

104TH CONGRESS
1ST SESSION

S. 508

To amend the Internal Revenue Code of 1986 to modify certain provisions relating to the treatment of forestry activities.

IN THE SENATE OF THE UNITED STATES

MARCH 7 (legislative day, MARCH 6), 1995

Mr. MURKOWSKI (for himself, Mr. BREAUX, Mr. GORTON, Mr. STEVENS, Mr. COCHRAN, and Mr. CAMPBELL) introduced the following bill; which was read twice and referred to the Committee on Finance

A BILL

To amend the Internal Revenue Code of 1986 to modify certain provisions relating to the treatment of forestry activities.

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

3 **SECTION 1. SHORT TITLE.**

4 This Act may be cited as the “Reforestation Tax Act
5 of 1995”.

6 **SEC. 2. PARTIAL INFLATION ADJUSTMENT FOR TIMBER.**

7 (a) IN GENERAL.—Part I of subchapter P of chapter
8 1 of the Internal Revenue Code of 1986 (relating to treat-

1 ment of capital gains) is amended by adding at the end
2 the following new section:

3 **“SEC. 1203. PARTIAL INFLATION ADJUSTMENT FOR TIM-**
4 **BER.**

5 “(a) IN GENERAL.—At the election of any taxpayer
6 who has qualified timber gain for any taxable year, there
7 shall be allowed as a deduction from gross income an
8 amount equal to the qualified percentage of such gain.

9 “(b) QUALIFIED TIMBER GAIN.—For purposes of
10 this section, the term ‘qualified timber gain’ means the
11 lesser of—

12 “(1) the net capital gain for the taxable year,
13 or

14 “(2) the net capital gain for the taxable year
15 determined by taking into account only gains and
16 losses from timber.

17 “(c) QUALIFIED PERCENTAGE.—For purposes of this
18 section, the term ‘qualified percentage’ means the percent-
19 age (not exceeding 50 percent) determined by multiply-
20 ing—

21 “(1) 3 percent, by

22 “(2) the number of years in the holding period
23 of the taxpayer with respect to the timber.

24 “(d) ESTATES AND TRUSTS.—In the case of an es-
25 tate or trust, the deduction under subsection (a) shall be

1 computed by excluding the portion (if any) of the gains
2 for the taxable year from sales or exchanges of capital as-
3 sets which, under sections 652 and 662 (relating to inclu-
4 sions of amounts in gross income of beneficiaries of
5 trusts), is includible by the income beneficiaries as gain
6 derived from the sale or exchange of capital assets.”

7 (b) COORDINATION WITH EXISTING LIMITATIONS.—

8 (1) Subsection (h) of section 1 of such Code
9 (relating to maximum capital gains rate) is amended
10 by inserting after “net capital gain” each place it
11 appears the following: “(other than qualified timber
12 gain with respect to which an election is made under
13 section 1203)”.

14 (2) Subsection (a) of section 1201 of such Code
15 (relating to alternative tax for corporations) is
16 amended by inserting after “net capital gain” each
17 place it appears the following: “(other than qualified
18 timber gain with respect to which an election is
19 made under section 1203)”.

20 (c) ALLOWANCE OF DEDUCTION IN COMPUTING AD-
21 JUSTED GROSS INCOME.—Subsection (a) of section 62 of
22 such Code (relating to definition of adjusted gross income)
23 is amended by adding after paragraph (15) the following
24 new paragraph:

1 “(16) PARTIAL INFLATION ADJUSTMENT FOR
2 TIMBER.—The deduction allowed by section 1203.”

3 (d) CONFORMING AMENDMENT.—The table of sec-
4 tions for part I of subchapter P of chapter 1 of such Code
5 is amended by adding at the end the following new item:

 “Sec. 1203. Partial inflation adjustment for timber.”

6 (e) EFFECTIVE DATE.—The amendments made by
7 this section shall apply to sales or exchanges after Decem-
8 ber 31, 1994.

9 **SEC. 3. APPLICATION OF PASSIVE LOSS LIMITATIONS TO**
10 **TIMBER ACTIVITIES.**

11 (a) IN GENERAL.—Treasury regulations sections
12 1.469–5T(b)(2) (ii) and (iii) shall not apply to any closely
13 held timber activity if the nature of such activity is such
14 that the aggregate hours devoted to management of the
15 activity for any year is generally less than 100 hours.

16 (b) DEFINITIONS.—For purposes of subsection (a)—

17 (1) CLOSELY HELD ACTIVITY.—An activity
18 shall be treated as closely held if at least 80 percent
19 of the ownership interests in the activity is held—

20 (A) by 5 or fewer individuals, or

21 (B) by individuals who are members of the
22 same family (within the meaning of section
23 2032A(e)(2) of the Internal Revenue Code of
24 1986).

1 An interest in a limited partnership shall in no event
2 be treated as a closely held activity for purposes of
3 this section.

4 (2) TIMBER ACTIVITY.—The term “timber ac-
5 tivity” means the planting, cultivating, caring, cut-
6 ting, or preparation (other than milling) for market,
7 of trees.

8 (c) EFFECTIVE DATE.—The amendments made by
9 this section shall apply to taxable years beginning after
10 December 31, 1994.

11 **SEC. 4. AMORTIZATION OF REFORESTATION EXPENDI-**
12 **TURES AND REFORESTATION TAX CREDIT.**

13 (a) INCREASE IN MAXIMUM AMORTIZABLE
14 AMOUNT.—Paragraph (1) of section 194(b) of the Inter-
15 nal Revenue Code of 1986 (relating to maximum dollar
16 amount) is amended—

17 (1) by striking “The aggregate” and inserting
18 “(A) IN GENERAL.—The aggregate”,

19 (2) by striking “\$10,000 (\$5,000” and insert-
20 ing “\$20,000 (\$10,000”, and

21 (3) by adding at the end the following new sub-
22 paragraph:

23 “(B) INFLATION ADJUSTMENT.—

24 “(i) IN GENERAL.—In the case of any
25 taxable year beginning in a calendar year

1 after 1995, each dollar amount contained
2 in subparagraph (A) shall be increased by
3 an amount equal to—

4 “(I) such dollar amount, multi-
5 plied by

6 “(II) the cost-of-living adjust-
7 ment under section 1(f)(3) for the cal-
8 endar year in which the taxable year
9 begins, determined by substituting
10 ‘calendar year 1994’ for ‘calendar
11 year 1992’ in subparagraph (B) of
12 such section.

13 “(ii) ROUNDING.—If any increase de-
14 termined under clause (i) is not a multiple
15 of \$50, such amount shall be rounded to
16 the next lowest multiple of \$50.”

17 (b) DECREASE IN AMORTIZATION PERIOD.—

18 (1) IN GENERAL.—Section 194(a) of such Code
19 is amended by striking “84 months” and inserting
20 “60 months”.

21 (2) CONFORMING AMENDMENT.—Section
22 194(a) of such Code is amended by striking “84-
23 month period” and inserting “60-month period”.

1 (c) AVAILABILITY OF DEDUCTION AND CREDIT TO
2 TRUSTS.—Subsection (b) of section 194 of such Code is
3 amended—

4 (1) by striking paragraph (3) and redesignating
5 paragraph (4) as paragraph (3), and

6 (2) in paragraph (3) (as so redesignated)—

7 (A) by inserting “AND TRUSTS” after “ES-
8 TATES” in the heading, and

9 (B) by inserting “and trusts” after “es-
10 tates” in the text.

11 (d) EFFECTIVE DATE.—

12 (1) AMORTIZATION PROVISIONS.—Except as
13 provided in paragraph (2), the amendments made by
14 this section shall apply to additions to capital ac-
15 count made after December 31, 1994.

16 (2) TAX CREDIT PROVISIONS.—In the case of
17 the reforestation credit under section 48(b) of the
18 Internal Revenue Code of 1986, the amendments
19 made by this section shall apply to property acquired
20 after December 31, 1994.

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