTING PARTNERSHIP DOES NOT QUALIFY.—If any partnership made an election under clause (iii)(V) for any taxable year and such partnership has a net loss for such year or any succeeding year from instruments referred to in clause (i), the rules of clauses (i) and (iv) shall apply to any such loss year whether or not such partnership is a qualified fund for such year.

“(iii) **QUALIFIED FUND DEFINED.**—For purposes of this subparagraph, the term ‘qualified fund’ means any partnership if—

“(I) at all times during the taxable year (and during each preceding taxable year to which an election under subclause (V) applied), such partnership has at least 20 partners and no single partner owns more than 20 percent of the interests in the capital or profits of the partnership,

“(II) the principal activity of such partnership for such taxable year (and each such preceding taxable year) consists of buying and selling options, futures, or forwards with respect to commodities,

“(III) at least 90 percent of the gross income of the partnership for the taxable year (and for each such preceding taxable year) consisted of income or gains described in subparagraph (A), (B), or (G) of section 7704(d)(1) or gain from the sale or disposition of capital assets held for the production of interest or dividends,

“(IV) no more than a de minimis amount of the gross income of the partnership for the taxable year (and each such preceding taxable year) was derived from buying and selling commodities, and

“(V) an election under this subclause applies to the taxable year.

An election under subclause (V) for any taxable year shall be made on or before the 1st day of such taxable year (or, if later, on or before the 1st day during such year on which the partnership holds an instrument referred to in clause (i)). Any such election shall apply to the taxable year for which made and all succeeding taxable years unless revoked with the consent of the Secretary.

“(iv) **TREATMENT OF CERTAIN CURRENCY CONTRACTS.**—

“(I) **IN GENERAL.**—Except as provided in regulations, in the case of a qualified fund, any bank forward contract, any foreign currency futures contract traded on a foreign exchange, or to the extent provided in regulations any similar instrument, which is not otherwise a section 1256 contract shall be treated as a section 1256 contract for purposes of section 1256.

“(II) **GAINS AND LOSSES TREATED AS SHORT-TERM.**—In the case of any instrument treated as a section 1256 contract under subclause (I), subparagraph (A) of section 1256(a)(3) shall be applied by substituting ‘100 percent’ for ‘40 percent’ (and subparagraph (B) of such section shall not apply).

“(v) **SPECIAL RULES FOR CLAUSE (iii)(I).**—

“(I) **CERTAIN GENERAL PARTNERS.**—The interest of a general partner in the partnership shall not be treated as failing to meet the 20-percent ownership requirements of clause (iii)(I) for any taxable year of the partnership if, for the taxable year of the partner in which such partnership taxable year ends, such partner (and each corporation filing a

consolidated return with such partner) had no ordinary income or loss from a section 988 transaction which is foreign currency gain or loss (as the case may be).

“(II) TREATMENT OF INCENTIVE COMPENSATION.—For purposes of clause (iii)(I), any income allocable to a general partner as incentive compensation based on profits rather than capital shall not be taken into account in determining such partner’s interest in the profits of the partnership.

“(III) TREATMENT OF TAX-EXEMPT PARTNERS.—Except as provided in regulations, the interest of a partner in the partnership shall not be treated as failing to meet the 20-percent ownership requirements of clause (iii)(I) if none of the income of such partner from such partnership is subject to tax under this chapter (whether directly or through 1 or more pass-thru entities).

“(IV) LOOK-THRU RULE.—In determining whether the requirements of clause (iii)(I) are met with respect to any partnership, except to the extent provided in regulations, any interest in such partnership held by another partnership shall be treated as held proportionately by the partners in such other partnership.

“(vi) OTHER SPECIAL RULES.—For purposes of this subparagraph—

“(I) RELATED PERSONS.—Interests in the partnership held by persons related to each other (within the meaning of sections 267(b) and 707(b)) shall be treated as held by 1 person.

“(II) PREDECESSORS.—References to any partnership shall include a reference to any predecessor thereof.

“(III) INADVERTENT TERMINATIONS.—Rules similar to the rules of section 7704(e) shall apply.

“(IV) TREATMENT OF CERTAIN DEBT INSTRUMENTS.—For purposes of clause (iii)(IV), any debt instrument which is a section 988 transaction shall be treated as a commodity.”

(c) AMENDMENT OF SECTION 1092(b).—Paragraph (2) of section 1092(b) of the 1986 Code is amended by adding at the end thereof the following new subparagraph:

“(D) TIMING AND CHARACTER AUTHORITY.—The regulations prescribed under paragraph (1) shall include regulations relating to the timing and character of gains and losses in case of straddles where at least 1 position is ordinary and at least 1 position is capital.”

(d) EFFECTIVE DATE.—

(1) IN GENERAL.—The amendments made by this section shall apply with respect to forward contracts, future contracts, options, and similar instruments entered into or acquired after October 21, 1988.

(2) TIME FOR MAKING ELECTION.—The time for making any election under subparagraph (D) or (E) of section 988(c)(1) of the 1986 Code shall not expire before the date 30 days after the date of the enactment of this Act.

26 USC 988 note.

(3) TRANSITIONAL RULES.—

(A) The requirements of subclause (IV) of section 988(c)(1)(E)(iii) of the 1986 Code (as added by subsection (b)) shall not apply to periods before the date of the enactment of this Act.

(B) In the case of any partner in an existing partnership, the 20-percent ownership requirements of subclause (I) of such section 988(c)(1)(E)(iii) shall be treated as met during any period during which such partner does not own a percentage interest in the capital or profits of such partnership greater than 33 1/3 percent (or, if lower, the lowest such percentage interest of such partner during any prior period after October 21, 1988, during which such partnership is in existence). For purposes of the preceding sentence, the term "existing partnership" means any partnership if—

(i) such partnership was in existence on October 21, 1988, and principally engaged on such date in buying and selling options, futures, or forwards with respect to commodities, or

(ii) a registration statement was filed with respect to such partnership with the Securities and Exchange Commission on or before such date and such registration statement indicated that the principal activity of such partnership will consist of buying and selling instruments referred to in clause (i).

SEC. 6131. TREATMENT OF INSURANCE COMPANIES UNDER CHAIN DEFICIT RULE.

(a) **IN GENERAL.**—Subparagraph (B) of section 952(c)(1) of the 1986 Code is amended by adding at the end thereof the following new clause:

“(vii) SPECIAL RULES FOR INSURANCE INCOME.—

“(I) **IN GENERAL.**—An election may be made under this clause to have section 953(a) applied for purposes of this title without regard to the same country exception under paragraph (1)(A) thereof. Such election, once made, may be revoked only with the consent of the Secretary.

“(II) **SPECIAL RULES FOR AFFILIATED GROUPS.**—In the case of an affiliated group of corporations (within the meaning of section 1504 but without regard to section 1504(b)(3) and by substituting ‘more than 50 percent’ for ‘at least 80 percent’ each place it appears), no election may be made under subclause (I) for any controlled foreign corporation unless such election is made for all other controlled foreign corporations who are members of such group and who were created or organized under the laws of the same country as such controlled foreign corporation. For purposes of clause (v), in determining whether any controlled corporation described in the preceding sentence is a qualified insurance company, all such corporations shall be treated as 1 corporation.”

(b) **EFFECTIVE DATE.**—The amendment made by this section shall take effect as if included in the amendments made by section 1221(f) of the Reform Act.

SEC. 6132. VIRGIN ISLANDS TREATED AS QUALIFIED BASIN COUNTRY.

(a) **IN GENERAL.**—Subparagraph (B) of section 936(d)(4) of the 1986 Code is amended by inserting “and the Virgin Islands” after “section 274(h)(6)(A)”.

(b) **EFFECTIVE DATE.**—The amendment made by this section shall apply to investments made after the date of the enactment of this Act.

26 USC 936 note.

SEC. 6133. TREATMENT OF CERTAIN UNITED STATES OBLIGATIONS HELD BY POSSESSION BANKS.

(a) **IN GENERAL.**—Subsection (e) of section 882 of the 1986 Code is amended—

(1) by inserting “which is not portfolio interest (as defined in section 881(c)(2))” before “shall”, and

(2) by striking out the last sentence thereof.

(b) **EXCLUSION FROM BRANCH PROFITS TAX.**—Paragraph (2) of section 884(d) of the 1986 Code is amended by striking out “or” at the end of subparagraph (C), by striking out the period at the end of subparagraph (D) and inserting in lieu thereof “, or” and by inserting after subparagraph (D) the following new subparagraph:

“(E) income treated as effectively connected with the conduct of a trade or business within the United States under section 882(e).”

Business and industry.

(c) **EFFECTIVE DATE.**—The amendments made by this subsection shall apply to taxable years beginning after December 31, 1988.

26 USC 882 note.

SEC. 6134. TREATMENT OF CERTAIN GAMBLING WINNINGS RECEIVED BY NONRESIDENT ALIENS.

(a) **EXEMPTION FROM TAX.**—

(1) Section 871 of the 1986 Code (relating to tax on non-resident alien individuals) is amended by redesignating subsection (j) as subsection (k) and by inserting after subsection (i) the following new subsection:

“(j) **EXEMPTION FOR CERTAIN GAMBLING WINNINGS.**—No tax shall be imposed under paragraph (1)(A) of subsection (a) on the proceeds from a wager placed in any of the following games: blackjack, baccarat, craps, roulette, or big-6 wheel. The preceding sentence shall not apply in any case where the Secretary determines by regulation that the collection of the tax is administratively feasible.”

(2) Subsection (c) of section 1441 of the 1986 Code is amended by adding at the end thereof the following new paragraph:

“(11) **CERTAIN GAMBLING WINNINGS.**—No tax shall be required to be deducted and withheld under subsection (a) from any amount exempt from the tax imposed by section 871(a)(1)(A) by reason of section 871(j).”

(b) **EFFECTIVE DATE.**—The amendments made by subsection (a) shall take effect on the date of the enactment of this Act.

26 USC 871 note.

SEC. 6135. ELECTION TO BE TREATED AS DOMESTIC CORPORATION.

(a) **IN GENERAL.**—Section 953 of the 1986 Code is amended by adding at the end thereof the following new subsection:

“(d) **ELECTION BY FOREIGN INSURANCE COMPANY TO BE TREATED AS DOMESTIC CORPORATION.**—

“(1) **IN GENERAL.**—If—

“(A) a foreign corporation is a controlled foreign corporation (as defined in section 957(a) by substituting “25 percent

or more' for 'more than 50 percent' and by using the definition of United States shareholder under 953(c)(1)(A)),

"(B) such foreign corporation would qualify under part I or II of subchapter L for the taxable year if it were a domestic corporation,

"(C) such foreign corporation meets such requirements as the Secretary shall prescribe to ensure that the taxes imposed by this chapter on such foreign corporation are paid, and

"(D) such foreign corporation makes an election to have this paragraph apply and waives all benefits to such corporation granted by the United States under any treaty, for purposes of this title, such corporation shall be treated as a domestic corporation.

"(2) PERIOD DURING WHICH ELECTION IS IN EFFECT.—

"(A) IN GENERAL.—Except as provided in subparagraph (B), an election under paragraph (1) shall apply to the taxable year for which made and all subsequent taxable years unless revoked with the consent of the Secretary.

"(B) TERMINATION.—If a corporation which made an election under paragraph (1) for any taxable year fails to meet the requirements of subparagraphs (A), (B), and (C), of paragraph (1) for any subsequent taxable year, such election shall not apply to any taxable year beginning after such subsequent taxable year.

"(3) TREATMENT OF LOSSES.—If any corporation treated as a domestic corporation under this subsection is treated as a member of an affiliated group for purposes of chapter 6 (relating to consolidated returns), any loss of such corporation shall be treated as a dual consolidated loss (as defined in section 1503(d)).

"(4) EFFECT OF ELECTION.—

"(A) IN GENERAL.—For purposes of section 367, any foreign corporation making an election under paragraph (1) shall be treated as transferring (as of the 1st day of the 1st taxable year to which such election applies) all of its assets to a domestic corporation in connection with an exchange to which section 354 applies.

"(B) EXCEPTION FOR PRE-1988 EARNINGS AND PROFIT.—

"(i) IN GENERAL.—Earnings and profits of the foreign corporation accumulated in taxable years beginning before January 1, 1988, shall not be included in the gross income of the persons holding stock in such corporation by reason of subparagraph (A).

"(ii) TREATMENT OF DISTRIBUTIONS.—For purposes of this title, any distribution made by a corporation to which an election under paragraph (1) applies out of earnings and profits accumulated in taxable years beginning before January 1, 1988, shall be treated as a distribution made by a foreign corporation.

"(iii) CERTAIN RULES TO CONTINUE TO APPLY TO PRE-1988 EARNINGS.—The provisions specified in clause (iv) shall be applied without regard to paragraph (1), except that, in the case of a corporation to which an election under paragraph (1) applies, only earnings and profits accumulated in taxable years beginning before January 1, 1988, shall be taken into account.

“(iv) SPECIFIED PROVISIONS.—The provisions specified in this clause are:

“(I) Section 1248 (relating to gain from certain sales or exchanges of stock in certain foreign corporations).

“(II) Subpart F of part III of subchapter N to the extent such subpart relates to earnings invested in United States property or amounts referred to in clause (ii) or (iii) of section 951(a)(1)(A).

“(III) Section 884 to the extent the foreign corporation reinvested 1987 earnings and profits in United States assets.

“(5) EFFECT OF TERMINATION.—For purposes of section 367, if—

“(A) an election is made by a corporation under paragraph (1) for any taxable year, and

“(B) such election ceases to apply for any subsequent taxable year,

such corporation shall be treated as a domestic corporation transferring (as of the 1st day of such subsequent taxable year) all of its property to a foreign corporation in connection with an exchange to which section 354 applies.

“(6) ADDITIONAL TAX ON CORPORATION MAKING ELECTION.—

“(A) IN GENERAL.—If a corporation makes an election under paragraph (1), the amount of tax imposed by this chapter for the 1st taxable year to which such election applies shall be increased by the amount determined under subparagraph (B).

“(B) AMOUNT OF TAX.—The amount of tax determined under this paragraph shall be equal to the lesser of—

“(i) $\frac{3}{4}$ of 1 percent of the aggregate amount of capital and accumulated surplus of the corporation as of December 31, 1987, or

“(ii) \$1,500,000.”

(b) EFFECTIVE DATE.—The amendment made by subsection (a) shall apply to taxable years beginning after December 31, 1987.

26 USC 953 note.

SEC. 6136. TAX EXEMPTION FOR ENJEBI COMMUNITY TRUST FUND.

(a) IN GENERAL.—Any earnings on, and distributions from, the Enjebi Community Trust Fund created under section 103 of the Compact of Free Association Act of 1985 shall be exempt from all Federal, State, or local taxation.

(b) EFFECTIVE DATE.—The provisions of subsection (a) shall apply to all taxable years whether beginning before, on, or after the date of the enactment of this Act.

48 USC 1681 note.

SEC. 6137. APPLICATION OF SECTION 912 TO JUDICIAL EMPLOYEES.

(a) IN GENERAL.—Section 912(2) of the 1986 Code is amended by inserting “(or in the case of judicial officers or employees of the United States, in accordance with rules similar to such regulations)” after “President”.

(b) EFFECTIVE DATE.—The amendment made by subsection (a) shall apply to allowances received after October 12, 1987, in taxable years ending after such date.

26 USC 912 note.

SEC. 6138. STUDY OF DEFINITION OF UNITED STATES RESIDENT.

(a) **IN GENERAL.**—The Secretary of the Treasury or his delegate shall conduct a study of section 7701(b) of the Internal Revenue Code of 1986, relating to the determination as to whether a person is a United States resident for purposes of Federal tax laws. Such study shall include an examination of—

(1) the effect such determination has on Federal tax administration and investment flows between the United States and other countries,

(2) the coordination of such determination with any treaty obligations of the United States,

(3) how such determination compares with the way such determination is made by our major trading partners, and

(4) any estimated revenue gain or loss which would result from modifying such determination.

(b) **REPORT.**—The Secretary of the Treasury or his delegate shall report before May 1, 1989, the results of the study conducted under subsection (a) to the Committee on Finance of the Senate and the Committee on Ways and Means of the House of Representatives.

SEC. 6139. SUNSET OF TREATY PROVISIONS.

(a) **IN GENERAL.**—No provisions of the Tax Convention with the United Kingdom (on behalf of Bermuda) or the Tax Convention with Barbados, whether entered into on, before, or after the date of enactment of this Act shall prevent application of any provision of the Internal Revenue Code of 1986 imposing insurance excise taxes. In the case of a treaty entered into after the date of enactment of this Act, the preceding sentence shall not apply if such treaty by specific reference to this section of this Act clearly expresses the intent to override the provisions of this section.

(b) **SPECIAL RULE FOR CERTAIN TREATIES.**—In the case of any treaty in effect on December 31, 1989, subsection (a) shall not apply to any premium allocable to insurance coverage for periods before January 1, 1990.

48 USC 1424c
note.

SEC. 6140. TREATMENT OF CERTAIN AWARDS BY THE DISTRICT COURT OF GUAM.

For purposes of the internal revenue laws of the United States and Guam, gross income shall not include any amount received pursuant to any claim over which the District Court of Guam has jurisdiction by reason of section 204 of Public Law 95-134 (commonly referred to as the Omnibus Territories Act of 1977). This section shall be effective for taxable years beginning after December 31, 1985.

Subtitle G—Estate Tax Provisions**SEC. 6151. TREATMENT OF CERTAIN RENTS UNDER SECTION 2032A.**

(a) **GENERAL RULE.**—Subparagraph (A) of section 2032A(b)(5) of the 1986 Code (relating to special rules for surviving spouse) is amended by adding at the end thereof the following new sentence: "For purposes of subsection (c), such surviving spouse shall not be treated as failing to use such property in a qualified use solely because such spouse rents such property to a member of such spouse's family on a net cash basis."

(b) **EFFECTIVE DATE.**—

26 USC 2032A
note.

(1) **IN GENERAL.**—The amendment made by subsection (a) shall apply with respect to rentals occurring after December 31, 1976.

(2) **WAIVER OF STATUTE OF LIMITATIONS.**—If on the date of the enactment of this Act (or at any time within 1 year after such date of enactment) refund or credit of any overpayment of tax resulting from the application of the amendment made by subsection (a) is barred by any law or rule of law, refund or credit of such overpayment shall, nevertheless, be made or allowed if claim therefore is filed before the date 1 year after the date of the enactment of this Act.

SEC. 6152. CLARIFICATION OF TREATMENT OF JOINT AND SURVIVOR ANNUITIES UNDER QTIP RULES.

(a) **ESTATE TAX.**—Paragraph (7) of section 2056(b) of the 1986 Code is amended by adding at the end thereof the following new subparagraph:

“(C) **TREATMENT OF SURVIVOR ANNUITIES.**—In the case of an annuity where only the surviving spouse has the right to receive payments before the death of such surviving spouse—

“(i) the interest of such surviving spouse shall be treated as a qualifying income interest for life, and

“(ii) the executor shall be treated as having made an election under this subsection with respect to such annuity unless the executor otherwise elects on the return of tax imposed by section 2001.

An election under clause (ii), once made, shall be irrevocable.”

(b) **GIFT TAX.**—Subsection (f) of section 2523 of the 1986 Code is amended by adding at the end thereof the following new paragraph:

“(6) **TREATMENT OF JOINT AND SURVIVOR ANNUITIES.**—In the case of a joint and survivor annuity where only the donor spouse and donee spouse have the right to receive payments before the death of the last spouse to die—

“(A) the donee spouse’s interest shall be treated as a qualifying income interest for life,

“(B) the donor spouse shall be treated as having made an election under this subsection with respect to such annuity unless the donor spouse otherwise elects on or before the date specified in paragraph (4)(A),

“(C) paragraph (5) and section 2519 shall not apply to the donor spouse’s interest in the annuity, and

“(D) if the donee spouse dies before the donor spouse, no amount shall be includible in the gross estate of the donee spouse under section 2044 with respect to such annuity.

An election under subparagraph (B), once made, shall be irrevocable.”

(c) **EFFECTIVE DATES.**—

(1) **IN GENERAL.**—Except as otherwise provided in this subsection—

(A) the amendment made by subsection (a) shall apply with respect to decedents dying after December 31, 1981, and

(B) the amendment made by subsection (b) shall apply to transfers after December 31, 1981.

(2) NOT TO APPLY TO EXTENT INCONSISTENT WITH PRIOR RETURN.—In the case of any estate or gift tax return filed before the date of the enactment of this Act, the amendments made by this section shall not apply to the extent such amendments would be inconsistent with the treatment of the annuity on such return unless the executor or donor (as the case may be) otherwise elects under this paragraph before the day 2 years after the date of the enactment of this Act.

(3) EXTENSION OF TIME FOR ELECTION OUT.—The time for making an election under section 2056(b)(7)(C)(ii) or 2523(f)(6)(B) of the 1986 Code (as added by this subsection) shall not expire before the day 2 years after the date of the enactment of this Act (and, if such election is made within the time permitted under this paragraph, the requirement of such section 2056(b)(7)(C)(ii) that it be made on the return shall not apply).

Subtitle H—Tax-Exempt Bond Provisions

SEC. 6176. CLARIFICATION OF SMALL ISSUE BOND DEFINITION OF MANUFACTURING FACILITY.

(a) IN GENERAL.—Subparagraph (C) of section 144(a)(12) of the 1986 Code (defining manufacturing facility) is amended by adding at the end thereof the following new sentence: "For purposes of the 1st sentence of this subparagraph, the term 'manufacturing facility' includes facilities which are directly related and ancillary to a manufacturing facility (determined without regard to this sentence) if—

"(i) such facilities are located on the same site as the manufacturing facility, and

"(ii) not more than 25 percent of the net proceeds of the issue are used to provide such facilities."

26 USC 144 note.

(b) EFFECTIVE DATE.—

(1) IN GENERAL.—The amendment made by subsection (a) shall apply to bonds issued after the date of the enactment of this Act.

(2) REFUNDINGS.—The amendment made by subsection (a) shall not apply to any bond issued to refund (or which is part of a series of bonds issued to refund) a bond issued on or before the date of the enactment of this Act if—

(A) the average maturity date of the issue of which the refunding bond is a part is not later than the average maturity date of the bonds to be refunded by such issue, and

(B) the amount of the refunding bond does not exceed the outstanding amount of the refunded bond.

For purposes of subparagraph (A), average maturity shall be determined in accordance with section 147(b) of the 1986 Code.

SEC. 6177. RULES APPLICABLE TO TAX AND REVENUE ANTICIPATION BONDS.

(a) CHANGE IN PERIOD USED TO DETERMINE CUMULATIVE CASH FLOW DEFICIT.—Subclause (III) of section 148(f)(4)(B)(iii) of the 1986 Code (relating to safe harbor for determining when proceeds of tax and revenue anticipation bonds are expended) is amended by striking

out "the earliest of the maturity date of the issue, the date 6 months after such date of issuance," and inserting in lieu thereof "the earlier of the date 6 months after such date of issuance."

(b) **DUE DATE FOR LAST INSTALLMENT OF ARBITRAGE REBATE.**—Paragraph (3) of section 148(f) of the 1986 Code is amended by adding at the end thereof the following new sentence: "In the case of a tax and revenue anticipation bond, the last installment shall not be required to be made before the date 8 months after the date of issuance of the issue of which the bond is a part."

(c) **EFFECTIVE DATE.**—The amendments made by this section shall apply to bonds issued after the date of the enactment of this Act.

26 USC 148 note.

SEC. 6178. AMENDMENT TO MORTGAGE BOND PURCHASE PRICE REGULATIONS.

The Secretary of the Treasury or his delegate shall amend the regulations relating to mortgage bond purchase price requirements, with respect to any lease with a remaining term of at least 35 years and a specified ground rent for at least the first 10 years of such term but not for the entire term, to provide for a capitalized value of such lease equal to the present value of the current ground rent projected over the remaining term of the lease and discounted at 3 percent or such other discount rate as the Secretary establishes. If such amendment is not made before the date of the enactment of this Act, such regulations shall be considered to include such amendment with respect to bonds issued after such date.

SEC. 6179. APPLICATION OF SECURITY INTEREST TEST TO BOND FINANCING OF HAZARDOUS WASTE CLEAN-UP ACTIVITIES.

26 USC 141 note.

Before January 1, 1989, the Secretary of the Treasury or his delegate shall issue guidance concerning the application of the private security or payment test under section 141(b)(2) of the Internal Revenue Code of 1986 to tax-exempt bond financing by State and local governments of hazardous waste clean-up activities conducted by such governments where some of the activities occur on privately owned land.

SEC. 6180. TAX-EXEMPT FINANCING FOR CERTAIN RAIL FACILITIES.

(a) **IN GENERAL.**—Subsection (a) of section 142 of the 1986 Code (relating to exempt facility bonds) is amended—

(1) by striking out "or" at the end of paragraph (9),

(2) by striking out the period at the end of paragraph (10) and inserting in lieu thereof " or", and

(3) by adding at the end thereof the following new paragraph: "(11) high-speed intercity rail facilities."

(b) **DEFINITION AND SPECIAL RULES FOR HIGH-SPEED INTERCITY RAIL FACILITIES.**—

(1) **IN GENERAL.**—Section 142 of the 1986 Code is amended by adding at the end thereof the following new subsection:

"(i) **HIGH-SPEED INTERCITY RAIL FACILITIES.**—

"(1) For purposes of subsection (a)(11), the term 'high-speed intercity rail facilities' means any facility (not including rolling stock) for the fixed guideway rail transportation of passengers and their baggage between metropolitan statistical areas (within the meaning of section 143(k)(2)(B)) using vehicles that are reasonably expected to operate at speeds in excess of 150 miles per hour between scheduled stops, but only if such facility

will be made available to members of the general public as passengers.

“(2) **ELECTION BY NONGOVERNMENTAL OWNERS.**—A facility shall be treated as described in subsection (a)(11) only if any owner of such facility which is not a governmental unit irrevocably elects not to claim—

“(A) any deduction under section 167 or 168, and

“(B) any credit under this subtitle,

with respect to the property to be financed by the net proceeds of the issue.

“(3) **USE OF PROCEEDS.**—A bond issued as part of an issue described in subsection (a)(11) shall not be considered an exempt facility bond unless any proceeds not used within a 3-year period of the date of the issuance of such bond are used (not later than 6 months after the close of such period) to redeem bonds which are part of such issue.”

(2) **USE OF FACILITIES.**—Subsection (c) of section 142 of the 1986 Code (relating to special rules for airport, docks and wharves, and mass commuting facilities) is amended—

(A) by striking out “paragraph (1), (2), or (3) of subsection (a)” each place it appears in paragraphs (1) and (2) thereof and inserting in lieu thereof “paragraph (1), (2), (3) or (11) of subsection (a)”, and

(B) by striking out “AND MASS COMMUTING FACILITIES” in the heading thereof and inserting in lieu thereof “MASS COMMUTING FACILITIES AND HIGH-SPEED INTERCITY RAIL FACILITIES”.

(3) **PARTIAL EXCLUSION FROM VOLUME CAP.**—Subsection (g) of section 146 of the 1986 Code (relating to an exception for certain bonds) is amended—

(A) by striking out “and” at the end of paragraph (2),

(B) by striking out the period at the end of paragraph (3) and inserting in lieu thereof “, and”, and

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

“(3) 75 percent of any exempt facility bond issued as part of an issue described in paragraph (11) of section 142(a) (relating to high-speed intercity rail facilities).”

(4) **LIMITATION REMOVED ON USE OF BOND PROCEEDS FOR LAND ACQUISITION.**—Paragraph (3) of section 147(c) of the 1986 Code (relating to limitation on use for land acquisition) is amended by inserting “high-speed intercity rail facility” after “mass commuting facility” each place it appears.

(5) **SPECIAL RULE FOR PUBLIC APPROVAL.**—Paragraph (3) of section 147(f) of the 1986 Code (relating to public approval required for private activity bonds) is amended—

(A) by inserting “or high-speed intercity rail facilities” after “airport” each place it appears, and

(B) by inserting “OR HIGH-SPEED INTERCITY RAIL FACILITIES” after “AIRPORTS” in the heading thereof.

26 USC 142 note.

(c) **EFFECTIVE DATE.**—The amendments made by this section shall apply to bonds issued after the date of enactment of this Act.

SEC. 6181. RULES RELATING TO REBATE ON EARNINGS ON BONA FIDE DEBT SERVICE FUND.

(a) **NO REBATE WHERE EARNINGS DO NOT EXCEED \$100,000.**—Clause (ii) of section 148(f)(4)(A) of the 1986 Code is amended by striking “unless the issuer otherwise elects.”

(b) **\$100,000 LIMIT NOT TO APPLY TO CERTAIN ISSUES.**—Subparagraph (A) of section 148(f)(4) of the 1986 Code is amended by adding at the end thereof the following new sentence:

“In the case of an issue no bond of which is a private activity bond, clause (ii) shall be applied without regard to the dollar limitation therein if the average maturity of the issue (determined in accordance with section 147(b)(2)(A)) is at least 5 years and the rates of interest on bonds which are part of the issue do not vary during the term of the issue.”

(c) **EFFECTIVE DATE; SPECIAL RULES.**—

(1) **IN GENERAL.**—The amendments made by this section shall apply to bonds issued after the date of the enactment of this Act.

(2) **ELECTION FOR OUTSTANDING BONDS.**—Any issue of bonds other than private activity bonds outstanding as of the date of the enactment of this Act shall be allowed a 1-time election to apply the amendments made by subsection (b) to amounts deposited after such date in bona fide debt service funds of such bonds.

(3) **DEFINITION OF PRIVATE ACTIVITY BOND.**—For purposes of this section and the last sentence of section 148(f)(4)(A) of the 1986 Code (as added by subsection (b)), the term ‘private activity bond’ shall include any qualified 501(c)(3) bond (as defined under section 145 of the 1986 Code).

26 USC 148 note.

SEC. 6182. BONDS ISSUED BY VOLUNTEER FIRE DEPARTMENTS.

(a) **OVERLAPPING AREAS.**—Paragraph (2) of section 150(e) of the 1986 Code (relating to bonds of certain volunteer fire departments) is amended by adding at the end thereof the following new sentence:

“For purposes of subparagraph (A), other firefighting services provided in an area shall be disregarded in determining whether an organization is a qualified volunteer fire department if such other firefighting services are provided by a qualified volunteer fire department (determined with the application of this sentence) and such organization and the provider of such other services have been continuously providing firefighting services to such area since January 1, 1981.”

(b) **ACQUISITION OF LAND PERMITTED.**—Subparagraph (B) of section 150(e)(1) of the 1986 Code is amended by inserting “(including land which is functionally related and subordinate thereto)” after “a firehouse”.

(c) **EFFECTIVE DATE.**—The amendments made by this section shall apply to bonds issued after the date of the enactment of this Act.

26 USC 150 note.

SEC. 6183. DISREGARD OF POOLED FINANCINGS IN DETERMINATION OF QUALIFICATION FOR SMALL ISSUER EXCEPTION.

(a) **GENERAL.**—Clause (ii) of section 148(f)(4)(C) of the 1986 Code (as amended by title I of this Act) is amended by redesignating subclauses (II) and (III) as subclauses (III) and (IV), respectively, and by inserting after subclause (I) the following new subclause:

“(II) all bonds issued by a governmental unit on behalf of other governmental units with general

taxing powers not subordinate to such unit shall, for purposes of applying such subclause to such unit, be treated as not issued by such unit.”

26 USC 148 note. (b) **EFFECTIVE DATE.**—The amendment made by subsection (a) shall apply to bonds issued after December 31, 1988.

Subtitle I—Provisions Relating to Exempt Organizations

26 USC 513 note. **SEC. 6201. CERTAIN GAMES OF CHANCE NOT TREATED AS UNRELATED TRADE OR BUSINESS.**

Section 1834 of the Reform Act is amended by adding at the end thereof the following new sentence: “The amendment made by this section shall apply to games of chance conducted after October 22, 1986, in taxable years ending after such date”.

SEC. 6202. PURCHASE OF INSURANCE BY COOPERATIVE HOSPITAL SERVICE ORGANIZATIONS.

(a) **IN GENERAL.**—Subparagraph (A) of section 501(e)(1) of the 1986 Code is amended by inserting “(including the purchasing of insurance on a group basis)” after “purchasing”.

26 USC 501 note. (b) **EFFECTIVE DATE.**—The amendment made by subsection (a) shall apply to purchases before, on, or after the date of the enactment of this Act.

26 USC 501 note. **SEC. 6203. CANCELLATION OF CERTAIN DEBTS ORIGINATED BY OR GUARANTEED BY THE UNITED STATES NOT TAKEN INTO ACCOUNT IN DETERMINING TAX EXEMPT STATUS OF CERTAIN ORGANIZATIONS.**

Subparagraph (A) of section 501(c)(12) of the 1986 Code shall be applied without taking into account any income attributable to the cancellation of any loan originally made or guaranteed by the United States (or any agency or instrumentality thereof) if such cancellation occurs after 1986 and before 1990.

26 USC 4940 note. **SEC. 6204. DETERMINATION OF OPERATING FOUNDATION STATUS FOR CERTAIN PURPOSES.**

For purposes of section 302(c)(3) of the Deficit Reduction Act of 1984, a private foundation which constituted an operating foundation (as defined in section 4942(j)(3) of the Internal Revenue Code of 1986) for its last taxable year ending before January 1, 1983, shall be treated as constituting an operating foundation as of January 1, 1983.

Subtitle J—Taxpayer Rights and Procedures

Omnibus
Taxpayer
Bill of Rights.
26 USC 1 note.

SEC. 6226. SHORT TITLE.

This subtitle may be cited as the “Omnibus Taxpayer Bill of Rights”.

PART I—TAXPAYER RIGHTS**SEC. 6227. DISCLOSURE OF RIGHTS OF TAXPAYERS.**26 USC 7801
note.

(a) **IN GENERAL.**—The Secretary of the Treasury shall, as soon as practicable, but not later than 180 days after the date of the enactment of this Act, prepare a statement which sets forth in simple and nontechnical terms—

(1) the rights of a taxpayer and the obligations of the Internal Revenue Service (hereinafter in this section referred to as the “Service”) during an audit;

(2) the procedures by which a taxpayer may appeal any adverse decision of the Service (including administrative and judicial appeals);

(3) the procedures for prosecuting refund claims and filing of taxpayer complaints; and

(4) the procedures which the Service may use in enforcing the internal revenue laws (including assessment, jeopardy assessment, levy and distraint, and enforcement of liens).

(b) **TRANSMISSION TO COMMITTEES OF CONGRESS.**—The Secretary of the Treasury shall transmit drafts of the statement required under subsection (a) (or proposed revisions of any such statement) to the Committee on Ways and Means of the House of Representatives, the Committee on Finance of the Senate, and the Joint Committee on Taxation on the same day.

(c) **DISTRIBUTION.**—The statement prepared in accordance with subsections (a) and (b) shall be distributed by the Secretary of the Treasury to all taxpayers the Secretary contacts with respect to the determination or collection of any tax (other than by providing tax forms). The Secretary shall take such actions as the Secretary deems necessary to ensure that such distribution does not result in multiple statements being sent to any one taxpayer.

SEC. 6228. PROCEDURES INVOLVING TAXPAYER INTERVIEWS.

(a) **IN GENERAL.**—Chapter 77 of the 1986 Code (relating to miscellaneous provisions) is amended by adding at the end thereof the following new section:

“SEC. 7520. PROCEDURES INVOLVING TAXPAYER INTERVIEWS.

“(a) RECORDING OF INTERVIEWS.—

“(1) RECORDING BY TAXPAYER.—Any officer or employee of the Internal Revenue Service in connection with any in-person interview with any taxpayer relating to the determination or collection of any tax shall, upon advance request of such taxpayer, allow the taxpayer to make an audio recording of such interview at the taxpayer’s own expense and with the taxpayer’s own equipment.

“(2) RECORDING BY IRS OFFICER OR EMPLOYEE.—An officer or employee of the Internal Revenue Service may record any interview described in paragraph (1) if such officer or employee—

“(A) informs the taxpayer of such recording prior to the interview, and

“(B) upon request of the taxpayer, provides the taxpayer with a transcript or copy of such recording but only if the taxpayer provides reimbursement for the cost of the transcription and reproduction of such transcript or copy.

“(b) SAFEGUARDS.—

“(1) **EXPLANATIONS OF PROCESSES.**—An officer or employee of the Internal Revenue Service shall before or at an initial interview provide to the taxpayer—

“(A) in the case of an in-person interview with the taxpayer relating to the determination of any tax, an explanation of the audit process and the taxpayer’s rights under such process, or

“(B) in the case of an in-person interview with the taxpayer relating to the collection of any tax, an explanation of the collection process and the taxpayer’s rights under such process.

“(2) **RIGHT OF CONSULTATION.**—If the taxpayer clearly states to an officer or employee of the Internal Revenue Service at any time during any interview (other than an interview initiated by an administrative summons issued under subchapter A of chapter 78) that the taxpayer wishes to consult with an attorney, certified public accountant, enrolled agent, enrolled actuary, or any other person permitted to represent the taxpayer before the Internal Revenue Service, such officer or employee shall suspend such interview regardless of whether the taxpayer may have answered one or more questions.

“(c) **REPRESENTATIVES HOLDING POWER OF ATTORNEY.**—Any attorney, certified public accountant, enrolled agent, enrolled actuary, or any other person permitted to represent the taxpayer before the Internal Revenue Service who is not disbarred or suspended from practice before the Internal Revenue Service and who has a written power of attorney executed by the taxpayer may be authorized by such taxpayer to represent the taxpayer in any interview described in subsection (a). An officer or employee of the Internal Revenue Service may not require a taxpayer to accompany the representative in the absence of an administrative summons issued to the taxpayer under subchapter A of chapter 78. Such an officer or employee, with the consent of the immediate supervisor of such officer or employee, may notify the taxpayer directly that such officer or employee believes such representative is responsible for unreasonable delay or hindrance of an Internal Revenue Service examination or investigation of the taxpayer.

“(d) **SECTION NOT TO APPLY TO CERTAIN INVESTIGATIONS.**—This section shall not apply to criminal investigations or investigations relating to the integrity of any officer or employee of the Internal Revenue Service.”

26 USC 7605
note.

(b) **REGULATIONS WITH RESPECT TO TIME AND PLACE OF EXAMINATION.**—The Secretary of the Treasury or the Secretary’s delegate shall issue regulations to implement subsection (a) of section 7605 of the 1986 Code (relating to time and place of examination) within 1 year after the date of the enactment of this Act.

(c) **CLERICAL AMENDMENT.**—The table of sections for chapter 77 of the 1986 Code is amended by adding at the end thereof the following new item:

“Sec. 7520. Procedures involving taxpayer interviews.”

26 USC 7520
note.

(d) **EFFECTIVE DATE.**—The amendments made by subsections (a) and (c) shall apply to interviews conducted on or after the date which is 90 days after the date of the enactment of this Act.

SEC. 6229. TAXPAYERS MAY RELY ON WRITTEN ADVICE OF INTERNAL REVENUE SERVICE.

(a) **IN GENERAL.**—Section 6404 of the 1986 Code (relating to abatements) is amended by adding at the end thereof the following new subsection:

“(f) **ABATEMENT OF ANY PENALTY OR ADDITION TO TAX ATTRIBUTABLE TO ERRONEOUS WRITTEN ADVICE BY THE INTERNAL REVENUE SERVICE.**—

“(1) **IN GENERAL.**—The Secretary shall abate any portion of any penalty or addition to tax attributable to erroneous advice furnished to the taxpayer in writing by an officer or employee of the Internal Revenue Service, acting in such officer’s or employee’s official capacity.

“(2) **LIMITATIONS.**—Paragraph (1) shall apply only if—

“(A) the written advice was reasonably relied upon by the taxpayer and was in response to a specific written request of the taxpayer, and

“(B) the portion of the penalty or addition to tax did not result from a failure by the taxpayer to provide adequate or accurate information.

“(3) **INITIAL REGULATIONS.**—Within 180 days after the date of the enactment of this subsection, the Secretary shall prescribe such initial regulations as may be necessary to carry out this subsection.”

(b) **EFFECTIVE DATE.**—The amendment made by subsection (a) shall apply with respect to advice requested on or after January 1, 1989.

26 USC 6404 note.

SEC. 6230. TAXPAYER ASSISTANCE ORDERS.

(a) **IN GENERAL.**—Subchapter A of chapter 80 of the 1986 Code (relating to general rules for application of the internal revenue laws) is amended by adding at the end thereof the following new section:

“SEC. 7811. TAXPAYER ASSISTANCE ORDERS.

“(a) **AUTHORITY TO ISSUE.**—Upon application filed by a taxpayer with the Office of Ombudsman (in such form, manner, and at such time as the Secretary shall by regulations prescribe), the Ombudsman may issue a Taxpayer Assistance Order if, in the determination of the Ombudsman, the taxpayer is suffering or about to suffer a significant hardship as a result of the manner in which the internal revenue laws are being administered by the Secretary.

Regulations.

“(b) **TERMS OF A TAXPAYER ASSISTANCE ORDER.**—The terms of a Taxpayer Assistance Order may require the Secretary—

“(1) to release property of the taxpayer levied upon, or

“(2) to cease any action, or refrain from taking any action, with respect to the taxpayer under—

“(A) chapter 64 (relating to collection),

“(B) subchapter B of chapter 70 (relating to bankruptcy and receiverships),

“(C) chapter 78 (relating to discovery of liability and enforcement of title), or

“(D) any other provision of law which is specifically described by the Ombudsman in such order.

“(c) **AUTHORITY TO MODIFY OR RESCIND.**—Any Taxpayer Assistance Order issued by the Ombudsman under this section may be modified or rescinded only by the Ombudsman, a district director, a

service center director, a compliance center director, a regional director of appeals, or any superior of any such person.

“(d) **SUSPENSION OF RUNNING OF PERIOD OF LIMITATION.**—The running of any period of limitation with respect to any action described in subsection (b) shall be suspended for—

“(1) the period beginning on the date of the taxpayer’s application under subsection (a) and ending on the date of the Ombudsman’s decision with respect to such application, and

“(2) any period specified by the Ombudsman in a Taxpayer Assistance Order issued pursuant to such application.

“(e) **INDEPENDENT ACTION OF OMBUDSMAN.**—Nothing in this section shall prevent the Ombudsman from taking any action in the absence of an application under subsection (a).

“(f) **OMBUDSMAN.**—For purposes of this section, the term ‘Ombudsman’ includes any designee of the Ombudsman.”

(b) **CLERICAL AMENDMENT.**—The table of sections for subchapter A of chapter 80 of the 1986 Code is amended by adding at the end thereof the following new item:

“Sec. 7811. Taxpayer Assistance Orders.”

26 USC 7811
note.

(c) **ISSUANCE OF REGULATIONS.**—The Secretary of the Treasury or the Secretary’s delegate shall issue such regulations as the Secretary deems necessary within 90 days of the date of the enactment of this Act in order to carry out the purposes of section 7811 of the 1986 Code (as added by this section) and to ensure taxpayers uniform access to administrative procedures.

26 USC 7811
note.

(d) **EFFECTIVE DATE.**—The amendments made by this section shall take effect on January 1, 1989.

26 USC 7803
note.

SEC. 6231. BASIS FOR EVALUATION OF INTERNAL REVENUE SERVICE EMPLOYEES.

(a) **IN GENERAL.**—The Internal Revenue Service shall not use records of tax enforcement results—

(1) to evaluate employees directly involved in collection activities and their immediate supervisors, or

(2) to impose or suggest production quotas or goals with respect to individuals described in clause (i).

(b) **APPLICATION OF IRS POLICY STATEMENT.**—The Internal Revenue Service shall not be treated as failing to meet the requirements of subsection (a) if the Service follows the policy statement of the Service regarding employee evaluation (as in effect on the date of the enactment of this Act) in a manner which does not violate subsection (a).

(c) **CERTIFICATION.**—Each district director shall certify quarterly by letter to the Commissioner of Internal Revenue that tax enforcement results are not used in a manner prohibited by subsection (a).

(d) **EFFECTIVE DATE.**—The provisions of this section shall apply to evaluations conducted on or after January 1, 1989.

SEC. 6232. PROCEDURES RELATING TO INTERNAL REVENUE SERVICE REGULATIONS.

(a) **IN GENERAL.**—Section 7805 of the 1986 Code (relating to rules and regulations) is amended by adding at the end thereof the following new subsections:

“(e) **TEMPORARY REGULATIONS.**—

“(1) **ISSUANCE.**—Any temporary regulation issued by the Secretary shall also be issued as a proposed regulation.

“(2) 3-YEAR DURATION.—Any temporary regulation shall expire within 3 years after the date of issuance of such regulation.

“(f) IMPACT OF REGULATIONS ON SMALL BUSINESS REVIEWED.—After the publication of any proposed regulation by the Secretary and before the promulgation of any final regulation by the Secretary which does not supersede a proposed regulation, the Secretary shall submit such regulation to the Administrator of the Small Business Administration for comment on the impact of such regulation on small business. The Administrator shall have 4 weeks from the date of submission to respond.”

(b) EFFECTIVE DATE.—The amendments made by this section shall apply to any regulation issued after the date which is 10 days after the date of the enactment of this Act.

26 USC 7805
note.

SEC. 6233. CONTENT OF TAX DUE, DEFICIENCY, AND OTHER NOTICES.

(a) IN GENERAL.—Chapter 77 of the 1986 Code (relating to miscellaneous provisions) is further amended by adding at the end thereof the following new section:

“SEC. 7521. CONTENT OF TAX DUE, DEFICIENCY, AND OTHER NOTICES.

“(a) GENERAL RULE.—Any notice to which this section applies shall describe the basis for, and identify the amounts (if any) of, the tax due, interest, additional amounts, additions to the tax, and assessable penalties included in such notice. An inadequate description under the preceding sentence shall not invalidate such notice.

“(b) NOTICES TO WHICH SECTION APPLIES.—This section shall apply to—

“(1) any tax due notice or deficiency notice described in section 6155, 6212, or 6303,

“(2) any notice generated out of any information return matching program, and

“(3) the 1st letter of proposed deficiency which allows the taxpayer an opportunity for administrative review in the Internal Revenue Service Office of Appeals.”

(b) CLERICAL AMENDMENT.—The table of sections for chapter 77 of the 1986 Code is further amended by adding at the end thereof the following new item:

“Sec. 7521. Content of tax due, deficiency, and other notices.”

(c) EFFECTIVE DATE.—The amendments made by this section shall apply to mailings made on or after January 1, 1990.

(d) REPORT.—Not later than July 1, 1989, the Secretary of the Treasury or his delegate shall submit a report to the Committee on Ways and Means of the House of Representatives and the Committee on Finance of the Senate on the steps taken to carry out the amendments made by this section.

26 USC 7521
note.

SEC. 6234. INSTALLMENT PAYMENT OF TAX LIABILITY.

(a) IN GENERAL.—Subchapter A of chapter 62 of the 1986 Code (relating to place and due date for payment of tax) is amended by adding at the end thereof the following new section:

“SEC. 6159. AGREEMENTS FOR PAYMENT OF TAX LIABILITY IN INSTALLMENTS.

“(a) AUTHORIZATION OF AGREEMENTS.—The Secretary is authorized to enter into written agreements with any taxpayer under which such taxpayer is allowed to satisfy liability for payment of

any tax in installment payments if the Secretary determines that such agreement will facilitate collection of such liability.

“(b) EXTENT TO WHICH AGREEMENTS REMAIN IN EFFECT.—

“(1) IN GENERAL.—Except as otherwise provided in this subsection, any agreement entered into by the Secretary under subsection (a) shall remain in effect for the term of the agreement.

“(2) INADEQUATE INFORMATION OR JEOPARDY.—The Secretary may terminate any agreement entered into by the Secretary under subsection (a) if—

“(A) information which the taxpayer provided to the Secretary prior to the date such agreement was entered into was inaccurate or incomplete, or

“(B) the Secretary believes that collection of any tax to which an agreement under this section relates is in jeopardy.

“(3) SUBSEQUENT CHANGE IN FINANCIAL CONDITIONS.—

“(A) IN GENERAL.—If the Secretary makes a determination that the financial condition of a taxpayer with whom the Secretary has entered into an agreement under subsection (a) has significantly changed, the Secretary may alter, modify, or terminate such agreement.

“(B) NOTICE.—Action may be taken by the Secretary under subparagraph (A) only if—

“(i) notice of such determination is provided to the taxpayer no later than 30 days prior to the date of such action, and

“(ii) such notice includes the reasons why the Secretary believes a significant change in the financial condition of the taxpayer has occurred.

“(4) FAILURE TO PAY AN INSTALLMENT OR ANY OTHER TAX LIABILITY WHEN DUE OR TO PROVIDE REQUESTED FINANCIAL INFORMATION.—The Secretary may alter, modify, or terminate an agreement entered into by the Secretary under subsection (a) in the case of the failure of the taxpayer—

“(A) to pay any installment at the time such installment payment is due under such agreement,

“(B) to pay any other tax liability at the time such liability is due, or

“(C) to provide a financial condition update as requested by the Secretary.”

(b) CONFORMING AMENDMENTS.—

(1) Paragraph (1) of section 6601(b) of the 1986 Code (relating to last day prescribed for payment) is amended by inserting “or any installment agreement entered into under section 6159” after “time for payment”.

(2) The table of sections for subchapter A of chapter 62 of the 1986 Code is amended by adding at the end thereof the following new item:

“Sec. 6159. Agreements for payment of tax liability in installments.”

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

SEC. 6235. ASSISTANT COMMISSIONER FOR TAXPAYER SERVICES.

(a) **IN GENERAL.**—Section 7802 of the 1986 Code (relating to Commissioner of Revenue; Assistant Commissioner (Employee Plans and Exempt Organizations)) is amended by adding at the end thereof the following new subsection:

“(c) **ASSISTANT COMMISSIONER (TAXPAYER SERVICES).**—There is established within the Internal Revenue Service an office to be known as the ‘Office for Taxpayer Services’ to be under the supervision and direction of an Assistant Commissioner of the Internal Revenue. The Assistant Commissioner shall be responsible for taxpayer services such as telephone, walk-in, and taxpayer educational services, and the design and production of tax and informational forms.”

Establishment.

(b) **ANNUAL REPORTS TO CONGRESS.**—The Assistant Commissioner (Taxpayer Services) and the Taxpayer Ombudsman for the Internal Revenue Service shall jointly make an annual report regarding the quality of taxpayer services provided. Such report shall be made to the Committee on Finance of the Senate and the Committee on Ways and Means of the House of Representatives.

26 USC 7802
note.

(c) **EFFECTIVE DATE.**—The amendment made by subsection (a) shall take effect on the date 180 days after the date of the enactment of this Act.

26 USC 7802
note.**PART II—LEVY AND LIEN PROVISIONS****SEC. 6236. LEVY AND DISTRAINT.**

(a) **NOTICE.**—Section 6331(d) of the 1986 Code (relating to levy and distraint) is amended—

(1) by striking out “10 days” in paragraph (2) and inserting in lieu thereof “30 days”;

(2) by striking out “10-DAY REQUIREMENT” in the heading of paragraph (2) and inserting in lieu thereof “30-DAY REQUIREMENT”, and

(3) by adding at the end thereof the following new paragraph:

“(4) **INFORMATION INCLUDED WITH NOTICE.**—The notice required under paragraph (1) shall include a brief statement which sets forth in simple and nontechnical terms—

“(A) the provisions of this title relating to levy and sale of property,

“(B) the procedures applicable to the levy and sale of property under this title,

“(C) the administrative appeals available to the taxpayer with respect to such levy and sale and the procedures relating to such appeals,

“(D) the alternatives available to taxpayers which could prevent levy on the property (including installment agreements under section 6159),

“(E) the provisions of this title relating to redemption of property and release of liens on property, and

“(F) the procedures applicable to the redemption of property and the release of a lien on property under this title.”

(b) **EFFECT OF LEVY ON SALARY AND WAGES.**—

(1) **IN GENERAL.**—Subsection (e) of section 6331 of the 1986 Code (relating to levy and distraint) is amended to read as follows:

“(e) CONTINUING LEVY ON SALARY AND WAGES.—The effect of a levy on salary or wages payable to or received by a taxpayer shall be continuous from the date such levy is first made until such levy is released under section 6343.”

(2) CROSS REFERENCE.—Section 6331(f) of the 1986 Code (relating to cross references) is amended by adding at the end thereof the following new paragraph:

“(3) For release and notice of release of levy, see section 6343.”

(c) INCREASE IN AMOUNTS OF CERTAIN PROPERTY EXEMPT FROM LEVY.—

(1) FUEL, PROVISIONS, FURNITURE, PERSONAL EFFECTS.—Paragraph (2) of section 6334(a) of the 1986 Code (relating to property exempt from levy) is amended by striking out “\$1,500” and inserting in lieu thereof “\$1,650 (\$1,550 in the case of levies issued during 1989)”.

(2) BOOKS AND TOOLS.—Paragraph (3) of section 6334(a) of the 1986 Code is amended by striking out “\$1,000” and inserting in lieu thereof “\$1,100 (\$1,050 in the case of levies issued during 1989)”.

(3) WAGES, SALARY, AND OTHER INCOME.—

(A) INCREASE IN AMOUNT EXEMPT.—Paragraph (1) of section 6334(d) of the 1986 Code (relating to exempt amount of wages, salary, or other income) is amended to read as follows:

“(1) INDIVIDUALS ON WEEKLY BASIS.—In the case of an individual who is paid or receives all of his wages, salary, and other income on a weekly basis, the amount of the wages, salary, and other income payable to or received by him during any week which is exempt from levy under subsection (a)(9) shall be the exempt amount.”

(B) EXEMPT AMOUNT DEFINED.—Subsection (d) of section 6334 of the 1986 Code (relating to property exempt from levy) is amended by redesignating paragraph (2) as paragraph (3) and by inserting after paragraph (1) the following new paragraph:

“(2) EXEMPT AMOUNT.—For purposes of paragraph (1), the term ‘exempt amount’ means an amount equal to—

“(A) the sum of—

“(i) the standard deduction, and

“(ii) the aggregate amount of the deductions for personal exemptions allowed the taxpayer under section 151 in the taxable year in which such levy occurs, divided by

“(B) 52.

Unless the taxpayer submits to the Secretary a written and properly verified statement specifying the facts necessary to determine the proper amount under subparagraph (A), subparagraph (A) shall be applied as if the taxpayer were a married individual filing a separate return with only 1 personal exemption.”

(4) ADDITIONAL PROPERTY EXEMPT FROM LEVY.—

(A) IN GENERAL.—Subsection (a) of section 6334 of the 1986 Code (relating to property exempt from levy) is amended by adding at the end thereof the following new paragraphs:

“(11) CERTAIN PUBLIC ASSISTANCE PAYMENTS.—Any amount payable to an individual as a recipient of public assistance under—

“(A) title IV (relating to aid to families with dependent children) or title XVI (relating to supplemental security income for the aged, blind, and disabled) of the Social Security Act, or

“(B) State or local government public assistance or public welfare programs for which eligibility is determined by a needs or income test.

“(12) ASSISTANCE UNDER JOB TRAINING PARTNERSHIP ACT.—Any amount payable to a participant under the Job Training Partnership Act (29 U.S.C. 1501 et seq.) from funds appropriated pursuant to such Act.

“(13) PRINCIPAL RESIDENCE EXEMPT IN ABSENCE OF CERTAIN APPROVAL OR JEOPARDY.—Except to the extent provided in subsection (e), the principal residence of the taxpayer (within the meaning of section 1034).”

(B) LEVY PERMITTED ON PRINCIPAL RESIDENCE IN CASE OF JEOPARDY OR APPROVAL BY CERTAIN OFFICIALS.—Section 6334 of the 1986 Code is amended by adding at the end thereof the following new subsection:

“(e) LEVY ALLOWED ON PRINCIPAL RESIDENCE IN CASE OF JEOPARDY OR CERTAIN APPROVAL.—Property described in subsection (a)(13) shall not be exempt from levy if—

“(1) a district director or assistant district director of the Internal Revenue Service personally approves (in writing) the levy of such property, or

“(2) the Secretary finds that the collection of tax is in jeopardy.”

(d) UNECONOMICAL LEVY; LEVY ON APPEARANCE DATE OF SUMMONS.—Section 6331 of the 1986 Code (relating to levy and distraint) is amended by redesignating subsection (f) as subsection (h) and by inserting after subsection (e) the following new subsections:

“(f) UNECONOMICAL LEVY.—No levy may be made on any property if the amount of the expenses which the Secretary estimates (at the time of levy) would be incurred by the Secretary with respect to the levy and sale of such property exceeds the fair market value of such property at the time of levy.

“(g) LEVY ON APPEARANCE DATE OF SUMMONS.—

“(1) IN GENERAL.—No levy may be made on the property of any person on any day on which such person (or officer or employee of such person) is required to appear in response to a summons issued by the Secretary for the purpose of collecting any underpayment of tax.

“(2) NO APPLICATION IN CASE OF JEOPARDY.—This subsection shall not apply if the Secretary finds that the collection of tax is in jeopardy.”

(e) SURRENDER OF BANK ACCOUNTS SUBJECT TO LEVY ONLY AFTER 21 DAYS.—

(1) IN GENERAL.—Section 6332 of the 1986 Code (relating to surrender of property subject to levy), as amended by title I of this Act is amended by redesignating subsections (c), (d), and (e) as subsections (d), (e), and (f), respectively, and by inserting after subsection (b) the following new subsection:

“(c) SPECIAL RULE FOR BANKS.—Any bank (as defined in section 408(n)) shall surrender (subject to an attachment or execution under

judicial process) any deposits (including interest thereon) in such bank only after 21 days after service of levy."

(2) CONFORMING AMENDMENTS.—

(A) Subsection (a) of section 6332 of the 1986 Code is amended by striking out "subsection (b)" and inserting in lieu thereof "subsections (b) and (c)".

(B) Subsection (e) of section 6332 of the 1986 Code, as redesignated by paragraph (1), is amended by striking out "subsection (c)(1)" and inserting in lieu thereof "subsection (d)(1)".

(f) RELEASE OF LEVY.—Subsection (a) of section 6343 of the 1986 Code (relating to release of levy) is amended to read as follows:

"(a) RELEASE OF LEVY AND NOTICE OF RELEASE.—

"(1) IN GENERAL.—Under regulations prescribed by the Secretary, the Secretary shall release the levy upon all, or part of, the property or rights to property levied upon and shall promptly notify the person upon whom such levy was made (if any) that such levy has been released if—

"(A) the liability for which such levy was made is satisfied or becomes unenforceable by reason of lapse of time,

"(B) release of such levy will facilitate the collection of such liability,

"(C) the taxpayer has entered into an agreement under section 6159 to satisfy such liability by means of installment payments, unless such agreement provides otherwise,

"(D) the Secretary has determined that such levy is creating an economic hardship due to the financial condition of the taxpayer, or

"(E) the fair market value of the property exceeds such liability and release of the levy on a part of such property could be made without hindering the collection of such liability.

For purposes of subparagraph (C), the Secretary is not required to release such levy if such release would jeopardize the secured creditor status of the Secretary.

"(2) EXPEDITED DETERMINATION ON CERTAIN BUSINESS PROPERTY.—In the case of any tangible personal property essential in carrying on the trade or business of the taxpayer, the Secretary shall provide for an expedited determination under paragraph (1) if levy on such tangible personal property would prevent the taxpayer from carrying on such trade or business.

"(3) SUBSEQUENT LEVY.—The release of levy on any property under paragraph (1) shall not prevent any subsequent levy on such property."

(g) RIGHT OF TAXPAYER TO REQUEST THAT SEIZED PROPERTY BE SOLD WITHIN 60 DAYS.—Section 6335 of the 1986 Code (relating to sale of seized property) is amended by redesignating subsection (f) as subsection (g) and by inserting after subsection (e) the following new subsection:

"(f) RIGHT TO REQUEST SALE OF SEIZED PROPERTY WITHIN 60 DAYS.—The owner of any property seized by levy may request that the Secretary sell such property within 60 days after such request (or within such longer period as may be specified by the owner). The Secretary shall comply with such request unless the Secretary determines (and notifies the owner within such period) that such compliance would not be in the best interests of the United States."

(h) EFFECTIVE DATE.—

(1) **IN GENERAL.**—The amendments made by this section (other than subsection (g)) shall apply to levies issued on or after July 1, 1989.

(2) **SUBSECTION (g).**—The amendment made by subsection (g) shall apply to requests made on or after January 1, 1989.

SEC. 6237. REVIEW OF JEOPARDY LEVY AND ASSESSMENT PROCEDURES.

(a) **IN GENERAL.**—Subsection (a)(1) of section 7429 of the 1986 Code (relating to review of jeopardy assessment procedures) is amended—

(1) by inserting “or levy is made under section 6331(a) less than 30 days after notice and demand for payment is made under section 6331(a),” after “6862,” and

(2) by inserting “or levy” after “such assessment”.

(b) **ADMINISTRATIVE DETERMINATIONS.**—Paragraph (3) of section 7429(a) of the 1986 Code (relating to redetermination by the Secretary) is amended to read as follows:

“(3) **REDETERMINATION BY SECRETARY.**—After a request for review is made under paragraph (2), the Secretary shall determine—

“(A) whether or not—

“(i) the making of the assessment under section 6851, 6861, or 6862, as the case may be, is reasonable under the circumstances, and

“(ii) the amount so assessed or demanded as a result of the action taken under section 6851, 6861, or 6862 is appropriate under the circumstances, or

“(B) whether or not the levy described in subsection (a)(1) is reasonable under the circumstances.”

(c) **TAX COURT REVIEW JURISDICTION.**—Subsection (b) of section 7429 of the 1986 Code is amended to read as follows:

“(b) **JUDICIAL REVIEW.**—

“(1) **PROCEEDINGS PERMITTED.**—Within 90 days after the earlier of—

“(A) the day the Secretary notifies the taxpayer of the Secretary’s determination described in subsection (a)(3), or

“(B) the 16th day after the request described in subsection (a)(2) was made,

the taxpayer may bring a civil action against the United States for a determination under this subsection in the court with jurisdiction determined under paragraph (2).

“(2) **JURISDICTION FOR DETERMINATION.**—

“(A) **IN GENERAL.**—Except as provided in subparagraph (B), the district courts of the United States shall have exclusive jurisdiction over any civil action for a determination under this subsection.

“(B) **TAX COURT.**—If a petition for a redetermination of a deficiency under section 6213(a) has been timely filed with the Tax Court before the making of an assessment or levy that is subject to the review procedures of this section, and 1 or more of the taxes and taxable periods before the Tax Court because of such petition is also included in the written statement that is provided to the taxpayer under subsection (a), then the Tax Court also shall have jurisdiction over any civil action for a determination under this subsection with respect to all the taxes and taxable periods included in such written statement.

“(3) DETERMINATION BY COURT.—Within 20 days after a proceeding is commenced under paragraph (1), the court shall determine—

“(A) whether or not—

“(i) the making of the assessment under section 6851, 6861, or 6862, as the case may be, is reasonable under the circumstances, and

“(ii) the amount so assessed or demanded as a result of the action taken under section 6851, 6861, or 6862 is appropriate under the circumstances, or

“(B) whether or not the levy described in subsection (a)(1) is reasonable under the circumstances.

If the court determines that proper service was not made on the United States or on the Secretary, as may be appropriate, within 5 days after the date of the commencement of the proceeding, then the running of the 20-day period set forth in the preceding sentence shall not begin before the day on which proper service was made on the United States or on the Secretary, as may be appropriate.

“(4) ORDER OF COURT.—If the court determines that the making of such levy is unreasonable, that the making of such assessment is unreasonable, or that the amount assessed or demanded is inappropriate, then the court may order the Secretary to release such levy, to abate such assessment, to redetermine (in whole or in part) the amount assessed or demanded, or to take such other action as the court finds appropriate.”

(d) VENUE.—Section 7429(e) of the 1986 Code (relating to venue) is amended to read as follows:

“(e) VENUE.—

“(1) DISTRICT COURT.—A civil action in a district court under subsection (b) shall be commenced only in the judicial district described in section 1402(a) (1) or (2) of title 28, United States Code.

“(2) TRANSFER OF ACTIONS.—If a civil action is filed under subsection (b) with the Tax Court and such court finds that there is want of jurisdiction because of the jurisdiction provisions of subsection (b)(2), then the Tax Court shall, if such court determines it is in the interest of justice, transfer the civil action to the district court in which the action could have been brought at the time such action was filed. Any civil action so transferred shall proceed as if such action had been filed in the district court to which such action is transferred on the date on which such action was actually filed in the Tax Court from which such action is transferred.”

(e) CONFORMING AMENDMENTS.—

(1) Section 7429(c) of the 1986 Code (relating to extension of 20-day period where taxpayer so requests) and section 7429(f) (relating to finality of determination) are amended by striking out “district” each place it appears.

(2) Section 7429(g) of the 1986 Code (relating to burden of proof) is amended—

(A) by inserting “the making of a levy described in subsection (a)(1) or” after “whether” in paragraph (1),

(B) by striking out “TERMINATION” in the heading of paragraph (1) and inserting in lieu thereof “LEVY, TERMINATION,” and

(C) by striking out "an action" and inserting in lieu thereof "a proceeding" in paragraphs (1) and (2).

(3) The heading of section 7429 of the 1986 Code is amended by inserting "LEVY OR" after "JEOPARDY".

(4) The table of sections for subchapter B of chapter 76 of the 1986 Code is amended by inserting "levy or" after "jeopardy" in the item relating to section 7429.

(f) **EFFECTIVE DATE.**—The amendments made by this section shall apply to jeopardy levies issued and assessments made on or after July 1, 1989.

26 USC 7429
note.

SEC. 6238. ADMINISTRATIVE APPEAL OF LIENS.

(a) **ESTABLISHMENT OF ADMINISTRATIVE APPEAL FOR DISPUTED LIENS.**—Subchapter C of chapter 64 of the 1986 Code (relating to lien for taxes) is amended by redesignating section 6326 as section 6327 and inserting after section 6325 the following new section:

"SEC. 6326. ADMINISTRATIVE APPEAL OF LIENS.

"(a) **IN GENERAL.**—In such form and at such time as the Secretary shall prescribe by regulations, any person shall be allowed to appeal to the Secretary after the filing of a notice of a lien under this subchapter on the property or the rights to property of such person for a release of such lien alleging an error in the filing of the notice of such lien.

Regulations.

"(b) **CERTIFICATE OF RELEASE.**—If the Secretary determines that the filing of the notice of any lien was erroneous, the Secretary shall expeditiously (and, to the extent practicable, within 14 days after such determination) issue a certificate of release of such lien and shall include in such certificate a statement that such filing was erroneous."

(b) **REGULATIONS.**—The Secretary of the Treasury or the Secretary's delegate shall prescribe the regulations necessary to implement the administrative appeal provided for in the amendment made by subsection (a) within 180 days after the date of the enactment of this Act.

26 USC 6326
note.

(c) **CLERICAL AMENDMENT.**—The table of sections for subchapter C of chapter 64 of the 1986 Code is amended by striking out the item relating to section 6326 and inserting in lieu thereof the following:

"Sec. 6326. Administrative appeal of liens.

"Sec. 6327. Cross references."

(d) **EFFECTIVE DATE.**—The amendments made by this section shall take effect on the date which is 60 days after the date regulations are issued under subsection (b).

26 USC 6326
note.

PART III—PROCEEDINGS BY TAXPAYERS

SEC. 6239. AWARDING OF COSTS AND CERTAIN FEES IN ADMINISTRATIVE AND COURT PROCEEDINGS.

(a) **IN GENERAL.**—Section 7430 of the 1986 Code is amended to read as follows:

"SEC. 7430. AWARDING OF COSTS AND CERTAIN FEES.

"(a) **IN GENERAL.**—In any administrative or court proceeding which is brought by or against the United States in connection with the determination, collection, or refund of any tax, interest, or penalty under this title, the prevailing party may be awarded a judgment or a settlement for—

“(1) reasonable administrative costs incurred in connection with such administrative proceeding within the Internal Revenue Service, and

“(2) reasonable litigation costs incurred in connection with such court proceeding.

“(b) LIMITATIONS.—

“(1) REQUIREMENT THAT ADMINISTRATIVE REMEDIES BE EXHAUSTED.—A judgment for reasonable litigation costs shall not be awarded under subsection (a) in any court proceeding unless the court determines that the prevailing party has exhausted the administrative remedies available to such party within the Internal Revenue Service.

“(2) ONLY COSTS ALLOCABLE TO THE UNITED STATES.—An award under subsection (a) shall be made only for reasonable litigation and administrative costs which are allocable to the United States and not to any other party.

“(3) EXCLUSION OF DECLARATORY JUDGMENT PROCEEDINGS.—

“(A) IN GENERAL.—No award for reasonable litigation costs may be made under subsection (a) with respect to any declaratory judgment proceeding.

“(B) EXCEPTION FOR SECTION 501(C)(3) DETERMINATION REVOCATION PROCEEDINGS.—Subparagraph (A) shall not apply to any proceeding which involves the revocation of a determination that the organization is described in section 501(c)(3).

“(4) COSTS DENIED WHERE PARTY PREVAILING PROTRACTS PROCEEDINGS.—No award for reasonable litigation and administrative costs may be made under subsection (a) with respect to any portion of the administrative or court proceeding during which the prevailing party has unreasonably protracted such proceeding.

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

“(1) REASONABLE LITIGATION COSTS.—The term ‘reasonable litigation costs’ includes—

“(A) reasonable court costs, and

“(B) based upon prevailing market rates for the kind or quality of services furnished—

“(i) the reasonable expenses of expert witnesses in connection with a court proceeding, except that no expert witness shall be compensated at a rate in excess of the highest rate of compensation for expert witnesses paid by the United States,

“(ii) the reasonable cost of any study, analysis, engineering report, test, or project which is found by the court to be necessary for the preparation of the party’s case, and

“(iii) reasonable fees paid or incurred for the services of attorneys in connection with the court proceeding, except that such fees shall not be in excess of \$75 per hour unless the court determines that an increase in the cost of living or a special factor, such as the limited availability of qualified attorneys for such proceeding, justifies a higher rate.

“(2) REASONABLE ADMINISTRATIVE COSTS.—The term ‘reasonable administrative costs’ means—

“(A) any administrative fees or similar charges imposed by the Internal Revenue Service, and

“(B) expenses, costs, and fees described in paragraph (1)(B), except that any determination made by the court under clause (ii) or (iii) thereof shall be made by the Internal Revenue Service in cases where the determination under paragraph (4)(B) of the awarding of reasonable administrative costs is made by the Internal Revenue Service.

Such term shall only include costs incurred on or after the earlier of (i) the date of the receipt by the taxpayer of the notice of the decision of the Internal Revenue Service Office of Appeals, or (ii) the date of the notice of deficiency.

“(3) ATTORNEY’S FEES.—For purposes of paragraphs (1) and (2), fees for the services of an individual (whether or not an attorney) who is authorized to practice before the Tax Court or before the Internal Revenue Service shall be treated as fees for the services of an attorney.

“(4) PREVAILING PARTY.—

“(A) IN GENERAL.—The term ‘prevailing party’ means any party in any proceeding to which subsection (a) applies (other than the United States or any creditor of the taxpayer involved)—

“(i) which establishes that the position of the United States in the proceeding was not substantially justified,

“(ii) which—

“(I) has substantially prevailed with respect to the amount in controversy, or

“(II) has substantially prevailed with respect to the most significant issue or set of issues presented, and

“(iii) which meets the requirements of the 1st sentence of section 2412(d)(1)(B) of title 28, United States Code (as in effect on October 22, 1986) except to the extent differing procedures are established by rule of court and meets the requirements of section 2412(d)(2)(B) of such title 28 (as so in effect).

“(B) DETERMINATION AS TO PREVAILING PARTY.—Any determination under subparagraph (A) as to whether a party is a prevailing party shall be made by agreement of the parties or—

“(i) in the case where the final determination with respect to the tax, interest, or penalty is made at the administrative level, by the Internal Revenue Service, or

“(ii) in the case where such final determination is made by a court, the court.

“(5) ADMINISTRATIVE PROCEEDINGS.—The term ‘administrative proceeding’ means any procedure or other action before the Internal Revenue Service.

“(6) COURT PROCEEDINGS.—The term ‘court proceeding’ means any civil action brought in a court of the United States (including the Tax Court and the United States Claims Court).

“(7) POSITION OF UNITED STATES.—The term ‘position of the United States’ means—

“(A) the position taken by the United States in a judicial proceeding to which subsection (a) applies, and

“(B) the position taken in an administrative proceeding to which subsection (a) applies as of the earlier of—

“(i) the date of the receipt by the taxpayer of the notice of the decision of the Internal Revenue Service Office of Appeals, or

“(ii) the date of the notice of deficiency.

“(d) SPECIAL RULES FOR PAYMENT OF COSTS.—

“(1) REASONABLE ADMINISTRATIVE COSTS.—An award for reasonable administrative costs shall be payable out of funds appropriated under section 1304 of title 31, United States Code.

“(2) REASONABLE LITIGATION COSTS.—An award for reasonable litigation costs shall be payable in the case of the Tax Court in the same manner as such an award by a district court.

“(e) MULTIPLE ACTIONS.—For purposes of this section, in the case of—

“(1) multiple actions which could have been joined or consolidated, or

“(2) a case or cases involving a return or returns of the same taxpayer (including joint returns of married individuals) which could have been joined in a single court proceeding in the same court,

such actions or cases shall be treated as 1 court proceeding regardless of whether such joinder or consolidation actually occurs, unless the court in which such action is brought determines, in its discretion, that it would be inappropriate to treat such actions or cases as joined or consolidated.

“(f) RIGHT OF APPEAL.—

“(1) COURT PROCEEDINGS.—An order granting or denying (in whole or in part) an award for reasonable litigation or administrative costs under subsection (a) in a court proceeding, may be incorporated as a part of the decision or judgment in the court proceeding and shall be subject to appeal in the same manner as the decision or judgment.

“(2) ADMINISTRATIVE PROCEEDINGS.—A decision granting or denying (in whole or in part) an award for reasonable administrative costs under subsection (a) by the Internal Revenue Service shall be subject to appeal to the Tax Court under rules similar to the rules under section 7463 (without regard to the amount in dispute).”

(b) CONFORMING AMENDMENT.—Section 504 of title 5, United States Code, is amended by adding at the end thereof the following new subsection:

“(f) No award may be made under this section for costs, fees, or other expenses which may be awarded under section 7430 of the Internal Revenue Code of 1986.”

(c) CLERICAL AMENDMENT.—The table of sections for subchapter B of chapter 76 of the 1986 Code is amended by striking out “court” in the item relating to section 7430.

(d) EFFECTIVE DATE.—The amendments made by this section shall apply to proceedings commencing after the date of the enactment of this Act.

SEC. 6240. CIVIL CAUSE OF ACTION FOR DAMAGES SUSTAINED DUE TO FAILURE TO RELEASE LIEN.

(a) IN GENERAL.—Subchapter B of chapter 76 of the 1986 Code (relating to proceedings by taxpayers and third parties) is amended by redesignating section 7432 as section 7433 and by inserting after section 7431 the following new section:

“SEC. 7432. CIVIL DAMAGES FOR FAILURE TO RELEASE LIEN.

“(a) **IN GENERAL.**—If any officer or employee of the Internal Revenue Service knowingly, or by reason of negligence, fails to release a lien under section 6325 on property of the taxpayer, such taxpayer may bring a civil action for damages against the United States in a district court of the United States.

“(b) **DAMAGES.**—In any action brought under subsection (a), upon a finding of liability on the part of the defendant, the defendant shall be liable to the plaintiff in an amount equal to the sum of—

“(1) actual, direct economic damages sustained by the plaintiff which, but for the actions of the defendant, would not have been sustained, plus

“(2) the costs of the action.

“(c) **PAYMENT AUTHORITY.**—Claims pursuant to this section shall be payable out of funds appropriated under section 1304 of title 31, United States Code.

“(d) **LIMITATIONS.**—

“(1) **REQUIREMENT THAT ADMINISTRATIVE REMEDIES BE EXHAUSTED.**—A judgment for damages shall not be awarded under subsection (b) unless the court determines that the plaintiff has exhausted the administrative remedies available to such plaintiff within the Internal Revenue Service.

“(2) **MITIGATION OF DAMAGES.**—The amount of damages awarded under subsection (b)(1) shall be reduced by the amount of such damages which could have reasonably been mitigated by the plaintiff.

“(3) **PERIOD FOR BRINGING ACTION.**—Notwithstanding any other provision of law, an action to enforce liability created under this section may be brought without regard to the amount in controversy and may be brought only within 2 years after the date the right of action accrues.

“(e) **NOTICE OF FAILURE TO RELEASE LIEN.**—The Secretary shall by regulation prescribe reasonable procedures for a taxpayer to notify the Secretary of the failure to release a lien under section 6325 on property of the taxpayer.”

Regulations.

“(b) **CLERICAL AMENDMENT.**—The table of sections for subchapter B of chapter 76 of the 1986 Code is amended by striking out the item relating to section 7432 and inserting in lieu thereof the following new items:

“Sec. 7432. Civil damages for failure to release lien.

“Sec. 7433. Cross references.”

(c) **EFFECTIVE DATE.**—The amendments made by this section shall apply to notices provided by the taxpayer of the failure to release a lien, and damages arising, after December 31, 1988.

26 USC 7432
note.**SEC. 6241. CIVIL CAUSE OF ACTION FOR DAMAGES SUSTAINED DUE TO CERTAIN UNAUTHORIZED ACTIONS BY INTERNAL REVENUE SERVICE.**

(a) **IN GENERAL.**—Subchapter B of chapter 76 of the 1986 Code (relating to proceedings by taxpayers and third parties) is further amended by redesignating section 7433 as section 7434 and by inserting after section 7432 the following new section:

"SEC. 7433. CIVIL DAMAGES FOR CERTAIN UNAUTHORIZED COLLECTION ACTIONS.

"(a) IN GENERAL.—If, in connection with any collection of Federal tax with respect to a taxpayer, any officer or employee of the Internal Revenue Service recklessly or intentionally disregards any provision of this title, or any regulation promulgated under this title, such taxpayer may bring a civil action for damages against the United States in a district court of the United States. Except as provided in section 7432, such civil action shall be the exclusive remedy for recovering damages resulting from such actions.

"(b) DAMAGES.—In any action brought under subsection (a), upon a finding of liability on the part of the defendant, the defendant shall be liable to the plaintiff in an amount equal to the lesser of \$100,000 or the sum of—

"(1) actual, direct economic damages sustained by the plaintiff as a proximate result of the reckless or intentional actions of the officer or employee, and

"(2) the costs of the action.

"(c) PAYMENT AUTHORITY.—Claims pursuant to this section shall be payable out of funds appropriated under section 1304 of title 31, United States Code.

"(d) LIMITATIONS.—

"(1) REQUIREMENT THAT ADMINISTRATIVE REMEDIES BE EXHAUSTED.—A judgment for damages shall not be awarded under subsection (b) unless the court determines that the plaintiff has exhausted the administrative remedies available to such plaintiff within the Internal Revenue Service.

"(2) MITIGATION OF DAMAGES.—The amount of damages awarded under subsection (b)(1) shall be reduced by the amount of such damages which could have reasonably been mitigated by the plaintiff.

"(3) PERIOD FOR BRINGING ACTION.—Notwithstanding any other provision of law, an action to enforce liability created under this section may be brought without regard to the amount in controversy and may be brought only within 2 years after the date the right of action accrues."

(b) DAMAGES FOR FRIVOLOUS OR GROUNDLESS CLAIMS.—

(1) IN GENERAL.—Section 6673 of the 1986 Code (relating to damages assessable for instituting proceedings before the Tax Court primarily for delay, etc.) is amended by inserting "(a) IN GENERAL.—" before "Whenever" and by adding at the end thereof the following new subsection:

"(b) CLAIMS UNDER SECTION 7433.—Whenever it appears to the court that the taxpayer's position in proceedings before the court instituted or maintained by such taxpayer under section 7433 is frivolous or groundless, damages in an amount not in excess of \$10,000 shall be awarded to the United States by the court in the court's decision. Damages so awarded shall be assessed at the same time as the decision and shall be paid upon notice and demand from the Secretary."

(2) CLERICAL AMENDMENT.—The heading for section 6673 of the 1986 Code is amended by striking out "TAX".

(c) CLERICAL AMENDMENT.—The table of sections for subchapter B of chapter 76 of the 1986 Code is further amended by striking out the item relating to section 7433 and inserting in lieu thereof the following new items:

"Sec. 7433. Civil damages for certain unauthorized collection actions.

"Sec. 7434. Cross references."

(d) **EFFECTIVE DATE.**—The amendments made by this section shall apply to actions by officers or employees of the Internal Revenue Service after the date of the enactment of this Act.

26 USC 6673
note.

SEC. 6242. ASSESSABLE PENALTY FOR IMPROPER DISCLOSURE OR USE OF INFORMATION BY PREPARERS OF RETURNS.

(a) **IN GENERAL.**—Part I of subchapter B of chapter 68 of the 1986 Code (relating to assessable penalties) is amended by adding at the end thereof the following new section:

"SEC. 6712. DISCLOSURE OR USE OF INFORMATION BY PREPARERS OF RETURNS.

"(a) **IMPOSITION OF PENALTY.**—If any person who is engaged in the business of preparing, or providing services in connection with the preparation of, returns of tax imposed by chapter 1, or any person who for compensation prepares any such return for any other person, and who—

"(1) discloses any information furnished to him for, or in connection with, the preparation of any such return, or

"(2) uses any such information for any purpose other than to prepare, or assist in preparing, any such return,

shall pay a penalty of \$250 for each such disclosure or use, but the total amount imposed under this subsection on such a person for any calendar year shall not exceed \$10,000.

"(b) **EXCEPTIONS.**—The rules of section 7216(b) shall apply for purposes of this section.

"(c) **DEFICIENCY PROCEDURES NOT TO APPLY.**—Subchapter B of chapter 63 (relating to deficiency procedures for income, estate, gift, and certain excise taxes) shall not apply in respect of the assessment or collection of any penalty imposed by this section."

(b) **CRIMINAL PENALTY TO APPLY ONLY WHERE KNOWING OR RECKLESS DISCLOSURE OR USE.**—The material preceding paragraph (1) of section 7216(a) of the 1986 Code is amended by striking out "and who—" and inserting in lieu thereof "and who knowingly or recklessly—".

(c) **CLERICAL AMENDMENT.**—The table of sections for part I of subchapter B of chapter 68 of the 1986 Code is amended by adding at the end thereof the following new item:

"Sec. 6712. Disclosure or use of information by preparers of returns."

(d) **EFFECTIVE DATE.**—The amendments made by this section shall apply to disclosures or uses after December 31, 1988.

26 USC 6712
note.

PART IV—TAX COURT JURISDICTION

SEC. 6243. JURISDICTION TO RESTRAIN CERTAIN PREMATURE ASSESSMENTS.

(a) **IN GENERAL.**—Section 6213(a) of the 1986 Code (relating to time for filing petition and restriction on assessment) is amended by striking out the period at the end of the last sentence and inserting in lieu thereof ", including the Tax Court. The Tax Court shall have no jurisdiction to enjoin any action or proceeding under this subsection unless a timely petition for a redetermination of the deficiency has been filed and then only in respect of the deficiency that is the subject of such petition."

(b) **APPEAL OF ORDER RESTRAINING ASSESSMENT, ETC.**—Section 7482(a) of the 1986 Code (relating to jurisdiction on appeal) is amended by adding at the end thereof the following new paragraph:

“(3) **CERTAIN ORDERS ENTERED UNDER SECTION 6213(a).**—An order of the Tax Court which is entered under authority of section 6213(a) and which resolves a proceeding to restrain assessment or collection shall be treated as a decision of the Tax Court for purposes of this section and shall be subject to the same review by the United States Court of Appeals as a similar order of a district court.”

26 USC 6213
note.

(c) **EFFECTIVE DATE.**—The amendments made by this section shall apply to orders entered after the date of the enactment of this Act.

SEC. 6244. JURISDICTION TO ENFORCE OVERPAYMENT DETERMINATIONS.

(a) **IN GENERAL.**—Section 6512(b) of the 1986 Code (relating to overpayment determined by the Tax Court) is amended by striking out “paragraph (2)” and inserting in lieu thereof “paragraph (3)” in paragraph (1), by redesignating paragraph (2) as paragraph (3), and by inserting the following new paragraph after paragraph (1):

“(2) **JURISDICTION TO ENFORCE.**—If, after 120 days after a decision of the Tax Court has become final, the Secretary has failed to refund the overpayment determined by the Tax Court, together with the interest thereon as provided in subchapter B of chapter 67, then the Tax Court, upon motion by the taxpayer, shall have jurisdiction to order the refund of such overpayment and interest.”

(b) **AMENDMENTS ADDING CROSS REFERENCES.**—

(1) Section 6214(e) of the 1986 Code is amended by striking out “REFERENCE.—” and inserting in lieu thereof “REFERENCES.—” in the heading, by designating the undesignated paragraph as paragraph (1), and by adding at the end thereof the following new paragraph:

“(2) For provision giving Tax Court jurisdiction to order a refund of an overpayment and to award sanctions, see section 6512(b)(2).”

(2) Section 6512(c) of the 1986 Code is amended by striking out “REFERENCE.—” and inserting in lieu thereof “REFERENCES.—” in the heading, by designating the undesignated paragraph as paragraph (1), and by adding at the end thereof the following new paragraph:

“(2) For provision giving the Tax Court jurisdiction to award reasonable litigation costs in proceedings to enforce an overpayment determined by such court, see section 7430.”

26 USC 6214
note.

(c) **EFFECTIVE DATE.**—The amendments made by this section shall apply to overpayments determined by the Tax Court which have not yet been refunded by the 90th day after the date of the enactment of this Act.

SEC. 6245. JURISDICTION TO REVIEW CERTAIN SALES OF SEIZED PROPERTY.

(a) **JURISDICTION TO REVIEW CERTAIN SALES OF PROPERTY.**—Section 6863(b)(3) of the 1986 Code (relating to stay of sale of seized property pending Tax Court decision) is amended by adding at the end thereof the following new subparagraph:

“(C) **REVIEW BY TAX COURT.**—If, but for the application of subparagraph (B), a sale would be prohibited by subparagraph (A)(iii), then the Tax Court shall have jurisdiction to review the

Secretary's determination under subparagraph (B) that the property may be sold. Such review may be commenced upon motion by either the Secretary or the taxpayer. An order of the Tax Court disposing of a motion under this paragraph shall be reviewable in the same manner as a decision of the Tax Court."

(b) **EFFECTIVE DATE.**—The amendments made by this section shall take effect on the 90th day after the date of the enactment of this Act.

26 USC 6863
note.

SEC. 6246. JURISDICTION TO REDETERMINE INTEREST ON DEFICIENCIES.

(a) **IN GENERAL.**—Section 7481 of the 1986 Code (relating to date when Tax Court decision becomes final) is amended by adding at the end thereof the following new subsection:

"(c) **JURISDICTION OVER INTEREST DETERMINATIONS.**—Notwithstanding subsection (a), if—

"(1) an assessment has been made by the Secretary under section 6215 which includes interest as imposed by this title,

"(2) the taxpayer has paid the entire amount of the deficiency plus interest claimed by the Secretary, and

"(3) within 1 year after the date the decision of the Tax Court becomes final under subsection (a), the taxpayer files a petition in the Tax Court for a determination that the amount of interest claimed by the Secretary exceeds the amount of interest imposed by this title,

then the Tax Court may reopen the case solely to determine whether the taxpayer has made an overpayment of such interest and the amount of any such overpayment. If the Tax Court determines under this subsection that the taxpayer has made an overpayment of interest, then that determination shall be treated under section 6512(b)(1) as a determination of an overpayment of tax. An order of the Tax Court redetermining the interest due, when entered upon the records of the court, shall be reviewable in the same manner as a decision of the Tax Court."

(b) **CONFORMING AMENDMENTS.**—

(1) Section 6512(a) of the 1986 Code (relating to effect of petition to Tax Court) is amended by inserting after "section 6213(a)" the following: "(or 7481(c) with respect to a determination of statutory interest)".

(2) Subsection (a) of section 7481 of the 1986 Code is amended by striking out "subsection (b)" and inserting in lieu thereof "subsections (b) and (c)".

(c) **EFFECTIVE DATE.**—The amendments made by this section shall apply to assessments of deficiencies redetermined by the Tax Court made after the date of the enactment of this Act.

26 USC 6512
note.

SEC. 6247. JURISDICTION TO MODIFY DECISIONS IN CERTAIN ESTATE TAX CASES.

(a) **IN GENERAL.**—Section 7481 of the 1986 Code (relating to date when Tax Court decision becomes final), as amended by section 783(a), is further amended by adding at the end thereof the following new subsection:

"(d) **DECISIONS RELATING TO ESTATE TAX EXTENDED UNDER SECTION 6166.**—If with respect to a decedent's estate subject to a decision of the Tax Court—

"(1) the time for payment of an amount of tax imposed by chapter 11 is extended under section 6166, and

“(2) there is treated as an administrative expense under section 2053 either—

“(A) any amount of interest which a decedent’s estate pays on any portion of the tax imposed by section 2001 on such estate for which the time of payment is extended under section 6166, or

“(B) interest on any estate, succession, legacy, or inheritance tax imposed by a State on such estate during the period of the extension of time for payment under section 6166,

then, upon a motion by the petitioner in such case in which such time for payment of tax has been extended under section 6166, the Tax Court may reopen the case solely to modify the Court’s decision to reflect such estate’s entitlement to a deduction for such administrative expenses under section 2053 and may hold further trial solely with respect to the claim for such deduction if, within the discretion of the Tax Court, such a hearing is deemed necessary. An order of the Tax Court disposing of a motion under this subsection shall be reviewable in the same manner as a decision of the Tax Court, but only with respect to the matters determined in such order.”

(b) CONFORMING AMENDMENTS.—

(1) Section 6512(a) of the 1986 Code (relating to effect of petition to Tax Court), as amended by this part, is further amended by striking out “interest)” and inserting in lieu thereof “interest or section 7481(d) solely with respect to a determination of estate tax by the Tax Court”.

(2) Subsection (a) of section 7481 of the 1986 Code, as amended by this part, is further amended by striking out “subsections (b) and (c)” and inserting in lieu thereof “subsections (b), (c), and (d)”.

(c) EFFECTIVE DATE.—The amendments made by this section shall be effective with respect to Tax Court cases for which the decision is not final on the date of the enactment of this Act.

26 USC 6512
note.

Subtitle K—Other Administrative Provisions

SEC. 6251. EXCHANGE OF INFORMATION.

Clause (i) of section 6103(b)(5)(B) of the 1986 Code (defining State) is amended by striking out “2,000,000” and inserting in lieu thereof “250,000”.

SEC. 6252. PROVISIONS RELATING TO PREVIOUSLY REQUIRED STUDIES.

(a) REPEAL OF REQUIREMENT FOR CERTAIN STUDIES.—

(1) PIK STUDY.—Section 6 of the Payment-in-Kind Tax Treatment Act of 1983 is hereby repealed.

(2) ACCOUNTING METHODS FOR INVENTORY.—Section 238 of the Economic Recovery Tax Act of 1981 is hereby repealed.

(b) CHANGES IN DUE DATES FOR CERTAIN PERIODIC STUDIES.—

(1) REPORTS ON POSSESSIONS CORPORATIONS.—Effective for reports for calendar years after 1982, subsection (a) of section 441 of the Tax Reform Act of 1984 is amended by striking out “shall,” and all that follows through “setting forth” and inserting in lieu thereof “shall, during 1988 and each fourth calendar year thereafter, submit a report to the Congress (using the most recent information available) setting forth”.

26 USC 61 note.

26 USC 471 note.

26 USC 936 note.

(2) REPORTS ON FSC PROVISIONS.—

(A) Subsection (a) of section 804 of the Tax Reform Act of 1984 is amended by striking out “shall,” and all that follows through “setting forth” and inserting in lieu thereof “shall, during 1990 and each fourth calendar year thereafter, submit a report to the Congress (using the most recent information available) setting forth”.

26 USC 921 note.

(B) The amendment made by subparagraph (A) shall take effect as if included in the amendments made by section 804(a) of the Tax Reform Act of 1984.

Effective date.
26 USC 921 note.**SEC. 6253. REPEAL OF SECRETARIAL AUTHORITY TO PRESCRIBE CLASS LIVES.**

Paragraph (1) of section 168(i) of the 1986 Code is amended to read as follows:

“(1) CLASS LIFE.—Except as provided in this section, the term ‘class life’ means the class life (if any) which would be applicable with respect to any property as of January 1, 1986, under subsection (m) of section 167 (determined without regard to paragraph (4) and as if the taxpayer had made an election under such subsection). The Secretary, through an office established in the Treasury, shall monitor and analyze actual experience with respect to all depreciable assets.”

SEC. 6254. AMENDMENTS RELATED TO CRUDE OIL WINDFALL PROFIT TAX ACT OF 1980.26 USC 4997
note.

The reporting requirements of section 4997 of former chapter 45 of subtitle D of the Internal Revenue Code of 1986, and the related regulations thereunder, are repealed: *Provided*, That this repeal is effective only for crude oil removed after December 31, 1987, for which no tax is due or withheld under former chapter 45 of subtitle D of the Internal Revenue Code of 1986.

Subtitle L—Provisions Relating to Corporations and Personal Holding Companies

SEC. 6276. AUTHORITY TO PAY REFUNDS TO CERTAIN FIDUCIARIES OF INSOLVENT MEMBERS OF AFFILIATED GROUPS.

Section 6402 of the 1986 Code (relating to authority to make credits or refunds) is amended by adding at the end thereof the following new subsection:

“(i) REFUNDS TO CERTAIN FIDUCIARIES OF INSOLVENT MEMBERS OF AFFILIATED GROUPS.—Notwithstanding any other provision of law, in the case of an insolvent corporation which is a member of an affiliated group of corporations filing a consolidated return for any taxable year and which is subject to a statutory or court-appointed fiduciary, the Secretary may by regulation provide that any refund for such taxable year may be paid on behalf of such insolvent corporation to such fiduciary to the extent that the Secretary determines that the refund is attributable to losses or credits of such insolvent corporation.”

SEC. 6277. APPLICATION OF NET OPERATING LOSS LIMITATIONS TO BANKRUPTCY REORGANIZATIONS.

(a) TIME FOR DETERMINING WHETHER OWNERSHIP CHANGE OCCURS.—Section 621(f)(5) of the Tax Reform Act of 1986 is amended

26 USC 382 note.

by adding at the end thereof the following new sentence: "The determination as to whether an ownership change has occurred during the period beginning January 1, 1987, and ending on the final settlement of any reorganization or proceeding described in the preceding sentence shall be redetermined as of the time of such final settlement."

26 USC 382
note.

(b) **ELECTION TO HAVE NEW RULES APPLY.**—Section 621(f)(5) of the Tax Reform Act of 1986 is amended by striking out "In" and inserting in lieu thereof "Unless the taxpayer elects not to have the provisions of this paragraph apply, in".

26 USC 382
note.

(c) **EFFECTIVE DATE.**—The amendments made by this section shall take effect as if included in section 621(f)(5) of the Tax Reform Act of 1986.

26 USC 7503
note.

SEC. 6278. APPLICATION OF SECTION 7503 OF 1986 CODE FOR PURPOSES OF SECTION 10222(b) OF REVENUE ACT OF 1987.

Section 7503 of the 1986 Code shall apply for purposes of determining whether any disposition meets the requirements of section 10222(b)(2)(B) of the Revenue Act of 1987. If any disposition meets the requirements of such section by reason of the preceding sentence, for all purposes of the 1986 Code, such disposition shall be deemed to have occurred on December 31, 1988.

SEC. 6279. INTEREST EARNED BY BROKERS OR DEALERS NOT TAKEN INTO ACCOUNT AS PERSONAL HOLDING COMPANY INCOME.

(a) **IN GENERAL.**—Paragraph (1) of section 543(a) of the 1986 Code is amended by striking out "and" at the end of subparagraph (B), by striking out the period at the end of subparagraph (C) and inserting in lieu thereof ", and" and by adding at the end thereof the following new subparagraph:

"(D) interest received by a broker or dealer (within the meaning of section 3(a) (4) or (5) of the Securities and Exchange Act of 1934) in connection with—

"(i) any securities or money market instruments held as property described in section 1221(1),

"(ii) margin accounts, or

"(iii) any financing for a customer secured by securities or money market instruments."

26 USC 543 note.

(b) **EFFECTIVE DATE.**—The amendments made by this section shall apply to interest received after the date of the enactment of this Act, in taxable years ending after such date.

26 USC 543 note.

SEC. 6280. TREATMENT OF CERTAIN BANK HOLDING COMPANIES.

(a) **GENERAL RULE.**—For purposes of subtitle A of the 1986 Code, the term "personal holding company income" shall not include any dividend received by a qualified bank holding company from a 25-percent owned bank during any taxable year ending in 1989 or 1990.

(b) **\$3,000,000 LIMITATION.**—The aggregate amount excluded from the personal holding company income of any qualified bank holding company under subsection (a) for the taxable year shall not exceed \$3,000,000.

(c) **QUALIFIED BANK HOLDING COMPANY.**—For purposes of this section, the term "qualified bank holding company" means any bank holding company (as defined in section 2(a) of the Bank Holding Company Act of 1956) if 80 percent or more (by value) of the

assets of such company at all times during the taxable year consist of stock in 1 or more 25-percent owned banks.

(d) **25-PERCENT OWNED BANK.**—For purposes of this section, the term “25-percent owned bank” means any bank (as defined in section 581 of the 1986 Code) if at least 25 percent of the stock of such bank (by vote and value) is owned by the bank holding company.

SEC. 6281. AUTHORITY TO WAIVE APPRAISAL REQUIREMENT FOR CERTAIN CHARITABLE CONTRIBUTIONS OF PROPERTY. 26 USC 170 note.

Notwithstanding paragraph (2) of section 155(a) of the Tax Reform Act of 1984, the Secretary of the Treasury or his delegate may in the regulations prescribed pursuant to such section waive the requirement of a qualified appraisal in the case of a qualified contribution (within the meaning of section 170(e)(3)(A) of the 1986 Code) of property described in section 1221(1) with a claimed value in excess of \$5,000.

SEC. 6282. DISTRIBUTIONS BY COOPERATIVE HOUSING CORPORATIONS.

(a) **IN GENERAL.**—Section 216 of the 1986 Code is amended by adding at the end thereof the following new subsection:

“(e) **DISTRIBUTIONS BY COOPERATIVE HOUSING ASSOCIATIONS.**—Except as provided in regulations, no gain or loss shall be recognized on the distribution by a cooperative housing association of a dwelling unit to a stockholder in such corporation if such distribution is in exchange for the stockholder’s stock in such corporation and such exchange qualifies for nonrecognition of gain under section 1034(f).”

(b) **EFFECTIVE DATE.**—The amendment made by this section shall take effect as if included in the amendments made by section 631 of the Tax Reform Act of 1986. 26 USC 216 note.

Subtitle M—Miscellaneous Provisions

SEC. 6301. REPEAL OF LIMIT ON LONG-TERM BONDS.

The last sentence of section 3102(a) of title 31, United States Code, is hereby repealed.

SEC. 6302. ONE-YEAR EXTENSION OF CREDIT FOR PRODUCING FUEL FROM A NONCONVENTIONAL SOURCE.

Clauses (i) and (ii) of section 29(f)(1)(A) of the 1986 Code (relating to application of section) are each amended by striking out “January 1, 1990” and inserting in lieu thereof “January 1, 1991”.

SEC. 6303. CERTAIN DISCHARGE OF DEBT INCOME NOT INCLUDED IN ADJUSTED BOOK INCOME.

(a) **GENERAL RULE.**—Paragraph (2) of section 56(f) of the 1986 Code (defining adjusted net book income) is amended by redesignating subparagraph (I) as subparagraph (J) and by inserting after subparagraph (H) the following new subparagraph:

“(I) **EXCLUSION OF CERTAIN INCOME FROM TRANSFER OF STOCK FOR DEBT.**—In determining adjusted net book income, there shall not be taken into account any income resulting from the transfer of stock by the corporation issuing such stock to a creditor in satisfaction of its indebtedness. The preceding sentence shall apply only in the case of a debtor in a title 11 case (as defined in section 108(d)(2)) or to the

extent the debtor is insolvent (as defined in section 108(d)(3)).”

26 USC 56 note.

(b) **EFFECTIVE DATE.**—The amendment made by subsection (a) shall apply to taxable years beginning after December 31, 1986.

SEC. 6304. NONCONVENTIONAL FUELS CREDIT.

(a) **IN GENERAL.**—Section 53(d)(1)(B) of the 1986 Code (relating to credit not allowed for exclusion preferences) is amended by adding at the end thereof the following new clause:

“(iii) **SPECIAL RULE.**—The adjusted net minimum tax for the taxable year shall be increased by the amount of the credit not allowed under section 29 (relating to credit for producing fuel from a nonconventional source) solely by reason of the application of section 29(b)(5)(B).”

26 USC 53 note.

(b) **EFFECTIVE DATE.**—The amendment made by this section shall take effect as if included in the amendments made by section 701 of the Tax Reform Act of 1986.

26 USC 3121

note.
State and local
governments.

SEC. 6305. TREATMENT OF CERTAIN FAMILY SERVICES PROVIDERS.

(a) **IN GENERAL.**—A State may treat a person who renders dependent care or similar services as other than an employee employment tax purposes for the applicable period if all of the following conditions are satisfied with respect to such person for such applicable period:

(i) The person does not provide any dependent care or similar services in any facility owned or operated by the State.

(ii) The person is compensated by the State for such services, directly or indirectly, out of funds provided pursuant to chapter 7 of title 42 of the United States Code, or the provisions and amendments made by the Family Security Act of 1988.

(iii) The State does not treat the person, with respect to the provision of dependent care or similar services, as an employee for employment tax purposes.

(iv) The State files all Federal income tax returns (including information returns) required to be filed with respect to such person on a basis consistent with the State's treatment of such person as other than an employee beginning on the date of the enactment of this section.

(v) No more than ten percent of the State's employees are provided with insurance under title II of the Social Security Act pursuant to voluntary agreements with the Secretary of Health and Human Services under section 218 of such title.

(b) **STATE.**—For purposes of this section, the term “State” shall mean the government of the United States, District of Columbia, any State or political subdivision thereof, and any agency or instrumentality of any of the foregoing.

(c) **EMPLOYMENT TAX.**—For purposes of this section, the term “employment tax” means any tax imposed by subtitle C of the Internal Revenue Code of 1986.

(d) **APPLICABLE PERIOD.**—For purposes of this section, the term “applicable period” means the period beginning on January 1, 1984 and ending on December 31, 1990.

(e) **REPORT.**—The Secretary of the Treasury shall report to the Senate Committee on Finance and the House Committee on Ways and Means on the text status of day care providers compensated

pursuant to the program described in this section no later than December 31, 1989.

TITLE VII—RAILROAD UNEMPLOYMENT AND RETIREMENT PROGRAMS

Railroad
Unemployment
Insurance and
Retirement
Improvement
Act of 1988.
26 USC 367 note.

SEC. 7001. SHORT TITLE.

This title may be cited as the "Railroad Unemployment Insurance and Retirement Improvement Act of 1988".

SEC. 7002. REFERENCES TO RAILROAD UNEMPLOYMENT INSURANCE ACT.

Except as otherwise expressly provided, whenever in this title an amendment or repeal is expressed in terms of an amendment to, or repeal of, a section or provision, the reference shall be considered to be made to a section or other provision of the Railroad Unemployment Insurance Act.

Subtitle A—Financing Provisions

SEC. 7101. AMENDMENTS RELATING TO DEFINITION OF "COMPENSATION".

(a) IN GENERAL.—Section 1(i) is amended—

45 USC 351.

(1) by inserting "(1) IN GENERAL.—" after "(i)";

(2) by striking out ": *Provided, however,* That in computing" and all that follows through "1983, shall be recognized." and inserting in lieu thereof ", except that in computing the compensation paid to any employee, no part of any month's compensation in excess of the monthly compensation base (as defined in subdivision (2)) for any month shall be recognized."; and

(3) by adding at the end thereof the following new subdivision:

"(2) MONTHLY COMPENSATION BASE.—

"(A) IN GENERAL.—For purposes of subdivision (1), the term 'monthly compensation base' means the amount—

"(i) of \$400 for calendar months before January 1, 1984,

"(ii) of \$600 for calendar months after December 31, 1983 and before January 1, 1989; and

"(iii) computed under subparagraph (B) for months after December 31, 1988.

"(B) COMPUTATION.—

"(i) IN GENERAL.—The amount of the monthly compensation base for each calendar year beginning after December 31, 1988, is the greater of—

"(I) \$600; or

"(II) the amount, as rounded under clause (iii) if applicable, computed under the formula:

$$B=600\left(1+\frac{A-37,800}{56,700}\right)$$

“(ii) **MEANING OF SYMBOLS.**—For the purposes of the formula in clause (i)—

“(I) ‘B’ is the dollar amount of the monthly compensation base; and

“(II) ‘A’ is the amount of the applicable base with respect to tier 1 taxes, for the calendar year for which the monthly compensation base is being computed, as determined under section 3231(e)(2) of the Internal Revenue Code of 1986.

“(iii) **ROUNDING RULE.**—If the monthly compensation base computed under this formula is not a multiple of \$5, it shall be rounded to the nearest multiple of \$5, with such rounding being upward in the event the amount computed is equidistant between two multiples of \$5.”

45 USC 351. (b) **CONFORMING AMENDMENT WITH RESPECT TO SUBSIDIARY REMUNERATION RULE.**—Section 1(k) is amended by striking out “\$1,500” and inserting in lieu thereof “an amount that is equal to 2.5 times the monthly compensation base for months in such base year as computed under section 1(i) of this Act”.

45 USC 352. (c) **CONFORMING AMENDMENT WITH RESPECT TO LIMITATION ON TAKING ACCOUNT OF MONEY REMUNERATION.**—Section 2(c) is amended by striking out “not in excess of \$775 in any month shall be taken into account:” and inserting in lieu thereof “shall be taken into account that is not in excess of \$775 in any month before 1989 and, in any month in a base year after 1988, is not in excess of an amount that bears the same ratio to \$775 as the monthly compensation base for that year as computed under section 1(i) of this Act bears to \$600.”

45 USC 354. (d) **CONFORMING AMENDMENTS WITH RESPECT TO REQUIRED COMPENSATION AMOUNT.**—Section 4(a-2)(i)(A) is amended by striking out the semicolon at the end and inserting in lieu thereof “and before 1989 or, if any part of such compensation is paid in a calendar year after 1988, not less than an amount that is equal to 2.5 times the monthly compensation base for months in such calendar year, as computed under section 1(i) of this Act;”.

45 USC 362. (e) **DUTY OF BOARD TO MAKE CERTAIN COMPUTATIONS.**—Section 12 is amended by adding at the end the following new subsection:

“(r) **DUTY OF BOARD TO MAKE CERTAIN COMPUTATIONS.**—

“(1) **COMPENSATION BASE.**—On or before December 1, 1988, and on or before December 1 of each year thereafter, the Board shall compute—

“(A) in accordance with section 1(i), the monthly compensation base which shall be applicable with respect to months in the next succeeding calendar year; and

“(B) the amounts described in section 1(k), section 2(c), section 3, and section 4(a-2)(i)(A) that are related to changes in the monthly compensation base.

“(2) **MAXIMUM DAILY BENEFIT RATE.**—On or before June 1, 1989, and on or before June 1 of each year thereafter, the Board

shall compute in accordance with section 2(a)(3) the maximum daily benefit rate which shall be applicable with respect to days of unemployment and days of sickness in registration periods beginning after June 30 of that year.

“(3) NOTICE IN FEDERAL REGISTER AND TO EMPLOYERS.—Not later than 10 days after each computation made under this subsection, the Board shall publish notice in the Federal Register and shall notify each employer and employee representative of the amount so computed.”

(f) EFFECTIVE DATE.—The amendments made by this section shall take effect upon the date of the enactment of this Act. 45 USC 351 note.

SEC. 7102. CONTRIBUTION ADJUSTMENTS.

(a) EMPLOYER CONTRIBUTIONS AND EXPERIENCE RATING.—Section 8 is amended by striking out “(a) Every employer” and all that follows through the end of subsection (a) and inserting in lieu thereof the following: 45 USC 358.

“(a) EMPLOYER CONTRIBUTION.—

“(1) IN GENERAL.—

“(A) GENERAL RULE.—

“(i) CONTRIBUTION RATE GENERALLY.—Every employer shall pay a contribution, with respect to having employees in his service, equal to the percentage determined under subparagraph (B), (C), or (D), whichever is applicable, of so much of the compensation paid in any calendar month by such employer to any employee as is not in excess of the monthly compensation base for that month as computed under section 1(i).

“(ii) MULTIPLE EMPLOYER LIMITATION.— If compensation is paid to an employee by more than one employer in any calendar month—

“(I) the contributions required by this subsection shall not apply to any amount of the aggregate compensation paid to such employee by all such employers in such calendar month which is in excess of such monthly compensation base; and

“(II) each employer (other than a subordinate unit of a national-railway-labor-organization employer) shall be liable for that portion of the contribution with respect to such compensation paid by all such employers which the compensation paid by him to such employee bears to the total compensation paid in such month by all such employers to such employee.

In the event that the compensation paid by such employers to the employee in such month is less than such monthly compensation base, each subordinate unit of a national-railway-labor-organization employer shall be liable for such portion of any additional contribution as the compensation paid by such employer to such employee in such month bears to the total compensation paid by all such employers to such employee in such month.

“(B) TRANSITIONAL RULE.—

“(i) 1ST, 2D, AND 3D CALENDAR YEARS.—Except as provided in clause (vi), with respect to compensation paid

in calendar years 1988, 1989, and 1990, the contribution rate shall be 8 percent.

“(ii) 4TH CALENDAR YEAR.—With respect to compensation paid in calendar year 1991, the contribution rate shall be the smaller of—

“(I) the maximum contribution limit computed under paragraph (20); or

“(II) the percentage computed pursuant to the following formula:

$$R = \frac{2A+B}{3}$$

“(iii) 5TH CALENDAR YEAR.—With respect to compensation paid in calendar year 1992, the contribution rate shall be the smaller of—

“(I) the maximum contribution limit computed under paragraph (20); or

“(II) the percentage computed pursuant to the following formula:

$$R = \frac{A+2C}{3}$$

“(iv) MEANING OF SYMBOLS.—For purposes of the formulas in clauses (ii) and (iii)—

“(I) ‘R’ is the applicable contribution rate expressed as a percentage for months in the calendar year;

“(II) ‘A’ is the contribution rate determined under clause (i);

“(III) ‘B’ is the percentage rate for the employer, as determined under subparagraph (C), for calendar year 1991; and

“(IV) ‘C’ is the percentage rate for the employer, as determined under subparagraph (C), for calendar year 1992.

“(v) SPECIAL RULE FOR CERTAIN COMPUTATIONS.—For purposes of computing B and C in such formulas—

“(I) the percentage rate computed under subparagraph (C), if more than the maximum contribution limit computed under paragraph (20) shall not be reduced to that limit; and

“(II) any computations which under subparagraph (C) are to be made on the basis of a 4-quarter or a 12-quarter period ending on a given June 30 shall be made on the basis of a period beginning on January 1, 1990, and ending on that June 30, and the amount so computed shall be increased to an

amount that bears the same ratio to the amount so computed as 4 or 12, as appropriate, bears to the number of calendar quarters in the period on which the computation was based.

“(vi) SPECIAL TRANSITION RULE FOR PUBLIC COMMUTER RAILROADS.—With respect to each of calendar years 1989 and 1990, the contribution of an employer which on the date of the enactment of the Railroad Unemployment Insurance and Retirement Improvement Act of 1988 is a publicly funded and publicly operated carrier providing rail commuter service shall be equal to the amount of benefits attributable to such carrier, plus an amount equal to 0.65 percent of the total compensation paid by that employer in that year on which that employer’s contribution would be based under clause (i) if such employer’s contribution were determined under that clause.

“(C) EXPERIENCE-RATED CONTRIBUTIONS.—With respect to compensation paid in a calendar year that begins after December 31, 1992, the contribution rate for each employer shall be determined as follows:

“(i) STEP 1.—Compute the employer’s benefit ratio as of the preceding June 30 to 4 decimal points in accordance with paragraph (2).

“(ii) STEP 2.—Subtract the employer’s reserve ratio as of the preceding June 30 as computed to 4 decimal points in accordance with paragraph (4).

“(iii) STEP 3.—Subtract the pooled credit ratio for the calendar year, if any, as computed to 4 decimal points in accordance with paragraph (12).

“(iv) STEP 4.—Multiply by 100 the total arrived at under the steps set forth in clauses (i) through (iii) so as to obtain a percentage rate, which shall be rounded to the nearest 100th of 1 percent. If the total arrived at under such steps is 0 or less than 0, the percentage rate as so computed shall be 0.

“(v) STEP 5.—Add 0.65 to the percentage rate arrived at under clause (iv), representing the portion of the employer’s contribution which is to be deposited to the credit of the fund under subsection (i).

“(vi) STEP 6.—Add the surcharge rate for the calendar year, if any, as computed under paragraph (14).

“(vii) STEP 7.—Add the pooled charge ratio for the calendar year, if any, as computed to 4 decimal points under paragraph (13) and multiplied by 100.

“(viii) STEP 8.—Reduce the percentage rate computed in accordance with the preceding steps to the maximum contribution limit computed under paragraph (20), if such rate is higher than such limit. The rate computed in accordance with the preceding steps, after any reduction under this clause, is the contribution rate.

“(D) NEW-EMPLOYER CONTRIBUTION RATES.—Notwithstanding subparagraphs (B) and (C), the contribution rate applicable to a new employer who does not become subject to this Act until after December 31, 1989, shall be determined as follows:

“(i) 1ST CALENDAR YEAR.—With respect to compensation paid in calendar months before the end of the first full calendar year in which the employer is subject to this Act, the contribution rate shall be the average contribution rate paid by all employers during the 3 calendar years preceding the calendar year before the calendar year in which the compensation is paid. The average contribution rate shall be determined—

“(I) by dividing the aggregate contributions paid by all employers under this subsection in those 3 calendar years by the aggregate compensation with respect to which such contributions were paid; and

“(II) by multiplying the resulting ratio as computed to 4 decimal points by 100.

“(ii) 2D CALENDAR YEAR.—With respect to compensation paid in calendar months in the next calendar year, the contribution rate shall be the smaller of—

“(I) the maximum contribution limit computed under paragraph (20); or

“(II) the percentage rate computed pursuant to the following formula:

$$R = \left(\frac{2(A2) + B}{3} \right)$$

“(iii) 3D CALENDAR YEAR.—With respect to compensation paid in calendar months in the third full calendar year in which the employer is subject to the coverage of this Act, the contribution rate shall be the smaller of—

“(I) the maximum contribution limit computed under paragraph (20); or

“(II) the percentage rate computed pursuant to the following formula:

$$R = \frac{A3 + 2C}{3}$$

“(iv) SUBSEQUENT CALENDAR YEARS.—With respect to all calendar months in calendar years subsequent to that calendar year, the contribution rate shall be determined under subparagraph (C).

“(v) MEANING OF SYMBOLS.—For purposes of the formulas in clauses (ii) and (iii)—

“(I) ‘R’ is the applicable contribution rate expressed as a percentage for months in the calendar year;

“(II) ‘A1’ is the contribution rate determined under clause (i) for such employer’s first full calendar year;

“(III) ‘A2’ is the contribution rate which would have been determined under clause (i) if the employer’s second calendar year had been its first full calendar year;

“(IV) ‘A3’ is the contribution rate which would have been determined under clause (i) if the employer’s third calendar year had been such employer’s first full calendar year;

“(V) ‘B’ is the contribution rate for the employer as determined under subparagraph (C) for the employer’s second full calendar year; and

“(VI) ‘C’ is the contribution rate for the employer as determined under subparagraph (C) for the employer’s third full calendar year.

“(vi) SPECIAL RULE FOR CERTAIN COMPUTATIONS.—For purposes of computing B and C in such formulas—

“(I) the percentage rate computed under subparagraph (C), shall not be reduced under clause (viii) of that subparagraph; and

“(II) any computations which under subparagraph (C) are to be made on the basis of a 4-quarter or 12-quarter period ending on a given June 30 shall be made on the basis of a period commencing with the first day of the first calendar quarter that begins after the date on which the employer first commenced paying compensation subject to this Act and ending on that June 30, and the amount so computed shall be increased to an amount that bears the same ratio to the amount so computed as 4 or 12, as appropriate, bears to the number of calendar quarters in the period on which the computation was based.

“(2) BENEFIT RATIO.—An employer’s benefit ratio as of any given June 30 shall be determined by dividing all benefits charged to the employer under paragraph (15) during the 12 calendar quarters ending on such June 30 by the employer’s 3-year compensation base as of such June 30 as computed under paragraph (3).

“(3) 3-YEAR COMPENSATION BASE.—An employer’s 3-year compensation base as of any given June 30 is the aggregate compensation with respect to which contributions were paid by the employer under this subsection in the 12 calendar quarters ending on such June 30.

“(4) RESERVE RATIO.—An employer’s reserve ratio as of any given June 30 shall be computed by dividing the employer’s reserve balance as of such June 30, as computed under paragraph (6), by that employer’s 1-year compensation base as of such June 30, as computed under paragraph (5). The employer’s reserve ratio may be either a positive or a negative figure, depending upon whether the employer’s reserve balance is a positive or negative figure.

“(5) 1-YEAR COMPENSATION BASE.—An employer’s 1-year compensation base as of any given June 30 is the aggregate compensation with respect to which contributions were paid by the

employer under this subsection in the 4 calendar quarters ending on such June 30.

“(6) **RESERVE BALANCE.**—An employer’s reserve balance as of any given June 30 shall be determined by subtracting the employer’s cumulative benefit balance as of such June 30, computed under paragraph (7), from the employer’s net cumulative contribution balance as of such June 30, computed under paragraph (8). An employer’s reserve balance may be either positive or negative, depending upon whether or not that employer’s net cumulative contribution balance exceeds the employer’s cumulative benefit balance.

“(7) **CUMULATIVE BENEFIT BALANCE.**—An employer’s cumulative benefit balance as of any given June 30 shall be determined by adding—

“(A) the net amount of the benefits charged to the employer under paragraph (15) on or after January 1, 1990; and

“(B) the cumulative amount of the employer’s unallocated charges for the same period, if any, as computed under paragraph (9).

“(8) **NET CUMULATIVE CONTRIBUTION BALANCE.**—An employer’s net cumulative contribution balance as of any given June 30 shall be determined as follows:

“(A) **STEP 1.**—Compute the sum of

“(i) all contributions paid by the employer pursuant to this subsection;

“(ii) that portion of the tax imposed under section 3321(a) of the Internal Revenue Code of 1986 that is attributable to the surtax rate under section 516(b) of the Railroad Unemployment Insurance and Retirement Improvement Act of 1988; and

“(iii) any taxes paid by the employer pursuant to section 3321(a) of the Internal Revenue Code of 1986 (after the outstanding balance of loans made under section 10(d) before October 1, 1985, plus interest, have been paid);

on or after January 1, 1990.

“(B) **STEP 2.**—Subtract an amount equal to the amount of such contributions deposited to the credit of the fund under subsection (i).

“(C) **STEP 3.**—Add an amount equal to the aggregate amount by which such contributions were reduced in prior calendar years as a result of pooled credits, if any, under paragraph (1)(C)(iii).

“(9) **UNALLOCATED CHARGE.**—An employer’s unallocated charge as of any given June 30 is the amount that as of such June 30 bears the same ratio to the system unallocated charge balance, computed under paragraph (10), as the employer’s 1-year compensation base, computed under paragraph (5), bears to the system compensation base computed under paragraph (11).

“(10) **SYSTEM UNALLOCATED CHARGE BALANCE.**—The system unallocated charge balance as of any given June 30 shall be determined as follows:

“(A) **STEP 1.**—Compute the aggregate amount of all interest paid by the account on loans from the Railroad Retirement Account after September 30, 1985, pursuant to

section 10(d), during the 4 calendar quarters ending on that June 30.

“(B) STEP 2.—Add the aggregate amount of any additions to the system unallocated charge balance specified in paragraphs (15) and (16), during that period.

“(C) STEP 3.—Add the aggregate amount of any other expenditures by the account during that period not chargeable to any individual employer under paragraph (15) or to the fund under section 11.

“(D) STEP 4.—Subtract the aggregate amount of all income to the account, under section 10(a)(iv) or section 10(a)(vii), during that period.

“(E) STEP 5.—Subtract the aggregate amount of all transfers to the account, pursuant to section 11(d), during that period.

“(F) STEP 6.—Subtract the aggregate amount of all other income and receipts of the account, during that period, which are not assigned to individual employer balances.

“(G) STEP 7.—Subtract the net cumulative contribution balance of each employer whose balance has been cancelled pursuant to paragraph (16), during that period, calculated as of the date of such cancellation.

“(11) SYSTEM COMPENSATION BASE.—The system compensation base as of any given June 30 shall be determined by adding together the amounts of the 1-year compensation bases of all employers and employee representatives subject to this Act, computed in accordance with paragraph (5), as of such June 30.

“(12) POOLED CREDIT RATIO.—The pooled credit ratio, if any, for a calendar year shall be determined as follows:

“(A) STEP 1.—Compute the balance to the credit of the account as of the close of business on the preceding June 30, including any amounts in the account attributable to loans made under section 10(d) before October 1, 1985, but disregarding the obligation to repay such loans and interest thereon. In determining such balance as of June 30 of any year, so much of the balance to the credit of the railroad unemployment insurance administration fund as of the close of business on such date as is in excess of \$6,000,000 shall be deemed to be part of the balance to the credit of such account. There will be a pooled credit ratio for the calendar year only if that balance is in excess of the greater of \$250,000,000 or of the amount that bears the same ratio to \$250,000,000 as the system compensation base as of that June 30 bears to the system compensation base as of June 30, 1991, as computed in accordance with paragraph (11).

“(B) STEP 2.—If there is such an excess amount, divide that excess amount by the system compensation base as of the June 30 preceding the calendar year. The result is the pooled credit ratio for the calendar year.

“(13) POOLED CHARGE RATIO.—The pooled charge ratio, if any, for a calendar year shall be determined as follows:

“(A) STEP 1.—With respect to each employer whose contribution rate for that calendar year as computed through step 6 under paragraph (1)(C) was greater than the maximum contribution limit computed under paragraph (20), multiply the employer's 1-year compensation base as of the

preceding June 30, as computed in accordance with paragraph (5), by the difference between—

“(i) the percentage rate determined under subparagraph (B), (C), or (D) of paragraph (1) before the reduction to the maximum contribution limit; and

“(ii) the maximum contribution limit.

“(B) STEP 2.—Add the amounts arrived at under step 1 so as to obtain an aggregate amount for all such employers.

“(C) STEP 3.—For each employer whose contribution rate as computed through step 3 under paragraph (1)(C) was less than 0, the percentage rate by which such employer's rate was raised in order to bring that rate to 0 shall be multiplied by that employer's 1-year compensation base as of the preceding June 30. Subtract the total of the amounts computed under the preceding sentence for all employers from the amount arrived at in step 2.

“(D) STEP 4.—Divide the aggregate amount arrived at under step 3 by the system compensation base as of the preceding June 30 as computed under paragraph (11) minus the one-year compensation base of those employers whose rates computed through step 6 of paragraph (1)(C) exceeded the maximum contribution rate computed under paragraph (20). The result is the pooled charge ratio for the calendar year.

“(14) SURCHARGE RATE.—The surcharge rate for a calendar year, if any, shall be determined as follows:

“(A) STEP 1.—Compute the balance to the credit of the account as of the close of business on the preceding June 30, including any amounts in the account attributable to loans made under section 10(d) before October 1, 1985, but disregarding the obligation to repay such loans and interest thereon. In determining such balance as of June 30 of any year, so much of the balance to the credit of the railroad unemployment insurance administration fund as of the close of business on such date as is in excess of \$6,000,000 shall be deemed to be part of the balance to the credit of such account. There will be a surcharge rate for the calendar year only if that balance is less than the greater of \$100,000,000 or of the amount that bears the same ratio to \$100,000,000 as the system compensation base as of that June 30 bears to the system compensation base as of June 30, 1991, as computed in accordance with paragraph (11).

“(B) STEP 2.—(i) If the balance to the credit of the account is less than the greater of the amounts referred to in the 2nd sentence of step 1 but is equal to or more than the greater of \$50,000,000 or of the amount that bears the same ratio to \$50,000,000 as the system compensation base as of that June 30 bears to the system compensation base as of June 30, 1991, then the surcharge rate for the calendar year shall be 1.5 percent.

“(ii) If the balance to the credit of the account is less than the greater of the amounts referred to in the clause (i), but greater than or equal to zero, then the surcharge rate for the calendar year shall be 2.5 percent.

“(iii) If the balance to the credit of the account is less than zero, the surcharge rate for the calendar year shall be 3.5 percent.

“(15) CHARGEABLE BENEFITS.—

“(A) IN GENERAL.—Beginning January 1, 1990, all benefits paid to an employee for days of unemployment or days of sickness shall be charged to that employee’s base year employer by adding amounts equal to the amounts of such benefits to the employer’s cumulative benefit balance except that benefits paid by reason of strikes or work stoppages growing out of labor disputes shall not be added to the employer’s cumulative benefit balance but instead shall be added to the system unallocated charge balance.

“(B) ADJUSTMENTS.—A sum equal to each amount realized in recovery for overpayment, erroneous payment, or reimbursement of benefits and credited to the account pursuant to section 10(a)(v) or 10(a)(viii) shall be subtracted from the cumulative benefit balances of the employers of the employees to whom such an amount was paid as a benefit in the proportion to the amount by which each such employer’s cumulative benefit balance was increased as a result of the payment of the benefit.

“(C) MULTIPLE EMPLOYERS.—

“(i) IN GENERAL.—All benefits paid to an employee who had more than 1 base-year employer shall be charged to the cumulative benefit balances of the employee’s base year employers—

“(I) in reverse chronological order of the employee’s employment with each such employer in the base year if the employer at the time of the claim was the last base year employer, and the amount charged to each employer shall not exceed the compensation paid by that employer to the employee in the base year; and

“(II) in all other cases, in the same ratio as the compensation paid to such employee by the employer bears to the total of such compensation paid to such employees by all such employers in the base year.

“(ii) SPECIAL RULE FOR EMPLOYER WITH CANCELLED BALANCES.—All benefits chargeable under this subparagraph to an employer for which the Board has cancelled balances under paragraph (16) shall be added to the system unallocated charge balance.

“(16) DEFUNCT EMPLOYER.—Whenever the Board determines, pursuant to such regulations as the Board may prescribe, that an employer has permanently ceased to pay compensation with respect to which contributions are payable pursuant to this subsection, the Board shall, effective on the date of the Board’s determination, transfer the employer’s net cumulative contribution balance as a subtraction from, and cumulative benefit balance as an addition to, the system unallocated charge balance and cancel all other accumulations of the employer.

“(17) INDIVIDUAL EMPLOYER RECORD.—

“(A) IN GENERAL.—As of January 1, 1990, the Board shall commence maintaining an individual employer record with respect to each employer, and the records necessary to

determine pooled charges, pooled credits and unallocated charge balances for the system. Whenever a new employer begins paying compensation with respect to which contributions are payable pursuant to this subsection, the Board shall establish and maintain an individual employer record for such employer.

“(B) DEFINITION.—As used in this paragraph, the term ‘individual employer record’ means a record of an individual employer’s benefit ratio, reserve ratio, 1-year compensation base, 3-year compensation base, unallocated charge, reserve balance, net cumulative contribution balance, and cumulative benefit balance.

“(18) JOINT EMPLOYER RECORDS.—Pursuant to regulations prescribed by the Board, the Board may allow 2 or more employers, upon application, to establish and maintain, or to discontinue, a joint individual employer record for such employers as though such joint record constituted a single employer’s individual employer record.

“(19) MERGERS, CONSOLIDATIONS, OR OTHER CHANGES IN EMPLOYER IDENTITY.—

“(A) WITH OTHER EMPLOYERS.—In the event of a merger, consolidation, unification, or reorganization in which an employer combines with another employer and the combination entails no partitioning of the property of the employer, the individual employer records of the 2 employers shall be combined into a joint individual employer record if the parties request such joint treatment pursuant to paragraph (18) or if the Board otherwise determines, pursuant to regulations prescribed by the Board, that such joint treatment is desirable.

“(B) WITH NONEMPLOYERS.—In the event of a merger, consolidation, unification, or reorganization in which an employer combines with another entity that is not an employer, the employer’s individual employer record shall attach to the combined entity.

“(C) SALE OF ASSETS.—In the event property of an employer is sold or transferred to another employer or other entity, or is partitioned among 2 or more employers or entities, the cumulative benefit balance, net cumulative contribution balance, 1-year compensation base, and 3-year compensation base of the employer shall be prorated among the employers which receive the property, including any entities which become employers by virtue of such transfer or partition, in such equitable manner as the Board by regulation shall prescribe.

“(D) REINCORPORATION.—The cumulative benefit balance, net cumulative contribution balance, 1-year compensation base, and 3-year compensation base of an employer that reincorporates or otherwise alters its corporate identity in a transaction not involving a merger, consolidation, or unification shall attach to the reincorporated or altered entity.

“(E) ABANDONMENT.—If an employer abandons property or discontinues service but continues to operate as an employer, the employer’s individual employer record shall continue to be calculated as provided in this subsection without retroactive adjustment.

“(20) **MAXIMUM CONTRIBUTION LIMIT.**—The maximum contribution limit with respect to a calendar year is 12 percent, unless a 3.5 percent surcharge under paragraph (14) is in effect with respect to that calendar year. If such a surcharge is in effect the maximum contribution limit with respect to that calendar year is 12.5 percent.

“(21) **SPECIAL RULES FOR CERTAIN COMPUTATIONS UNDER PARAGRAPH (1) (C).**—(A) Any computation that is to be made under paragraph (1)(C) on the basis of a 12-quarter period ending on a given June 30 shall be made on the basis of a period—

“(i) beginning on the later of—

“(I) January 1, 1990;

“(II) the first day of the first calendar quarter that begins after the date on which the employer first began to pay compensation subject to this Act; or

“(III) July 1 of the third calendar year preceding that June 30; and

“(ii) ending on that June 30.

“(B) The amount computed under subparagraph (A) shall be increased to an amount that bears the same ratio to the amount so computed as 12 bears to the number of calendar quarters on which the computation is based.”

(b) **EMPLOYEE REPRESENTATIVE CONTRIBUTION.**—Subsection (b) of section 8 is amended to read as follows:

45 USC 358.

“(b) **EMPLOYEE REPRESENTATIVE CONTRIBUTION.**—Each employee representative shall pay a contribution with respect to so much of the compensation paid to him for services performed as an employee representative as is not in excess of the monthly compensation base computed in accordance with section 1(i), at a rate which shall be determined under subsection (a) in the same manner and with the same effect as if the employee organization by which such employee representative is employed were an employer as defined in this Act.”

(c) **EXTENSION OF REMEDIES.**—Section 8(h) is amended by adding at the end the following: “The remedies available under the first sentence of this subsection for an employer or employee representative who contests the amount of contributions payable by him shall also apply with respect to a contention that the contribution rate determined by the Board under subsection (a) or (b) to be applicable to such employer or employee representative is inaccurate or otherwise improper.”

(d) **BOARD PROCLAMATION OF BALANCE.**—Section 8 is amended—

(1) by redesignating subsections (c) through (h) as subsections (f) through (k), respectively; and

(2) by inserting after subsection (b) the following new subsections:

“(c) **BOARD PROCLAMATION OF BALANCE.**—

“(1) **IN GENERAL.**—Not later than October 15, 1990, and October 15 of each year thereafter the Board shall proclaim—

“(A) the balance to the credit of the account as of the preceding June 30 for purposes of paragraphs (12) and (14) of subsection (a);

“(B) the balance of any advances to the account under section 10(d) after September 30, 1985, that has not been repaid with interest as provided in such section as of September 30 of that year;

“(C) the system compensation base as of that June 30 as computed in accordance with paragraph (11) of that subsection;

“(D) the system unallocated charge balance as of that June 30, as computed in accordance with paragraph (10) of that subsection; and

“(E) the pooled credit ratio, the pooled charge ratio, and the surcharge rate, if any, as determined under paragraph (12), (13), or (14) of that subsection and applicable in the following calendar year.

Federal
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publication.

“(2) PUBLICATION OF NOTICE.—As soon as is practicable after such proclamation, the Board shall publish notice in the Federal Register of the amounts so determined and proclaimed.

“(d) NOTIFICATIONS BY BOARD.—(1) Not later than the last day of any calendar quarter that begins after March 31, 1990, the Board shall notify each employer and employee representative of its net cumulative contribution balance and cumulative benefit balance as of the end of the preceding calendar quarter, as computed in accordance with paragraphs (7) and (8) of subsection (a) as of the last day of such preceding calendar quarter rather than as of a given June 30 if such last day is not a June 30.

“(2) Not later than October 15, 1990, and October 15 of each year thereafter, the Board shall notify each employer and employee representative of its benefit ratio, reserve ratio, 1-year compensation base, 3-year compensation base, unallocated charge, and reserve balance as of the preceding June 30 as computed in accordance with paragraphs (2), (3), (4), (5), (6), and (9) of subsection (a), and of the contribution rate applicable to the employer or employee representative in the following calendar year as computed under paragraphs (1) (B), (C), or (D) of that subsection.

“(e) INFORMATION TO VERIFY ACCURACY TO BE MADE AVAILABLE.—Notwithstanding any other provision of law, upon request by an employer or employee representative, the Board shall make available to such employer or employee representative any information available to the Board which may be necessary to verify the accuracy of a contribution rate determined by the Board to be applicable to such employer or employee representative, or of any component of that contribution rate including the accuracy of the employer's individual employer record, upon payment by such employer or employee representative to the Board of the cost incurred by the Board in making such information available. The amounts so paid to the Board shall be credited to and deposited in the fund.”

45 USC 358 note.

(e) EFFECTIVE DATE.—The amendments made by this section shall take effect upon the date of the enactment of this Act.

SEC. 7103. ADMINISTRATIVE EXPENSES.

45 USC 358.

(a) CHANGE IN PERCENTAGE TO BE DEPOSITED IN FUND.—Section 8(i), as so redesignated by section 512(d), is amended by striking out “0.5” and inserting in lieu thereof “0.65”.

45 USC 360.

(b) CONFORMING AMENDMENTS.—(1) Section 10(a) is amended by striking out “0.5” and inserting in lieu thereof “0.65”.

45 USC 361.

(2) Section 11(a) is amended by striking out “0.5” and inserting in lieu thereof “0.65”.

45 USC 358 note.

(c) EFFECTIVE DATE.—The amendments made by this section shall apply with respect to compensation paid in months beginning after September 30, 1988.

SEC. 7104. NOTIFICATION TO EMPLOYER.

(a) **IN CONNECTION WITH CLAIM.**—Section 5(b) is amended by adding at the end thereof the following: “When a claim for benefits is filed with the Board, the Board shall provide notice of such claim to the claimant’s base-year employer or employers and afford such employer or employers an opportunity to submit information relevant to the claim before making an initial determination on the claim. When the Board initially determines to pay benefits to a claimant under this Act, the Board shall provide notice of such determination to the claimant’s base-year employer or employers.”

45 USC 355.

(b) **IN CONNECTION WITH ADMINISTRATIVE REVIEW.**—Section 5(c) is amended—

(1) by inserting “(1)” after “(c)”;

(2) by inserting at the end of the first paragraph the following: “In any such case the Board or the person or reviewing body so established or assigned shall, by publication or otherwise, notify all parties properly interested of their right to participate in the hearing and of the time and place of the hearing.”;

(3) by inserting “(2)” at the beginning of the second paragraph;

(4) by inserting after the second paragraph the following:

“(3) Any base-year employer of a claimant whose claim for benefits has been granted in whole or in part, either in an initial determination with respect thereto or in a determination after a hearing pursuant to paragraph (1), and who contends that the determination is erroneous for a reason or reasons other than a reason that is reviewable under paragraph (4), may appeal to the Board for review of such determination. Despite such an appeal, the benefits awarded shall be paid to such claimant, subject to recovery by the Board if and to the extent found on the appeal to have been erroneously awarded. The Board shall take such action as is appropriate to recover the amount of such benefits including if feasible adjustment in subsequent payments pursuant to the first two paragraphs of section 2(d) of this Act. Upon an appeal, the Board shall review the determination appealed from and for such review may designate one of its officers or employees to receive evidence and report to the Board thereof together with recommendations. In any such case the Board or the person so designated shall, by publication or otherwise, notify all parties properly interested of their right to participate in the proceeding and, if a hearing is to be held, of the time and place of the hearing. At the request of any party properly interested the Board shall provide for a hearing, and may provide for a hearing on its own motion. The Board shall prescribe regulations governing the appeals provided for in this paragraph and for decisions upon such appeal.”;

Regulations.

(5) by inserting “(4)” at the beginning of the third paragraph;

(6) by inserting “(5)” at the beginning of the fourth paragraph;

(7) by striking out “two” in the first sentence of the fourth paragraph and inserting in lieu thereof “three”;

(8) by inserting before the final paragraph the following:

“(6) For purposes of this subsection and subsections (d) and (f), any base-year employer of the claimant is a properly interested party.”;

and

(9) by inserting “(7)” at the beginning of the final paragraph.

(c) **IN CONNECTION WITH JUDICIAL REVIEW.**—Section 5(f) is amended—

(1) by inserting after "member," in the first sentence "or any base-year employer of the claimant,"; and

(2) by inserting after the second sentence the following: "A copy of such petition also shall forthwith be served upon any other properly interested party, and such party shall be a party to the review proceeding."

45 USC 362. (d) **CONFORMING AMENDMENTS WITH RESPECT TO LIMITATION ON ADMINISTRATIVE DISCLOSURE.**—Section 12(d) is amended—

(1) by striking out "and" where it appears before "(iii)"; and

(2) by striking out the period at the end of the first sentence and inserting in lieu thereof the following: "; and (iv) the Board shall disclose to any base-year employer of a claimant for benefits any information, including information as to the claimant's identity, that is necessary or appropriate to notify such employer of the claim for benefits or to full and fair participation by such employer in an appeal, hearing, or other proceeding relative to the claim pursuant to section 5 of this Act."

(e) **CONFORMING AMENDMENT WITH RESPECT TO COURT PROCEEDINGS LIMITATION.**—Section 12(n) is amended by striking out "court" in the proviso to the second paragraph.

45 USC 355 note.

(f) **EFFECTIVE DATE.**—The amendments made by this section shall take effect on January 1, 1990.

45 USC 369.

SEC. 7105. ANNUAL REPORT.

On or before July 1 of 1989, and of each calendar year thereafter, the Railroad Retirement Board shall submit to the Congress a report on the financial status of the railroad unemployment insurance system under various economic and employment assumptions. Such report shall include any recommendation for financing changes which might be advisable, including any adjustment the Railroad Retirement Board recommends regarding the rates of employer contributions.

SEC. 7106. AMENDMENTS RELATING TO RAILROAD UNEMPLOYMENT REPAYMENT TAX.

(a) **IN GENERAL.**—Chapter 23A of the 1986 Code (relating to railroad unemployment repayment tax) is amended to read as follows:

"CHAPTER 23A. RAILROAD UNEMPLOYMENT REPAYMENT TAX

"Sec. 3321. Imposition of tax.

"Sec. 3322. Definitions.

"SEC. 3321. IMPOSITION OF TAX.

"(a) **GENERAL RULE.**—There is hereby imposed on every rail employer for each calendar month an excise tax, with respect to having individuals in his employ, equal to 4 percent of the total rail wages paid by him during such month.

"(b) **TAX ON EMPLOYEE REPRESENTATIVES.**—

"(1) **IN GENERAL.**—There is hereby imposed on the income of each employee representative a tax equal to 4 percent of the rail wages paid to him during the calendar month.

"(2) **DETERMINATION OF WAGES.**—The rail wages of an employee representative for purposes of paragraph (1) shall be determined in the same manner and with the same effect as if the employee organization by which such employee representative is employed were a rail employer.

“(c) **TERMINATION IF LOANS TO RAILROAD UNEMPLOYMENT FUND REPAYED.**—The tax imposed by this section shall not apply to rail wages paid on or after the 1st day of any calendar month if, as of such 1st day, there is—

“(1) no balance of transfers made before October 1, 1985, to the railroad unemployment insurance account under section 10(d) of the Railroad Unemployment Insurance Act, and

“(2) no unpaid interest on such transfers.

“**SEC. 3322. DEFINITIONS.**

“(a) **RAIL EMPLOYER.**—For purposes of this chapter, the term ‘rail employer’ means any person who is an employer as defined in section 1 of the Railroad Unemployment Insurance Act.

“(b) **RAIL WAGES.**—For purposes of this chapter, the term ‘rail wages’ means, with respect to any calendar month, so much of the remuneration paid during such month which is subject to contributions under section 8(a) of the Railroad Unemployment Insurance Act.

“(c) **EMPLOYEE REPRESENTATIVE.**—For purposes of this chapter, the term ‘employee representative’ has the meaning given such term by section 1 of the Railroad Unemployment Insurance Act.

“(d) **CERTAIN RULES MADE APPLICABLE.**—For purposes of this chapter, rules similar to the rules of section 3307 and 3308 shall apply.”

(b) **CONTINUATION OF SURTAX RATE THROUGH 1990.**—

(1) **IN GENERAL.**—In the case of any calendar month beginning before January 1, 1991—

(A) there shall be substituted for “4 percent” in subsections (a) and (b) of section 3321 of the 1986 Code the percentage equal to the sum of—

(i) 4 percent, plus

(ii) the surtax rate (if any) for such calendar month, and

(B) subsection (c) of such section shall not apply to so much of the tax imposed by such section as is attributable to the surtax rate.

(2) **SURTAX RATE.**—For purposes of paragraph (1), the surtax rate shall be—

(A) 3.5 percent for each month during a calendar year if, as of September 30, of the preceding calendar year, there was a balance of transfers (or unpaid interest thereon) made after September 30, 1985, to the railroad unemployment insurance account under section 10(d) of the Railroad Unemployment Insurance Act, and

(B) zero for any other calendar month.

(c) **TECHNICAL AND CONFORMING AMENDMENTS.**—

(1) Subsection (d) of section 6157 of the 1986 Code (relating to quarterly payment of railroad unemployment repayment tax) is hereby repealed.

(2) Paragraph (2) of section 6201(b) of the 1986 Code (relating to amount not to be assessed) is amended by striking out “or tax imposed by section 3321”.

(3) Section 6317 of the 1986 Code (relating to payments of Federal unemployment tax for calendar quarter) is amended—

(A) by striking out “or tax imposed by section 3321”, and

(B) by striking out “and 23A, as the case may be.”

26 USC 3321
note.

(4) Subsection (e) of section 6513 of the 1986 Code (relating to payments of Federal unemployment tax) is amended by striking out the last sentence.

(5) Subsection (i) of section 6601 of the 1986 Code (relating to exception as to Federal unemployment tax) is amended by striking out "or 3321".

45 USC 231n
note.

(6) Subparagraph (A) of section 232(a)(2) of the Railroad Retirement Revenue Act of 1983 is amended by striking out "is attributable to the basic rate under section 3321(c)(1)(A) of the Internal Revenue Code of 1954" and inserting in lieu thereof "is not attributable to the surtax rate under section 516(b) of the Railroad Unemployment Insurance and Retirement Improvement Act of 1988".

(7) Subparagraph (B) of section 232(a)(2) of such Act is amended by striking out "section 3321(c)(1)(B) of such Code" and inserting in lieu thereof "section 516(b) of such Act".

26 USC 3321
note.

(d) **EFFECTIVE DATE.**—The amendments made by this section, and the provisions of subsection (b), shall apply to remuneration paid after December 31, 1988.

45 USC 352 note.

SEC. 7107. GAO STUDY OF FRAUD AND PAYMENT ERRORS.

The Comptroller General shall study the frequency of fraud and payment errors in the railroad unemployment compensation program. Not later than 1 year after the date of the enactment of this Act, the Comptroller General shall report to Congress the results of such study. Such report shall include—

Reports.

(1) estimates of rates and amounts of annual losses due to fraud and overpayment;

(2) comparisons of such rates with the rates of losses in other Federal programs which experience such losses;

(3) recommendations for legislative measures that could be taken to reduce the losses in the railroad unemployment compensation program arising from fraud and payment errors; and

(4) such other matters relating to such fraud and payment errors as the Comptroller General determines are appropriate.

SEC. 7108. ONE-YEAR EXTENSION OF TIME LIMIT FOR FILING REPORT BY COMMISSION ON RAILROAD RETIREMENT REFORM.

Section 9033(f) of the Omnibus Budget Reconciliation Act of 1987 (101 Stat. 1330-298) is amended by striking "October 1, 1989" and inserting "October 1, 1990".

45 USC 231n
note.

Subtitle B—Benefit and Other Adjustments

SEC. 7201. WAITING PERIOD FOR BENEFITS AND BENEFIT INCREASES.

45 USC 352.

(a) **IN GENERAL.**—Section 2(a) is amended—

(1) by inserting "(1)" after "(a)";

(2) by striking out "Benefits" the first place it appears and all that follows through the end of the first paragraph, and inserting in lieu thereof the following:

"(A)(i) Except as otherwise provided in this subparagraph, benefits shall be payable to any qualified employee for each day of unemployment in excess of 4 during any registration period.

"(ii) No benefits shall be payable for days of unemployment during the first registration period within a benefit year in which the employee has more than 4 days of unemployment.

“(iii) In any case in which the Board finds that an employee’s unemployment was due to a stoppage of work because of a strike in the establishment, premises, or enterprise at which such employee was last employed, no benefits shall be payable for the first 14 days of unemployment due to such stoppage of work. However, for subsequent days of unemployment due to such stoppage of work, benefits shall be payable to days in excess of 4 during any registration period.

“(B)(i) Except as otherwise provided in this subparagraph, benefits shall be payable to any qualified employee for each day of sickness after the 4th consecutive day of sickness in a period of continuing sickness but excluding 4 days of sickness in any registration period.

“(ii) No benefits shall be payable for days of sickness in the first registration period within a benefit year in which the employee has both 4 consecutive days of sickness and more than 4 days of sickness.

“(iii) For the purposes of this subparagraph, a period of continuing sickness means (I) a period of consecutive days of sickness, whether from one or more causes, or (II) a period of successive days of sickness due to a single cause without interruption of more than 90 consecutive days which are not days of sickness.”;

(3) by inserting “(2)” at the beginning of the second paragraph;

(4) by striking out “and” after “shall not exceed \$24 per day of such unemployment or sickness” in the second paragraph and inserting in lieu thereof a comma;

(5) by inserting “but before July 1, 1988,” after “June 30, 1976,” in the second paragraph;

(6) by striking out the period at the end of the first sentence of the second paragraph and inserting in lieu thereof “, that for registration periods beginning after June 30, 1988, but before July 1, 1989, such amount shall not exceed \$30 per day of unemployment or sickness, and that for registration periods beginning after June 30, 1989, such amount shall not exceed the maximum daily benefit rate provided in paragraph (3) of this subsection.”;

(7) by inserting after the second paragraph the following new paragraph:

“(3)(A) The maximum daily benefit rate which the Board is required to compute under section 12(r)(2) shall be the amount computed pursuant to the following formula, but shall be not less than \$30:

$$BR = 25 \left(1 + \frac{A - 600}{900} \right)$$

“(B) For purposes of such formula—

“(i) ‘BR’ represents the maximum daily benefit rate; and

“(ii) ‘A’ represents the amount obtained by dividing the amount of the ‘applicable base’ with respect to tier 1 taxes as determined under section 3231(e)(2) of the Internal Revenue

Code of 1986 for the calendar year in which the benefit year begins by 60, with this quotient being rounded down to the nearest multiple of \$100.

“(C) If the maximum daily benefit rate computed under such formula is not a multiple of \$1, it shall be rounded to the nearest multiple of \$1, with such rounding being upward in the event the amount computed is equidistant between two multiples of \$1.”; and

45 USC 352 note.

(8) by inserting “(4)” at the beginning of the last paragraph.

(b) **EFFECTIVE DATES.**—(1) Except as provided in paragraph (2), the amendments made by subsection (a) shall take effect on the date of the enactment of this Act.

(2) The amendments made by paragraph (2) of subsection (a) shall apply with respect to registration periods beginning after June 30, 1988.

SEC. 7202. QUALIFYING CONDITION.

45 USC 353.

(a) **IN GENERAL.**—Section 3 is amended—

(1) by inserting “with respect to the base year” after “his compensation”; and

(2) by striking “\$1,500 with respect to the base year” and inserting in lieu thereof “2.5 times the monthly compensation base for months in such base year as computed under section 1(i) of this Act”.

45 USC 353 note.

(b) **EFFECTIVE DATE.**—The amendments made by this section shall take effect on the date of the enactment of this Act.

SEC. 7203. INCREASE IN MAXIMUM PERMITTED SUBSIDIARY REMUNERATION.

45 USC 351.

(a) **IN GENERAL.**—The second paragraph of section 1(k) is amended by striking out “\$10” and inserting “\$15” in lieu thereof.

45 USC 351 note.

(b) **EFFECTIVE DATE.**—The amendment made by this section shall take effect on July 1, 1988.

Subtitle C—Retirement Act Amendments

SEC. 7301. ADDITIONAL LUMP SUM PAYMENT IN CERTAIN CASES.

45 USC 231e.

Section 6 of the Railroad Retirement Act of 1974 is amended by adding at the end thereof the following new subsection:

“(e)(1) Every individual who will have completed ten years of service at the time of his retirement or death, who will have received compensation in the nature of separation or severance pay on or after January 1, 1985, and who would have been credited with additional months of service pursuant to section 3(i)(4) of this Act except for the fact that such individual was not in an employment relation to one or more employers nor an employee representative in such months, shall, at the time his annuity under section 2(a)(1) of this Act begins to accrue, be entitled to a lump sum in the amount provided under subdivision (2) of this subsection. If the full amount of a lump sum under this subsection cannot be determined at the time an individual’s annuity under section 2(a)(1) begins to accrue, such lump sum shall be payable at such time thereafter as such amount can be determined. If an individual otherwise eligible for a lump sum under this section dies before he becomes entitled to an annuity under section 2(a)(1), or before he receives payment of such lump sum, such lump sum shall be payable to the person, if any, who is determined by the Board to be such individual’s widow or

widower and who will not have died before receiving payment of such lump sum. If there be no such widow or widower, such lump sum shall be payable to the children, grandchildren, parents, brothers and sisters, or the estate of the deceased individual in the same manner as if such lump sum were a lump sum payable under subsection (c)(1) of this section.

“(2) The lump sum provided under subdivision (l) of this subsection shall be in an amount equal to the product of (A) the compensation attributable to the additional months of service which would have been credited to the individual due to the receipt of payments in the nature of separation or severance pay pursuant to section 3(i)(4) of this Act if such individual had remained in an employment relation to one or more employers or had continued to be an employee representative and (B) the rate of tax, or rates of tax, imposed on the compensation described in clause (A) of this subdivision by section 3201(b) of the Internal Revenue Code of 1986.”

SEC. 7302. DELETION OF LAST PERSON SERVICE AS A DISQUALIFICATION.

(a) **IN GENERAL.**—Section 2(e) of the Railroad Retirement Act of 1974 is amended—

45 USC 231a.

(1)(A) in subdivision (1), by striking out “any person, whether or not”; and

(B) by striking out “(but with the” and all that follows through “political subdivision of a State”;

(2) in subdivision (2), by striking out “and of the person, or persons, by whom he was last employed”; and

(3) in subdivision (3), by striking out “or to the last person, or persons, by whom he was employed prior to the date on which the annuity under subsection (a)(1) began to accrue”.

(b) **DEDUCTION FOR WORK.**—Section 2(f) of such Act is amended by adding at the end thereof the following new subdivision:

“(6)(A) Except as provided in subparagraph (B)—

“(i) that portion of the annuity for any month of an individual as is computed under section 3(b) and as adjusted under section 3(g), plus any supplemental amount for such month under section 3(e), and that portion of the annuity for any month of a spouse as is computed under section 4(b) and as adjusted under section 4(d), shall each be subject to a deduction of \$1 for each \$2 of compensation received by such individual from compensated service rendered in such month to the last person, or persons, by whom such individual was employed before the date on which the annuity of such individual under subsection (a)(1) began to accrue; and

“(ii) that portion of the annuity for any month of a spouse as is computed under section 4(b) and as adjusted under section 4(d) shall be subject to a deduction of \$1 for each \$2 of compensation received by such spouse from compensated service rendered in such month to the last person, or persons, by whom such spouse was employed before the date on which the annuity of such spouse under subsection (c)(1) began to accrue.

“(B) Any deductions imposed by this subdivision for any month shall not exceed 50 percent of the annuity amount for such month to which such deductions apply.”

(c) **EFFECTIVE DATE.**—The amendments made by this section shall apply to annuities payable under the Railroad Retirement Act of 1974 for months beginning after the date of enactment of this Act.

45 USC 231a
note.

SEC. 7303. EARNINGS OF DISABILITY ANNUITANTS.

45 USC 231a. (a) **IN GENERAL.**—Section 2(e)(4) of the Railroad Retirement Act of 1974 is amended—

(1) by striking out “\$200 in earnings” and inserting in lieu thereof “\$400 in earnings (after deduction of disability related work expenses)”;

(2) by striking out “\$2,400” each place it appears and inserting in lieu thereof “\$4,800 (after deduction of disability related work expenses)”;

(3) by striking out “\$200” each place it appears and inserting in lieu thereof “\$400”; and

(4) by striking out “\$100” and inserting in lieu thereof “\$200”.

45 USC 231a note.

(b) **EFFECTIVE DATE.**—The amendments made by this section shall apply with respect to months in calendar years beginning after December 31, 1988.

SEC. 7304. ALLOWANCE OF CREDIT FOR MILITARY SERVICE.

45 USC 231.

(a) **IN GENERAL.**—Section 1(g)(2) of the Railroad Retirement Act of 1974 is amended by adding at the end thereof the following:

“For purposes of section 3(i)(2) of this Act, the period beginning on June 15, 1948, and ending on December 15, 1950, shall be deemed to be a war service period with respect to any individual who without intervening employment not covered by this Act rendered service as an employee to an employer under this Act in the year such individual was released from active military service or in the year immediately following such year.”

45 USC 231 note.

(b) **EFFECTIVE DATE.**—The amendment made by this section shall apply with respect to annuities accruing in months after the date of enactment of this Act.

TITLE VIII—AMENDMENTS RELATING TO SOCIAL SECURITY ACT PROGRAMS

Subtitle A—Old-Age, Survivors, and Disability Insurance and Related Provisions

SEC. 8001. INTERIM DISABILITY BENEFITS IN CASES OF DELAYED FINAL DECISIONS.

(a) **DISABILITY BENEFITS UNDER TITLE II.**—Section 223 of the Social Security Act (42 U.S.C. 423) is amended—

(1) by redesignating subsection (h) as subsection (i); and

(2) by inserting after subsection (g) the following new subsection:

“Interim Benefits in Cases of Delayed Final Decisions

“(h)(1) In any case in which an administrative law judge has determined after a hearing as provided under section 205(b) that an individual is entitled to disability insurance benefits or child’s, widow’s, or widower’s insurance benefits based on disability and the Secretary has not issued his final decision in such case within 110 days after the date of the administrative law judge’s determination, such benefits shall be currently paid for the months during the period beginning with the month preceding the month in which

such 110-day period expires and ending with the month preceding the month in which such final decision is issued.

“(2) For purposes of paragraph (1), in determining whether the 110-day period referred to in paragraph (1) has elapsed, any period of time for which the action or inaction of such individual or such individual’s representative without good cause results in the delay in the issuance of the Secretary’s final decision shall not be taken into account to the extent that such period of time exceeds 20 calendar days.

“(3) Any benefits currently paid under this title pursuant to this subsection (for the months described in paragraph (1)) shall not be considered overpayments for any purpose of this title (unless payment of such benefits was fraudulently obtained), and such benefits shall not be treated as past-due benefits for purposes of section 206(b)(1).”

(b) **BENEFITS UNDER TITLE XVI.**—Section 1631(a) of such Act (42 U.S.C. 1383(a)) is amended by adding at the end the following new paragraph:

“(8)(A) In any case in which an administrative law judge has determined after a hearing as provided in subsection (c) that an individual is entitled to benefits based on disability or blindness under this title and the Secretary has not issued his final decision in such case within 110 days after the date of the administrative law judge’s determination, such benefits shall be currently paid for the months during the period beginning with the month in which such 110-day period expires and ending with the month in which such final decision is issued.

Blind persons.

“(B) For purposes of subparagraph (A), in determining whether the 110-day period referred to in subparagraph (A) has elapsed, any period of time for which the action or inaction of such individual or such individual’s representative without good cause results in the delay in the issuance of the Secretary’s final decision shall not be taken into account to the extent that such period of time exceeds 20 calendar days.

“(C) Any benefits currently paid under this title pursuant to this paragraph (for the months described in subparagraph (A)) shall not be considered overpayments for any purposes of this title, unless payment of such benefits was fraudulently obtained.”

(c) **EFFECTIVE DATE.**—The amendments made by this section shall apply to determinations by administrative law judges of entitlement to benefits made after 180 days after the date of the enactment of this Act.

42 USC 423 note.

SEC. 8002. APPLICATION OF EARNINGS TEST IN YEAR OF INDIVIDUAL’S DEATH.

(a) **YEAR IN WHICH INDIVIDUAL WOULD HAVE ATTAINED RETIREMENT AGE BUT FOR THE INDIVIDUAL’S DEATH IN SUCH YEAR TREATED AS A YEAR THROUGHOUT WHICH THE EARNINGS TEST FOR INDIVIDUALS WHO HAVE ATTAINED RETIREMENT AGE IS APPLICABLE.**—Paragraph (3) of section 203(f) of the Social Security Act (42 U.S.C. 403(f)(3)) is amended by inserting “(or, but for the individual’s death, would have attained)” after “who has attained”.

(b) **ELIMINATION OF THE SHORT TAXABLE YEAR IN THE YEAR OF DEATH FOR PURPOSES OF THE EARNINGS TEST.**—Paragraph (3) of section 203(f) of such Act is further amended—

(1) by inserting after the first sentence the following new sentence: “For purposes of the preceding sentence, notwith-

standing section 211(e), the number of months in the taxable year in which an individual dies shall be 12.”; and

(2) in the last sentence, by striking “preceding sentence” and inserting “first sentence of this paragraph”.

(c) **EFFECTIVE DATE.**—The amendments made by this section shall apply to deaths after the date of the enactment of this Act.

42 USC 403 note. **SEC. 8003. PHASEOUT OF REDUCTION IN WINDFALL BENEFITS.**

(a) **IN GENERAL.**—Section 215(a)(7)(D) of the Social Security Act (42 U.S.C. 415(a)(7)(D)) is amended—

(1) by striking “more than 25 years of coverage” in the second sentence and inserting “more than 20 years of coverage”; and

(2) by striking “shall (if such percent is smaller than the percent specified in whichever of the following clauses applies) be deemed to be—” and inserting “shall (if such percent is smaller than the applicable percent specified in the following table) be deemed to be the applicable percent specified in the following table.”; and

(3) by striking clauses (i) through (iv) and inserting the following table:

| “If the number of such individual’s years of coverage (as so defined) is: | The applicable percent is: |
|---|-------------------------------|
| 29..... | 85 percent |
| 28..... | 80 percent |
| 27..... | 75 percent |
| 26..... | 70 percent |
| 25..... | 65 percent |
| 24..... | 60 percent |
| 23..... | 55 percent |
| 22..... | 50 percent |
| 21..... | 45 percent.” |

42 USC 415 note. (b) **EFFECTIVE DATE.**—The amendments made by subsection (a) shall apply to benefits payable for months after December 1988.

SEC. 8004. DENIAL OF BENEFITS TO INDIVIDUALS DEPORTED OR ORDERED DEPORTED ON THE BASIS OF ASSOCIATIONS WITH THE NAZI GOVERNMENT OF GERMANY DURING WORLD WAR II.

(a) **IN GENERAL.**—Section 202(n)(1) of the Social Security Act (42 U.S.C. 402(n)(1)) is amended by striking “or (18)” in the matter preceding subparagraph (A) and inserting “(18), or (19)”.

(b) **TIME OF DEPORTATION.**—Section 202(n) of such Act is further amended by adding at the end the following new paragraph:

“(3) For purposes of paragraphs (1) and (2) of this subsection, an individual against whom a final order of deportation has been issued under paragraph (19) of section 241(a) of the Immigration and Nationality Act (relating to persecution of others on account of race, religion, national origin, or political opinion, under the direction of or in association with the Nazi government of Germany or its allies) shall be considered to have been deported under such paragraph (19) as of the date on which such order became final.”.

42 USC 402 note. (c) **EFFECTIVE DATE.**—The amendments made by this section shall apply only in the case of deportations occurring, and final orders of deportation issued, on or after the date of enactment of this Act, and only to benefits for months beginning (and deaths occurring) on or after such date.

SEC. 8005. MODIFICATIONS IN THE TERM OF OFFICE OF PUBLIC MEMBERS OF THE BOARD OF TRUSTEES OF THE SOCIAL SECURITY TRUST FUNDS.

(a) **IN GENERAL.**—Sections 201(c), 1817(b), and 1841(b) of the Social Security Act (42 U.S.C. 401(c), 1395i(b), 1395t(b)(i)) are each amended by inserting after the first sentence the following: “A member of the Board of Trustees serving as a member of the public and nominated and confirmed to fill a vacancy occurring during a term shall be nominated and confirmed only for the remainder of such term. An individual nominated and confirmed as a member of the public may serve in such position after the expiration of such member’s term until the earlier of the time at which the member’s successor takes office or the time at which a report of the Board is first issued under paragraph (2) after the expiration of the member’s term.”

(b) **EFFECTIVE DATE.**—The amendments made by this section shall apply to members of the Boards of Trustees of the Federal Old-Age and Survivors Insurance Trust Fund and the Federal Disability Insurance Trust Fund, of the Federal Hospital Insurance Trust Fund, and of the Federal Supplementary Medical Insurance Trust Fund serving on such Boards of Trustees as members of the public on or after the date of the enactment of this Act.

42 USC 401 note.

SEC. 8006. CONTINUATION OF DISABILITY BENEFITS DURING APPEAL.

Subsection (g) of section 223 of the Social Security Act (42 U.S.C. 423(g)) is amended—

- (1) in paragraph (1)(iii), by striking “June 1989” and inserting “June 1990”; and
- (2) in paragraph (3)(B), by striking “January 1, 1989” and inserting “January 1, 1990”.

SEC. 8007. EXEMPTION FROM SOCIAL SECURITY FOR EMPLOYERS AND EMPLOYEES WHO ARE BOTH MEMBERS OF CERTAIN RELIGIOUS FAITHS.

(a) **EXEMPTION FROM COVERAGE UNDER SOCIAL SECURITY.**—

(1) **IN GENERAL.**—Subchapter C of chapter 21 of the Internal Revenue Code of 1986 (general provisions under Federal Insurance Contributions Act) is amended by redesignating section 3127 as section 3128, and by inserting after section 3126 the following new section:

“SEC. 3127. EXEMPTION FOR EMPLOYERS AND THEIR EMPLOYEES WHERE BOTH ARE MEMBERS OF RELIGIOUS FAITHS OPPOSED TO PARTICIPATION IN SOCIAL SECURITY ACT PROGRAMS.

“(a) **IN GENERAL.**—Notwithstanding any other provision of this chapter (and under regulations prescribed to carry out this section), in any case where—

“(1) an employer is a member of a recognized religious sect or division thereof described in section 1402(g)(1) and an adherent of established tenets or teachings of such sect or division as described in such section, and has filed and had approved under subsection (b) an application (in such form and manner, and with such official, as may be prescribed by such regulations) for an exemption from the taxes imposed by section 3111, and

“(2) an employee of such employer who is also a member of such a religious sect or division and an adherent of its established tenets or teachings has filed and had approved under

subsection (b) an identical application for exemption from the taxes imposed by section 3101, such employer shall be exempt from the taxes imposed by section 3111 with respect to wages paid to each of his employees who meets the requirements of paragraph (2) and each such employee shall be exempt from the taxes imposed by section 3101 with respect to such wages paid to him by such employer.

“(b) APPROVAL OF APPLICATION.—An application for exemption filed by an employer under subsection (a)(1) or by an employee under subsection (a)(2) shall be approved only if—

“(1) such application contains or is accompanied by the evidence described in section 1402(g)(1)(A) and a waiver described in section 1402(g)(1)(B),

“(2) the Secretary of Health and Human Services makes the findings (with respect to such sect or division) described in section 1402(g)(1) (C), (D), and (E), and

“(3) no benefit or other payment referred to in section 1402(g)(1)(B) became payable (or, but for section 203 or 222(b) of the Social Security Act, would have become payable) to the individual filing the application at or before the time of such filing.

“(c) EFFECTIVE PERIOD OF EXEMPTION.—An exemption granted under this section to any employer with respect to wages paid to any of his employees, or granted to any such employee, shall apply with respect to wages paid by such employer during the period—

“(1) commencing with the first day of the first calendar quarter, after the quarter in which such application is filed, throughout which such employer or employee meets the applicable requirements specified in subsections (a) and (b), and

“(2) ending with the last day of the calendar quarter preceding the first calendar quarter thereafter in which (A) such employer or the employee involved ceases to meet the applicable requirements of subsection (a), or (B) the sect or division thereof of which such employer or employee is a member is found by the Secretary of Health and Human Services to have ceased to meet the requirements of subsection (b)(2).”

(2) CLERICAL AMENDMENT.—The table of sections for such subchapter C of such Code is amended by striking the last item and inserting the following:

“Sec. 3127 Exemption for employers and their employees where both are members of religious faiths opposed to participation in Social Security Act programs.

“Sec. 3128. Short title.”

(b) CONFORMING EXEMPTION FROM ELIGIBILITY FOR BENEFITS.—Section 202(v) of the Social Security Act (42 U.S.C. 402(v)) is amended—

(1) by inserting “(1)” after “(v)”;

(2) by inserting “and subject to paragraph (3),” after “title,”;

(3) by striking “waiver; except that” and all that follows and inserting “waiver.”; and

(4) by adding at the end the following new paragraphs:

“(2) Notwithstanding any other provision of this title, and subject to paragraph (3), in the case of any individual who files a waiver pursuant to section 3127 of the Internal Revenue Code of 1986 and is granted a tax exemption thereunder, no benefits or other payments shall be payable under this title to him, no payments shall be made on his behalf under part A of title XVIII, and no benefits or other

payments under this title shall be payable on the basis of his wages and self-employment income to any other person, after the filing of such waiver.

“(3) If, after an exemption referred to in paragraph (1) or (2) is granted to an individual, such exemption ceases to be effective, the waiver referred to in such paragraph shall cease to be applicable in the case of benefits and other payments under this title and part A of title XVIII to the extent based on—

“(A) his wages for and after the calendar year following the calendar year in which occurs the failure to meet the requirements of section 1402(g) or 3127 on which the cessation of such exemption is based, and

“(B) his self-employment income for and after the taxable year in which occurs such failure.”

(c) CONFORMING AMENDMENTS REMOVING TIME LIMITS ON SECA EXEMPTION APPLICATIONS.—Section 1402(g) of the Internal Revenue Code of 1986 is amended—

(1) by striking paragraphs (2) and (4); and

(2) by redesignating paragraphs (3) and (5) as paragraphs (2) and (3), respectively.

(d) EFFECTIVE DATES.—The amendments made by subsection (a) shall apply to wages paid after December 31, 1988. The amendments made by subsection (b) shall apply to benefits paid for (and items and services furnished in) months after December 1988. The amendments made by subsection (c) shall apply to applications for exemptions filed on or after the date of the enactment of this Act.

26 USC 1402
note.

SEC. 8008. BLOOD DONOR LOCATOR SERVICE.

(a) EXPLICIT AUTHORIZATION OF USE OF SOCIAL SECURITY ACCOUNT NUMBER TO ASSIST IN IDENTIFICATION OF BLOOD DONORS.—Section 205(c)(2) of the Social Security Act (42 U.S.C. 405(c)(2)) is amended—

(1) by redesignating subparagraph (D) as subparagraph (E); and

(2) by inserting after subparagraph (C) the following new subparagraph:

“(D)(i) It is the policy of the United States that—

“(I) any State (or any political subdivision of a State) and any authorized blood donation facility may utilize the social security account numbers issued by the Secretary for the purpose of identifying blood donors, and

“(II) any State (or political subdivision of a State) may require any individual who donates blood within such State (or political subdivision) to furnish to such State (or political subdivision), to any agency thereof having related administrative responsibility, or to any authorized blood donation facility the social security account number (or numbers, if the donor has more than one such number) issued to the donor by the Secretary.

“(ii) If and to the extent that any provision of Federal law enacted before the date of the enactment of this subparagraph is inconsistent with the policy set forth in clause (i), such provision shall, on and after such date, be null, void, and of no effect.

“(iii) For purposes of this subparagraph—

“(I) the term ‘authorized blood donation facility’ means an entity described in section 1141(h)(1)(B), and

“(II) the term ‘State’ includes the District of Columbia, the Commonwealth of Puerto Rico, the Virgin Islands, Guam, the

Commonwealth of the Northern Marianas, and the Trust Territory of the Pacific Islands.”

(b) **ESTABLISHMENT OF BLOOD DONOR LOCATOR SERVICE.—**

(1) **IN GENERAL.**—Part A of title XI of such Act (42 U.S.C. 1301 et seq.) is amended by adding at the end the following new section:

“**BLOOD DONOR LOCATOR SERVICE**

“**SEC. 1141. (a) IN GENERAL.**—The Secretary shall establish and conduct a Blood Donor Locator Service, under the direction of the Commissioner of Social Security, which shall be used to obtain and transmit to any authorized person (as defined in subsection (h)(1)) the most recent mailing address of any blood donor who, as indicated by the donated blood or products derived therefrom or by the history of the subsequent use of such blood or blood products, has or may have the virus for acquired immune deficiency syndrome, in order to inform such donor of the possible need for medical care and treatment.

“(b) **PROVISION OF ADDRESS INFORMATION.**—Whenever the Secretary receives a request, filed by an authorized person (as defined in subsection (h)(1)), for the mailing address of a donor described in subsection (a) and the Secretary is reasonably satisfied that the requirements of this section have been met with respect to such request, the Secretary shall promptly undertake to provide the requested address information from—

“(1) the files and records maintained by the Social Security Administration, and

“(2) such files and records obtained pursuant to section 6103(m)(6) of the Internal Revenue Code of 1986 as the Secretary considers necessary to comply with such request.

“(c) **MANNER AND FORM OF REQUESTS.**—A request for address information under this section shall be filed in such manner and form as the Secretary shall by regulation prescribe, shall include the blood donor’s social security account number, and shall be accompanied or supported by such documents as the Secretary may determine to be necessary.

“(d) **PROCEDURES AND SAFEGUARDS.**—Any authorized person shall, as a condition for receiving address information from the Blood Donor Locator Service—

“(1) establish and maintain, to the satisfaction of the Secretary, a system for standardizing records with respect to any request, the reason for such request, and the date of such request made by or of it and any disclosure of address information made by or to it,

“(2) establish and maintain, to the satisfaction of the Secretary, a secure area or place in which such address information and all related blood donor records shall be stored,

“(3) restrict, to the satisfaction of the Secretary, access to the address information and related blood donor records only to persons whose duties or responsibilities require access and to whom disclosure may be made under the provisions of this section,

“(4) provide such other safeguards which the Secretary determines (and which the Secretary prescribes in regulations) to be necessary or appropriate to protect the confidentiality of the address information and related blood donor records,

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1320b-11.

Regulations.

Records.
Classified
information.

“(5) furnish a report to the Secretary, at such time and containing such information as the Secretary may prescribe, which describes the procedures established and utilized by the authorized person for ensuring the confidentiality of address information and related blood donor records required under this subsection, and

Reports.

“(6) destroy such address information and related blood donor records, upon completion of their use in providing the notification for which the information was obtained, so as to make such information and records undisclosable.

If the Secretary determines that any authorized person has failed to, or does not, meet the requirements of this subsection, the Secretary may, after any proceedings for review established under subsection (f), take such actions as are necessary to ensure such requirements are met, including refusing to disclose address information to such authorized person until the Secretary determines that such requirements have been or will be met. In the case of any authorized person who discloses any address information received pursuant to this section or any related blood donor records to any agent, this subsection shall apply to such authorized person and each such agent (except that, in the case of an agent, any report to the Secretary or other action with respect to the Secretary shall be made or taken through such authorized person). The Secretary shall destroy all related blood donor records in the possession of the Department of Health and Human Services upon completion of their use in transmitting mailing addresses as required under subsection (a), so as to make such records undisclosable.

“(e) ARRANGEMENTS WITH STATE AGENCIES AND AUTHORIZED PERSONS.—The Secretary, in carrying out the Secretary’s duties and functions under this section, shall enter into arrangements—

“(1) with State agencies to accept and to transmit to the Secretary requests for address information under this section and to accept and to transmit such information to authorized persons, and

“(2) with State agencies and authorized persons otherwise to cooperate with the Secretary in carrying out the purposes of this section.

“(f) PROCEDURES FOR ADMINISTRATIVE REVIEW.—The Secretary shall by regulation prescribe procedures which provide for administrative review of any determination that any authorized person has failed to meet the requirements of this section.

Regulations.

“(g) UNAUTHORIZED DISCLOSURE OF INFORMATION.—Paragraphs (1), (2), and (3) of section 7213(a) of the Internal Revenue Code of 1986 shall apply with respect to the unauthorized willful disclosure to any person of address information or related blood donor records acquired or maintained by or under the Secretary, or pursuant to this section by any authorized person, or of information derived from any such address information or related blood donor records, in the same manner and to the same extent as such paragraphs apply with respect to unauthorized disclosures of return and return information described in such paragraphs. Paragraph (4) of section 7213(a) of such Code shall apply with respect to the willful offer of any item of material value in exchange for any such address information or related blood donor record in the same manner and to the same extent as such paragraph applies with respect to offers (in exchange for any return or return information) described in such paragraph.

“(h) DEFINITIONS.—For purposes of this section—

“(1) AUTHORIZED PERSON.—The term ‘authorized person’ means—

“(A) any agency of a State (or of a political subdivision of a State) which has duties or authority under State law relating to the public health or otherwise has the duty or authority under State law to regulate blood donations, and

“(B) any entity engaged in the acceptance of blood donations which is licensed or registered by the Food and Drug Administration in connection with the acceptance of such blood donations, and which, in accordance with such regulations as may be prescribed by the Secretary, provides for—

“(i) the confidentiality of any address information received pursuant to this section and related blood donor records,

“(ii) blood donor notification procedures for individuals with respect to whom such information is requested and a finding has been made that they have or may have the virus for acquired immune deficiency syndrome, and

“(iii) counseling services for such individuals who have been found to have such virus.

“(2) RELATED BLOOD DONOR RECORD.—The term ‘related blood donor record’ means any record, list, or compilation which indicates, directly or indirectly, the identity of any individual with respect to whom a request for address information has been made pursuant to this section.

“(3) STATE.—The term ‘State’ includes the District of Columbia, the Commonwealth of Puerto Rico, the Virgin Islands, Guam, the Commonwealth of the Northern Marianas, and the Trust Territory of the Pacific Islands.”

(2) TIME LIMIT FOR ESTABLISHMENT OF BLOOD DONOR LOCATOR SERVICE.—The Secretary of Health and Human Services shall establish the Blood Donor Locator Service pursuant to section 1141 of the Social Security Act not later than 180 days after the date of the enactment of this Act.

(c) DISCLOSURE OF TAXPAYER ADDRESSES TO BLOOD DONOR LOCATOR SERVICE.—

(1) IN GENERAL.—Subsection (m) of section 6103 of the Internal Revenue Code of 1986 (relating to disclosure of taxpayer identity information) is amended by adding at the end the following new paragraph:

“(6) BLOOD DONOR LOCATOR SERVICE.—

“(A) IN GENERAL.—Upon written request pursuant to section 1141 of the Social Security Act, the Secretary shall disclose the mailing address of taxpayers to officers and employees of the Blood Donor Locator Service in the Department of Health and Human Services.

“(B) RESTRICTION ON DISCLOSURE.—The Secretary shall disclose return information under subparagraph (A) only for purposes of, and to the extent necessary in, assisting under the Blood Donor Locator Service authorized persons (as defined in section 1141(h)(1) of the Social Security Act) in locating blood donors who, as indicated by donated blood or products derived therefrom or by the history of the subsequent use of such blood or blood products, have or may have the virus for acquired immune deficiency syndrome,

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note.

in order to inform such donors of the possible need for medical care and treatment.

“(C) **SAFEGUARDS.**—The Secretary shall destroy all related blood donor records (as defined in section 1141(h)(2) of the Social Security Act) in the possession of the Department of the Treasury upon completion of their use in making the disclosure required under subparagraph (A), so as to make such records undisclosable.”

(2) **SAFEGUARDS.**—

(A) **IN GENERAL.**—Paragraph (4) of section 6103(p) of such Code (relating to safeguards) is amended—

(i) in subparagraph (F)—

(I) by striking “manner; and” at the end of clause

(i) and inserting “manner,”;

(II) by adding “and” at the end of clause (ii)(III);

and

(III) by inserting after clause (ii)(III) the following new clause:

“(iii) in the case of the Department of Health and Human Services for purposes of subsection (m)(6), destroy all such return information upon completion of its use in providing the notification for which the information was obtained, so as to make such information undisclosable;”;

(ii) in the last sentence, by striking “subsection (m)(2) or (4)” and inserting “subsection (m) (2), (4), or (6)”; and

(iii) by adding at the end the following new sentence: “For purposes of applying this paragraph in any case to which subsection (m)(6) applies, the term ‘return information’ includes related blood donor records (as defined in section 1141(h)(2) of the Social Security Act).”

(B) **CONFORMING AMENDMENT.**—Paragraph (2) of section 7213(a) of such Code (relating to unauthorized disclosure of returns and return information) is amended by striking “(m) (2) or (4)” and inserting “(m) (2), (4), or (6)”.

SEC. 8009. REQUIREMENT OF SOCIAL SECURITY ACCOUNT NUMBER AS A CONDITION FOR RECEIPT OF SOCIAL SECURITY BENEFITS.

(a) **IN GENERAL.**—Section 205(c)(2) of the Social Security Act (42 U.S.C. 405(c)(2)) is amended—

(1) in subparagraph (B)(i) in the matter preceding subclause (I), by inserting “and subparagraph (E)” after “subparagraph (A)”;

(2) by redesignating subparagraph (E) (as redesignated by section 8008(a)(1)) as subparagraph (F); and

(3) by inserting after subparagraph (D) (as added by section 8008(a)(2)) the following new subparagraph:

“(E) The Secretary shall require, as a condition for receipt of benefits under this title, that an individual furnish satisfactory proof of a social security account number assigned to such individual by the Secretary or, in the case of an individual to whom no such number has been assigned, that such individual make proper application for assignment of such a number.”

(b) **EFFECTIVE DATE.**—The amendments made by this section shall apply to benefits entitlement to which commences after the sixth month following the month in which this Act is enacted.

42 USC 405 note.

SEC. 8010. SUBSTITUTION OF CERTIFICATE OF ELECTION FOR APPLICATION TO ESTABLISH ENTITLEMENT FOR CERTAIN REDUCED WIDOW'S AND WIDOWER'S BENEFITS.

(a) WIDOW'S INSURANCE BENEFITS.—Section 202(e) of the Social Security Act (42 U.S.C. 402(e)) is amended—

(1) by redesignating paragraph (1)(C)(ii) as paragraph (1)(C)(iii);

(2) by striking paragraph (1)(C)(i) and inserting the following:

“(C)(i) has filed application for widow's insurance benefits,

“(ii) was entitled to wife's insurance benefits, on the basis of the wages and self-employment income of such individual, for the month preceding the month in which such individual died, and—

“(I) has attained retirement age (as defined in section 216(1)),

“(II) is not entitled to benefits under subsection (a) or section 223, or

“(III) has in effect a certificate (described in paragraph (8)) filed by her with the Secretary, in accordance with regulations prescribed by the Secretary, in which she elects to receive widow's insurance benefits (subject to reduction as provided in subsection (q)), or”; and

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

“(8) Any certificate filed pursuant to paragraph (1)(C)(ii)(III) shall be effective for purposes of this subsection—

“(A) for the month in which it is filed and for any month thereafter, and

“(B) for months, in the period designated by the individual filing such certificate, of one or more consecutive months (not exceeding 12) immediately preceding the month in which such certificate is filed;

except that such certificate shall not be effective for any month before the month in which she attains age 62.”.

(b) WIDOWER'S INSURANCE BENEFITS.—Section 202(f) of such Act (42 U.S.C. 402(f)) is amended—

(1) by redesignating paragraph (1)(C)(ii) as paragraph (1)(C)(iii);

(2) by striking paragraph (1)(C)(i) and inserting the following:

“(C)(i) has filed application for widower's insurance benefits,

“(ii) was entitled to husband's insurance benefits, on the basis of the wages and self-employment income of such individual, for the month preceding the month in which such individual died, and—

“(I) has attained retirement age (as defined in section 216(1)),

“(II) is not entitled to benefits under subsection (a) or section 223, or

“(III) has in effect a certificate (described in paragraph (8)) filed by him with the Secretary, in accordance with regulations prescribed by the Secretary, in which he elects to receive widower's insurance benefits (subject to reduction as provided in subsection (q)), or”; and

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

“(8) Any certificate filed pursuant to paragraph (1)(C)(ii)(III) shall be effective for purposes of this subsection—

“(A) for the month in which it is filed and for any month thereafter, and

“(B) for months, in the period designated by the individual filing such certificate, of one or more consecutive months (not exceeding 12) immediately preceding the month in which such certificate is filed;

except that such certificate shall not be effective for any month before the month in which he attains age 62.”

(c) **EFFECTIVE DATE.**—The amendments made by this section shall apply to benefits payable under section 202(e) or section 202(f) of the Social Security Act on the basis of the wages and self-employment income of an individual who dies after the month in which this Act is enacted.

42 USC 402 note.

SEC. 8011. CALCULATION OF THE WINDFALL BENEFIT GUARANTEE AMOUNT BASED ON PENSION AMOUNTS PAYABLE IN THE FIRST MONTH OF CONCURRENT ENTITLEMENT RATHER THAN CONCURRENT ELIGIBILITY.

(a) **IN GENERAL.**—Section 215(a)(7) of the Social Security Act (42 U.S.C. 415(a)(7)) is amended—

(1) in subparagraph (A), by striking “with respect to the initial month in which the individual becomes eligible for such benefits”;

(2) in the second sentence of subparagraph (B)(i), by striking “eligibility for old-age or disability insurance benefits” and inserting “concurrent entitlement to such monthly periodic payment and old-age or disability insurance benefits”; and

(3) in subparagraph (C), by striking clause (iii) and redesignating clause (iv) as clause (iii).

(b) **CONFORMING AMENDMENT.**—Section 215(d)(5)(ii) of such Act (42 U.S.C. 415(d)(5)(ii)) is amended by striking “his or her eligibility for old-age or disability insurance benefits” and inserting “such concurrent entitlement”.

(c) **EFFECTIVE DATE.**—The amendments made by this section shall apply to benefits based on applications filed after the month in which this Act is enacted.

42 USC 415 note.

SEC. 8012. CONSOLIDATION OF REPORTS ON CONTINUING DISABILITY REVIEWS.

(a) **IN GENERAL.**—Section 221(i)(3) of the Social Security Act (42 U.S.C. 421(i)(3)) is amended by striking “semiannually” and inserting “annually”.

(b) **EFFECTIVE DATE.**—The amendment made by this section shall apply to reports required to be submitted after the date of the enactment of this Act.

42 USC 421 note.

SEC. 8013. EXCLUSION OF EMPLOYEES SEPARATED FROM EMPLOYMENT BEFORE JANUARY 1, 1989, FROM RULE INCLUDING AS WAGES TAXABLE UNDER FICA CERTAIN PAYMENTS FOR GROUP-TERM LIFE INSURANCE.

(a) **IN GENERAL.**—Subsection (b) of section 9003 of the Omnibus Budget Reconciliation Act of 1987 (101 Stat. 1330-287) is amended by striking “December 31, 1987.” and inserting “December 31, 1987, except that such amendments shall not apply with respect to payments by the employer (or a successor of such employer) for group-term life insurance for such employer’s former employees who separated from employment with the employer on or before Decem-

26 USC 3121 note.

ber 31, 1988, to the extent that such payments are not for coverage for any such employee for any period for which such employee is employed by such employer (or a successor of such employer) after the date of such separation.”

26 USC 3121
note.

(b) **EFFECTIVE DATE.**—The amendment made by subsection (a) shall apply as if such amendment had been included or reflected in section 9003(b) of the Omnibus Budget Reconciliation Act of 1987 at the time of its enactment.

SEC. 8014. CLARIFICATION OF APPLICABILITY OF GOVERNMENT PENSION OFFSET TO CERTAIN FEDERAL EMPLOYEES.

(a) **CLARIFICATION OF TREATMENT OF FOREIGN SERVICE RETIREES.**—Subsections (b)(4)(A)(ii)(II), (c)(2)(A)(ii)(II), (e)(7)(A)(ii)(II), (f)(2)(A)(ii)(II), and (g)(4)(A)(ii)(II) of section 202 of the Social Security Act (42 U.S.C. 402 (b)(4)(A)(ii)(II), (c)(2)(A)(ii)(II), (e)(7)(A)(ii)(II), (f)(2)(A)(ii)(II), (g)(4)(A)(ii)(II)) are each amended by striking “chapter 84 of title 5, United States Code,” and inserting “the Federal Employees’ Retirement System provided in chapter 84 of title 5, United States Code, or the Foreign Service Pension System provided in subchapter II of chapter 8 of title I of the Foreign Service Act of 1980”.

42 USC 402 note.

(b) **TREATMENT OF EMPLOYEES WHOSE FEDERAL EMPLOYMENT TERMINATED AFTER MAKING AN ELECTION INTO SOCIAL SECURITY COVERAGE BUT BEFORE THE EFFECTIVE DATE OF THE ELECTION.**—Subsections (b)(4)(A)(i), (c)(2)(A)(i), (e)(7)(A)(i), (f)(2)(A)(i), and (g)(4)(A)(i) of section 202 of the Social Security Act (42 U.S.C. 402 (b)(4)(A)(i), (c)(2)(A)(i), (e)(7)(A)(i), (f)(2)(A)(i), (g)(4)(A)(i)) shall not apply with respect to monthly periodic benefits of any individual based solely on service which was performed while in the service of the Federal Government if—

(1) such person made, before January 1, 1988, an election pursuant to law to become subject to the Federal Employees’ Retirement System provided in chapter 84 of title 5, United States Code, or the Foreign Service Pension System provided in subchapter II of chapter 8 of title I of the Foreign Service Act of 1980 (or such person made such an election on or after January 1, 1988, and before July 1, 1988, pursuant to regulations of the Office of Personnel Management relating to belated elections and correction of administrative errors (5 CFR 846.204) as in effect on the date of the enactment of this Act), and

(2) such service terminated before the date on which such election became effective.

42 USC 402 note.

(c) **EFFECTIVE DATE.**—The preceding provisions of this section (including the amendments made by subsection (a)) shall apply as if they had been included or reflected in the provisions of section 9007 of the Omnibus Budget Reconciliation Act of 1987 (101 Stat. 1330-289) at the time of its enactment.

SEC. 8015. AMENDMENTS TO RULES GOVERNING SOCIAL SECURITY COVERAGE OF FEDERAL EMPLOYMENT.

(a) **CLARIFICATION OF AUTHORITY TO MAKE DETERMINATIONS CONCERNING THE SOCIAL SECURITY COVERAGE OF FEDERAL EMPLOYEES.**—

(1) **AMENDMENTS TO THE SOCIAL SECURITY ACT.**—Section 205(p)(1) of the Social Security Act (42 U.S.C. 405(p)(1)) is amended—

(A) by striking “whether an individual has performed such service, the periods of such service,” in the first sentence;

(B) by striking “which constitute wages under the provisions of section 209” in the first sentence;

(C) by striking “wages were” in the first sentence and inserting “remuneration was”; and

(D) by adding at the end the following new sentence: “Nothing in this paragraph shall be construed to affect the Secretary’s authority to determine under sections 209 and 210 whether any such service constitutes employment, the periods of such employment, and whether remuneration paid for any such service constitutes wages.”

(2) AMENDMENTS TO FICA.—Section 3122 of the Internal Revenue Code of 1986 (relating to Federal service) is amended—

(A) by striking “the determination whether an individual has performed service which constitutes employment as defined in section 3121(b),” in the first sentence;

(B) by striking “which constitutes wages as defined in section 3121(a)” in the first sentence; and

(C) by inserting after the first sentence the following new sentence: “Nothing in this paragraph shall be construed to affect the Secretary’s authority to determine under subsections (a) and (b) of section 3121 whether any such service constitutes employment, the periods of such employment, and whether remuneration paid for any such service constitutes wages.”

(3) EFFECTIVE DATE.—The amendments made by paragraphs (1) and (2) shall apply to determinations relating to service commenced in any position on or after the date of the enactment of this Act.

26 USC 3122
note.

(b) CLARIFICATION OF TREATMENT OF SERVICE COVERED UNDER THE FOREIGN SERVICE PENSION SYSTEM.—

(1) AMENDMENT TO THE SOCIAL SECURITY ACT.—Subparagraph (H) of section 210(a)(5) of the Social Security Act (42 U.S.C. 410(a)(5)(H)) is amended to read as follows:

“(H) service performed by an individual—

“(i) on or after the effective date of an election by such individual, under section 301 of the Federal Employees’ Retirement System Act of 1986 or section 307 of the Central Intelligence Agency Retirement Act of 1964 for Certain Employees, to become subject to the Federal Employees’ Retirement System provided in chapter 84 of title 5, United States Code, or

“(ii) on or after the effective date of an election by such individual, under regulations issued under section 860 of the Foreign Service Act of 1980, to become subject to the Foreign Service Pension System provided in subchapter II of chapter 8 of title I of such Act;”

(2) AMENDMENT TO FICA.—Subparagraph (H) of section 3121(b)(5) of the Internal Revenue Code of 1986 (relating to employment) is amended to read as follows:

“(H) service performed by an individual—

“(i) on or after the effective date of an election by such individual, under section 301 of the Federal Employees’ Retirement System Act of 1986 or section 307 of the Central Intelligence Agency Retirement Act

of 1964 for Certain Employees, to become subject to the Federal Employees' Retirement System provided in chapter 84 of title 5, United States Code, or

“(ii) on or after the effective date of an election by such individual, under regulations issued under section 860 of the Foreign Service Act of 1980, to become subject to the Foreign Service Pension System provided in subchapter II of chapter 8 of title I of such Act;”.

26 USC 3121
note.

(3) **EFFECTIVE DATE.**—The amendments made by this subsection shall apply as if such amendments had been included or reflected in section 304 of the Federal Employees' Retirement System Act of 1986 (100 Stat. 606) at the time of its enactment.

(c) **CONTINUATION OF SOCIAL SECURITY COVERAGE OF FEDERAL SERVICE AFTER ANY INITIAL COVERAGE OF SUCH SERVICE.**—

(1) **AMENDMENT TO THE SOCIAL SECURITY ACT.**—Paragraph (5) of section 210(a) of the Social Security Act (42 U.S.C. 410(a)(5)) is amended, in the matter following subparagraph (B)(ii), by inserting after “with respect to” the following: “any such service performed on or after any date on which such individual performs”.

(2) **AMENDMENT TO FICA.**—Paragraph (5) of section 3121(b) of the Internal Revenue Code of 1986 (relating to employment) is amended, in the matter following subparagraph (B)(ii), by inserting after “with respect to” the following: “any such service performed on or after any date on which such individual performs”.

26 USC 3121
note.

(3) **EFFECTIVE DATE.**—The amendments made by this subsection shall apply to any individual only upon the performance by such individual of service described in subparagraph (C), (D), (E), (F), (G), or (H) of section 210(a)(5) of the Social Security Act (42 U.S.C. 410(a)(5)) on or after the date of the enactment of this Act.

SEC. 8016. TECHNICAL CORRECTIONS IN OASDI PROVISIONS.

(a) **TECHNICAL CORRECTIONS.**—(1) Section 205(c)(2)(C)(iii) of the Social Security Act is amended by striking “the Social Security Act” and inserting “this Act”.

(2) Section 211(a)(7) of such Act (as amended by section 9023(b)(1) of Public Law 100-203) is amended by inserting “of the Internal Revenue Code of 1986” before the semicolon at the end.

(3)(A) Subsection (d) of section 3121 of the Internal Revenue Code of 1986 (as amended by section 9002(b)(2) of Public Law 99-509) is amended—

(i) by redesignating paragraph (3) as paragraph (4), by striking “; or” at the end of such paragraph and inserting a period, and by moving such paragraph (as so redesignated and amended) to the end of the subsection; and

(ii) by redesignating paragraph (4) as paragraph (3), and by striking the period at the end and inserting “; or”.

(B) Section 3306(i) of such Code (as amended by section 9002(b)(2) of Public Law 99-509) is amended by striking “paragraph (3) and subparagraphs (B) and (C) of paragraph (4)” and inserting “paragraph (4) and subparagraphs (B) and (C) of paragraph (3)”.

26 USC 3121.

(4) Section 13303(c)(2) of Public Law 99-272 is amended—
(A) by striking “312(b)” and inserting “3121(b)”;

(B) by striking "is amended" and inserting " , and paragraph (20) of section 210(a) of the Social Security Act, are each amended"; and

42 USC 410.

(C) by striking "after 'service' " and inserting "before 'performed' " .

26 USC 3121;
42 USC 410.

(5) Section 9006(b)(1) of Public Law 100-203 is amended by striking "3111(a)" and inserting "3111" .

26 USC 3111.

(b) **EFFECTIVE DATE.**—(1) Except as provided in paragraph (2), the amendments made by this section shall be effective on the date of the enactment of this Act.

26 USC 3111
note.

(2) Any amendment made by this section to a provision of a particular Public Law which is referred to by its number, or to a provision of the Social Security Act or the Internal Revenue Code of 1986 as added or amended by a provision of a particular Public Law which is so referred to, shall be effective as though it had been included or reflected in the relevant provisions of that Public Law at the time of its enactment.

SEC. 8017. CERTAIN CASH WAGES PAID TO SEASONAL AGRICULTURAL LABORERS EXCLUDED FROM OASDI COVERAGE.

(a) **SOCIAL SECURITY ACT AMENDMENT.**—Paragraph (2) of section 209(h) of the Social Security Act is amended to read as follows:

42 USC 409.

"(2) Cash remuneration paid by an employer in any calendar year to an employee for agricultural labor unless—

"(A) the cash remuneration paid in such year by the employer to the employee for such labor is \$150 or more, or

"(B) the employer's expenditures for agricultural labor in such year equal or exceed \$2,500,

except that subparagraph (B) shall not apply in determining whether remuneration paid to an employee constitutes 'wages' under this section if such employee (i) is employed as a hand harvest laborer and is paid on a piece rate basis in an operation which has been, and is customarily and generally recognized as having been, paid on a piece rate basis in the region of employment, (ii) commutes daily from his permanent residence to the farm on which he is so employed, and (iii) has been employed in agriculture less than 13 weeks during the preceding calendar year;" .

(b) **FICA AMENDMENT.**—Subparagraph (B) of section 3121(a)(8) of the 1986 Code (relating to wages) is amended to read as follows:

"(B) cash remuneration paid by an employer in any calendar year to an employee for agricultural labor unless—

"(i) the cash remuneration paid in such year by the employer to the employee for such labor is \$150 or more, or

"(ii) the employer's expenditures for agricultural labor in such year equal or exceed \$2,500,

except that clause (ii) shall not apply in determining whether remuneration paid to an employee constitutes 'wages' under this section if such employee (I) is employed as a hand harvest laborer and is paid on a piece rate basis in an operation which has been, and is customarily and generally recognized as having been, paid on a piece rate basis in the region of employment, (II) commutes daily from his permanent residence to the farm on which he is so employed, and (III) has been employed in agriculture less than 13 weeks during the preceding calendar year;" .

26 USC 3121
note.

(c) **EFFECTIVE DATE.**—The amendments made by this section shall take effect as if included in the amendments made by section 9002 of the Omnibus Budget Reconciliation Act of 1987.

26 USC 3121
note.

SEC. 8018. CERTAIN EMPLOYER PENSION CONTRIBUTIONS NOT INCLUDED IN FICA WAGE BASE.

In the case of any State (within the meaning of section 3121(e)(1) of the Internal Revenue Code of 1986) or political subdivision thereof which received a letter ruling of the Internal Revenue Service issued after December 31, 1983, and before the date of the enactment of this Act maintaining that any amount treated as an employer contribution under section 414(h)(2) of the Internal Revenue Code of 1986 is excluded from the definition of “wages” for purposes of tax liability under section 3121(v)(1)(B) of such Code, such State or political subdivision shall be relieved of any liability for taxes under such section 3121(v)(1)(B) which, in good faith reliance on such letter ruling, were not paid and which would otherwise have been required to be paid (but for this section) on or before the earlier of the date of the enactment of this Act or the date of the receipt of a notice of revocation from the Internal Revenue Service of such letter ruling.

AIDS.

SEC. 8019. REPORTS REGARDING CERTAIN DISABILITY-RELATED BENEFITS.

(a) **ELIGIBILITY FOR BENEFITS.**—Not later than 180 days after the date of the enactment of this Act, the Secretary of Health and Human Services shall submit to the Committee on Ways and Means of the House of Representatives and the Committee on Finance of the Senate a report providing information on—

(1) the number of individuals with the complex related to acquired immune deficiency syndrome (hereinafter in this section referred to as “AIDS-related complex”) who have made application for disability-related benefits under titles II and XVI of the Social Security Act during fiscal years 1988, 1987, and, to the extent feasible, 1986;

(2) the number of such applications approved, denied (by reason of denial), and reversed upon appeal;

(3) the rates of allowance and denial of such applications by State and region, to the extent feasible;

(4) the criteria, guidelines, or other information used to determine eligibility (including copies of the documents setting forth such criteria, guidelines, and information) including information about any changes in criteria that are under consideration;

(5) the total costs of disability-related benefits provided to individuals with AIDS-related complex during fiscal years 1988, 1987, and to the extent feasible, 1986; and

(6) to the extent available, the projected number of such applications that will likely be approved and denied and the estimated costs of such benefits for the next 3 fiscal years.

(b) **COORDINATION OF FEDERAL AND STATE DISABILITY PROGRAMS.**—Not later than 180 days after the date of the enactment of this Act, the Secretary of Health and Human Services shall submit to the Committee on Ways and Means of the House of Representatives and the Committee on Finance of the Senate a report describing what arrangements, if any, now exist to provide for coordination between the Social Security Administration and State disability agencies with respect to the provision of disability-related benefits under titles II and XVI of the Social Security Act and State disability

insurance programs to individuals with acquired immune deficiency syndrome or AIDS-related complex and to make such individuals applying for any such benefits aware of the full range of Federal and State disability-related benefits for which such individuals may be eligible.

Subtitle B—Public Assistance Provisions

SEC. 8101. EXTENSION OF PROHIBITION AGAINST IMPLEMENTATION OF CERTAIN PROPOSED REGULATIONS.

Section 9118 of the Omnibus Budget Reconciliation Act of 1987 (42 U.S.C. 1383c) is amended by striking "October 1, 1988" and inserting "September 30, 1989".

SEC. 8102. REVIEW OF POLICY GOVERNING USE OF AFDC FUNDS TO MEET EMERGENCY NEEDS OF FAMILIES ELIGIBLE FOR AFDC THROUGH EMERGENCY ASSISTANCE OR SPECIAL NEEDS PAYMENTS; REPORT TO CONGRESS.

(a) **REVIEW OF POLICY.**—The Secretary of Health and Human Services shall review the policies in effect, as of the date of the enactment of this section, with respect to the use by States of amounts paid to such States under the program of aid to families with dependent children under part A of title IV of the Social Security Act, in the form of payments of aid to meet special needs or emergency assistance under section 406(e) of such Act to meet emergency needs of families who are eligible for such aid.

(b) **REPORT TO CONGRESS.**—Not later than July 1, 1989, the Secretary of Health and Human Services shall submit to the Congress a report containing recommendations for legislative and regulatory changes designed to—

(1) improve the ability of the program of aid to families with dependent children under part A of title IV of the Social Security Act to respond to emergency needs of families who are eligible for such aid; and

(2) eliminate the use of funds provided to States under such program to pay for the provision of shelter in commercial or similar transient facilities.

SEC. 8103. DISREGARD OF CERTAIN HOUSING ASSISTANCE PAYMENTS IN DETERMINING INCOME AND RESOURCES UNDER SSI PROGRAM.

(a) **INCOME.**—Section 1612(b) of the Social Security Act is amended— 42 USC 1382a.

(1) by striking "and" after the semicolon at the end of paragraph (12);

(2) by striking the period at the end of paragraph (13) and inserting "; and"; and

(3) by adding after paragraph (13) the following new paragraph:

"(14) assistance paid, with respect to the dwelling unit occupied by such individual (or such individual and spouse), under the United States Housing Act of 1937, the National Housing Act, section 101 of the Housing and Urban Development Act of 1965, title V of the Housing Act of 1949, or section 202(h) of the Housing Act of 1959."

(b) **RESOURCES.**—Section 1613(a) of such Act is amended— 42 USC 1382b.

(1) by striking "and" after the semicolon at the end of paragraph (6);

(2) by striking the period at the end of paragraph (7) and inserting "; and"; and

(3) by inserting after paragraph (7) the following new paragraph:

"(8) the value of assistance referred to in section 1612(b)(14), paid with respect to the dwelling unit occupied by such individual (or such individual and spouse)."

42 USC 1382a
note.

(c) **EFFECTIVE DATE.**—The amendments made by this section shall be effective as though they had been included in section 162 of the Housing and Community Development Act of 1987 at the time of its enactment.

SEC. 8104. FOSTER CARE INDEPENDENT LIVING INITIATIVES.

(a) **EXTENSION OF INDEPENDENT LIVING PROGRAM.**—Section 477 of the Social Security Act (42 U.S.C. 677) is amended—

(1) by striking "1987 and 1988" in subsections (a) and (e)(1) and inserting "1987, 1988, and 1989";

(2) by striking "for fiscal year 1988" and all that follows in subsection (c) and inserting "for the fiscal year 1988 or 1989, such description and assurances must be submitted prior to February 1 of such fiscal year.";

(3) by striking "Not later than March 1, 1988" in subsection (g)(1) and inserting "Not later than the first January 1 following the end of each fiscal year";

(4) by inserting "during such fiscal year" in subsection (g)(1) after "carried out";

(5) by striking "(2) Not later than July 1, 1988," in subsection (g)(2) and inserting the following:

"(2)(A) Not later than July 1, 1988, the Secretary shall submit an interim report on the activities carried out under this section.

"(B) Not later than March 1, 1989,"; and

(6) by striking "fiscal year 1987" in subsection (g)(2) and inserting "fiscal years 1987 and 1988".

(b) **PERMISSION TO EXPEND UNOBLIGATED FUNDS APPROPRIATED FOR 1987 IN 1989.**—Subsection (f) of section 477 of such Act (42 U.S.C. 677(f)) is amended by inserting after and below paragraph (3) the following:

"Notwithstanding paragraph (3), payments made to a State under this section for the fiscal year 1987 and unobligated may be expended by such State in the fiscal year 1989."

(c) **INCLUSION IN INDEPENDENT LIVING PROGRAM OF NON-AFDC FOSTER CARE CHILDREN.**—Subsection (a) of section 477 of such Act (42 U.S.C. 677(a)) is amended—

(1) by inserting "(1)" before "Payments";

(2) by striking "children" and all that follows through "age 16," and inserting "children described in paragraph (2) who have attained age 16"; and

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

"(2) A program established and carried out under paragraph (1)—

"(A) shall be designed to assist children with respect to whom foster care maintenance payments are being made by the State under this part, and

"(B) may at the option of the State also include any or all other children in foster care under the responsibility of the State."

(d) **INCLUSION IN INDEPENDENT LIVING PROGRAM OF CERTAIN FORMER FOSTER CARE CHILDREN.**—Paragraph (2) of section 477(a) of the Social Security Act (42 U.S.C. 677(a)(2)) (as added by subsection (c) of this section) is further amended—

- (1) by striking “and” in subparagraph (A);
- (2) by striking the period at the end of subparagraph (B) and inserting “, and”; and

(3) by adding at the end the following new subparagraph:
“(C) may at the option of the State also include any child to whom foster care maintenance payments were previously made by a State under this part and whose payments were discontinued on or after the date such child attained age 16, and any child who previously was in foster care described in subparagraph (B) and for whom such care was discontinued on or after the date such child attained age 16, but such child may not be so included after the end of the 6-month period beginning on the date of discontinuance of such payments or care; and a written transitional independent living plan of the type described in subsection (d)(6) shall be developed for such child as a part of such program.”.

(e) **DETERMINATION OF SERVICES NEEDED FOR TRANSITION TO INDEPENDENT LIVING.**—Subparagraph (C) of section 475(5) of such Act (42 U.S.C. 675(5)(C)) is amended by inserting “and, in the case of a child who has attained age 16, the services needed to assist the child to make the transition from foster care to independent living” before the semicolon.

(f) **LIMITATION ON USE OF FUNDS.**—Paragraph (3) of section 477(e) of such Act (42 U.S.C. 677(e)(3)) is amended by adding at the end the following: “Amounts payable under this section may not be used for the provision of room or board.”.

(g) **EFFECTIVE DATES.**—(1) The amendments made by subsections (a), (b), and (e) shall take effect on October 1, 1988.

(2) The amendments made by subsections (c), (d), and (f) shall take effect on the date of the enactment of this Act.

42 USC 677 note.

SEC. 8105. TECHNICAL CORRECTIONS TO FAMILY SUPPORT ACT OF 1988.

Effective date.

Effective on the date of the enactment of the Family Support Act of 1988—

(1) section 401(c)(1) of such Act is amended by inserting “(as amended by paragraph (4)(B) of this subsection)” before “is amended—”;

42 USC 607.

(2) section 401(c)(4)(B) of such Act is amended by striking “(as amended by paragraph (1) of this subsection)”;

(3) section 202(b) of such Act is amended by striking paragraph (10);

42 USC 607.

(4) section 111(e)(1) of such Act is amended by striking “before” and inserting in lieu thereof “after”;

42 USC 666.

(5) section 407(b)(1)(B)(iii)(I) of the Social Security Act (as amended by section 202(b)(8)(A) of the Family Support Act of 1988 and redesignated by section 401(b)(1) of that Act) is amended by striking “409(a)(19)(A)” and inserting in lieu thereof “402(a)(19)(A)”;

42 USC 607.

(6) section 469 of the Social Security Act (as added by section 129 of the Family Support Act of 1988) is amended—

42 USC 669.

(A) by striking “of title IV of the Social Security Act”;

and
(B) by striking “of title IV of such Act”; and

42 USC 617.

(7) section 418 of the Social Security Act (as added by section 603(a) of the Family Support Act of 1988) is redesignated as section 417.

Subtitle C—National Commission on Children

SEC. 8201. DELAY IN REPORTING DATE FOR NATIONAL COMMISSION ON CHILDREN.

Section 1139 of the Social Security Act (42 U.S.C. 1320b-9) is amended—

- (1) by striking "September 30, 1988" in subsection (d) and inserting "March 31, 1990";
- (2) by striking "March 31, 1989" in subsection (d) and inserting "September 30, 1990";
- (3) by striking "March 31, 1989" in subsection (e)(1)(A) and inserting "September 30, 1990";
- (4) by striking "March 31, 1989" in subsection (e)(4)(B) and inserting "September 30, 1990"; and
- (5) by inserting "for each of fiscal years 1989 and 1990" after "section" in subsection (j).

Subtitle D—Unemployment Compensation

SEC. 8301. SELF-EMPLOYMENT DEMONSTRATION PROJECT.

26 USC 3304
note.

Section 9152(g) of the Omnibus Budget Reconciliation Act of 1987 (Public Law 100-203) is amended—

- (1) in paragraph (1), by striking "two" in the first sentence and inserting "three"; and
- (2) in paragraph (2), by striking "four" and inserting "six".

Subtitle E—Medicare and Medicaid

PART I—PROVISIONS RELATING TO PART A OF MEDICARE

SEC. 8401. EXTENSION OF DISPROPORTIONATE SHARE PROVISIONS.

Paragraphs (2)(C)(iv), (3)(C)(ii)(I), (3)(C)(ii)(II), (5)(B)(ii)(I), (5)(B)(ii)(II), and (5)(F)(i) of section 1886(d) of the Social Security Act (42 U.S.C. 1395ww(d)) are each amended by striking "1990" and inserting "1995".

SEC. 8402. MAINTENANCE OF BAD DEBT COLLECTION POLICY.

Records.
Claims.
42 USC 1395f
note.

Effective as of the date of the enactment of the Omnibus Budget Reconciliation Act of 1987, section 4008(c) of such Act is amended by inserting after "reasonable collection effort" the following: " , including criteria for indigency determination procedures, for record keeping, and for determining whether to refer a claim to an external collection agency".

SEC. 8403. APPLICATION OF WAGE INDICES IN CASE OF AREAS AFFECTED BY SECTION 4005(A)(1) OF OBRA OF 1987.

(a) COMPUTATION OF INDICES FOR FISCAL YEARS 1990 AND 1991.—Section 1886(d)(8) of the Social Security Act (42 U.S.C. 1395ww(d)(8)) is amended—

(1) in subparagraph (C)—

(A) by striking “subparagraph (B)” each place it appears and inserting “subparagraphs (B) and (C)”, and

(B) by redesignating such subparagraph as subparagraph (D); and

(2) by inserting after subparagraph (B) the following new subparagraph:

“(C)(i) If the application of subparagraph (B), by treating hospitals located in a rural county or counties as being located in an urban area, reduces the wage index for that urban area (as applied under this subsection), the Secretary shall calculate and apply such wage index under this subsection separately to hospitals located in such urban area (excluding all the hospitals so treated) and to the hospitals so treated (as if each affected rural county were a separate urban area). If the application of subparagraph (B), by treating the hospitals located in a rural county or counties as not being located in the rural area in a State, reduces the wage index for that rural area (as applied under this subsection), the Secretary shall calculate and apply such wage index under this subsection as if the hospitals so treated had not been excluded from calculation of the wage index for that rural area.

Health care
facilities.
Rural areas.
Urban areas.

“(ii) Clause (i) shall only apply to discharges occurring on or after October 1, 1989, and before October 1, 1991.”

(b) HHS REPORT ON ADJUSTMENT OF HOSPITAL WAGE INDICES FOR FISCAL YEAR 1989.—

(1) The Secretary of Health and Human Services shall report to the Congress, not later than 60 days after the date of the enactment of this Act, on alternative methods for reimbursement under section 1886(d) of the Social Security Act to hospitals located in affected areas described in paragraph (2) for hospital discharges occurring in fiscal year 1989 that would result in aggregate payments under title XVIII of such Act to hospitals in such areas in an amount no less than would have been paid without the enactment of the amendments made by section 4005(a)(1) of the Omnibus Budget Reconciliation Act of 1987. In reporting concerning alternative methods, the Secretary shall consider both legislative and administrative actions that would result in an aggregate increase in payments under such title and legislative and administrative actions that would not result in such an aggregate increase.

(2) An affected area described in this paragraph is an area for which the area wage index for fiscal year 1989 (described in section 1886(d)(3)(E) of the Social Security Act) was reduced below the amount otherwise applicable as a result of the amendments made by section 4005(a)(1) of the Omnibus Budget Reconciliation Act of 1987.

(c) PROPAC STUDY AND REPORT.—The Prospective Payment Assessment Commission shall study and make a report to Congress within 9 months after the date of the enactment of this Act on the appropriate payment for hospitals affected by subparagraphs (B) and (C) of section 1886(d)(8) of the Social Security Act (as amended by subsection (a) of this section) and the appropriate treatment of the wage and wage-related costs of such hospitals in computing area wage indices.

SEC. 8404. DEMONSTRATION PROJECTS WITH RESPECT TO CHRONIC VENTILATOR-DEPENDENT UNITS IN HOSPITALS.42 USC 1395b-1
note.

(a) **IN GENERAL.**—Section 429(a) of the Medicare Catastrophic Coverage Act of 1988 is amended by striking “up to” each place it appears and inserting “at least”.

42 USC 1395b-1
note.

(b) **EFFECTIVE DATE.**—The amendment made by subsection (a) shall take effect as if included in the Medicare Catastrophic Coverage Act of 1988.

42 USC 1395ww
note.**SEC. 8405. ELECTION OF PERSONNEL POLICY FOR PROPAC EMPLOYEES.**

With respect to employees of the Prospective Payment Assessment Commission hired before December 22, 1987, such employees shall have the option to elect within 60 days of the date of enactment of this Act to be covered under either the personnel policy in effect with respect to such employees before December 22, 1987, or under the employees coverage provided under the last sentence of section 1886(e)(6)(D) of the Social Security Act.

PART II—RELATING TO PARTS A AND B OF MEDICARE PROGRAM

42 USC 1395b-1
note.**SEC. 8411. TREATMENT OF CERTAIN NURSING EDUCATION PROGRAMS.****(a) DEMONSTRATION OF JOINT NURSING GRADUATE EDUCATION PROGRAMS.—**

(1) The Secretary of Health and Human Services shall provide for demonstration programs under this subsection in each of 5 hospitals for cost reporting periods beginning on or after July 1, 1989, and before July 1, 1994.

(2) Under each demonstration project, subject to paragraph (4), the reasonable costs incurred by a hospital pursuant to a written agreement with an educational institution for the activities described in paragraph (3) conducted as part of an approved educational program that—

(A) involves a substantial clinical component (as determined by the Secretary), and

(B) leads to a master's or doctoral degree in nursing, shall be allowable as reasonable costs under title XVIII of the Social Security Act and reimbursed under such title on the same basis as if they were allowable direct costs of a hospital-operated approved educational program (other than an approved graduate medical education program).

(3) The activities described in this paragraph are the activities for which the reasonable costs of conducting such activities are allowable under title XVIII of the Social Security Act if conducted under a hospital-operated approved educational program (other than an approved graduate medical education program), but only to the extent such activities are directly related to the operation of the educational program conducted pursuant to the written agreement between the hospital and the educational institution.

(4) The amount paid under a demonstration program under this subsection to a hospital for a cost reporting period may not exceed \$200,000.

(5) The Secretary shall report to Congress, by not later than January 1, 1995, on the demonstration programs conducted

Reports.

under this subsection and on the supply and characteristics of nurses trained under such programs.

(b) **JOINT UNDERGRADUATE EDUCATION PROGRAM.**—In the case of a hospital which (1) was paid under a waiver under section 402 of the Social Security Amendments of 1967 and section 222 of the Social Security Amendments of 1972, which waiver expired on September 30, 1985, and (2) during its cost reporting period beginning in fiscal year 1985 and for each subsequent cost reporting period, has been and is associated with, and has incurred and incurs substantial costs with respect to, a nursing college with which it has shared and shares common directors, educational activities of the nursing college shall be considered to be educational activities operated directly by such hospital for purposes of title XVIII of the Social Security Act, and shall be allowable as reasonable costs under such title and reimbursed under such title on the same basis as if they were allowable direct costs of a hospital-operated approved educational program (other than an approved graduate medical education program), for hospital cost reporting periods beginning in fiscal years 1989, 1990, and 1991.

Health care facilities.

SEC. 8412. ELIMINATION OF WAIVERS OF 50:50 RULE FOR HMO ENROLLMENT.

(a) **IN GENERAL.**—

(1) Section 1876(f) of the Social Security Act (42 U.S.C. 1395mm(f)), as amended by section 4018(a) of the Omnibus Budget Reconciliation Act of 1987, is amended by striking paragraph (3) and by redesignating paragraph (4) as paragraph (3).

(2) Subsection (c) of section 4018 of the Omnibus Budget Reconciliation Act of 1987 is repealed.

(b) **EFFECTIVE DATE.**—The amendments made by subsection (a) shall not apply to contracts in effect on the date of the enactment of this Act or extensions (not exceeding 90 days) thereof.

101 Stat.
1330-66.
42 USC 1395mm
note.

SEC. 8413. INCREASE IN AUTHORIZATION FOR THE PATIENT OUTCOME ASSESSMENT RESEARCH PROGRAM.

Section 1875(c)(3) of the Social Security Act (42 U.S.C. 1395ll(c)(3)) is amended to read as follows:

“(3)(A) For purposes of carrying out the research program, there are authorized to be appropriated—

“(i) from the Federal Hospital Insurance Trust Fund two-thirds of the amount specified in subparagraph (B), and

“(ii) from the Federal Supplementary Medical Insurance Trust Fund one-third of the amount specified in subparagraph (B).

“(B) The amount specified in this subparagraph is—

“(i) \$7,500,000 for fiscal year 1988,

“(ii) \$10,000,000 for fiscal year 1989,

“(iii) \$20,000,000 for fiscal year 1990, and

“(iv) \$30,000,000 for fiscal year 1991.”

SEC. 8414. DELAY IN REPORTING DEADLINE FOR THE UNITED STATES BIPARTISAN COMMISSION ON COMPREHENSIVE HEALTH CARE.

Section 406 of the Medicare Catastrophic Coverage Act of 1988 is amended by striking “date of the enactment of this Act” each place it appears and inserting “effective date of the first Act providing appropriations for the Commission”.

42 USC 1395b
note.

PART III—PROVISIONS RELATING TO PART B OF MEDICARE

SEC. 8421. TRIP FEES FOR CLINICAL LABORATORIES.

42 USC 1395l.

(a) **IN GENERAL.**—Section 1833(h)(3) of the Social Security Act (42 U.S.C. 1395l(h)(3)) is amended by adding at the end the following new sentence: “In establishing a fee to cover the transportation and personnel expenses for trained personnel to travel to the location of an individual to collect a sample, the Secretary shall provide a method for computing the fee based on the number of miles traveled and the personnel costs associated with the collection of each individual sample, but the Secretary shall only be required to apply such method in the case of tests furnished during the period beginning on April 1, 1989, and ending on December 31, 1990, by a laboratory that establishes to the satisfaction of the Secretary (based on data for the 12-month period ending June 30, 1988) that (i) the laboratory is dependent upon payments under this title for at least 80 percent of its collected revenues for clinical diagnostic laboratory tests, (ii) at least 85 percent of its gross revenues for such tests are attributable to tests performed with respect to individuals who are homebound or who are residents in a nursing facility, and (iii) the laboratory provided such tests for residents in nursing facilities representing at least 20 percent of the number of such facilities in the State in which the laboratory is located.”

42 USC 1395l
note.

(b) **BUDGET NEUTRALITY.**—The Secretary of Health and Human Services shall adjust the fees for transportation and personnel established under section 1833(h)(3)(B) of the Social Security Act for tests not covered under the amendment made by subsection (a) in such manner that the total cost of fees under such section is the same as would have been the case without such amendment.

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(c) **STUDY.**—The Secretary of Health and Human Services shall study reimbursement for specimen collection and transportation and personnel costs under section 1833(h)(3) of the Social Security Act and shall report to the Committees on Ways and Means and Energy and Commerce of the House of Representatives and the Committee on Finance of the Senate by May 1, 1989. The study shall—

- (1) survey carrier policies regarding such reimbursement,
- (2) report on concerns expressed by clinical diagnostic laboratories concerning such reimbursement, and
- (3) make recommendations to assure that such reimbursement is reasonable, covers the costs involved, and assures adequate access to clinical laboratory services for nursing facility residents.

SEC. 8422. BUDGET NEUTRALITY ADJUSTMENT FOR CERTIFIED REGISTERED NURSE ANESTHETISTS.

(a) **IN GENERAL.**—Section 1833(l)(3)(B) of the Social Security Act (42 U.S.C. 1395l(l)(3)(B)) is amended by inserting “plus applicable coinsurance” after “would have been paid”.

42 USC 1395l
note.

(b) **EFFECTIVE DATE.**—The amendment made by subsection (a) shall become effective as if included in the amendment made by section 9320(e)(2) of the Omnibus Budget Reconciliation Act of 1986.

SEC. 8423. COVERAGE OF PSYCHOLOGISTS' SERVICES WHEN PROVIDED OFF-SITE AS PART OF A TREATMENT PLAN.

(a) **IN GENERAL.**—Section 1861(ii) of the Social Security Act (42 U.S.C. 1395x(ii)) is amended—

(1) by inserting “on-site” before “at a community mental health center”, and

(2) by inserting “, and such services that are necessarily furnished off-site (other than at an off-site office of such psychologist) as part of a treatment plan because of the inability of the individual furnished such services to travel to the center by reason of physical or mental impairment, because of institutionalization, or because of similar circumstances of the individual,” after “Public Health Service Act”.

(b) **EFFECTIVE DATE.**—The amendments made by subsection (a) shall be effective with respect to services furnished on or after January 1, 1989.

42 USC 1395x
note.

SEC. 8424. NONAPPLICATION OF CERTAIN REQUIREMENTS TO PHYSICAL THERAPISTS.

(a) **IN GENERAL.**—Section 1861(p) of the Social Security Act (42 U.S.C. 1395x(p)) is amended by adding at the end the following new sentence: “Nothing in this subsection shall be construed as requiring, with respect to outpatients who are not entitled to benefits under this title, a physical therapist to provide outpatient physical therapy services only to outpatients who are under the care of a physician or pursuant to a plan of care established by a physician.”.

(b) **EFFECTIVE DATE.**—The amendment made by subsection (a) shall become effective with respect to services provided after December 31, 1988.

42 USC 1395x
note.

SEC. 8425. FUNCTIONS OF PHYSICIAN PAYMENT REVIEW COMMISSION.

(a) **ADDITIONAL FUNCTION.**—Section 1845(b)(2) of the Social Security Act (42 U.S.C. 1395w-1(b)(2)) is amended—

(1) by striking “and” at the end of subparagraph (G),

(2) by striking the period at the end of subparagraph (H) and inserting “; and”, and

(3) by adding at the end the following new subparagraph: “(I) consider policies for moderating the rate of increase in expenditures under this part and the rate of increase in utilization of services under this part.”.

(b) **EFFECTIVE DATE.**—The amendments made by subsection (a) shall take effect on the date of the enactment of this Act and shall first apply to recommendations submitted in 1989.

42 USC 1395w-1
note.

SEC. 8426. MORATORIUM ON LABORATORY PAYMENT DEMONSTRATION EXTENDED.

Section 9204(a) of the Consolidated Omnibus Budget Reconciliation Act of 1985, as amended by section 9339(e) of the Omnibus Budget Reconciliation Act of 1986 and section 4085(c) of the Omnibus Budget Reconciliation Act of 1987, is amended by striking “January 1, 1989” and inserting “January 1, 1990”.

42 USC 1395ww
note.

SEC. 8427. PAYMENT FOR MEDICAL ESCORT OR MEDICAL ATTENDANT ON COMMERCIAL AIRLINER ALLOWED.

(a) **IN GENERAL.**—The Secretary of Health and Human Services shall provide that in cases where (as of the date of the enactment of this Act) transportation on a commercial airliner is covered under

42 USC 1395x
note.

section 1861(s)(7) of the Social Security Act, the Secretary shall also provide for payment for medically necessary services of a medical escort or medical attendant.

(b) **EFFECTIVE PERIOD.**—Subsection (a) shall apply to payment for services furnished during the 5-year period beginning on July 1, 1989.

PART IV—PROVISIONS RELATING TO MEDICAID

State and local governments.

SEC. 8431. DELAY IN ISSUANCE OF FINAL REGULATIONS CONCERNING THE USE OF VOLUNTARY CONTRIBUTIONS AND PROVIDER-PAID TAXES BY STATES TO RECEIVE FEDERAL MATCHING FUNDS.

The Secretary of Health and Human Services shall not issue any final regulation prior to May 1, 1989, changing the treatment of voluntary contributions or provider-paid taxes utilized by States to receive Federal matching funds under title XIX of the Social Security Act.

SEC. 8432. MEDICAID LONG-TERM CARE WAIVER PROGRAM.

(a) **MODIFICATION OF FORMULA.**—Section 1915(d)(5)(B) of the Social Security Act (42 U.S.C. 1396n(d)(5)(B)) is amended by adding at the end the following new clause:

“(iv) If there is enacted after December 22, 1987, an Act which amends this title and which results in an increase in the aggregate amount of medical assistance under this title for nursing facility services and home and community-based services for individuals who have attained the age of 65 years, the Secretary, at the request of a State with a waiver under this subsection for a waiver year or years and in close consultation with the State, shall adjust the projected amount computed under this subparagraph for the waiver year or years to take into account such increase.”

(b) **TECHNICAL MODIFICATIONS.**—Clauses (i) and (ii) of section 1915(d)(5)(B) of such Act (42 U.S.C. 1396n(d)(5)(B)) are amended—

- (1) by inserting “(rounded to the nearest quarter of a year)” after “the number of years” each place it appears,
- (2) by striking “before the waiver year” each place it appears and inserting “at the end of the waiver year”,
- (3) by striking “between the base year and the waiver year” each place it appears and inserting “between the beginning of the base year and the beginning of the waiver year”, and
- (4) by inserting “(rounded to the nearest quarter of a year)” after “for each year” each place it appears.

(c) **EFFECTIVE DATE.**—The amendments made by this section shall apply to waiver years beginning during or after fiscal year 1989.

SEC. 8433. EXTENSION OF TIME PERIOD FOR SUBMISSION OF CORRECTION AND REDUCTION PLANS FOR CERTAIN INTERMEDIATE CARE FACILITIES FOR THE MENTALLY RETARDED.

(a) **IN GENERAL.**—Section 1922 of the Social Security Act (42 U.S.C. 1396r-3) is amended—

- (1) in subsection (a), by striking “residents” and inserting “residents (including failure to provide active treatment)”;
- (2) in subsection (c)(5), by inserting “, and to provide active treatment for,” after “health and safety of”; and

42 USC 1396n note.

(3) in subsection (f), by striking “within 3 years after the effective date of final regulations implementing this section” and inserting “by January 1, 1990”.

(b) **EFFECTIVE DATE.**—The amendments made by subsection (a) shall become effective on the date of the enactment of this Act, and shall apply to any proceeding where there has not yet been a final determination by the Secretary (as defined for purposes of judicial review) as of the date of the enactment of this Act. 42 USC 1396r-3.

SEC. 8434. CORRECTION RELATING TO MEDICARE BUY-IN.

(a) **IN GENERAL.**—Section 1905(p)(1) of the Social Security Act (42 U.S.C. 1396d(p)(1)) is amended by striking subparagraph (B) and redesignating subparagraphs (C) and (D) as subparagraphs (B) and (C), respectively.

(b) **CONFORMING AMENDMENTS.**—

(1) Section 1902(a)(10) of such Act (42 U.S.C. 1396a(a)(10)) is amended, in the subdivision (VIII) following subparagraph (E), by inserting “who is only entitled to medical assistance because the individual is such a beneficiary” after “1905(p)(1)”.

(2) Section 1902(m)(4)(A) of such Act (42 U.S.C. 1396a(m)(4)(A)) is amended by striking “1905(p)(1)(C)” and inserting “1905(p)(1)(B)”.

(3) Section 1905(a) of such Act (42 U.S.C. 1396d(a)) is amended, in the matter before clause (i), by striking “in the case of a qualified medicare beneficiary” and inserting “in the case of medicare cost-sharing with respect to a qualified medicare beneficiary”.

(4) Section 1905(p)(2)(A) of such Act (42 U.S.C. 1396d(p)(2)(A)), as amended by section 608(d)(14) of the Family Support Act of 1988, is amended by striking “(1)(C)” and inserting “(1)(B)”.

(c) **EFFECTIVE DATE.**—The amendment made by this section shall be effective as if included in the enactment of section 301 of the Medicare Catastrophic Coverage Act of 1988. 42 USC 1396a note.

SEC. 8435. CLARIFICATION OF FEDERAL FINANCIAL PARTICIPATION FOR CASE-MANAGEMENT SERVICES.

The Secretary of Health and Human Services may not fail or refuse to approve an amendment to a State plan under title XIX of the Social Security Act that provides for coverage of case-management services described in section 1915(g)(2) of such Act, or to deny payment to a State for such services under section 1903(a)(1) of such Act on the basis that a State is required to provide such services under State law or on the basis that the State had paid or is paying for such services from non-Federal funds before or after April 7, 1986. Nothing in this section shall be construed as requiring the Secretary to make payment to a State under section 1903(a)(1) of such Act for such case-management services which are provided without charge to the users of such services.

State and local governments.
42 USC 1396a note.

SEC. 8436. DETERMINATION OF PREMIUM AMOUNTS FOR EXTENDED MEDICAL ASSISTANCE.

(a) **TAKING INTO ACCOUNT CHILD CARE COSTS.**—Section 1925(d)(5)(C) of the Social Security Act, as inserted by section 303(a)(1) of the Family Support Act of 1988, is amended by inserting “(less the average monthly costs for such child care as is necessary for the employment of the caretaker relative)” after “gross monthly earnings”.

42 USC 1396r-6.

42 USC 1396r-6
note.

(b) **EFFECTIVE DATE.**—The amendment made by subsection (a) shall be effective as if included in the enactment of the Family Support Act of 1988.

SEC. 8437. CLARIFICATION OF WAIVER FOR HOME AND COMMUNITY-BASED SERVICES FOR INDIVIDUALS WHO WOULD OTHERWISE REQUIRE HOSPITAL OR FACILITY CARE.

(a) **IN GENERAL.**—Section 1915(c)(7)(A) of the Social Security Act (42 U.S.C. 1396n(c)(7)(A)) is amended—

(1) by striking “who are inpatients in hospitals,” and inserting “who are inpatients in, or who would require the level of care provided in, hospitals,”; and

(2) by striking “who are inpatients of those respective facilities.” and inserting “who are inpatients in, or who would require the level of care provided in, those respective facilities.”.

42 USC 1396n
note.

(b) **EFFECTIVE DATE.**—The amendment made by subsection (a) shall apply with respect to waiver applications submitted before, on, or after the date of the enactment of this Act.

TITLE IX—TRADE PROVISIONS

SEC. 9001. TRADE TECHNICAL AMENDMENTS.

(a) **IN GENERAL.**—

(1) Section 121 of the Trade Act of 1974 (19 U.S.C. 2131) is amended by striking out “(d) There are” and inserting in lieu thereof “There are”.

(2)(A) Paragraph (6) of section 203(e) of the Trade Act of 1974 (19 U.S.C. 2253(e)) is amended—

(i) by striking out “(A) the application” in subparagraph (B) and inserting in lieu thereof “(i) the application”, and

(ii) by striking out “(B) the designation” in subparagraph (B) and inserting in lieu thereof “(ii) the designation”.

19 USC 2253.

(B) Paragraph (2) of section 1214(j) of the Omnibus Trade and Competitiveness Act of 1988 is amended—

(i) by striking out “Section 203(f)” and inserting in lieu thereof “Paragraph (6) of section 203(e)”,

(ii) by striking out “in paragraph (1)” and inserting in lieu thereof “in subparagraph (A)(i)”, and

(iii) by striking out “in paragraph (3)” and inserting in lieu thereof “in subparagraph (B)(i)”.

19 USC 2138.

(3) Section 1215 of the Omnibus Trade and Competitiveness Act of 1988 is amended by striking out “1212(j)(1)” and inserting in lieu thereof “1214(j)(1)”.

19 USC 1677-2.

(4) Section 771B of the Tariff Act of 1930 is amended to read as follows:

“SEC. 771B. CALCULATION OF SUBSIDIES ON CERTAIN PROCESSED AGRICULTURAL PRODUCTS.

“In the case of an agricultural product processed from a raw agricultural product in which—

“(1) the demand for the prior stage product is substantially dependent on the demand for the latter stage product, and

“(2) the processing operation adds only limited value to the raw commodity,

subsidies found to be provided to either producers or processors of the product shall be deemed to be provided with respect to the manufacture, production, or exportation of the processed product.”

(5) Paragraph (19) of section 771 of the Tariff Act of 1930 (19 U.S.C. 1677), as added by section 1335 of the Omnibus Trade and Competitiveness Act of 1988, is redesignated as paragraph (20).

(6) Subsection (e) of section 1337 of the Omnibus Trade and Competitiveness Act of 1988 is amended by striking out “1321(b)” and inserting in lieu thereof “1322”.

19 USC 1671
note.

(7) Paragraph (6) of section 1342(a) of the Omnibus Trade and Competitiveness Act of 1988 is amended by striking out “by paragraph (5)(B)” and inserting in lieu thereof “by paragraph (5)(A)”.

19 USC 1337.

(8) Section 204 of the Trade Act of 1974 is amended by redesignating subsections (d) and (e) as subsections (c) and (d), respectively.

19 USC 2254.

(9) Subsection (d) of section 701 of the Tariff Act of 1930 (19 U.S.C. 1671) is amended by redesignating the subsection (d) relating to a cross reference as subsection (f).

(10) Subsection (a) of section 162 of the Trade Act of 1974 (19 U.S.C. 2212(a)) is amended—

(A) by striking out “chapter 1 or”, and

(B) by inserting “or under section 1102 of the Omnibus Trade and Competitiveness Act of 1988” after “or 124”.

(11) Item 735.24 of the Tariff Schedules of the United States is amended by striking out “5.52% ad val.” and inserting in lieu thereof “4.64% ad val.”.

(12) Subparagraph (B) of section 337(n)(2) of the Tariff Act of 1930 (19 U.S.C. 1337(n)(2)(B)) is amended by striking out “under subsection (h)” and inserting in lieu thereof “under subsection (j)”.

(13) Subsection (g) of section 1214 of the Omnibus Trade and Competitiveness Act of 1988 is amended to read as follows:

19 USC 58c.

“(g) COBRA of 1985.—Section 13031 of the Consolidated Omnibus Budget Reconciliation Act of 1985 (19 U.S.C. 58c) is amended—

“(1) by striking out ‘schedule 8 of the Tariff Schedules of the United States except item 806.30 or 807.00’ in subsection (a)(9)(A) and inserting in lieu thereof ‘chapter 98 of the Harmonized Tariff Schedule of the United States, except sub-heading 9802.00.60 or 9802.00.80’;

“(2) by striking out ‘General Headnote 3(e) (vi) or (vii)’ in subsection (a)(9)(C) and inserting in lieu thereof ‘general note 3(c)(v)’;

“(3) by striking out ‘Schedules’ in subsection (a)(9)(C) and inserting in lieu thereof ‘Schedule’;

“(4) by striking out ‘item 806.30’ wherever it appears in subsection (b)(8)(A) and inserting in lieu thereof ‘subparagraph 9802.00.60’;

“(5) by striking out ‘item 807.00’ wherever it appears in subsection (b)(8)(A) and inserting in lieu thereof ‘subparagraph 9802.00.80’; and

“(6) by striking out ‘headnote 2 of the General Headnotes and Rules of Interpretation of the Tariff Schedules of the United States’ in subsection (c)(3) and inserting in lieu thereof ‘general note 2 of the Harmonized Tariff Schedule of the United States’.”.

19 USC 2703. (14) Subparagraph (D) of section 1214(q)(2) of the Omnibus Trade and Competitiveness Act of 1988 is amended—

(A) by striking out “TSUS” in clause (iv) and inserting in lieu thereof “TSUS;”,

(B) by striking out “HTS” in clause (iv) and inserting in lieu thereof “HTS; and”, and

(C) by striking out “subparagraph (E)” in clause (vi) and inserting in lieu thereof “subparagraph (D)”.

(15) Section 330(c)(3)(A)(i) of the Tariff Act of 1930 (19 U.S.C. 1330(c)(3)(A)(i)) is amended by striking out “most recently appointed to” and inserting in lieu thereof “with the shortest period of service on”.

(16) Subsection (g) of section 332 of the Tariff Act of 1930 (19 U.S.C. 1332(g)) is amended by striking out “report to Congress on the first” and inserting in lieu thereof “report to Congress on the first”.

Ante, p. 1138.

(17) Subsection (i) of section 1121 of the Omnibus Trade and Competitiveness Act of 1988 is amended by striking out “subsection (c) apply” and inserting in lieu thereof “subsection (f) apply”.

19 USC 1507 note.

(18) Subsection (b) of section 1902 of the Omnibus Trade and Competitiveness Act of 1988 (102 Stat. 1313) is amended by striking out “1987” and inserting in lieu thereof “1988”.

(19) Item 909.35 of the Appendix to the Tariff Schedules of the United States is amended by striking out “3.6% ad val. (I)”.

(20) Subparagraph (B) of section 236(a)(6) of the Trade Act of 1974 (19 U.S.C. 2296(a)(6)(B)) is amended by striking out “in subparagraph (A) or (B) of paragraph (1)” and inserting in lieu thereof “in clause (i) or (ii) of subparagraph (A)”.

19 USC 2397 note.

(21) Subsection (g) of section 1430 of the Omnibus Trade and Competitiveness Act of 1988 (102 Stat. 1257) is amended by striking out “apply to with” and inserting in lieu thereof “apply with”.

19 USC 58c note.

(b) **EFFECTIVE DATE.**—The amendments made by this section shall be applied as if such amendments took effect on August 23, 1988.

SEC. 9002. FOREIGN TRADE ZONES.

Section 3 of the Act of June 18, 1934 (48 Stat. 999, chapter 590; 19 U.S.C. 81c) is amended by adding at the end thereof the following new subsection:

Petroleum and petroleum products.

“(d) In regard to the calculation of relative values in the operations of petroleum refineries in a foreign trade zone, the time of separation is defined as the entire manufacturing period. The price of products required for computing relative values shall be the average per unit value of each product for the manufacturing period. Definition and attribution of products to feedstocks for petroleum manufacturing may be either in accordance with Industry Standards of Potential Production on a Practical Operating Basis as verified and adopted by the Secretary of the Treasury (known as producibility) or such other inventory control method as approved by the Secretary of the Treasury that protects the revenue.”.

SEC. 9003. REPORT ON SMALL BUSINESS INNOVATION RESEARCH PROGRAM.

Section 6 of the Small Business Innovation Development Act of 1982 (15 U.S.C. 638, note) is amended—

(1) by striking out the last sentence of subsection (a), as added by section 8008 of the Omnibus Trade and Competitiveness Act of 1988 (Public Law 100-418), and

(2) by adding at the end thereof the following new subsection:

“(c) Not later than July 1, 1989, the Comptroller General shall transmit to the appropriate committees of the House of Representatives and the Senate recommendations as to the advisability of amending the Small Business Innovation Research program to—

Small business.

“(1) increase each agency’s share of research and development expenditures devoted to it by 0.25 percent per year, until it is 3 percent of the total extramural research and development funds, and targeting a portion of the increment at products with commercialization or export potential;

Research and development.
Exports.

“(2) make the Small Business Innovation Research program permanent with a formal congressional review every 10 years, beginning in 1993;

“(3) allocate a modest but appropriate share of each agency’s Small Business Innovation Research fund for administrative purposes for effective management, quality maintenance, and the elimination of program delays; and

“(4) include within the Small Business Innovation and Research program all agencies expending between \$20,000,000 and \$100,000,000 in extramural research and development funds annually.”.

SEC. 9004. EXTENSION OF CERTAIN EXISTING SUSPENSIONS OF DUTY AND DUTY REDUCTIONS.

(a) **EXTENSIONS UNTIL JANUARY 1, 1993.**—Each of the following items of the Appendix to the Tariff Schedules of the United States are amended by striking out the date in the effective date column and inserting in lieu thereof “12/31/92”:

(1) Item 903.29 (relating to fresh, chilled, or frozen brussels sprouts).

(2) Item 906.30 (relating to 3,5,6-trichlorosalicylic acid).

(3) Item 906.32 (m-Aminophenol).

(4) Item 906.38 (p-acetaminobenzenesulfonyl chloride).

(5) Item 906.51 (carboxylic acid disolvate).

(6) Item 906.53 (relating to dicyclomine hydrochloride and mepenzolate bromide).

(7) Item 906.54 (relating to desipramine hydrochloride).

(8) Item 906.99 (relating to rifampin).

(9) Item 907.03 (relating to m-xylenediamine).

(10) Item 907.04 (relating to 1,3-bis(aminomethyl)cyclohexane).

(11) Item 907.06 (relating to 4,4’bis(a,a-dimethylbenzyl)diphenylamine).

(12) Item 907.08 (relating to 4-chloro-3-methylphenol).

(13) Item 907.16 (relating to uncompounded allyl resins).

(14) Item 907.18 (relating to certain forms of amiodarone).

(15) Item 907.25 (relating to terfenadine).

(16) Item 907.42 (relating to clomiphene citrate).

(17) Item 907.51 (relating to certain yttrium materials and compounds).

(18) Item 907.65 (relating to tartaric acid).

(19) Item 907.66 (relating to potassium salts: Antimony tartrate).

(20) Item 907.68 (relating to cream of tartar).

(21) Item 907.69 (relating to sodium tartrate).

(22) Item 907.76 (relating to lactulose).

(23) Item 910.00 (relating to diamond tool and drill blanks).

(24) Item 911.50 (relating to unwrought lead).

(25) Item 912.13 (relating to certain power-driven flat knitting machines and parts thereof).

(b) OTHER EXTENSIONS.—

(1) Item 907.00 (relating to p-hydroxybenzoic acid) is amended by striking out "9/30/85" and inserting in lieu thereof "12/31/88".

(2) Item 907.22 (relating to caffeine) is amended by striking out "On or before 12/31/87" and inserting in lieu thereof "On or before the earlier of 12/31/92 or the date on which the rate of duty imposed by the European Communities on articles described in item 437.02 exceeds the rate of duty imposed by the United States on such articles that was in effect on 6/30/88"

Manassas
National
Battlefield Park
Amendments of
1988.
Virginia.
Conservation.
16 USC 429b
note.

TITLE X—MANASSAS NATIONAL BATTLEFIELD PARK

SEC. 10001. SHORT TITLE.

This title may be cited as the "Manassas National Battlefield Park Amendments of 1988".

SEC. 10002. ADDITION TO MANASSAS NATIONAL BATTLEFIELD PARK.

The first section of the Act entitled "An act to preserve within Manassas National Battlefield Park, Virginia, the most important historic properties relating to the battle of Manassas, and for other purposes", approved April 17, 1954 (16 U.S.C. 429b), is amended—

(1) by inserting "(a)" after "That"; and

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

"(b)(1) In addition to subsection (a), the boundaries of the park shall include the area, comprising approximately 600 acres, which is south of U.S. Route 29, north of Interstate Route 66, east of Route 705, and west of Route 622. Such area shall hereafter in this Act be referred to as the 'Addition'.

"(2)(A) Notwithstanding any other provision of law, effective on the date of enactment of the Manassas National Battlefield Park Amendments of 1988, there is hereby vested in the United States all right, title, and interest in and to, and the right to immediate possession of, all the real property within the Addition.

"(B) The United States shall pay just compensation to the owners of any property taken pursuant to this paragraph and the full faith and credit of the United States is hereby pledged to the payment of any judgment entered against the United States with respect to the taking of such property. Payment shall be in the amount of the agreed negotiated value of such property or the valuation of such property awarded by judgment and shall be made from the permanent judgment appropriation established pursuant to 31 U.S.C. 1304. Such payment shall include interest on the value of such property which shall be compounded quarterly and computed at the rate applicable for the period involved, as determined by the Secretary of the Treasury on the basis of the current average market yield on outstanding marketable obligations of the United States of comparable maturities from the date of enactment of the Manassas

Real property.

National Battlefield Park Amendments of 1988 to the last day of the month preceding the date on which payment is made.

“(C) In the absence of a negotiated settlement, or an action by the owner, within 1 year after the date of enactment of the Manassas National Battlefield Park Amendments of 1988, the Secretary may initiate a proceeding at anytime seeking in a court of competent jurisdiction a determination of just compensation with respect to the taking of such property.

“(3) Not later than 6 months after the date of enactment of the Manassas National Battlefield Park Amendments of 1988, the Secretary shall publish in the Federal Register a detailed description and map depicting the boundaries of the Addition. The map shall be on file and available for public inspection in the offices of the National Park Service, Department of the Interior.

“(c) The Secretary shall not allow any unauthorized use of the Addition after the enactment of the Manassas National Battlefield Park Amendments of 1988, except that the Secretary may permit the orderly termination of all operations on the Addition and the removal of equipment, facilities, and personal property from the Addition.”.

Federal
Register,
publication.
Public
information.

SEC. 10003. VISUAL PROTECTION.

Section 2(a) of the Act entitled “An Act to preserve within Manassas National Battlefield Park, Virginia, the most important historic properties relating to the battle of Manassas, and for other purposes”, approved April 17, 1954 (16 U.S.C. 429b-1), is amended—

(1) by inserting “(1)” after “(a)”; and

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

“(2) The Secretary shall cooperate with the Commonwealth of Virginia, the political subdivisions thereof, and other parties as designated by the Commonwealth or its political subdivisions in order to promote and achieve scenic preservation of views from within the park through zoning and such other means as the parties determine feasible.”.

SEC. 10004. HIGHWAY RELOCATION.

(a) **STUDY.**—The Secretary of the Interior (hereafter in this section referred to as the “Secretary”), in consultation and consensus with the Commonwealth of Virginia, the Federal Highway Administration, and Prince William County, shall conduct a study regarding the relocation of highways (known as routes 29 and 234) in, and in the vicinity of, the Manassas National Battlefield Park (hereinafter in this section referred to as the “park”). The study shall include an assessment of the available alternatives, together with cost estimates and recommendations regarding preferred options. The study shall specifically consider and develop plans for the closing of those public highways (known as routes 29 and 234) that transect the park and shall include analysis of the timing and method of such closures and of means to provide alternative routes for traffic now transecting the park. The Secretary shall provide for extensive public involvement in the preparation of the study.

(b) **DETERMINATION.**—Within 1 year after the enactment of this Act, the Secretary shall complete the study under subsection (a). The study shall determine when and how the highways (known as routes 29 and 234) should be closed.

(c) **ASSISTANCE.**—The Secretary shall provide funds to the appropriate construction agency for the construction and improvement of

16 USC 429b
note.

State and local
governments.

the highways to be used for the rerouting of traffic now utilizing highways (known as routes 29 and 234) to be closed pursuant to subsection (b) if the construction and improvement of such alternatives are deemed by the Secretary to be in the interest of protecting the integrity of the park. Not more than 75 percent of the costs of such construction and improvement shall be provided by the Secretary and at least 25 percent shall be provided by State or local governments from any source other than Federal funds. Such construction and improvement shall be approved by the Secretary of Transportation.

(d) **AUTHORIZATION.**—There is authorized to be appropriated to the Secretary not to exceed \$30,000,000 to prepare the study required by subsection (a) and to provide the funding described in subsection (c).

Approved November 10, 1988.

LEGISLATIVE HISTORY—H.R. 4333 (S. 2238):

HOUSE REPORTS: No. 100-795 (Comm. on Ways and Means) and No. 100-1104 (Comm. of Conference).

SENATE REPORTS: No. 100-445 accompanying S. 2238 (Comm. on Finance).

CONGRESSIONAL RECORD, Vol. 134 (1988):

Aug. 4, considered and passed House.

Oct. 6, 7, S. 2238 considered in Senate.

Oct. 11, H.R. 4333 considered and passed Senate, amended.

Oct. 21, House and Senate agreed to conference report.