Ballenger	Gilchrest	Nethercutt
Barr	Gillmor	Neumann
Barrett (NE)	Gilman	Ney
Bass	Gingrich	Norwood
Bateman	Goodlatte	Nussle
Bereuter	Goodling	Oxley
Bilbray	Goss	Packard
Bilirakis	Graham	Parker
Blute	Greene (UT)	Paxon
Boehlert	Greenwood	Petri
Boehner	Gunderson	Pombo
Bonilla	Gutknecht	Porter
Bono	Hansen	Portman
Brownback	Hastert	Pryce
Bryant (TN)	Hastings (WA)	Quillen
Bunn	Hayes	Quinn
Burr	Hayworth	Radanovich
Burton	Hefley	Ramstad
Buyer	Heineman	Regula
Callahan	Herger	Riggs
Calvert	Hilleary	Roberts
Camp	Hobson	Rogers
Campbell	Hoekstra	Rohrabacher
Canady	Hoke	Ros-Lehtinen
Castle	Horn	Roth
Chabot	Hostettler	Roukema
Chambliss	Houghton	Royce
Chenoweth	Hunter	Sanford
Chrysler	Hutchinson	Saxton
Clinger	Hyde	Schaefer
Coble	Inglis	Schiff
Coburn	Istook	Seastrand
Collins (GA)	Johnson (CT)	Sensenbrenner
Combest	Johnson, Sam	Shaw
Cooley	Jones	Shays
Cox	Kasich	Shuster
Crane	Kelly	Skeen
Crapo	Kim	Smith (MI)
Cremeans	King	Smith (NJ)
Cunningham	Kingston	Smith (TX)
Davis	Klug	Smith (WA)
Deal	Knollenberg	Solomon
DeLay	Kolbe	Spence
Diaz-Balart	LaHood	Stearns
Doolittle	Latham	Stockman
Dornan	LaTourette	Stump
Dreier	Laughlin	Talent
Duncan	Lazio	Tate
Dunn	Leach	Tauzin
Ehlers	Lewis (CA)	Taylor (NC)
Ehrlich	Lightfoot	Thomas
Emerson	Linder	Thornberry
English	Livingston	Tiahrt
Ensign	LoBiondo	Torkildsen
Everett	Longley	Upton
Ewing	Lucas	Vucanovich
Fawell	Manzullo	Walker
Fields (TX)	Martini	Walsh
Flanagan	McCollum	Wamp
Foley	McCrery	Watts (OK)
Forbes	McDade	Weldon (FL)
Fowler	McHugh	Weldon (PA)
Fox	McInnis	Weller
Franks (CT)	McKeon	White
Franks (NJ)	Metcalf	Whitfield
Frelinghuysen	Meyers	Wicker
Frisa	Mica	Wolf
Funderburk	Miller (FL)	Young (AK)
Gallegly	Moorhead	Young (FL)
Ganske	Morella	Zeliff
Gekas	Myrick	Zimmer

NAYS—211

Abercrombie	Chapman	Doggett
Ackerman	Christensen	Dooley
Andrews	Clay	Doyle
Baesler	Clayton	Durbin
Baldacci	Clement	Edwards
Barcia	Clyburn	Engel
Barrett (WI)	Coleman	Eshoo
Bartlett	Collins (IL)	Evans
Barton	Collins (MI)	Farr
Becerra	Condit	Fattah
Beilenson	Conyers	Fazio
Bentsen	Costello	Fields (LA)
Berman	Coyne	Filner
Bevill	Cramer	Flake
Bishop	Cubin	Foglietta
Bonior	Cummings	Ford
Borski	Danner	Frank (MA)
Boucher	de la Garza	Frost
Brewster	DeFazio	Furse
Browder	DeLauro	Gejdenson
Brown (CA)	Dellums	Gephardt
Brown (FL)	Deutsch	Geren
Brown (OH)	Dickey	Gibbons
Bryant (TX)	Dicks	Gonzalez
Bunning	Dingell	Gordon
Cardin	Dixon	Green (TX)
Gutierrez	McCarthy	Rush
Hall (OH)	McDermott	Sabo
Hall (TX)	McHale	Salmon
Hamilton	McIntosh	Sanders
Hancock	McKinney	Sawyer
Harman	McNulty	Schroeder
Hastings (FL)	Meehan	Schumer
Hefner	Meek	Scott
Hilliard	Menendez	Serrano
Hinchey	Millender-McDonald	Shadegg
Holden	Miller (CA)	Sisisky
Hoyer	Minge	Skaggs
Jackson (IL)	Mink	Skelton
Jackson-Lee (TX)	Moakley	Slaughter
Jacobs	Mollohan	Souder
Jefferson	Montgomery	Spratt
Johnson (SD)	Moran	Stark
Johnson, E. B.	Murtha	Stenholm
Johnston	Myers	Stokes
Kanjorski	Nadler	Studds
Kaptur	Neal	Stupak
Kennedy (MA)	Oberstar	Tanner
Kennedy (RI)	Obey	Taylor (MS)
Kennelly	Olver	Tejeda
Kildee	Ortiz	Thompson
Kleczka	Orton	Thornton
Klink	Owens	Thurman
LaFalce	Pallone	Torres
Lantos	Pastor	Torricelli
Largent	Payne (NJ)	Towns
Levin	Pelosi	Traficant
Lewis (GA)	Peterson (FL)	Velazquez
Lewis (KY)	Peterson (MN)	Vento
Lincoln	Pickett	Visclosky
Lipinski	Pomeroy	Volkmer
Lofgren	Poshard	Ward
Lowey	Rahall	Waters
Luther	Rangel	Watt (NC)
Maloney	Reed	Waxman
Manton	Richardson	Williams
Markey	Rivers	Wilson
Martinez	Roemer	Wise
Mascara	Rose	Woolsey
Matsui	Roybal-Allard	Wynn
		Yates

NOT VOTING—4

Bliley	Payne (VA)
Molinari	Scarborough

□ 1840

The Clerk announced the following pair:

On this vote:

Mr. Scarborough for, with Mr. Payne of Virginia against.

Mr. SHADEGG changed his vote from ''yea'' to ''nay.''

Mr. CRANE changed his vote from ''nay'' to ''yea.''

So the resolution was agreed to.

The result of the vote was announced as above recorded.

A motion to reconsider was laid on the table.

PERMISSION FOR COMMITTEE ON APPROPRIATIONS TO HAVE UNTIL MIDNIGHT THURSDAY, MAY 23, 1996, TO FILE A PRIVILEGED REPORT ON MILITARY CONSTRUCTION APPROPRIATIONS BILL, 1997

Mrs. VUCANOVICH. Mr. Speaker, I ask unanimous consent that the Committee on Appropriations may have until midnight, Thursday, May 23, 1996, to file a privileged report on a bill making appropriations for military construction for the Department of Defense for the fiscal year ending September 30, 1997, and for other purposes.

The SPEAKER pro tempore (Mr. HOBSON). Is there objection to the request of the gentlewoman from Nevada?

There was no objection.

The SPEAKER pro tempore. All points of order are reserved.

SMALL BUSINESS JOB PROTECTION ACT OF 1996

Mr. ARCHER. Mr. Speaker, pursuant to House Resolution 440, I call up the bill (H.R. 3448) to provide tax relief for small businesses, to protect jobs, to create opportunities, to increase the take home pay of workers, and for other purposes, and ask for its immediate consideration in the House.

The Clerk read the title of the bill.

The SPEAKER pro tempore (Mr. WALKER). Pursuant to House Resolution 440, the Committee amendment in the nature of a substitute printed in the bill is considered read.

The text of the committee amendment in the nature of a substitute is as follows:

H.R. 3448

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

SECTION 1. SHORT TITLE; TABLE OF CONTENTS.

(a) SHORT TITLE.—This Act may be cited as the ''Small Business Job Protection Act of 1996''.

(b) TABLE OF CONTENTS.—

(C)(ii), such pool takes such action as may be reasonably necessary to remove such member from such pool.

''(4) OTHER DEFINITIONS.—For purposes of this subsection—

''(A) STARTUP CAPITAL.—The term 'startup capital' means any capital contributed to, and any program-related investments (within the meaning of section 4944(c)) made in, the risk pool before such pool commences operations.

''(B) NONMEMBER CHARITABLE ORGANIZATION.—The term 'nonmember charitable organization' means any organization which is described in subsection (c)(3) and exempt from tax under subsection (a) and which is not a member of the risk pool and does not benefit (directly or indirectly) from the insurance coverage provided by the pool to its members.''

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

SEC. 1115. TREATMENT OF DUES PAID TO AGRICULTURAL OR HORTICULTURAL ORGANIZATIONS.

(a) GENERAL RULE.—Section 512 (defining unrelated business taxable income) is amended by adding at the end thereof the following new subsection:

''(d) TREATMENT OF DUES OF AGRICULTURAL OR HORTICULTURAL ORGANIZATIONS.—

''(1) IN GENERAL.—If—

''(A) an agricultural or horticultural organization described in section 501(c)(5) requires annual dues to be paid in order to be a member of such organization, and

''(B) the amount of such required annual dues does not exceed $100,

in no event shall any portion of such dues be treated as derived by such organization from an unrelated trade or business by reason of any benefits or privileges to which members of such organization are entitled.

''(2) INDEXATION OF $100 AMOUNT.—In the case of any taxable year beginning in a calendar year after 1995, the $100 amount in paragraph (1) shall be increased by an amount equal to—

''(A) $100, multiplied by

''(B) the cost-of-living adjustment determined under section 1(f)(3) for the calendar year in which the taxable year begins, by substituting 'calendar year 1994' for 'calendar year 1992' in subparagraph (B) thereof.

''(3) DUES.—For purposes of this subsection, the term 'dues' includes any payment required to be made in order to be recognized by the organization as a member of the organization.''

(b) EFFECTIVE DATE.—The amendment made by subsection (a) shall apply to taxable years beginning after December 31, 1994.

SEC. 1116. CLARIFICATION OF EMPLOYMENT TAX STATUS OF CERTAIN FISHERMEN; INFORMATION REPORTING.

(a) CLARIFICATION OF EMPLOYMENT TAX STATUS.—

(1) AMENDMENTS OF INTERNAL REVENUE CODE OF 1986.—

(A) DETERMINATION OF SIZE OF CREW.—Subsection (b) of section 3121 (defining employment) is amended by adding at the end thereof the following new sentence:

''For purposes of paragraph (20), the operating crew of a boat shall be treated as normally made up of fewer than 10 individuals if the average size of the operating crew on trips made during the preceding 4 calendar quarters consisted of fewer than 10 individuals.''

(B) CERTAIN CASH REMUNERATION PERMITTED.—Subparagraph (A) of section 3121(b)(20) is amended to read as follows:

''(A) such individual does not receive any cash remuneration other than as provided in subparagraph (B) and other than cash remuneration—

''(i) which does not exceed $100 per trip;

''(ii) which is contingent on a minimum catch; and

''(iii) which is paid solely for additional duties (such as mate, engineer, or cook) for which additional cash remuneration is traditional in the industry,''.

(C) CONFORMING AMENDMENT.—Section 6050A(a) is amended by striking ''and'' at the end of paragraph (3), by striking the period at the end of paragraph (4) and inserting ''; and'', and by adding at the end thereof the following new paragraph:

''(5) any cash remuneration described in section 3121(b)(20)(A).''

(2) AMENDMENT OF SOCIAL SECURITY ACT.—

(A) DETERMINATION OF SIZE OF CREW.—Subsection (a) of section 210 of the Social Security Act is amended by adding at the end thereof the following new sentence:

''For purposes of paragraph (20), the operating crew of a boat shall be treated as normally made up of fewer than 10 individuals if the average size of the operating crew on trips made during the preceding 4 calendar quarters consisted of fewer than 10 individuals.''

(B) CERTAIN CASH REMUNERATION PERMITTED.—Subparagraph (A) of section 210(a)(20) of such Act is amended to read as follows:

''(A) such individual does not receive any additional compensation other than as provided in subparagraph (B) and other than cash remuneration—

''(i) which does not exceed $100 per trip;

''(ii) which is contingent on a minimum catch; and

''(iii) which is paid solely for additional duties (such as mate, engineer, or cook) for which additional cash remuneration is traditional in the industry,''.

(3) EFFECTIVE DATE.—

(A) IN GENERAL.—The amendments made by this subsection shall apply to remuneration paid after December 31, 1996.

(B) SPECIAL RULE.—The amendments made by this subsection (other than paragraph (1)(C)) shall also apply to remuneration paid after December 31, 1984, and before January 1, 1997, unless the payor treated such remuneration (when paid) as being subject to tax under chapter 21 of the Internal Revenue Code of 1986.

(b) INFORMATION REPORTING.—

(1) IN GENERAL.—Subpart B of part III of subchapter A of chapter 68 (relating to information concerning transactions with other persons) is amended by adding at the end the following new section:

''SEC. 6050Q. RETURNS RELATING TO CERTAIN PURCHASES OF FISH.

''(a) REQUIREMENT OF REPORTING.—Every person—

''(1) who is engaged in the trade or business of purchasing fish for resale from any person engaged in the trade or business of catching fish; and

''(2) who makes payments in cash in the course of such trade or business to such a person of $600 or more during any calendar year for the purchase of fish,

shall make a return (at such times as the Secretary may prescribe) described in subsection (b) with respect to each person to whom such a payment was made during such calendar year.

''(b) RETURN.—A return is described in this subsection if such return—

''(1) is in such form as the Secretary may prescribe, and

''(2) contains—

''(A) the name, address, and TIN of each person to whom a payment described in subsection (a)(2) was made during the calendar year;

''(B) the aggregate amount of such payments made to such person during such calendar year and the date and amount of each such payment, and

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

''(c) STATEMENT TO BE FURNISHED WITH RESPECT TO WHOM INFORMATION IS REQUIRED.—Every person required to make a return under subsection (a) shall furnish to each person whose name is required to be set forth in such return a written statement showing—

''(1) the name and address of the person required to make such a return, and

''(2) the aggregate amount of payments to the person required to be shown on the return.

The written statement required under the preceding sentence shall be furnished to the person on or before January 31 of the year following the calendar year for which the return under subsection (a) is required to be made.

''(d) DEFINITIONS.—For purposes of this section:

''(1) CASH.—The term 'cash' has the meaning given such term by section 6050I(d).

''(2) FISH.—The term 'fish' includes other forms of aquatic life.''.

(2) TECHNICAL AMENDMENTS.—

(A) Subparagraph (A) of section 6724(d)(1) is amended by striking ''or'' at the end of clause (vi), by striking ''and'' at the end of clause (vii) and inserting ''or'', and by adding at the end the following new clause:

''(viii) section 6050Q (relating to returns relating to certain purchases of fish), and''.

(B) Paragraph (2) of section 6724(d) is amended by redesignating subparagraphs (Q) through (T) as subparagraphs (R) through (U), respectively, and by inserting after subparagraph (P) the following new subparagraph:

''(Q) section 6050Q(c) (relating to returns relating to certain purchases of fish),''.

(C) The table of sections for subpart B of part III of subchapter A of chapter 68 is amended by adding at the end the following new item:

''Sec. 6050Q. Returns relating to certain purchases of fish.''.

(3) EFFECTIVE DATE.—The amendments made by this subsection shall apply to payments made after December 31, 1996.

Subtitle B—Extension of Certain Expiring Provisions

SEC. 1201. WORK OPPORTUNITY TAX CREDIT.

(a) AMOUNT OF CREDIT.—Subsection (a) of section 51 (relating to amount of credit) is amended by striking ''40 percent'' and inserting ''35 percent''.

(b) MEMBERS OF TARGETED GROUPS.—Subsection (d) of section 51 is amended to read as follows:

''(d) MEMBERS OF TARGETED GROUPS.—For purposes of this subpart—

''(1) IN GENERAL.—An individual is a member of a targeted group if such individual is—

''(A) a qualified IV–A recipient,

''(B) a qualified veteran,

''(C) a qualified ex-felon,

''(D) a high-risk youth,

''(E) a vocational rehabilitation referral, or

''(F) a qualified summer youth employee.

''(2) QUALIFIED IV–A RECIPIENT.—

''(A) IN GENERAL.—The term 'qualified IV–A recipient' means any individual who is certified by the designated local agency as being a member of a family receiving assistance under a IV–A program for at least a 9-month period ending during the 9-month period ending on the hiring date.

''(B) IV–A PROGRAM.—For purposes of this paragraph, the term 'IV–A program' means any program providing assistance under a State plan approved under part A of title IV of the Social Security Act (relating to assistance for needy families with minor children) and any successor of such program.

''(3) QUALIFIED VETERAN.—

''(A) IN GENERAL.—The term 'qualified veteran' means any veteran who is certified by the designated local agency as being—

''(i) a member of a family receiving assistance under a IV–A program (as defined in paragraph (2)(B)) for at least a 9-month period ending during the 12-month period ending on the hiring date, or

''(ii) a member of a family receiving assistance under a food stamp program under the Food

Stamp Act of 1977 for at least a 3-month period ending during the 12-month period ending on the hiring date.

''(B) VETERAN.—For purposes of subparagraph (A), the term 'veteran' means any individual who is certified by the designated local agency as—

''(i)(I) having served on active duty (other than active duty for training) in the Armed Forces of the United States for a period of more than 180 days, or

''(II) having been discharged or released from active duty in the Armed Forces of the United States for a service-connected disability, and

''(ii) not having any day during the 60-day period ending on the hiring date which was a day of extended active duty in the Armed Forces of the United States.

For purposes of clause (ii), the term 'extended active duty' means a period of more than 90 days during which the individual was on active duty (other than active duty for training).

''(4) QUALIFIED EX-FELON.—The term 'qualified ex-felon' means any individual who is certified by the designated local agency—

''(A) as having been convicted of a felony under any statute of the United States or any State,

''(B) as having a hiring date which is not more than 1 year after the last date on which such individual was so convicted or was released from prison, and

''(C) as being a member of a family which had an income during the 6 months immediately preceding the earlier of the month in which such income determination occurs or the month in which the hiring date occurs, which, on an annual basis, would be 70 percent or less of the Bureau of Labor Statistics lower living standard.

Any determination under subparagraph (C) shall be valid for the 45-day period beginning on the date such determination is made.

''(5) HIGH-RISK YOUTH.—

''(A) IN GENERAL.—The term 'high-risk youth' means any individual who is certified by the designated local agency—

''(i) as having attained age 18 but not age 25 on the hiring date, and

''(ii) as having his principal place of abode within an empowerment zone or enterprise community.

''(B) YOUTH MUST CONTINUE TO RESIDE IN ZONE.—In the case of a high-risk youth, the term 'qualified wages' shall not include wages paid or incurred for services performed while such youth's principal place of abode is outside an empowerment zone or enterprise community.

''(6) VOCATIONAL REHABILITATION REFERRAL.—The term 'vocational rehabilitation referral' means any individual who is certified by the designated local agency as—

''(A) having a physical or mental disability which, for such individual, constitutes or results in a substantial handicap to employment, and

''(B) having been referred to the employer upon completion of (or while receiving) rehabilitative services pursuant to—

''(i) an individualized written rehabilitation plan under a State plan for vocational rehabilitation services approved under the Rehabilitation Act of 1973, or

''(ii) a program of vocational rehabilitation carried out under chapter 31 of title 38, United States Code.

''(7) QUALIFIED SUMMER YOUTH EMPLOYEE.—

''(A) IN GENERAL.—The term 'qualified summer youth employee' means any individual—

''(i) who performs services for the employer between May 1 and September 15,

''(ii) who is certified by the designated local agency as having attained age 16 but not 18 on the hiring date (or if later, on May 1 of the calendar year involved),

''(iii) who has not been an employee of the employer during any period prior to the 90-day period described in subparagraph (B)(i), and

''(iv) who is certified by the designated local agency as having his principal place of abode within an empowerment zone or enterprise community.

''(B) SPECIAL RULES FOR DETERMINING AMOUNT OF CREDIT.—For purposes of applying this subpart to wages paid or incurred to any qualified summer youth employee—

''(i) subsection (b)(2) shall be applied by substituting 'any 90-day period between May 1 and September 15' for 'the 1-year period beginning with the day the individual begins work for the employer', and

''(ii) subsection (b)(3) shall be applied by substituting '$3,000' for '$6,000'.

The preceding sentence shall not apply to an individual who, with respect to the same employer, is certified as a member of another targeted group after such individual has been a qualified summer youth employee.

''(C) YOUTH MUST CONTINUE TO RESIDE IN ZONE.—Paragraph (5)(B) shall apply for purposes of this paragraph.

''(8) HIRING DATE.—The term 'hiring date' means the day the individual is hired by the employer.

''(9) DESIGNATED LOCAL AGENCY.—The term 'designated local agency' means a State employment security agency established in accordance with the Act of June 6, 1933, as amended (29 U.S.C. 49-49n).

''(10) SPECIAL RULES FOR CERTIFICATIONS.—

''(A) IN GENERAL.—An individual shall not be treated as a member of a targeted group unless—

''(i) on or before the day on which such individual begins work for the employer, the employer has received a certification from a designated local agency that such individual is a member of a targeted group, or

''(ii)(I) on or before the day the individual is offered employment with the employer, a prescreening notice is completed by the employer with respect to such individual, and

''(II) not later than the 14th day after the individual begins work for the employer, the employer submits such notice, signed by the employer and the individual under penalties of perjury, to the designated local agency as part of a written request for such a certification from such agency.

For purposes of this paragraph, the term 'prescreening notice' means a document (in such form as the Secretary shall prescribe) which contains information provided by the individual on the basis of which the employer believes that the individual is a member of a targeted group.

''(B) INCORRECT CERTIFICATIONS.—If—

''(i) an individual has been certified by a designated local agency as a member of a targeted group, and

''(ii) such certification is incorrect because it was based on false information provided by such individual,

the certification shall be revoked and wages paid by the employer after the date on which notice of revocation is received by the employer shall not be treated as qualified wages.

''(C) EXPLANATION OF DENIAL OF REQUEST.—If a designated local agency denies a request for certification of membership in a targeted group, such agency shall provide to the person making such request a written explanation of the reasons for such denial.''

(c) MINIMUM EMPLOYMENT PERIOD.—Paragraph (3) of section 51(i) (relating to certain individuals ineligible) is amended to read as follows:

''(3) INDIVIDUALS NOT MEETING MINIMUM EMPLOYMENT PERIOD.—No wages shall be taken into account under subsection (a) with respect to any individual unless such individual either—

''(A) is employed by the employer at least 180 days (20 days in the case of a qualified summer youth employee), or

''(B) has completed at least 500 hours (120 hours in the case of a qualified summer youth employee) of services performed for the employer.''

(d) TERMINATION.—Paragraph (4) of section 51(c) (relating to wages defined) is amended to read as follows:

''(4) TERMINATION.—The term 'wages' shall not include any amount paid or incurred to an individual who begins work for the employer—

''(A) after December 31, 1994, and before July 1, 1996, or

''(B) after June 30, 1997.''

(e) REDESIGNATION OF CREDIT.—

(1) Sections 38(b)(2) and 51(a) are each amended by striking ''targeted jobs credit'' and inserting ''work opportunity credit''.

*(2) The subpart heading for subpart F of part IV of subchapter A of chapter 1 is amended by striking ''**Targeted Jobs Credit**'' and inserting ''**Work Opportunity Credit**''.*

(3) The table of subparts for such part IV is amended by striking ''targeted jobs credit'' and inserting ''work opportunity credit''.

(4) The heading for paragraph (3) of section 1396(c) is amended by striking ''TARGETED JOBS CREDIT'' and inserting ''WORK OPPORTUNITY CREDIT''.

(f) TECHNICAL AMENDMENT.—Paragraph (1) of section 51(c) is amended by striking '', subsection (d)(8)(D),''.

(g) EFFECTIVE DATE.—The amendments made by this section shall apply to individuals who begin work for the employer after June 30, 1996.

SEC. 1202. EMPLOYER-PROVIDED EDUCATIONAL ASSISTANCE PROGRAMS.

(a) EXTENSION.—Subsection (d) of section 127 (relating to educational assistance programs) is amended by striking ''December 31, 1994'' and inserting ''December 31, 1996''.

(b) LIMITATION TO EDUCATION BELOW GRADUATE LEVEL.—The last sentence of section 127(c)(1) is amended by inserting before the period ''or at the graduate level''.

(c) EFFECTIVE DATES.—

(1) EXTENSION.—The amendment made by subsection (a) shall apply to taxable years beginning after December 31, 1994.

(2) LIMITATION.—The amendment made by subsection (b) shall apply to taxable years beginning after December 31, 1995.

(3) EXPEDITED PROCEDURES.—The Secretary of the Treasury shall establish expedited procedures for the refund of any overpayment of taxes imposed by chapter 24 of the Internal Revenue Code of 1986 which is attributable to amounts excluded from gross income during 1995 or 1996 under section 127 of such Code, including procedures waiving the requirement that an employer obtain an employee's signature where the employer demonstrates to the satisfaction of the Secretary that any refund collected by the employer on behalf of the employee will be paid to the employee.

SEC. 1203. FUTA EXEMPTION FOR ALIEN AGRICULTURAL WORKERS.

(a) IN GENERAL.—Subparagraph (B) of section 3306(c)(1) (defining employment) is amended by striking ''before January 1, 1995,''.

(b) EFFECTIVE DATE.—The amendment made by subsection (a) shall apply to services performed after December 31, 1994.

Subtitle C—Provisions Relating to S Corporations

SEC. 1301. S CORPORATIONS PERMITTED TO HAVE 75 SHAREHOLDERS.

Subparagraph (A) of section 1361(b)(1) (defining small business corporation) is amended by striking ''35 shareholders'' and inserting ''75 shareholders''.

SEC. 1302. ELECTING SMALL BUSINESS TRUSTS.

(a) GENERAL RULE.—Subparagraph (A) of section 1361(c)(2) (relating to certain trusts permitted as shareholders) is amended by inserting after clause (iv) the following new clause:

''(v) An electing small business trust.''

(b) CURRENT BENEFICIARIES TREATED AS SHAREHOLDERS.—Subparagraph (B) of section 1361(c)(2) is amended by adding at the end the following new clause:

''(v) In the case of a trust described in clause (v) of subparagraph (A), each potential current beneficiary of such trust shall be treated as a shareholder; except that, if for any period there is no potential current beneficiary of such trust, such trust shall be treated as the shareholder during such period.''

(c) ELECTING SMALL BUSINESS TRUST DEFINED.—Section 1361 (defining S corporation) is amended by adding at the end the following new subsection:

''(e) ELECTING SMALL BUSINESS TRUST DEFINED.—

''(1) ELECTING SMALL BUSINESS TRUST.—For purposes of this section—

''(A) IN GENERAL.—Except as provided in subparagraph (B), the term 'electing small business trust' means any trust if—

''(i) such trust does not have as a beneficiary any person other than (I) an individual, (II) an estate, or (III) an organization described in paragraph (2), (3), (4), or (5) of section 170(c) which holds a contingent interest and is not a potential current beneficiary,

''(ii) no interest in such trust was acquired by purchase, and

''(iii) an election under this subsection applies to such trust.

''(B) CERTAIN TRUSTS NOT ELIGIBLE.—The term 'electing small business trust' shall not include—

''(i) any qualified subchapter S trust (as defined in subsection (d)(3)) if an election under subsection (d)(2) applies to any corporation the stock of which is held by such trust, and

''(ii) any trust exempt from tax under this subtitle.

''(C) PURCHASE.—For purposes of subparagraph (A), the term 'purchase' means any acquisition if the basis of the property acquired is determined under section 1012.

''(2) POTENTIAL CURRENT BENEFICIARY.—For purposes of this section, the term 'potential current beneficiary' means, with respect to any period, any person who at any time during such period is entitled to, or at the discretion of any person may receive, a distribution from the principal or income of the trust. If a trust disposes of all of the stock which it holds in an S corporation, then, with respect to such corporation, the term 'potential current beneficiary' does not include any person who first met the requirements of the preceding sentence during the 60-day period ending on the date of such disposition.

''(3) ELECTION.—An election under this subsection shall be made by the trustee. Any such election shall apply to the taxable year of the trust for which made and all subsequent taxable years of such trust unless revoked with the consent of the Secretary.

''(4) CROSS REFERENCE.—

''For special treatment of electing small business trusts, see section 641(d).''

(d) TAXATION OF ELECTING SMALL BUSINESS TRUSTS.—Section 641 (relating to imposition of tax on trusts) is amended by adding at the end the following new subsection:

''(d) SPECIAL RULES FOR TAXATION OF ELECTING SMALL BUSINESS TRUSTS.—

''(1) IN GENERAL.—For purposes of this chapter—

''(A) the portion of any electing small business trust which consists of stock in 1 or more S corporations shall be treated as a separate trust, and

''(B) the amount of the tax imposed by this chapter on such separate trust shall be determined with the modifications of paragraph (2).

''(2) MODIFICATIONS.—For purposes of paragraph (1), the modifications of this paragraph are the following:

''(A) Except as provided in section 1(h), the amount of the tax imposed by section 1(e) shall be determined by using the highest rate of tax set forth in section 1(e).

''(B) The exemption amount under section 55(d) shall be zero.

''(C) The only items of income, loss, deduction, or credit to be taken into account are the following:

''(i) The items required to be taken into account under section 1366.

''(ii) Any gain or loss from the disposition of stock in an S corporation.

''(iii) To the extent provided in regulations, State or local income taxes or administrative expenses to the extent allocable to items described in clauses (i) and (ii).

No deduction or credit shall be allowed for any amount not described in this paragraph, and no item described in this paragraph shall be apportioned to any beneficiary.

''(D) No amount shall be allowed under paragraph (1) or (2) of section 1211(b).

''(3) TREATMENT OF REMAINDER OF TRUST AND DISTRIBUTIONS.—For purposes of determining—

''(A) the amount of the tax imposed by this chapter on the portion of any electing small business trust not treated as a separate trust under paragraph (1), and

''(B) the distributable net income of the entire trust,

the items referred to in paragraph (2)(C) shall be excluded. Except as provided in the preceding sentence, this subsection shall not affect the taxation of any distribution from the trust.

''(4) TREATMENT OF UNUSED DEDUCTIONS WHERE TERMINATION OF SEPARATE TRUST.—If a portion of an electing small business trust ceases to be treated as a separate trust under paragraph (1), any carryover or excess deduction of the separate trust which is referred to in section 642(h) shall be taken into account by the entire trust.

''(5) ELECTING SMALL BUSINESS TRUST.—For purposes of this subsection, the term 'electing small business trust' has the meaning given such term by section 1361(e)(1).''

(e) TECHNICAL AMENDMENT.—Paragraph (1) of section 1366(a) is amended by inserting '', or of a trust or estate which terminates,'' after ''who dies''.

SEC. 1303. EXPANSION OF POST-DEATH QUALIFICATION FOR CERTAIN TRUSTS.

Subparagraph (A) of section 1361(c)(2) (relating to certain trusts permitted as shareholders) is amended—

(1) by striking ''60-day period'' each place it appears in clauses (ii) and (iii) and inserting ''2-year period'', and

(2) by striking the last sentence in clause (ii).

SEC. 1304. FINANCIAL INSTITUTIONS PERMITTED TO HOLD SAFE HARBOR DEBT.

Clause (iii) of section 1361(c)(5)(B) (defining straight debt) is amended by striking ''or a trust described in paragraph (2)'' and inserting ''a trust described in paragraph (2), or a person which is actively and regularly engaged in the business of lending money''.

SEC. 1305. RULES RELATING TO INADVERTENT TERMINATIONS AND INVALID ELECTIONS.

(a) GENERAL RULE.—Subsection (f) of section 1362 (relating to inadvertent terminations) is amended to read as follows:

''(f) INADVERTENT INVALID ELECTIONS OR TERMINATIONS.—If—

''(1) an election under subsection (a) by any corporation—

''(A) was not effective for the taxable year for which made (determined without regard to subsection (b)(2)) by reason of a failure to meet the requirements of section 1361(b) or to obtain shareholder consents, or

''(B) was terminated under paragraph (2) or (3) of subsection (d),

''(2) the Secretary determines that the circumstances resulting in such ineffectiveness or termination were inadvertent,

''(3) no later than a reasonable period of time after discovery of the circumstances resulting in such ineffectiveness or termination, steps were taken—

''(A) so that the corporation is a small business corporation, or

''(B) to acquire the required shareholder consents, and

''(4) the corporation, and each person who was a shareholder in the corporation at any time during the period specified pursuant to this subsection, agrees to make such adjustments (consistent with the treatment of the corporation as an S corporation) as may be required by the Secretary with respect to such period,

then, notwithstanding the circumstances resulting in such ineffectiveness or termination, such corporation shall be treated as an S corporation during the period specified by the Secretary.''

(b) LATE ELECTIONS, ETC.—Subsection (b) of section 1362 is amended by adding at the end the following new paragraph:

''(5) AUTHORITY TO TREAT LATE ELECTIONS, ETC., AS TIMELY.—If—

''(A) an election under subsection (a) is made for any taxable year (determined without regard to paragraph (3)) after the date prescribed by this subsection for making such election for such taxable year or no such election is made for any taxable year, and

''(B) the Secretary determines that there was reasonable cause for the failure to timely make such election,

the Secretary may treat such an election as timely made for such taxable year (and paragraph (3) shall not apply).''

(c) EFFECTIVE DATE.—The amendments made by subsection (a) and (b) shall apply with respect to elections for taxable years beginning after December 31, 1982.

SEC. 1306. AGREEMENT TO TERMINATE YEAR.

Paragraph (2) of section 1377(a) (relating to pro rata share) is amended to read as follows:

''(2) ELECTION TO TERMINATE YEAR.—

''(A) IN GENERAL.—Under regulations prescribed by the Secretary, if any shareholder terminates the shareholder's interest in the corporation during the taxable year and all affected shareholders and the corporation agree to the application of this paragraph, paragraph (1) shall be applied to the affected shareholders as if the taxable year consisted of 2 taxable years the first of which ends on the date of the termination.

''(B) AFFECTED SHAREHOLDERS.—For purposes of subparagraph (A), the term 'affected shareholders' means the shareholder whose interest is terminated and all shareholders to whom such shareholder has transferred shares during the taxable year. If such shareholder has transferred shares to the corporation, the term 'affected shareholders' shall include all persons who are shareholders during the taxable year.''

SEC. 1307. EXPANSION OF POST-TERMINATION TRANSITION PERIOD.

(a) IN GENERAL.—Paragraph (1) of section 1377(b) (relating to post-termination transition period) is amended by striking ''and'' at the end of subparagraph (A), by redesignating subparagraph (B) as subparagraph (C), and by inserting after subparagraph (A) the following new subparagraph:

''(B) the 120-day period beginning on the date of any determination pursuant to an audit of the taxpayer which follows the termination of the corporation's election and which adjusts a subchapter S item of income, loss, or deduction of the corporation arising during the S period (as defined in section 1368(e)(2)), and''.

(b) DETERMINATION DEFINED.—Paragraph (2) of section 1377(b) is amended by striking subparagraphs (A) and (B), by redesignating subparagraph (C) as subparagraph (B), and by inserting before subparagraph (B) (as so redesignated) the following new subparagraph:

''(A) a determination as defined in section 1313(a), or''.

(c) REPEAL OF SPECIAL AUDIT PROVISIONS FOR SUBCHAPTER S ITEMS.—

(1) GENERAL RULE.—Subchapter D of chapter 63 (relating to tax treatment of subchapter S items) is hereby repealed.

(2) CONSISTENT TREATMENT REQUIRED.—Section 6037 (relating to return of S corporation) is

amended by adding at the end the following new subsection:

''(c) SHAREHOLDER'S RETURN MUST BE CONSISTENT WITH CORPORATE RETURN OR SECRETARY NOTIFIED OF INCONSISTENCY.—

''(1) IN GENERAL.—A shareholder of an S corporation shall, on such shareholder's return, treat a subchapter S item in a manner which is consistent with the treatment of such item on the corporate return.

''(2) NOTIFICATION OF INCONSISTENT TREATMENT.—

''(A) IN GENERAL.—In the case of any subchapter S item, if—

''(i)(I) the corporation has filed a return but the shareholder's treatment on his return is (or may be) inconsistent with the treatment of the item on the corporate return, or

''(II) the corporation has not filed a return, and

''(ii) the shareholder files with the Secretary a statement identifying the inconsistency,

paragraph (1) shall not apply to such item.

''(B) SHAREHOLDER RECEIVING INCORRECT INFORMATION.—A shareholder shall be treated as having complied with clause (ii) of subparagraph (A) with respect to a subchapter S item if the shareholder—

''(i) demonstrates to the satisfaction of the Secretary that the treatment of the subchapter S item on the shareholder's return is consistent with the treatment of the item on the schedule furnished to the shareholder by the corporation, and

''(ii) elects to have this paragraph apply with respect to that item.

''(3) EFFECT OF FAILURE TO NOTIFY.—In any case—

''(A) described in subparagraph (A)(i)(I) of paragraph (2), and

''(B) in which the shareholder does not comply with subparagraph (A)(ii) of paragraph (2), any adjustment required to make the treatment of the items by such shareholder consistent with the treatment of the items on the corporate return shall be treated as arising out of mathematical or clerical errors and assessed according to section 6213(b)(1). Paragraph (2) of section 6213(b) shall not apply to any assessment referred to in the preceding sentence.

''(4) SUBCHAPTER S ITEM.—For purposes of this subsection, the term 'subchapter S item' means any item of an S corporation to the extent that regulations prescribed by the Secretary provide that, for purposes of this subtitle, such item is more appropriately determined at the corporation level than at the shareholder level.

''(5) ADDITION TO TAX FOR FAILURE TO COMPLY WITH SECTION.—

''For addition to tax in the case of a shareholder's negligence in connection with, or disregard of, the requirements of this section, see part II of subchapter A of chapter 68.''

(3) CONFORMING AMENDMENTS.—

(A) Section 1366 is amended by striking subsection (g).

(B) Subsection (b) of section 6233 is amended to read as follows:

''(b) SIMILAR RULES IN CERTAIN CASES.—If a partnership return is filed for any taxable year but it is determined that there is no entity for such taxable year, to the extent provided in regulations, rules similar to the rules of subsection (a) shall apply.''

(C) The table of subchapters for chapter 63 is amended by striking the item relating to subchapter D.

SEC. 1308. S CORPORATIONS PERMITTED TO HOLD SUBSIDIARIES.

(a) IN GENERAL.—Paragraph (2) of section 1361(b) (defining ineligible corporation) is amended by striking subparagraph (A) and by redesignating subparagraphs (B), (C), (D), and (E) as subparagraphs (A), (B), (C), and (D), respectively.

(b) TREATMENT OF CERTAIN WHOLLY OWNED S CORPORATION SUBSIDIARIES.—Section 1361(b) (defining small business corporation) is amended by adding at the end the following new paragraph:

''(3) TREATMENT OF CERTAIN WHOLLY OWNED SUBSIDIARIES.—

''(A) IN GENERAL.—For purposes of this title—

''(i) a corporation which is a qualified subchapter S subsidiary shall not be treated as a separate corporation, and

''(ii) all assets, liabilities, and items of income, deduction, and credit of a qualified subchapter S subsidiary shall be treated as assets, liabilities, and such items (as the case may be) of the S corporation.

''(B) QUALIFIED SUBCHAPTER S SUBSIDIARY.—For purposes of this paragraph, the term 'qualified subchapter S subsidiary' means any domestic corporation which is not an ineligible corporation (as defined in paragraph (2)), if—

''(i) 100 percent of the stock of such corporation is held by the S corporation, and

''(ii) the S corporation elects to treat such corporation as a qualified subchapter S subsidiary.

''(C) TREATMENT OF TERMINATIONS OF QUALIFIED SUBCHAPTER S SUBSIDIARY STATUS.—For purposes of this title, if any corporation which was a qualified subchapter S subsidiary ceases to meet the requirements of subparagraph (B), 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 S corporation in exchange for its stock.''

(c) CERTAIN DIVIDENDS NOT TREATED AS PASSIVE INVESTMENT INCOME.—Paragraph (3) of section 1362(d) is amended by adding at the end the following new subparagraph:

''(F) TREATMENT OF CERTAIN DIVIDENDS.—If an S corporation holds stock in a C corporation meeting the requirements of section 1504(a)(2), the term 'passive investment income' shall not include dividends from such C corporation to the extent such dividends are attributable to the earnings and profits of such C corporation derived from the active conduct of a trade or business.''

(d) CONFORMING AMENDMENTS.—

(1) Subsection (c) of section 1361 is amended by striking paragraph (6).

(2) Subsection (b) of section 1504 (defining includible corporation) is amended by adding at the end the following new paragraph:

''(8) An S corporation.''

SEC. 1309. TREATMENT OF DISTRIBUTIONS DURING LOSS YEARS.

(a) ADJUSTMENTS FOR DISTRIBUTIONS TAKEN INTO ACCOUNT BEFORE LOSSES.—

(1) Subparagraph (A) of section 1366(d)(1) (relating to losses and deductions cannot exceed shareholder's basis in stock and debt) is amended by striking ''paragraph (1)'' and inserting ''paragraphs (1) and (2)(A)''.

(2) Subsection (d) of section 1368 (relating to certain adjustments taken into account) is amended by adding at the end the following new sentence:

''In the case of any distribution made during any taxable year, the adjusted basis of the stock shall be determined with regard to the adjustments provided in paragraph (1) of section 1367(a) for the taxable year.''

(b) ACCUMULATED ADJUSTMENTS ACCOUNT.—Paragraph (1) of section 1368(e) (relating to accumulated adjustments account) is amended by adding at the end the following new subparagraph:

''(C) NET LOSS FOR YEAR DISREGARDED.—

''(i) IN GENERAL.—In applying this section to distributions made during any taxable year, the amount in the accumulated adjustments account as of the close of such taxable year shall be determined without regard to any net negative adjustment for such taxable year.

''(ii) NET NEGATIVE ADJUSTMENT.—For purposes of clause (i), the term 'net negative adjustment' means, with respect to any taxable year, the excess (if any) of—

''(I) the reductions in the account for the taxable year (other than for distributions), over

''(II) the increases in such account for such taxable year.''

(c) CONFORMING AMENDMENTS.—Subparagraph (A) of section 1368(e)(1) is amended—

(1) by striking ''as provided in subparagraph (B)'' and inserting ''as otherwise provided in this paragraph'', and

(2) by striking ''section 1367(b)(2)(A)'' and inserting ''section 1367(a)(2)''.

SEC. 1310. TREATMENT OF S CORPORATIONS UNDER SUBCHAPTER C.

Subsection (a) of section 1371 (relating to application of subchapter C rules) is amended to read as follows:

''(a) APPLICATION OF SUBCHAPTER C RULES.—Except as otherwise provided in this title, and except to the extent inconsistent with this subchapter, subchapter C shall apply to an S corporation and its shareholders.''

SEC. 1311. ELIMINATION OF CERTAIN EARNINGS AND PROFITS.

(a) IN GENERAL.—If—

(1) a corporation was an electing small business corporation under subchapter S of chapter 1 of the Internal Revenue Code of 1986 for any taxable year beginning before January 1, 1983, and

(2) such corporation is an S corporation under subchapter S of chapter 1 of such Code for its first taxable year beginning after December 31, 1996,

the amount of such corporation's accumulated earnings and profits (as of the beginning of such first taxable year) shall be reduced by an amount equal to the portion (if any) of such accumulated earnings and profits which were accumulated in any taxable year beginning before January 1, 1983, for which such corporation was an electing small business corporation under such subchapter S.

(b) CONFORMING AMENDMENTS.—

(1) Paragraph (3) of section 1362(d), as amended by section 1308, is amended—

(A) by striking ''SUBCHAPTER C'' in the paragraph heading and inserting ''ACCUMULATED'',

(B) by striking ''subchapter C'' in subparagraph (A)(i)(I) and inserting ''accumulated'', and

(C) by striking subparagraph (B) and redesignating the following subparagraphs accordingly.

(2)(A) Subsection (a) of section 1375 is amended by striking ''subchapter C'' in paragraph (1) and inserting ''accumulated''.

(B) Paragraph (3) of section 1375(b) is amended to read as follows:

''(3) PASSIVE INVESTMENT INCOME, ETC.—The terms 'passive investment income' and 'gross receipts' have the same respective meanings as when used in paragraph (3) of section 1362(d).''

*(C) The section heading for section 1375 is amended by striking ''**subchapter c**'' and inserting ''**accumulated**''.*

(D) The table of sections for part III of subchapter S of chapter 1 is amended by striking ''subchapter C'' in the item relating to section 1375 and inserting ''accumulated''.

(3) Clause (i) of section 1042(c)(4)(A) is amended by striking ''section 1362(d)(3)(D)'' and inserting ''section 1362(d)(3)(C)''.

SEC. 1312. CARRYOVER OF DISALLOWED LOSSES AND DEDUCTIONS UNDER AT-RISK RULES ALLOWED.

Paragraph (3) of section 1366(d) (relating to carryover of disallowed losses and deductions to post-termination transition period) is amended by adding at the end the following new subparagraph:

''(D) AT-RISK LIMITATIONS.—To the extent that any increase in adjusted basis described in subparagraph (B) would have increased the shareholder's amount at risk under section 465 if such increase had occurred on the day preceding the commencement of the post-termination transition period, rules similar to the rules described in subparagraphs (A) through (C) shall

apply to any losses disallowed by reason of section 465(a).''

SEC. 1313. ADJUSTMENTS TO BASIS OF INHERITED S STOCK TO REFLECT CERTAIN ITEMS OF INCOME.

(a) IN GENERAL.—Subsection (b) of section 1367 (relating to adjustments to basis of stock of shareholders, etc.) is amended by adding at the end the following new paragraph:

''(4) ADJUSTMENTS IN CASE OF INHERITED STOCK.—

''(A) IN GENERAL.—If any person acquires stock in an S corporation by reason of the death of a decedent or by bequest, devise, or inheritance, section 691 shall be applied with respect to any item of income of the S corporation in the same manner as if the decedent had held directly his pro rata share of such item.

''(B) ADJUSTMENTS TO BASIS.—The basis determined under section 1014 of any stock in an S corporation shall be reduced by the portion of the value of the stock which is attributable to items constituting income in respect of the decedent.''

(b) EFFECTIVE DATE.—The amendment made by subsection (a) shall apply in the case of decedents dying after the date of the enactment of this Act.

SEC. 1314. S CORPORATIONS ELIGIBLE FOR RULES APPLICABLE TO REAL PROPERTY SUBDIVIDED FOR SALE BY NONCORPORATE TAXPAYERS.

(a) IN GENERAL.—Subsection (a) of section 1237 (relating to real property subdivided for sale) is amended by striking ''other than a corporation'' in the material preceding paragraph (1) and inserting ''other than a C corporation''.

(b) CONFORMING AMENDMENT.—Subparagraph (A) of section 1237(a)(2) is amended by inserting ''an S corporation which included the taxpayer as a shareholder,'' after ''controlled by the taxpayer,''.

SEC. 1315. EFFECTIVE DATE.

(a) IN GENERAL.—Except as otherwise provided in this subtitle, the amendments made by this subtitle shall apply to taxable years beginning after December 31, 1996.

(b) TREATMENT OF CERTAIN ELECTIONS UNDER PRIOR LAW.—For purposes of section 1362(g) of the Internal Revenue Code of 1986 (relating to election after termination), any termination under section 1362(d) of such Code in a taxable year beginning before January 1, 1997, shall not be taken into account.

Subtitle D—Pension Simplification

CHAPTER 1—SIMPLIFIED DISTRIBUTION RULES

SEC. 1401. REPEAL OF 5-YEAR INCOME AVERAGING FOR LUMP-SUM DISTRIBUTIONS.

(a) IN GENERAL.—Subsection (d) of section 402 (relating to taxability of beneficiary of employees' trust) is amended to read as follows:

''(d) TAXABILITY OF BENEFICIARY OF CERTAIN FOREIGN SITUS TRUSTS.—For purposes of subsections (a), (b), and (c), a stock bonus, pension, or profit-sharing trust which would qualify for exemption from tax under section 501(a) except for the fact that it is a trust created or organized outside the United States shall be treated as if it were a trust exempt from tax under section 501(a).''

(b) CONFORMING AMENDMENTS.—

(1) Subparagraph (D) of section 402(e)(4) (relating to other rules applicable to exempt trusts) is amended to read as follows:

''(D) LUMP-SUM DISTRIBUTION.—For purposes of this paragraph—

''(i) IN GENERAL.—The term 'lump sum distribution' means the distribution or payment within one taxable year of the recipient of the balance to the credit of an employee which becomes payable to the recipient—

''(I) on account of the employee's death,

''(II) after the employee attains age 59½,

''(III) on account of the employee's separation from service, or

''(IV) after the employee has become disabled (within the meaning of section 72(m)(7)),

from a trust which forms a part of a plan described in section 401(a) and which is exempt from tax under section 501 or from a plan described in section 403(a). Subclause (III) of this clause shall be applied only with respect to an individual who is an employee without regard to section 401(c)(1), and subclause (IV) shall be applied only with respect to an employee within the meaning of section 401(c)(1). For purposes of this clause, a distribution to two or more trusts shall be treated as a distribution to one recipient. For purposes of this paragraph, the balance to the credit of the employee does not include the accumulated deductible employee contributions under the plan (within the meaning of section 72(o)(5)).

''(ii) AGGREGATION OF CERTAIN TRUSTS AND PLANS.—For purposes of determining the balance to the credit of an employee under clause (i)—

''(I) all trusts which are part of a plan shall be treated as a single trust, all pension plans maintained by the employer shall be treated as a single plan, all profit-sharing plans maintained by the employer shall be treated as a single plan, and all stock bonus plans maintained by the employer shall be treated as a single plan, and

''(II) trusts which are not qualified trusts under section 401(a) and annuity contracts which do not satisfy the requirements of section 404(a)(2) shall not be taken into account.

''(iii) COMMUNITY PROPERTY LAWS.—The provisions of this paragraph shall be applied without regard to community property laws.

''(iv) AMOUNTS SUBJECT TO PENALTY.—This paragraph shall not apply to amounts described in subparagraph (A) of section 72(m)(5) to the extent that section 72(m)(5) applies to such amounts.

''(v) BALANCE TO CREDIT OF EMPLOYEE NOT TO INCLUDE AMOUNTS PAYABLE UNDER QUALIFIED DOMESTIC RELATIONS ORDER.—For purposes of this paragraph, the balance to the credit of an employee shall not include any amount payable to an alternate payee under a qualified domestic relations order (within the meaning of section 414(p)).

''(vi) TRANSFERS TO COST-OF-LIVING ARRANGEMENT NOT TREATED AS DISTRIBUTION.—For purposes of this paragraph, the balance to the credit of an employee under a defined contribution plan shall not include any amount transferred from such defined contribution plan to a qualified cost-of-living arrangement (within the meaning of section 415(k)(2)) under a defined benefit plan.

''(vii) 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 paragraph, 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 clause, the balance to the credit of the alternate payee shall not include any amount payable to the employee.''

(2) Section 402(c) (relating to rules applicable to rollovers from exempt trusts) is amended by striking paragraph (10).

(3) Paragraph (1) of section 55(c) (defining regular tax) is amended by striking ''shall not include any tax imposed by section 402(d) and''.

(4) Paragraph (8) of section 62(a) (relating to certain portion of lump-sum distributions from pension plans taxed under section 402(d)) is hereby repealed.

(5) Section 401(a)(28)(B) (relating to coordination with distribution rules) is amended by striking clause (v).

(6) Subparagraph (B)(ii) of section 401(k)(10) (relating to distributions that must be lump-sum distributions) is amended to read as follows:

''(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)(D) (without regard to subclauses (I), (II), (III), and (IV) of clause (i) thereof).''

(7) Section 406(c) (relating to termination of status as deemed employee not to be treated as separation from service for purposes of limitation of tax) is hereby repealed.

(8) Section 407(c) (relating to termination of status as deemed employee not to be treated as separation from service for purposes of limitation of tax) is hereby repealed.

(9) Section 691(c) (relating to deduction for estate tax) is amended by striking paragraph (5).

(10) Paragraph (1) of section 871(b) (relating to imposition of tax) is amended by striking ''section 1, 55, or 402(d)(1)'' and inserting ''section 1 or 55''.

(11) Subsection (b) of section 877 (relating to alternative tax) is amended by striking ''section 1, 55, or 402(d)(1)'' and inserting ''section 1 or 55''.

(12) Section 4980A(c)(4) is amended—

(A) by striking ''to which an election under section 402(d)(4)(B) applies'' and inserting ''(as defined in section 402(e)(4)(D)) with respect to which the individual elects to have this paragraph apply'',

(B) by adding at the end the following new flush sentence:

''An individual may elect to have this paragraph apply to only one lump-sum distribution.'', and

(C) by striking the heading and inserting:

''(4) SPECIAL ONE-TIME ELECTION.—''.

(13) Section 402(e) is amended by striking paragraph (5).

(c) EFFECTIVE DATES.—

(1) IN GENERAL.—The amendments made by this section shall apply to taxable years beginning after December 31, 1998.

(2) RETENTION OF CERTAIN TRANSITION RULES.—Notwithstanding any other provision of this section, the amendments made by this section shall not apply to any distribution for which the taxpayer elects the benefits of section 1122 (h)(3) or (h)(5) of the Tax Reform Act of 1986. For purposes of the preceding sentence, the rules of sections 402(c)(10) and 402(d) of the Internal Revenue Code of 1986 (as in effect before the amendments made by this Act) shall apply.

SEC. 1402. REPEAL OF $5,000 EXCLUSION OF EMPLOYEES' DEATH BENEFITS.

(a) IN GENERAL.—Subsection (b) of section 101 is hereby repealed.

(b) CONFORMING AMENDMENTS.—

(1) Subsection (c) of section 101 is amended by striking ''subsection (a) or (b)'' and inserting ''subsection (a)''.

(2) Sections 406(e) and 407(e) are each amended by striking paragraph (2) and by redesignating paragraph (3) as paragraph (2).

(3) Section 7701(a)(20) is amended by striking '', for the purpose of applying the provisions of section 101(b) with respect to employees' death benefits''.

(c) EFFECTIVE DATE.—The amendments made by this section shall apply with respect to decedents dying after the date of the enactment of this Act.

SEC. 1403. SIMPLIFIED METHOD FOR TAXING ANNUITY DISTRIBUTIONS UNDER CERTAIN EMPLOYER PLANS.

(a) GENERAL RULE.—Subsection (d) of section 72 (relating to annuities; certain proceeds of endowment and life insurance contracts) is amended to read as follows:

''(d) SPECIAL RULES FOR QUALIFIED EMPLOYER RETIREMENT PLANS.—

''(1) SIMPLIFIED METHOD OF TAXING ANNUITY PAYMENTS.—

''(A) IN GENERAL.—In the case of any amount received as an annuity under a qualified employer retirement plan—

''(i) subsection (b) shall not apply, and

''(ii) the investment in the contract shall be recovered as provided in this paragraph.

''(B) METHOD OF RECOVERING INVESTMENT IN CONTRACT.—

''(i) IN GENERAL.—Gross income shall not include so much of any monthly annuity payment under a qualified employer retirement plan as does not exceed the amount obtained by dividing—

''(I) the investment in the contract (as of the annuity starting date), by

''(II) the number of anticipated payments determined under the table contained in clause (iii) (or, in the case of a contract to which subsection (c)(3)(B) applies, the number of monthly annuity payments under such contract).

''(ii) CERTAIN RULES MADE APPLICABLE.—Rules similar to the rules of paragraphs (2) and (3) of subsection (b) shall apply for purposes of this paragraph.

''(iii) NUMBER OF ANTICIPATED PAYMENTS.—

''If the age of the primary annuitant on the annuity starting date is:	The number of anticipated payments is:
Not more than 55	360
More than 55 but not more than 60	310
More than 60 but not more than 65	260
More than 65 but not more than 70	210
More than 70	160.

''(C) ADJUSTMENT FOR REFUND FEATURE NOT APPLICABLE.—For purposes of this paragraph, investment in the contract shall be determined under subsection (c)(1) without regard to subsection (c)(2).

''(D) SPECIAL RULE WHERE LUMP SUM PAID IN CONNECTION WITH COMMENCEMENT OF ANNUITY PAYMENTS.—If, in connection with the commencement of annuity payments under any qualified employer retirement plan, the taxpayer receives a lump sum payment—

''(i) such payment shall be taxable under subsection (e) as if received before the annuity starting date, and

''(ii) the investment in the contract for purposes of this paragraph shall be determined as if such payment had been so received.

''(E) EXCEPTION.—This paragraph shall not apply in any case where the primary annuitant has attained age 75 on the annuity starting date unless there are fewer than 5 years of guaranteed payments under the annuity.

''(F) ADJUSTMENT WHERE ANNUITY PAYMENTS NOT ON MONTHLY BASIS.—In any case where the annuity payments are not made on a monthly basis, appropriate adjustments in the application of this paragraph shall be made to take into account the period on the basis of which such payments are made.

''(G) QUALIFIED EMPLOYER RETIREMENT PLAN.—For purposes of this paragraph, the term 'qualified employer retirement plan' means any plan or contract described in paragraph (1), (2), or (3) of section 4974(c).

''(2) TREATMENT OF EMPLOYEE CONTRIBUTIONS UNDER DEFINED CONTRIBUTION PLANS.—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) EFFECTIVE DATE.—The amendment made by this section shall apply in cases where the annuity starting date is after the 90th day after the date of the enactment of this Act.

SEC. 1404. REQUIRED DISTRIBUTIONS.

(a) IN GENERAL.—Section 401(a)(9)(C) (defining required beginning date) is amended to read as follows:

''(C) REQUIRED BEGINNING DATE.—For purposes of this paragraph—

''(i) IN GENERAL.—The term 'required beginning date' means April 1 of the calendar year following the later of—

''(I) the calendar year in which the employee attains age 70½, or

''(II) the calendar year in which the employee retires.

''(ii) EXCEPTION.—Subclause (II) of clause (i) shall not apply—

''(I) except as provided in section 409(d), in the case of an employee who is a 5-percent owner (as defined in section 416) with respect to the plan year ending in the calendar year in which the employee attains age 70½, or

''(II) for purposes of section 408 (a)(6) or (b)(3).

''(iii) ACTUARIAL ADJUSTMENT.—In the case of an employee to whom clause (i)(II) applies who retires in a calendar year after the calendar year in which the employee attains age 70½, the employee's accrued benefit shall be actuarially increased to take into account the period after age 70½ in which the employee was not receiving any benefits under the plan.

''(iv) EXCEPTION FOR GOVERNMENTAL AND CHURCH PLANS.—Clauses (ii) and (iii) shall not apply in the case of a governmental plan or church plan. For purposes of this clause, the term 'church plan' means a plan maintained by a church for church employees, and the term 'church' means any church (as defined in section 3121(w)(3)(A)) or qualified church-controlled organization (as defined in section 3121(w)(3)(B)).''

(b) EFFECTIVE DATE.—The amendment made by subsection (a) shall apply to years beginning after December 31, 1996.

CHAPTER 2—INCREASED ACCESS TO PENSION PLANS

Subchapter A—Simple Savings Plans

SEC. 1421. ESTABLISHMENT OF SAVINGS INCENTIVE MATCH PLANS FOR EMPLOYEES OF SMALL EMPLOYERS.

(a) IN GENERAL.—Section 408 (relating to individual retirement accounts) is amended by redesignating subsection (p) as subsection (q) and by inserting after subsection (o) the following new subsection:

''(p) SIMPLE RETIREMENT ACCOUNTS.—

''(1) IN GENERAL.—For purposes of this title, the term 'simple retirement account' means an individual retirement plan (as defined in section 7701(a)(37))—

''(A) with respect to which the requirements of paragraphs (3), (4), and (5) are met; and

''(B) with respect to which the only contributions allowed are contributions under a qualified salary reduction arrangement.

''(2) QUALIFIED SALARY REDUCTION ARRANGEMENT.—

''(A) IN GENERAL.—For purposes of this subsection, the term 'qualified salary reduction arrangement' means a written arrangement of an eligible employer under which—

''(i) an employee eligible to participate in the arrangement may elect to have the employer make payments—

''(I) as elective employer contributions to a simple retirement account on behalf of the employee, or

''(II) to the employee directly in cash,

''(ii) the amount which an employee may elect under clause (i) for any year is required to be expressed as a percentage of compensation and may not exceed a total of $6,000 for any year,

''(iii) the employer is required to make a matching contribution to the simple retirement account for any year in an amount equal to so much of the amount the employee elects under clause (i)(I) as does not exceed the applicable percentage of compensation for the year, and

''(iv) no contributions may be made other than contributions described in clause (i) or (iii).

''(B) EMPLOYER MAY ELECT 2-PERCENT NONELECTIVE CONTRIBUTION.—An employer shall be treated as meeting the requirements of subparagraph (A)(iii) for any year if, in lieu of the contributions described in such clause, the employer elects to make nonelective contributions of 2 percent of compensation for each employee who is eligible to participate in the arrangement and who has at least $5,000 of compensation from the employer for the year. If an employer makes an election under this subparagraph for any year, the employer shall notify employees of such election within a reasonable period of time before the 30-day period for such year under paragraph (5)(C).

''(C) DEFINITIONS.—For purposes of this subsection—

''(i) ELIGIBLE EMPLOYER.—The term 'eligible employer' means an employer who employs 100 or fewer employees on any day during the year.

''(ii) APPLICABLE PERCENTAGE.—

''(I) IN GENERAL.—The term 'applicable percentage' means 3 percent.

''(II) ELECTION OF LOWER PERCENTAGE.—An employer may elect to apply a lower percentage (not less than 1 percent) for any year for all employees eligible to participate in the plan for such year if the employer notifies the employees of such lower percentage within a reasonable period of time before the 30-day election period for such year under paragraph (5)(C). An employer may not elect a lower percentage under this subclause for any year if that election would result in the applicable percentage being lower than 3 percent in more than 2 of the years in the 5-year period ending with such year.

''(III) SPECIAL RULE FOR YEARS ARRANGEMENT NOT IN EFFECT.—If any year in the 5-year period described in subclause (II) is a year prior to the first year for which any qualified salary reduction arrangement is in effect with respect to the employer (or any predecessor), the employer shall be treated as if the level of the employer matching contribution was at 3 percent of compensation for such prior year.

''(D) ARRANGEMENT MAY BE ONLY PLAN OF EMPLOYER.—

''(i) IN GENERAL.—An arrangement shall not be treated as a qualified salary reduction arrangement for any year if the employer (or any predecessor employer) maintained a qualified plan with respect to which contributions were made, or benefits were accrued, for service in any year in the period beginning with the year such arrangement became effective and ending with the year for which the determination is being made.

''(ii) QUALIFIED PLAN.—For purposes of this subparagraph, the term 'qualified plan' means a plan, contract, pension, or trust described in subparagraph (A) or (B) of section 219(g)(5).

''(E) COST-OF-LIVING ADJUSTMENT.—The Secretary shall adjust the $6,000 amount under subparagraph (A)(ii) at the same time and in the same manner as under section 415(d), except that the base period taken into account shall be the calendar quarter ending September 30, 1995, and any increase under this subparagraph which is not a multiple of $500 shall be rounded to the next lower multiple of $500.

''(3) VESTING REQUIREMENTS.—The requirements of this paragraph are met with respect to a simple retirement account if the employee's rights to any contribution to the simple retirement account are nonforfeitable. For purposes of this paragraph, rules similar to the rules of subsection (k)(4) shall apply.

''(4) PARTICIPATION REQUIREMENTS.—

''(A) IN GENERAL.—The requirements of this paragraph are met with respect to any simple retirement account for a year only if, under the qualified salary reduction arrangement, all employees of the employer who—

''(i) received at least $5,000 in compensation from the employer during any 2 preceding years, and

''(ii) are reasonably expected to receive at least $5,000 in compensation during the year,

are eligible to make the election under paragraph (2)(A)(i) or receive the nonelective contribution described in paragraph (2)(B).

''(B) EXCLUDABLE EMPLOYEES.—An employer may elect to exclude from the requirement under subparagraph (A) employees described in section 410(b)(3).

''(5) ADMINISTRATIVE REQUIREMENTS.—The requirements of this paragraph are met with respect to any simplified retirement account if, under the qualified salary reduction arrangement—

''(A) an employer must—

''(i) make the elective employer contributions under paragraph (2)(A)(i) not later than the close of the 30-day period following the last day of the month with respect to which the contributions are to be made, and

''(ii) make the matching contributions under paragraph (2)(A)(iii) or the nonelective contributions under paragraph (2)(B) not later than the date described in section 404(m)(2)(B),

''(B) an employee may elect to terminate participation in such arrangement at any time during the year, except that if an employee so terminates, the arrangement may provide that the employee may not elect to resume participation until the beginning of the next year, and

''(C) each employee eligible to participate may elect, during the 30-day period before the beginning of any year (and the 30-day period before the first day such employee is eligible to participate), to participate in the arrangement, or to modify the amounts subject to such arrangement, for such year.

''(6) DEFINITIONS.—For purposes of this subsection—

''(A) COMPENSATION.—

''(i) IN GENERAL.—The term 'compensation' means amounts described in paragraphs (3) and (8) of section 6051(a).

''(ii) SELF-EMPLOYED.—In the case of an employee described in subparagraph (B), the term 'compensation' means net earnings from self-employment determined under section 1402(a) without regard to any contribution under this subsection.

''(B) EMPLOYEE.—The term 'employee' includes an employee as defined in section 401(c)(1).

''(C) YEAR.—The term 'year' means the calendar year.''

(b) TAX TREATMENT OF SIMPLE RETIREMENT ACCOUNTS.—

(1) DEDUCTIBILITY OF CONTRIBUTIONS BY EMPLOYEES.—

(A) Section 219(b) (relating to maximum amount of deduction) is amended by adding at the end the following new paragraph:

''(4) SPECIAL RULE FOR SIMPLE RETIREMENT ACCOUNTS.—This section shall not apply with respect to any amount contributed to a simple retirement account established under section 408(p).''

(B) Section 219(g)(5)(A) (defining active participant) is amended by striking ''or'' at the end of clause (iv) and by adding at the end the following new clause:

''(vi) any simple retirement account (within the meaning of section 408(p)), or''.

(2) DEDUCTIBILITY OF EMPLOYER CONTRIBUTIONS.—Section 404 (relating to deductions for contributions of an employer to pension, etc. plans) is amended by adding at the end the following new subsection:

''(m) SPECIAL RULES FOR SIMPLE RETIREMENT ACCOUNTS.—

''(1) IN GENERAL.—Employer contributions to a simple retirement account shall be treated as if they are made to a plan subject to the requirements of this section.

''(2) TIMING.—

''(A) DEDUCTION.—Contributions described in paragraph (1) shall be deductible in the taxable year of the employer with or within which the calendar year for which the contributions were made ends.

''(B) CONTRIBUTIONS AFTER END OF YEAR.—For purposes of this subsection, contributions shall be treated as made for a taxable year if they are made on account of the taxable year and are made not later than the time prescribed by law for filing the return for the taxable year (including extensions thereof).''

(3) CONTRIBUTIONS AND DISTRIBUTIONS.—

(A) Section 402 (relating to taxability of beneficiary of employees' trust) is amended by adding at the end the following new subsection:

''(k) TREATMENT OF SIMPLE RETIREMENT ACCOUNTS.—Rules similar to the rules of paragraphs (1) and (3) of subsection (h) shall apply to contributions and distributions with respect to a simple retirement account under section 408(p).''

(B) Section 408(d)(3) is amended by adding at the end the following new subparagraph:

''(G) SIMPLE RETIREMENT ACCOUNTS.—This paragraph shall not apply to any amount paid or distributed out of a simple retirement account (as defined in section 408(p)) unless—

''(i) it is paid into another simple retirement account, or

''(ii) in the case of any payment or distribution to which section 72(t)(8) does not apply, it is paid into an individual retirement plan.''

(C) Clause (i) of section 457(c)(2)(B) is amended by striking ''section 402(h)(1)(B)'' and inserting ''section 402(h)(1)(B) or (k)''.

(4) PENALTIES.—

(A) EARLY WITHDRAWALS.—Section 72(t) (relating to additional tax in early distributions), as amended by this Act, is amended by adding at the end the following new paragraph:

''(6) SPECIAL RULES FOR SIMPLE RETIREMENT ACCOUNTS.—In the case of any amount received from a simple retirement account (within the meaning of section 408(p)) during the 2-year period beginning on the date such individual first participated in any qualified salary reduction arrangement maintained by the individual's employer under section 408(p)(2), paragraph (1) shall be applied by substituting '25 percent' for '10 percent'.''

(B) FAILURE TO REPORT.—Section 6693 is amended by redesignating subsection (c) as subsection (d) and by inserting after subsection (b) the following new subsection:

''(c) PENALTIES RELATING TO SIMPLE RETIREMENT ACCOUNTS.—

''(1) EMPLOYER PENALTIES.—An employer who fails to provide 1 or more notices required by section 408(l)(2)(C) shall pay a penalty of $50 for each day on which such failures continue.

''(2) TRUSTEE PENALTIES.—A trustee who fails—

''(A) to provide 1 or more statements required by the last sentence of section 408(i) shall pay a penalty of $50 for each day on which such failures continue, or

''(B) to provide 1 or more summary descriptions required by section 408(l)(2)(B) shall pay a penalty of $50 for each day on which such failures continue.

''(3) REASONABLE CAUSE EXCEPTION.—No penalty shall be imposed under this subsection with respect to any failure which the taxpayer shows was due to reasonable cause.''

(5) REPORTING REQUIREMENTS.—

(A) Section 408(l) is amended by adding at the end the following new paragraph:

''(2) SIMPLE RETIREMENT ACCOUNTS.—

''(A) NO EMPLOYER REPORTS.—Except as provided in this paragraph, no report shall be required under this section by an employer maintaining a qualified salary reduction arrangement under subsection (p).

''(B) SUMMARY DESCRIPTION.—The trustee of any simple retirement account established pursuant to a qualified salary reduction arrangement under subsection (p) shall provide to the employer maintaining the arrangement, each year a description containing the following information:

''(i) The name and address of the employer and the trustee.

''(ii) The requirements for eligibility for participation.

''(iii) The benefits provided with respect to the arrangement.

''(iv) The time and method of making elections with respect to the arrangement.

''(v) The procedures for, and effects of, withdrawals (including rollovers) from the arrangement.

''(C) EMPLOYEE NOTIFICATION.—The employer shall notify each employee immediately before the period for which an election described in subsection (p)(5)(C) may be made of the employee's opportunity to make such election. Such notice shall include a copy of the description described in subparagraph (B).''

(B) Section 408(l) is amended by striking ''An employer'' and inserting the following:

''(1) IN GENERAL.—An employer''.

(6) REPORTING REQUIREMENTS.—Section 408(i) is amended by adding at the end the following new flush sentence:

''In the case of a simple retirement account under subsection (p), only one report under this subsection shall be required to be submitted each calendar year to the Secretary (at the time provided under paragraph (2)) but, in addition to the report under this subsection, there shall be furnished, within 30 days after each calendar year, to the individual on whose behalf the account is maintained a statement with respect to the account balance as of the close of, and the account activity during, such calendar year.''

(7) EXEMPTION FROM TOP-HEAVY PLAN RULES.—Section 416(g)(4) (relating to special rules for top-heavy plans) is amended by adding at the end the following new subparagraph:

''(G) SIMPLE RETIREMENT ACCOUNTS.—The term 'top-heavy plan' shall not include a simple retirement account under section 408(p).''

(8) EMPLOYMENT TAXES.—

(A) Paragraph (5) of section 3121(a) is amended by striking ''or'' at the end of subparagraph (F), by inserting ''or'' at the end of subparagraph (G), and by adding at the end the following new subparagraph:

''(H) under an arrangement to which section 408(p) applies, other than any elective contributions under paragraph (2)(A)(i) thereof,''.

(B) Section 209(a)(4) of the Social Security Act is amended by inserting '', or (J) under an arrangement to which section 408(p) of such Code applies, other than any elective contributions under paragraph (2)(A)(i) thereof'' before the semicolon at the end thereof.

(C) Paragraph (5) of section 3306(b) is amended by striking ''or'' at the end of subparagraph (F), by inserting ''or'' at the end of subparagraph (G), and by adding at the end the following new subparagraph:

''(H) under an arrangement to which section 408(p) applies, other than any elective contributions under paragraph (2)(A)(i) thereof,''.

(D) Paragraph (12) of section 3401(a) is amended by adding the following new subparagraph:

''(D) under an arrangement to which section 408(p) applies; or''.

(9) CONFORMING AMENDMENTS.—

(A) Section 280G(b)(6) is amended by striking ''or'' at the end of subparagraph (B), by striking the period at the end of subparagraph (C) and inserting '', or'' and by adding after subparagraph (C) the following new subparagraph:

''(D) a simple retirement account described in section 408(p).''

(B) Section 402(g)(3) is amended by striking ''and'' at the end of subparagraph (B), by striking the period at the end of subparagraph (C) and inserting '', and'', and by adding after subparagraph (C) the following new subparagraph:

''(D) any elective employer contribution under section 408(p)(2)(A)(i).''

(C) Subsections (b), (c), (m)(4)(B), and (n)(3)(B) of section 414 are each amended by inserting ''408(p),'' after ''408(k),''.

(D) Section 4972(d)(1)(A) is amended by striking ''and'' at the end of clause (ii), by striking the period at the end of clause (iii) and inserting '', and'', and by adding after clause (iii) the following new clause:

''(iv) any simple retirement account (within the meaning of section 408(p)).''

(c) REPEAL OF SALARY REDUCTION SIMPLIFIED EMPLOYEE PENSIONS.—Section 408(k)(6) is amended by adding at the end the following new subparagraph:

''(H) TERMINATION.—This paragraph shall not apply to years beginning after December 31, 1996. The preceding sentence shall not apply to a simplified employee pension if the terms of such pension, as in effect on December 31, 1996, provide that an employee may make the election described in subparagraph (A).''

(d) EFFECTIVE DATE.—The amendments made by this section shall apply to taxable years beginning after December 31, 1996.

SEC. 1422. EXTENSION OF SIMPLE PLAN TO 401(k) ARRANGEMENTS.

(a) ALTERNATIVE METHOD OF SATISFYING SECTION 401(k) NONDISCRIMINATION TESTS.—Section 401(k) (relating to cash or deferred arrangements) is amended by adding at the end the following new paragraph:

''(11) ADOPTION OF SIMPLE PLAN TO MEET NONDISCRIMINATION TESTS.—

''(A) IN GENERAL.—A cash or deferred arrangement maintained by an eligible employer shall be treated as meeting the requirements of paragraph (3)(A)(ii) if such arrangement meets—

''(i) the contribution requirements of subparagraph (B),

''(ii) the exclusive benefit requirements of subparagraph (C), and

''(iii) the vesting requirements of section 408(p)(3).

''(B) CONTRIBUTION REQUIREMENTS.—

''(i) IN GENERAL.—The requirements of this subparagraph are met if, under the arrangement—

''(I) an employee may elect to have the employer make elective contributions for the year on behalf of the employee to a trust under the plan in an amount which is expressed as a percentage of compensation of the employee but which in no event exceeds $6,000,

''(II) the employer is required to make a matching contribution to the trust for the year in an amount equal to so much of the amount the employee elects under subclause (I) as does not exceed 3 percent of compensation for the year, and

''(III) no other contributions may be made other than contributions described in subclause (I) or (II).

''(ii) EMPLOYER MAY ELECT 2-PERCENT NONELECTIVE CONTRIBUTION.—An employer shall be treated as meeting the requirements of clause (i)(II) for any year if, in lieu of the contributions described in such clause, the employer elects (pursuant to the terms of the arrangement) to make nonelective contributions of 2 percent of compensation for each employee who is eligible to participate in the arrangement and who has at least $5,000 of compensation from the employer for the year. If an employer makes an election under this subparagraph for any year, the employer shall notify employees of such election within a reasonable period of time before the 30th day before the beginning of such year.

''(C) EXCLUSIVE BENEFIT.—The requirements of this subparagraph are met for any year to which this paragraph applies if no contributions were made, or benefits were accrued, for services during such year under any qualified plan of the employer on behalf of any employee eligible to participate in the cash or deferred arrangement, other than contributions described in subparagraph (B).

''(D) DEFINITIONS AND SPECIAL RULE.—

''(i) DEFINITIONS.—For purposes of this paragraph, any term used in this paragraph which is also used in section 408(p) shall have the meaning given such term by such section.

''(ii) COORDINATION WITH TOP-HEAVY RULES.—A plan meeting the requirements of this paragraph for any year shall not be treated as a top-heavy plan under section 416 for such year.''

(b) ALTERNATIVE METHODS OF SATISFYING SECTION 401(m) NONDISCRIMINATION TESTS.—Section 401(m) (relating to nondiscrimination test for matching contributions and employee contributions) is amended by redesignating paragraph (10) as paragraph (11) and by adding after paragraph (9) the following new paragraph:

''(10) ALTERNATIVE METHOD OF SATISFYING TESTS.—A defined contribution plan shall be treated as meeting the requirements of paragraph (2) with respect to matching contributions if the plan—

''(A) meets the contribution requirements of subparagraph (B) of subsection (k)(11),

''(B) meets the exclusive benefit requirements of subsection (k)(11)(C), and

''(C) meets the vesting requirements of section 408(p)(3).''

(c) EFFECTIVE DATE.—The amendments made by this section shall apply to plan years beginning after December 31, 1996.

Subchapter B—Other Provisions

SEC. 1426. TAX-EXEMPT ORGANIZATIONS ELIGIBLE UNDER SECTION 401(k).

(a) IN GENERAL.—Subparagraph (B) of section 401(k)(4) is amended to read as follows:

''(B) ELIGIBILITY OF STATE AND LOCAL GOVERNMENTS AND TAX-EXEMPT ORGANIZATIONS.—

''(i) TAX-EXEMPTS ELIGIBLE.—Except as provided in clause (ii), any organization exempt from tax under this subtitle may include a qualified cash or deferred arrangement as part of a plan maintained by it.

''(ii) GOVERNMENTS INELIGIBLE.—A cash or deferred arrangement shall not be treated as a qualified cash or deferred arrangement if it is part of a plan maintained by a State or local government or political subdivision thereof, or any agency or instrumentality thereof. This clause shall not apply to a rural cooperative plan or to a plan of an employer described in clause (iii).

''(iii) TREATMENT OF INDIAN TRIBAL GOVERNMENTS.—An employer which is an Indian tribal government (as defined in section 7701(a)(40)), a subdivision of an Indian tribal government (determined in accordance with section 7871(d)), an agency or instrumentality of an Indian tribal government or subdivision thereof, or a corporation chartered under Federal, State, or tribal law which is owned in whole or in part by any of the foregoing shall be treated as an organization exempt from tax under this subtitle for purposes of clause (i).''

(b) EFFECTIVE DATE.—The amendment made by this section shall apply to plan years beginning after December 31, 1996, but shall not apply to any cash or deferred arrangement to which clause (i) of section 1116(f)(2)(B) of the Tax Reform Act of 1986 applies.

CHAPTER 3—NONDISCRIMINATION PROVISIONS

SEC. 1431. DEFINITION OF HIGHLY COMPENSATED EMPLOYEES; REPEAL OF FAMILY AGGREGATION.

(a) IN GENERAL.—Paragraph (1) of section 414(q) (defining highly compensated employee) is amended to read as follows:

''(1) IN GENERAL.—The term 'highly compensated employee' means any employee who—

''(A) was a 5-percent owner at any time during the year or the preceding year, or

''(B) for the preceding year—

''(i) had compensation from the employer in excess of $80,000, and

''(ii) was in the top-paid group of the employer.

The Secretary shall adjust the $80,000 amount under subparagraph (B) at the same time and in the same manner as under section 415(d), except that the base period shall be the calendar quarter ending September 30, 1996.''

(b) REPEAL OF FAMILY AGGREGATION RULES.—

(1) IN GENERAL.—Paragraph (6) of section 414(q) is hereby repealed.

(2) COMPENSATION LIMIT.—Paragraph (17)(A) of section 401(a) is amended by striking the last sentence.

(3) DEDUCTION.—Subsection (l) of section 404 is amended by striking the last sentence.

(c) CONFORMING AMENDMENTS.—

(1)(A) Subsection (q) of section 414 is amended by striking paragraphs (2), (5), (8), and (12) and by redesignating paragraphs (3), (4), (7), (9), (10), and (11) as paragraphs (2) through (7), respectively.

(B) Sections 129(d)(8)(B), 401(a)(5)(D)(ii), 408(k)(2)(C), and 416(i)(1)(D) are each amended by striking ''section 414(q)(7)'' and inserting ''section 414(q)(4)''.

(C) Section 416(i)(1)(A) is amended by striking ''section 414(q)(8)'' and inserting ''section 414(r)(9)''.

(2)(A) Section 414(r) is amended by adding at the end the following new paragraph:

''(9) EXCLUDED EMPLOYEES.—For purposes of this subsection, the following employees shall be excluded:

''(A) Employees who have not completed 6 months of service.

''(B) Employees who normally work less than 17½ hours per week.

''(C) Employees who normally work not more than 6 months during any year.

''(D) Employees who have not attained the age of 21.

''(E) Except to the extent provided in regulations, employees who are included in a unit of employees covered by an agreement which the Secretary of Labor finds to be a collective bargaining agreement between employee representatives and the employer.

Except as provided by the Secretary, the employer may elect to apply subparagraph (A), (B), (C), or (D) by substituting a shorter period of service, smaller number of hours or months, or lower age for the period of service, number of hours or months, or age (as the case may be) specified in such subparagraph.''

(B) Subparagraph (A) of section 414(r)(2) is amended by striking ''subsection (q)(8)'' and inserting ''paragraph (9)''.

(3) Section 1114(c)(4) of the Tax Reform Act of 1986 is amended by adding at the end the following new sentence: ''Any reference in this paragraph to section 414(q) shall be treated as a reference to such section as in effect on the day before the date of the enactment of the Small Business Job Protection Act of 1996.''.

(d) EFFECTIVE DATE.—

(1) IN GENERAL.—The amendments made by this section shall apply to years beginning after December 31, 1996, except that in determining whether an employee is a highly compensated employee for years beginning in 1997, such amendments shall be treated as having been in effect for years beginning in 1996.

(2) FAMILY AGGREGATION.—The amendments made by subsection (b) shall apply to years beginning after December 31, 1996.

SEC. 1432. MODIFICATION OF ADDITIONAL PARTICIPATION REQUIREMENTS.

(a) GENERAL RULE.—Section 401(a)(26)(A) (relating to additional participation requirements) is amended to read as follows:

''(A) IN GENERAL.—In the case of a trust which is a part of a defined benefit plan, such trust shall not constitute a qualified trust under this subsection unless on each day of the plan year such trust benefits at least the lesser of—

''(i) 50 employees of the employer, or

''(ii) the greater of—

''(I) 40 percent of all employees of the employer, or

''(II) 2 employees (or if there is only 1 employee, such employee).''

(b) SEPARATE LINE OF BUSINESS TEST.—Section 401(a)(26)(G) (relating to separate line of business) is amended by striking ''paragraph (7)'' and inserting ''paragraph (2)(A) or (7)''.

(c) EFFECTIVE DATE.—The amendments made by this section shall apply to years beginning after December 31, 1996.

SEC. 1433. NONDISCRIMINATION RULES FOR QUALIFIED CASH OR DEFERRED ARRANGEMENTS AND MATCHING CONTRIBUTIONS.

(a) ALTERNATIVE METHODS OF SATISFYING SECTION 401(k) NONDISCRIMINATION TESTS.—Section 401(k) (relating to cash or deferred arrangements), as amended by section 1422, is amended

by adding at the end the following new paragraph:

''(12) ALTERNATIVE METHODS OF MEETING NONDISCRIMINATION REQUIREMENTS.—

''(A) IN GENERAL.—A cash or deferred arrangement shall be treated as meeting the requirements of paragraph (3)(A)(ii) if such arrangement—

''(i) meets the contribution requirements of subparagraph (B) or (C), and

''(ii) meets the notice requirements of subparagraph (D).

''(B) MATCHING CONTRIBUTIONS.—

''(i) IN GENERAL.—The requirements of this subparagraph are met if, under the arrangement, the employer makes matching contributions on behalf of each employee who is not a highly compensated employee in an amount equal to—

''(I) 100 percent of the elective contributions of the employee to the extent such elective contributions do not exceed 3 percent of the employee's compensation, and

''(II) 50 percent of the elective contributions of the employee to the extent that such elective contributions exceed 3 percent but do not exceed 5 percent of the employee's compensation.

''(ii) RATE FOR HIGHLY COMPENSATED EMPLOYEES.—The requirements of this subparagraph are not met if, under the arrangement, the rate of matching contribution with respect to any elective contribution of a highly compensated employee at any rate of elective contribution is greater than that with respect to an employee who is not a highly compensated employee.

''(iii) ALTERNATIVE PLAN DESIGNS.—If the rate of any matching contribution with respect to any rate of elective contribution is not equal to the percentage required under clause (i), an arrangement shall not be treated as failing to meet the requirements of clause (i) if—

''(I) the rate of an employer's matching contribution does not increase as an employee's rate of elective contributions increase, and

''(II) the aggregate amount of matching contributions at such rate of elective contribution is at least equal to the aggregate amount of matching contributions which would be made if matching contributions were made on the basis of the percentages described in clause (i).

''(C) NONELECTIVE CONTRIBUTIONS.—The requirements of this subparagraph are met if, under the arrangement, the employer is required, without regard to whether the employee makes an elective contribution or employee contribution, to make a contribution to a defined contribution plan on behalf of each employee who is not a highly compensated employee and who is eligible to participate in the arrangement in an amount equal to at least 3 percent of the employee's compensation.

''(D) NOTICE REQUIREMENT.—An arrangement meets the requirements of this paragraph if, under the arrangement, each employee eligible to participate is, within a reasonable period before any year, given written notice of the employee's rights and obligations under the arrangement which—

''(i) is sufficiently accurate and comprehensive to appraise the employee of such rights and obligations, and

''(ii) is written in a manner calculated to be understood by the average employee eligible to participate.

''(E) OTHER REQUIREMENTS.—

''(i) WITHDRAWAL AND VESTING RESTRICTIONS.—An arrangement shall not be treated as meeting the requirements of subparagraph (B) or (C) of this paragraph unless the requirements of subparagraphs (B) and (C) of paragraph (2) are met with respect to all employer contributions (including matching contributions) taken into account in determining whether the requirements of subparagraphs (B) and (C) of this paragraph are met.

''(ii) SOCIAL SECURITY AND SIMILAR CONTRIBUTIONS NOT TAKEN INTO ACCOUNT.—An arrangement shall not be treated as meeting the requirements of subparagraph (B) or (C) unless such requirements are met without regard to subsection (l), and, for purposes of subsection (l), employer contributions under subparagraph (B) or (C) shall not be taken into account.

''(F) OTHER PLANS.—An arrangement shall be treated as meeting the requirements under subparagraph (A)(i) if any other plan maintained by the employer meets such requirements with respect to employees eligible under the arrangement.''

(b) ALTERNATIVE METHODS OF SATISFYING SECTION 401(m) NONDISCRIMINATION TESTS.—Section 401(m) (relating to nondiscrimination test for matching contributions and employee contributions), as amended by this Act, is amended by redesignating paragraph (11) as paragraph (12) and by adding after paragraph (10) the following new paragraph:

''(11) ALTERNATIVE METHOD OF SATISFYING TESTS.—

''(A) IN GENERAL.—A defined contribution plan shall be treated as meeting the requirements of paragraph (2) with respect to matching contributions if the plan—

''(i) meets the contribution requirements of subparagraph (B) or (C) of subsection (k)(12),

''(ii) meets the notice requirements of subsection (k)(12)(D), and

''(iii) meets the requirements of subparagraph (B).

''(B) LIMITATION ON MATCHING CONTRIBUTIONS.—The requirements of this subparagraph are met if—

''(i) matching contributions on behalf of any employee may not be made with respect to an employee's contributions or elective deferrals in excess of 6 percent of the employee's compensation,

''(ii) the rate of an employer's matching contribution does not increase as the rate of an employee's contributions or elective deferrals increase, and

''(iii) the matching contribution with respect to any highly compensated employee at any rate of an employee contribution or rate of elective deferral is not greater than that with respect to an employee who is not a highly compensated employee.''

(c) YEAR FOR COMPUTING NONHIGHLY COMPENSATED EMPLOYEE PERCENTAGE.—

(1) CASH OR DEFERRED ARRANGEMENTS.—Clause (ii) of section 401(k)(3)(A) is amended—

(A) by striking ''such year'' and inserting ''the plan year'',

(B) by striking ''for such plan year'' and inserting ''for the preceding plan year'', and

(C) by adding at the end the following new sentence: ''An arrangement may apply this clause by using the plan year rather than the preceding plan year if the employer so elects, except that if such an election is made, it may not be changed except as provided by the Secretary.''

(2) MATCHING AND EMPLOYEE CONTRIBUTIONS.—Section 401(m)(2)(A) is amended—

(A) by inserting ''for such plan year'' after ''highly compensated employees'',

(B) by inserting ''for the preceding plan year'' after ''eligible employees'' each place it appears in clause (i) and clause (ii), and

(C) by adding at the end the following flush sentence: ''This subparagraph may be applied by using the plan year rather than the preceding plan year if the employer so elects, except that if such an election is made, it may not be changed except as provided the Secretary.''

(d) SPECIAL RULE FOR DETERMINING AVERAGE DEFERRAL PERCENTAGE FOR FIRST PLAN YEAR, ETC.—

(1) Paragraph (3) of section 401(k) is amended by adding at the end the following new subparagraph:

''(E) For purposes of this paragraph, in the case of the first plan year of any plan (other than a successor plan), the amount taken into account as the actual deferral percentage of nonhighly compensated employees for the preceding plan year shall be—

''(i) 3 percent, or

''(ii) if the employer makes an election under this subclause, the actual deferral percentage of nonhighly compensated employees determined for such first plan year.''

(2) Paragraph (3) of section 401(m) is amended by adding at the end the following: ''Rules similar to the rules of subsection (k)(3)(E) shall apply for purposes of this subsection.''

(e) DISTRIBUTION OF EXCESS CONTRIBUTIONS AND EXCESS AGGREGATE CONTRIBUTIONS.—

(1) Subparagraph (C) of section 401(k)(8) (relating to arrangement not disqualified if excess contributions distributed) is amended by striking ''on the basis of the respective portions of the excess contributions attributable to each of such employees'' and inserting ''on the basis of the amount of contributions by, or on behalf of, each of such employees''.

(2) Subparagraph (C) of section 401(m)(6) (relating to method of distributing excess aggregate contributions) is amended by striking ''on the basis of the respective portions of such amounts attributable to each of such employees'' and inserting ''on the basis of the amount of contributions on behalf of, or by, each such employee''.

(f) EFFECTIVE DATES.—

(1) IN GENERAL.—The amendments made by this section shall apply to years beginning after December 31, 1998.

(2) EXCEPTIONS.—The amendments made by subsections (c), (d), and (e) shall apply to years beginning after December 31, 1996.

SEC. 1434. DEFINITION OF COMPENSATION FOR SECTION 415 PURPOSES.

(a) GENERAL RULE.—Section 415(c)(3) (defining participant's compensation) is amended by adding at the end the following new subparagraph:

''(D) CERTAIN DEFERRALS INCLUDED.—The term 'participant's compensation' shall include—

''(i) any elective deferral (as defined in section 402(g)(3)), and

''(ii) any amount which is contributed by the employer at the election of the employee and which is not includible in the gross income of the employee under section 125 or 457.''

(b) CONFORMING AMENDMENTS.—

(1) Section 414(q)(4), as redesignated by section 1431, is amended to read as follows:

''(4) COMPENSATION.—For purposes of this subsection, the term 'compensation' has the meaning given such term by section 415(c)(3).''

(2) Section 414(s)(2) is amended by inserting ''not'' after ''elect'' in the text and heading thereof.

(c) EFFECTIVE DATE.—The amendments made by this section shall apply to years beginning after December 31, 1997.

CHAPTER 4—MISCELLANEOUS PROVISIONS

SEC. 1441. PLANS COVERING SELF-EMPLOYED INDIVIDUALS.

(a) AGGREGATION RULES.—Section 401(d) (relating to additional requirements for qualification of trusts and plans benefiting owner-employees) is amended to read as follows:

''(d) CONTRIBUTION LIMIT ON OWNER-EMPLOYEES.—A trust forming part of a pension or profit-sharing plan which provides contributions or benefits for employees some or all of whom are owner-employees shall constitute a qualified trust under this section only if, in addition to meeting the requirements of subsection (a), the plan provides that contributions on behalf of any owner-employee may be made only with respect to the earned income of such owner-employee which is derived from the trade or business with respect to which such plan is established.''

(b) EFFECTIVE DATE.—The amendments made by this section shall apply to years beginning after December 31, 1996.

SEC. 1442. ELIMINATION OF SPECIAL VESTING RULE FOR MULTIEMPLOYER PLANS.

(a) IN GENERAL.—Paragraph (2) of section 411(a) (relating to minimum vesting standards) is amended—

(1) by striking ''subparagraph (A), (B), or (C)'' and inserting ''subparagraph (A) or (B)''; and

(2) by striking subparagraph (C).

(b) EFFECTIVE DATE.—The amendments made by this section shall apply to plan years beginning on or after the earlier of—

(1) the later of—

(A) January 1, 1997, or

(B) the date on which the last of the collective bargaining agreements pursuant to which the plan is maintained terminates (determined without regard to any extension thereof after the date of the enactment of this Act), or

(2) January 1, 1999.

Such amendments shall not apply to any individual who does not have more than 1 hour of service under the plan on or after the 1st day of the 1st plan year to which such amendments apply.

SEC. 1443. DISTRIBUTIONS UNDER RURAL COOPERATIVE PLANS.

(a) DISTRIBUTIONS FOR HARDSHIP OR AFTER A CERTAIN AGE.—Section 401(k)(7) is amended by adding at the end the following new subparagraph:

''(C) SPECIAL RULE FOR CERTAIN DISTRIBUTIONS.—A rural cooperative plan which includes a qualified cash or deferred arrangement shall not be treated as violating the requirements of section 401(a) or of paragraph (2) merely by reason of a hardship distribution or a distribution to a participant after attainment of age 59½. For purposes of this section, the term 'hardship distribution' means a distribution described in paragraph (2)(B)(i)(IV) (without regard to the limitation of its application to profit-sharing or stock bonus plans).''

(b) PUBLIC UTILITY DISTRICTS.—Clause (i) of section 401(k)(7)(B) (defining rural cooperative) is amended to read as follows:

''(i) any organization which—

''(I) is engaged primarily in providing electric service on a mutual or cooperative basis, or

''(II) is engaged primarily in providing electric service to the public in its area of service and which is exempt from tax under this subtitle or which is a State or local government (or an agency or instrumentality thereof), other than a municipality (or an agency or instrumentality thereof),''.

(c) EFFECTIVE DATES.—

(1) DISTRIBUTIONS.—The amendments made by subsection (a) shall apply to distributions after the date of the enactment of this Act.

(2) RURAL COOPERATIVE.—The amendments made by subsection (b) shall apply to plan years beginning after December 31, 1996.

SEC. 1444. TREATMENT OF GOVERNMENTAL PLANS UNDER SECTION 415.

(a) COMPENSATION LIMIT.—Subsection (b) of section 415 is amended by adding immediately after paragraph (10) the following new paragraph:

''(11) SPECIAL LIMITATION RULE FOR GOVERNMENTAL PLANS.—In the case of a governmental plan (as defined in section 414(d)), subparagraph (B) of paragraph (1) shall not apply.''

(b) TREATMENT OF CERTAIN EXCESS BENEFIT PLANS.—

(1) IN GENERAL.—Section 415 is amended by adding at the end the following new subsection:

''(m) TREATMENT OF QUALIFIED GOVERNMENTAL EXCESS BENEFIT ARRANGEMENTS.—

''(1) GOVERNMENTAL PLAN NOT AFFECTED.—In determining whether a governmental plan (as defined in section 414(d)) meets the requirements of this section, benefits provided under a qualified governmental excess benefit arrangement shall not be taken into account. Income accruing to a governmental plan (or to a trust that is maintained solely for the purpose of providing benefits under a qualified governmental excess benefit arrangement) in respect of a qualified governmental excess benefit arrangement shall constitute income derived from the exercise of an essential governmental function upon which such governmental plan (or trust) shall be exempt from tax under section 115.

''(2) TAXATION OF PARTICIPANT.—For purposes of this chapter—

''(A) the taxable year or years for which amounts in respect of a qualified governmental excess benefit arrangement are includible in gross income by a participant, and

''(B) the treatment of such amounts when so includible by the participant,

shall be determined as if such qualified governmental excess benefit arrangement were treated as a plan for the deferral of compensation which is maintained by a corporation not exempt from tax under this chapter and which does not meet the requirements for qualification under section 401.

''(3) QUALIFIED GOVERNMENTAL EXCESS BENEFIT ARRANGEMENT.—For purposes of this subsection, the term 'qualified governmental excess benefit arrangement' means a portion of a governmental plan if—

''(A) such portion is maintained solely for the purpose of providing to participants in the plan that part of the participant's annual benefit otherwise payable under the terms of the plan that exceeds the limitations on benefits imposed by this section,

''(B) under such portion no election is provided at any time to the participant (directly or indirectly) to defer compensation, and

''(C) benefits described in subparagraph (A) are not paid from a trust forming a part of such governmental plan unless such trust is maintained solely for the purpose of providing such benefits.''

(2) COORDINATION WITH SECTION 457.—Subsection (e) of section 457 is amended by adding at the end the following new paragraph:

''(14) TREATMENT OF QUALIFIED GOVERNMENTAL EXCESS BENEFIT ARRANGEMENTS.—Subsections (b)(2) and (c)(1) shall not apply to any qualified governmental excess benefit arrangement (as defined in section 415(m)(3)), and benefits provided under such an arrangement shall not be taken into account in determining whether any other plan is an eligible deferred compensation plan.''

(3) CONFORMING AMENDMENT.—Paragraph (2) of section 457(f) is amended by striking ''and'' at the end of subparagraph (C), by striking the period at the end of subparagraph (D) and inserting '', and'', and by inserting immediately thereafter the following new subparagraph:

''(E) a qualified governmental excess benefit arrangement described in section 415(m).''

(c) EXEMPTION FOR SURVIVOR AND DISABILITY BENEFITS.—Paragraph (2) of section 415(b) is amended by adding at the end the following new subparagraph:

''(I) EXEMPTION FOR SURVIVOR AND DISABILITY BENEFITS PROVIDED UNDER GOVERNMENTAL PLANS.—Subparagraph (C) of this paragraph and paragraph (5) shall not apply to—

''(i) income received from a governmental plan (as defined in section 414(d)) as a pension, annuity, or similar allowance as the result of the recipient becoming disabled by reason of personal injuries or sickness, or

''(ii) amounts received from a governmental plan by the beneficiaries, survivors, or the estate of an employee as the result of the death of the employee.''

(d) REVOCATION OF GRANDFATHER ELECTION.—

(1) IN GENERAL.—Subparagraph (C) of section 415(b)(10) is amended by adding at the end the following new clause:

''(ii) REVOCATION OF ELECTION.—An election under clause (i) may be revoked not later than the last day of the third plan year beginning after the date of the enactment of this clause. The revocation shall apply to all plan years to which the election applied and to all subsequent plan years. Any amount paid by a plan in a taxable year ending after the revocation shall be includible in income in such taxable year under the rules of this chapter in effect for such taxable year, except that, for purposes of applying the limitations imposed by this section, any portion of such amount which is attributable to any taxable year during which the election was in effect shall be treated as received in such taxable year.''

(2) CONFORMING AMENDMENT.—Subparagraph (C) of section 415(b)(10) is amended by striking ''This'' and inserting:

''(i) IN GENERAL.—This''.

(e) EFFECTIVE DATE.—

(1) IN GENERAL.—The amendments made by subsections (a), (b), and (c) shall apply to years beginning after December 31, 1994. The amendments made by subsection (d) shall apply with respect to revocations adopted after the date of the enactment of this Act.

(2) TREATMENT FOR YEARS BEGINNING BEFORE JANUARY 1, 1995.—Nothing in the amendments made by this section shall be construed to infer that a governmental plan (as defined in section 414(d) of the Internal Revenue Code of 1986) fails to satisfy the requirements of section 415 of such Code for any taxable year beginning before January 1, 1995.

SEC. 1445. UNIFORM RETIREMENT AGE.

(a) DISCRIMINATION TESTING.—Paragraph (5) of section 401(a) (relating to special rules relating to nondiscrimination requirements) is amended by adding at the end the following new subparagraph:

''(F) SOCIAL SECURITY RETIREMENT AGE.—For purposes of testing for discrimination under paragraph (4)—

''(i) the social security retirement age (as defined in section 415(b)(8)) shall be treated as a uniform retirement age, and

''(ii) subsidized early retirement benefits and joint and survivor annuities shall not be treated as being unavailable to employees on the same terms merely because such benefits or annuities are based in whole or in part on an employee's social security retirement age (as so defined).''

(b) EFFECTIVE DATE.—The amendment made by this section shall apply to years beginning after December 31, 1996.

SEC. 1446. CONTRIBUTIONS ON BEHALF OF DISABLED EMPLOYEES.

(a) ALL DISABLED PARTICIPANTS RECEIVING CONTRIBUTIONS.—Section 415(c)(3)(C) is amended by adding at the end the following: ''If a defined contribution plan provides for the continuation of contributions on behalf of all participants described in clause (i) for a fixed or determinable period, this subparagraph shall be applied without regard to clauses (ii) and (iii).''

(b) EFFECTIVE DATE.—The amendment made by this section shall apply to years beginning after December 31, 1996.

SEC. 1447. TREATMENT OF DEFERRED COMPENSATION PLANS OF STATE AND LOCAL GOVERNMENTS AND TAX-EXEMPT ORGANIZATIONS.

(a) SPECIAL RULES FOR PLAN DISTRIBUTIONS.—Paragraph (9) of section 457(e) (relating to other definitions and special rules) is amended to read as follows:

''(9) BENEFITS NOT TREATED AS MADE AVAILABLE BY REASON OF CERTAIN ELECTIONS, ETC.—

''(A) TOTAL AMOUNT PAYABLE IS $3,500 OR LESS.—The total amount payable to a participant under the plan shall not be treated as made available merely because the participant may elect to receive such amount (or the plan may distribute such amount without the participant's consent) if—

''(i) such amount does not exceed $3,500, and

''(ii) such amount may be distributed only if—

''(I) no amount has been deferred under the plan with respect to such participant during the 2-year period ending on the date of the distribution, and

''(II) there has been no prior distribution under the plan to such participant to which this subparagraph applied.

A plan shall not be treated as failing to meet the distribution requirements of subsection (d) by

reason of a distribution to which this subparagraph applies.

''(B) ELECTION TO DEFER COMMENCEMENT OF DISTRIBUTIONS.—The total amount payable to a participant under the plan shall not be treated as made available merely because the participant may elect to defer commencement of distributions under the plan if—

''(i) such election is made after amounts may be available under the plan in accordance with subsection (d)(1)(A) and before commencement of such distributions, and

''(ii) the participant may make only 1 such election.''

(b) COST-OF-LIVING ADJUSTMENT OF MAXIMUM DEFERRAL AMOUNT.—Subsection (e) of section 457, as amended by section 1444(b)(2) (relating to governmental plans), is amended by adding at the end the following new paragraph:

''(15) COST-OF-LIVING ADJUSTMENT OF MAXIMUM DEFERRAL AMOUNT.—The Secretary shall adjust the $7,500 amount specified in subsections (b)(2) and (c)(1) at the same time and in the same manner as under section 415(d), except that the base period shall be the calendar quarter ending September 30, 1994, and any increase under this paragraph which is not a multiple of $500 shall be rounded to the next lowest multiple of $500.''

(c) EFFECTIVE DATE.—The amendments made by this section shall apply to taxable years beginning after December 31, 1996.

SEC. 1448. TRUST REQUIREMENT FOR DEFERRED COMPENSATION PLANS OF STATE AND LOCAL GOVERNMENTS.

(a) IN GENERAL.—Section 457 is amended by adding at the end the following new subsection:

''(g) GOVERNMENTAL PLANS MUST MAINTAIN SET-ASIDES FOR EXCLUSIVE BENEFIT OF PARTICIPANTS.—

''(1) IN GENERAL.—A plan maintained by an eligible employer described in subsection (e)(1)(A) shall not be treated as an eligible deferred compensation plan unless all assets and income of the plan described in subsection (b)(6) are held in trust for the exclusive benefit of participants and their beneficiaries.

''(2) TAXABILITY OF TRUSTS AND PARTICIPANTS.—For purposes of this title—

''(A) a trust described in paragraph (1) shall be treated as an organization exempt from taxation under section 501(a), and

''(B) notwithstanding any other provision of this title, amounts in the trust shall be includible in the gross income of participants and beneficiaries only to the extent, and at the time, provided in this section.

''(3) CUSTODIAL ACCOUNTS AND CONTRACTS.—For purposes of this subsection, custodial accounts and contracts described in section 401(f) shall be treated as trusts under rules similar to the rules under section 401(f).''

(b) CONFORMING AMENDMENT.—Paragraph (6) of section 457(b) is amended by inserting ''except as provided in subsection (g),'' before ''which provides that''.

(c) EFFECTIVE DATES.—

(1) IN GENERAL.—Except as provided in paragraph (2), the amendments made by this section shall apply to assets and income described in section 457(b)(6) of the Internal Revenue Code of 1986 held by a plan on and after the date of the enactment of this Act.

(2) TRANSITION RULE.—In the case of assets and income described in paragraph (1) held by a plan on the date of the enactment of this Act, a trust need not be established by reason of the amendments made by this section before January 1, 1999.

SEC. 1449. TRANSITION RULE FOR COMPUTING MAXIMUM BENEFITS UNDER SECTION 415 LIMITATIONS.

(a) IN GENERAL.—Subparagraph (A) of section 767(d)(3) of the Uruguay Round Agreements Act is amended to read as follows:

''(A) EXCEPTION.—A plan that was adopted and in effect before December 8, 1994, shall not be required to apply the amendments made by subsection (b) with respect to benefits accrued before the earlier of—

''(i) the later of the date a plan amendment applying such amendment is adopted or made effective, or

''(ii) the first day of the first limitation year beginning after December 31, 1999.

Determinations under section 415(b)(2)(E) of the Internal Revenue Code of 1986 before such earlier date shall be made with respect to such benefits on the basis of such section as in effect on December 7, 1994 (except that the modification made by section 1449(b) of the Small Business Job Protection Act of 1996 shall be taken into account), and the provisions of the plan as in effect on December 7, 1994, but only if such provisions of the plan meet the requirements of such section (as so in effect).''

(b) MODIFICATION OF CERTAIN ASSUMPTIONS FOR ADJUSTING BENEFITS OF DEFINED BENEFIT PLANS FOR EARLY RETIREES.—Subparagraph (E) of section 415(b)(2) (relating to limitation on certain assumptions) is amended—

(1) by striking ''Except as provided in clause (ii), for purposes of adjusting any benefit or limitation under subparagraph (B) or (C),'' in clause (i) and inserting ''For purposes of adjusting any limitation under subparagraph (C) and, except as provided in clause (ii), for purposes of adjusting any benefit under subparagraph (B),'', and

(2) by striking ''For purposes of adjusting the benefit or limitation of any form of benefit subject to section 417(e)(3),'' in clause (ii) and inserting ''For purposes of adjusting any benefit under subparagraph (B) for any form of benefit subject to section 417(e)(3),''.

(c) EFFECTIVE DATE.—The amendments made by this section shall take effect as if included in the provisions of section 767 of the Uruguay Round Agreements Act.

(d) TRANSITIONAL RULE.—In the case of a plan that was adopted and in effect before December 8, 1994, if—

(1) a plan amendment was adopted or made effective on or before the date of the enactment of this Act applying the amendments made by section 767 of the Uruguay Round Agreements Act, and

(2) within 1 year after the date of the enactment of this Act, a plan amendment is adopted which repeals the amendment referred to in paragraph (1),

the amendment referred to in paragraph (1) shall not be taken into account in applying section 767(d)(3)(A) of the Uruguay Round Agreements Act, as amended by subsection (a).

SEC. 1450. MODIFICATIONS OF SECTION 403(b).

(a) MULTIPLE SALARY REDUCTION AGREEMENTS PERMITTED.—

(1) GENERAL RULE.—For purposes of section 403(b) of the Internal Revenue Code of 1986, the frequency that an employee is permitted to enter into a salary reduction agreement, the salary to which such an agreement may apply, and the ability to revoke such an agreement shall be determined under the rules applicable to cash or deferred elections under section 401(k) of such Code.

(2) EFFECTIVE DATE.—This subsection shall apply to taxable years beginning after December 31, 1995.

(b) TREATMENT OF INDIAN TRIBAL GOVERNMENTS.—

(1) IN GENERAL.—In the case of any contract purchased in a plan year beginning before January 1, 1995, section 403(b) of the Internal Revenue Code of 1986 shall be applied as if any reference to an employer described in section 501(c)(3) of the Internal Revenue Code of 1986 which is exempt from tax under section 501 of such Code included a reference to an employer which is an Indian tribal government (as defined by section 7701(a)(40) of such Code), a subdivision of an Indian tribal government (determined in accordance with section 7871(d) of such Code), an agency or instrumentality of an Indian tribal government or subdivision thereof, or a corporation chartered under Federal, State, or tribal law which is owned in whole or in part by any of the foregoing.

(2) ROLLOVERS.—Solely for purposes of applying section 403(b)(8) of such Code to a contract to which paragraph (1) applies, a qualified cash or deferred arrangement under section 401(k) of such Code shall be treated as if it were a plan or contract described in clause (ii) of section 403(b)(8)(A) of such Code.

(c) ELECTIVE DEFERRALS.—

(1) IN GENERAL.—Subparagraph (E) of section 403(b)(1) is amended to read as follows:

''(E) in the case of a contract purchased under a salary reduction agreement, the contract meets the requirements of section 401(a)(30),''.

(2) EFFECTIVE DATE.—The amendment made by this subsection shall apply to years beginning after December 31, 1995, except a contract shall not be required to meet any change in any requirement by reason of such amendment before the 90th day after the date of the enactment of this Act.

SEC. 1451. WAIVER OF MINIMUM PERIOD FOR JOINT AND SURVIVOR ANNUITY EXPLANATION BEFORE ANNUITY STARTING DATE.

(a) GENERAL RULE.—For purposes of section 417(a)(3)(A) of the Internal Revenue Code of 1986 (relating to plan to provide written explanations), the minimum period prescribed by the Secretary of the Treasury between the date that the explanation referred to in such section is provided and the annuity starting date shall not apply if waived by the participant and, if applicable, the participant's spouse.

(b) EFFECTIVE DATE.—Subsection (a) shall apply to plan years beginning after December 31, 1996.

SEC. 1452. REPEAL OF LIMITATION IN CASE OF DEFINED BENEFIT PLAN AND DEFINED CONTRIBUTION PLAN FOR SAME EMPLOYEE; EXCESS DISTRIBUTIONS.

(a) IN GENERAL.—Section 415(e) is repealed.

(b) EXCESS DISTRIBUTIONS.—Section 4980A is amended by adding at the end the following new subsection:

''(g) LIMITATION ON APPLICATION.—This section shall not apply to distributions during years beginning after December 31, 1995, and before January 1, 1999, and such distributions shall be treated as made first from amounts not described in subsection (f).''

(c) CONFORMING AMENDMENTS.—

(1) Paragraph (1) of section 415(a) is amended—

(A) by adding ''or'' at the end of subparagraph (A),

(B) by striking '', or'' at the end of subparagraph (B) and inserting a period, and

(C) by striking subparagraph (C).

(2) Subparagraph (B) of section 415(b)(5) is amended by striking ''and subsection (e)''.

(3) Paragraph (1) of section 415(f) is amended by striking ''subsections (b), (c), and (e)'' and inserting ''subsections (b) and (c)''.

(4) Subsection (g) of section 415 is amended by striking ''subsections (e) and (f)'' in the last sentence and inserting ''subsection (f)''.

(5) Clause (i) of section 415(k)(2)(A) is amended to read as follows:

''(i) any contribution made directly by an employee under such an arrangement shall not be treated as an annual addition for purposes of subsection (c), and''.

(6) Clause (ii) of section 415(k)(2)(A) is amended by striking ''subsections (c) and (e)'' and inserting ''subsection (c)''.

(7) Section 416 is amended by striking subsection (h).

(d) EFFECTIVE DATE.—

(1) IN GENERAL.—Except as provided in paragraph (2), the amendments made by this section shall apply to limitation years beginning after December 31, 1998.

(2) EXCESS DISTRIBUTIONS.—The amendment made by subsection (b) shall apply to years beginning after December 31, 1995.

SEC. 1453. TAX ON PROHIBITED TRANSACTIONS.

(a) IN GENERAL.—Section 4975(a) is amended by striking ''5 percent'' and inserting ''10 percent''.

(b) EFFECTIVE DATE.—The amendment made by this section shall apply to prohibited transactions occurring after the date of the enactment of this Act.

SEC. 1454. TREATMENT OF LEASED EMPLOYEES.

(a) GENERAL RULE.—Subparagraph (C) of section 414(n)(2) (defining leased employee) is amended to read as follows:

''(C) such services are performed under primary direction or control by the recipient.''

(b) EFFECTIVE DATE.—The amendment made by subsection (a) shall apply to years beginning after December 31, 1996, but shall not apply to any relationship determined under an Internal Revenue Service ruling issued before the date of the enactment of this Act pursuant to section 414(n)(2)(C) of the Internal Revenue Code of 1986 (as in effect on the day before such date) not to involve a leased employee.

SEC. 1455. UNIFORM PENALTY PROVISIONS TO APPLY TO CERTAIN PENSION REPORTING REQUIREMENTS.

(a) PENALTIES.—

(1) STATEMENTS.—Paragraph (1) of section 6724(d) is amended by striking ''and'' at the end of subparagraph (A), by striking the period at the end of subparagraph (B) and inserting '', and'', and by inserting after subparagraph (B) the following new subparagraph:

''(C) any statement of the amount of payments to another person required to be made to the Secretary under—

''(i) section 408(i) (relating to reports with respect to individual retirement accounts or annuities), or

''(ii) section 6047(d) (relating to reports by employers, plan administrators, etc.).''

(2) REPORTS.—Paragraph (2) of section 6724(d), as amended by section 1116, is amended by striking ''or'' at the end of subparagraph (T), by striking the period at the end of subparagraph (U) and inserting a comma, and by inserting after subparagraph (U) the following new subparagraphs:

''(V) section 408(i) (relating to reports with respect to individual retirement plans) to any person other than the Secretary with respect to the amount of payments made to such person, or

''(W) section 6047(d) (relating to reports by plan administrators) to any person other than the Secretary with respect to the amount of payments made to such person.''

(b) MODIFICATION OF REPORTABLE DESIGNATED DISTRIBUTIONS.—

(1) SECTION 408.—Subsection (i) of section 408 (relating to individual retirement account reports) is amended by inserting ''aggregating $10 or more in any calendar year'' after ''distributions''.

(2) SECTION 6047.—Paragraph (1) of section 6047(d) (relating to reports by employers, plan administrators, etc.) is amended by adding at the end the following new sentence: ''No return or report may be required under the preceding sentence with respect to distributions to any person during any year unless such distributions aggregate $10 or more.''

(c) QUALIFYING ROLLOVER DISTRIBUTIONS.—Section 6652(i) is amended—

(1) by striking ''the $10'' and inserting ''$100'', and

(2) by striking ''$5,000'' and inserting ''$50,000''.

(d) CONFORMING AMENDMENTS.—

(1) Paragraph (1) of section 6047(f) is amended to read as follows:

''(1) For provisions relating to penalties for failures to file returns and reports required under this section, see sections 6652(e), 6721, and 6722.''

(2) Subsection (e) of section 6652 is amended by adding at the end the following new sentence: ''This subsection shall not apply to any return or statement which is an information return described in section 6724(d)(1)(C)(ii) or a payee statement described in section 6724(d)(2)(W).''

(3) Subsection (a) of section 6693 is amended by adding at the end the following new sentence: ''This subsection shall not apply to any report which is an information return described in section 6724(d)(1)(C)(i) or a payee statement described in section 6724(d)(2)(V).''

(e) EFFECTIVE DATE.—The amendments made by this section shall apply to returns, reports, and other statements the due date for which (determined without regard to extensions) is after December 31, 1996.

SEC. 1456. RETIREMENT BENEFITS OF MINISTERS NOT SUBJECT TO TAX ON NET EARNINGS FROM SELF-EMPLOYMENT.

(a) IN GENERAL.—Section 1402(a)(8) (defining net earning from self-employment) is amended by inserting '', but shall not include in such net earnings from self-employment the rental value of any parsonage (whether or not excludable under section 107) provided after the individual retires, or any other retirement benefit received by such individual from a church plan (as defined in section 414(e)) after the individual retires'' before the semicolon at the end.

(b) EFFECTIVE DATE.—The amendments made by this section shall apply to years beginning before, on, or after December 31, 1994.

SEC. 1457. DATE FOR ADOPTION OF PLAN AMENDMENTS.

If any amendment made by this subtitle requires an amendment to any plan or annuity contract, such amendment shall not be required to be made before the first day of the first plan year beginning on or after January 1, 1997, if—

(1) during the period after such amendment takes effect and before such first plan year, the plan or contract is operated in accordance with the requirements of such amendment, and

(2) such amendment applies retroactively to such period.

In the case of a governmental plan (as defined in section 414(d) of the Internal Revenue Code of 1986), this section shall be applied by substituting ''1999'' for ''1997''.

Subtitle E—Foreign Simplification

SEC. 1501. REPEAL OF INCLUSION OF CERTAIN EARNINGS INVESTED IN EXCESS PASSIVE ASSETS.

(a) IN GENERAL.—

(1) REPEAL OF INCLUSION.—Paragraph (1) of section 951(a) (relating to amounts included in gross income of United States shareholders) is amended by striking subparagraph (C), by striking ''; and'' at the end of subparagraph (B) and inserting a period, and by adding ''and'' at the end of subparagraph (A).

(2) REPEAL OF INCLUSION AMOUNT.—Section 956A (relating to earnings invested in excess passive assets) is repealed.

(b) CONFORMING AMENDMENTS.—

(1) Paragraph (1) of section 956(b) is amended to read as follows:

''(1) APPLICABLE EARNINGS.—For purposes of this section, the term 'applicable earnings' means, with respect to any controlled foreign corporation, the sum of—

''(A) the amount (not including a deficit) referred to in section 316(a)(1), and

''(B) the amount referred to in section 316(a)(2),

but reduced by distributions made during the taxable year.''

(2) Paragraph (3) of section 956(b) is amended to read as follows:

''(3) SPECIAL RULE WHERE CORPORATION CEASES TO BE CONTROLLED FOREIGN CORPORATION.—If any foreign corporation ceases to be a controlled foreign corporation during any taxable year—

''(A) the determination of any United States shareholder's pro rata share shall be made on the basis of stock owned (within the meaning of section 958(a)) by such shareholder on the last day during the taxable year on which the foreign corporation is a controlled foreign corporation,

''(B) the average referred to in subsection (a)(1)(A) for such taxable year shall be determined by only taking into account quarters ending on or before such last day, and

''(C) in determining applicable earnings, the amount taken into account by reason of being described in paragraph (2) of section 316(a) shall be the portion of the amount so described which is allocable (on a pro rata basis) to the part of such year during which the corporation is a controlled foreign corporation.''

(3) Subsection (a) of section 959 (relating to exclusion from gross income of previously taxed earnings and profits) is amended by adding ''or'' at the end of paragraph (1), by striking ''or'' at the end of paragraph (2), and by striking paragraph (3).

(4) Subsection (a) of section 959 is amended by striking ''paragraphs (2) and (3)'' in the last sentence and inserting ''paragraph (2)''.

(5) Subsection (c) of section 959 is amended by adding at the end the following flush sentence: ''References in this subsection to section 951(a)(1)(C) and subsection (a)(3) shall be treated as references to such provisions as in effect on the day before the date of the enactment of the Small Business Job Protection Act of 1996.''

(6) Paragraph (1) of section 959(f) is amended to read as follows:

''(1) IN GENERAL.—For purposes of this section, amounts that would be included under subparagraph (B) of section 951(a)(1) (determined without regard to this section) shall be treated as attributable first to earnings described in subsection (c)(2), and then to earnings described in subsection (c)(3).''

(7) Paragraph (2) of section 959(f) is amended by striking ''subparagraphs (B) and (C) of section 951(a)(1)'' and inserting ''section 951(a)(1)(B)''.

(8) Subsection (b) of section 989 is amended by striking ''subparagraph (B) or (C) of section 951(a)(1)'' and inserting ''section 951(a)(1)(B)''.

(9) Paragraph (9) of section 1297(b) is amended by striking ''subparagraph (B) or (C) of section 951(a)(1)'' and inserting ''section 951(a)(1)(B)''.

(10) Subsections (d)(3)(B) and (e)(2)(B)(ii) of section 1297 are each amended by striking ''or section 956A''.

(c) CLERICAL AMENDMENT.—The table of sections for subpart F of part III of subchapter N of chapter 1 is amended by striking the item relating to section 956A.

(d) EFFECTIVE DATE.—The amendments made by this section shall apply to taxable years of foreign corporations beginning after December 31, 1996, and to taxable years of United States shareholders within which or with which such taxable years of foreign corporations end.

Subtitle F—Revenue Offsets

SEC. 1601. TERMINATION OF PUERTO RICO AND POSSESSION TAX CREDIT.

(a) IN GENERAL.—Section 936 is amended by adding at the end the following new subsection:

''(j) TERMINATION.—

''(1) IN GENERAL.—Except as otherwise provided in this subsection, this section shall not apply to any taxable year beginning after December 31, 1995.

''(2) TRANSITION RULES FOR ACTIVE BUSINESS INCOME CREDIT.—Except as provided in paragraph (3)—

''(A) ECONOMIC ACTIVITY CREDIT.—In the case of an existing credit claimant—

''(i) with respect to a possession other than Puerto Rico, and

''(ii) to which subsection (a)(4)(B) does not apply,

the credit determined under subsection (a)(1)(A) shall be allowed for taxable years beginning after December 31, 1995, and before January 1, 2002.

''(B) SPECIAL RULE FOR REDUCED CREDIT.—

''(i) IN GENERAL.—In the case of an existing credit claimant to which subsection (a)(4)(B) applies, the credit determined under subsection (a)(1)(A) shall be allowed for taxable years beginning after December 31, 1995, and before January 1, 1998.

''(ii) ELECTION IRREVOCABLE AFTER 1997.—An election under subsection (a)(4)(B)(iii) which is in effect for the taxpayer's last taxable year beginning before 1997 may not be revoked unless it is revoked for the taxpayer's first taxable year beginning in 1997 and all subsequent taxable years.

''(C) ECONOMIC ACTIVITY CREDIT FOR PUERTO RICO.—

''For economic activity credit for Puerto Rico, see section 30A.

''(3) ADDITIONAL RESTRICTED CREDIT.—

''(A) IN GENERAL.—In the case of an existing credit claimant—

''(i) the credit under subsection (a)(1)(A) shall be allowed for the period beginning with the first taxable year after the last taxable year to which subparagraph (A) or (B) of paragraph (2), whichever is appropriate, applied and ending with the last taxable year beginning before January 1, 2006, except that

''(ii) the aggregate amount of taxable income taken into account under subsection (a)(1)(A) for any such taxable year shall not exceed the adjusted base period income of such claimant.

''(B) COORDINATION WITH SUBSECTION (a)(4).—The amount of income described in subsection (a)(1)(A) which is taken into account in applying subsection (a)(4) shall be such income as reduced under this paragraph.

''(4) ADJUSTED BASE PERIOD INCOME.—For purposes of paragraph (3)—

''(A) IN GENERAL.—The term 'adjusted base period income' means the average of the inflation-adjusted possession incomes of the corporation for each base period year.

''(B) INFLATION-ADJUSTED POSSESSION INCOME.—For purposes of subparagraph (A), the inflation-adjusted possession income of any corporation for any base period year shall be an amount equal to the sum of—

''(i) the possession income of such corporation for such base period year, plus

''(ii) such possession income multiplied by the inflation adjustment percentage for such base period year.

''(C) INFLATION ADJUSTMENT PERCENTAGE.—For purposes of subparagraph (B), the inflation adjustment percentage for any base period year means the percentage (if any) by which—

''(i) the CPI for 1995, exceeds

''(ii) the CPI for the calendar year in which the base period year for which the determination is being made ends.

For purposes of the preceding sentence, the CPI for any calendar year is the CPI (as defined in section 1(f)(5)) for such year under section 1(f)(4).

''(D) INCREASE IN INFLATION ADJUSTMENT PERCENTAGE FOR GROWTH DURING BASE YEARS.—The inflation adjustment percentage (determined under subparagraph (C) without regard to this subparagraph) for each of the 5 taxable years referred to in paragraph (5)(A) shall be increased by—

''(i) 5 percentage points in the case of a taxable year ending during the 1-year period ending on October 13, 1995;

''(ii) 10.25 percentage points in the case of a taxable year ending during the 1-year period ending on October 13, 1994;

''(iii) 15.76 percentage points in the case of a taxable year ending during the 1-year period ending on October 13, 1993;

''(iv) 21.55 percentage points in the case of a taxable year ending during the 1-year period ending on October 13, 1992; and

''(v) 27.63 percentage points in the case of a taxable year ending during the 1-year period ending on October 13, 1991.

''(5) BASE PERIOD YEAR.—For purposes of this subsection—

''(A) IN GENERAL.—The term 'base period year' means each of 3 taxable years which are among the 5 most recent taxable years of the corporation ending before October 14, 1995, determined by disregarding—

''(i) one taxable year for which the corporation had the largest inflation-adjusted possession income, and

''(ii) one taxable year for which the corporation had the smallest inflation-adjusted possession income.

''(B) CORPORATIONS NOT HAVING SIGNIFICANT POSSESSION INCOME THROUGHOUT 5-YEAR PERIOD.—

''(i) IN GENERAL.—If a corporation does not have significant possession income for each of the most recent 5 taxable years ending before October 14, 1995, then, in lieu of applying subparagraph (A), the term 'base period year' means only those taxable years (of such 5 taxable years) for which the corporation has significant possession income; except that, if such corporation has significant possession income for 4 of such 5 taxable years, the rule of subparagraph (A)(ii) shall apply.

''(ii) SPECIAL RULE.—If there is no year (of such 5 taxable years) for which a corporation has significant possession income—

''(I) the term 'base period year' means the first taxable year ending on or after October 14, 1995, but

''(II) the amount of possession income for such year which is taken into account under paragraph (4) shall be the amount which would be determined if such year were a short taxable year ending on September 30, 1995.

''(iii) SIGNIFICANT POSSESSION INCOME.—For purposes of this subparagraph, the term 'significant possession income' means possession income which exceeds 2 percent of the possession income of the taxpayer for the taxable year (of the period of 6 taxable years ending with the first taxable year ending on or after October 14, 1995) having the greatest possession income.

''(C) ELECTION TO USE ONE BASE PERIOD YEAR.—

''(i) IN GENERAL.—At the election of the taxpayer, the term 'base period year' means—

''(I) only the last taxable year of the corporation ending in calendar year 1992, or

''(II) a deemed taxable year which includes the first ten months of calendar year 1995.

''(ii) BASE PERIOD INCOME FOR 1995.—In determining the adjusted base period income of the corporation for the deemed taxable year under clause (i)(II), the possession income shall be annualized and shall be determined without regard to any extraordinary item.

''(iii) ELECTION.—An election under this subparagraph by any possession corporation may be made only for the corporation's first taxable year beginning after December 31, 1995, for which it is a possession corporation. The rules of subclauses (II) and (III) of subsection (a)(4)(B)(iii) shall apply to the election under this subparagraph.

''(D) ACQUISITIONS AND DISPOSITIONS.—Rules similar to the rules of subparagraphs (A) and (B) of section 41(f)(3) shall apply for purposes of this subsection.

''(6) POSSESSION INCOME.—For purposes of this subsection, the term 'possession income' means, with respect to any possession, the income referred to in subsection (a)(1)(A) determined with respect to that possession. In no event shall possession income be treated as being less than zero.

''(7) SHORT YEARS.—If the current year or a base period year is a short taxable year, the application of this subsection shall be made with such annualizations as the Secretary shall prescribe.

''(8) SPECIAL RULES FOR CERTAIN POSSESSIONS.—

''(A) IN GENERAL.—In the case of an existing credit claimant with respect to an applicable possession, this section (other than the preceding paragraphs of this subsection) shall apply to such claimant with respect to such applicable possession for taxable years beginning after December 31, 1995, and before January 1, 2006.

''(B) APPLICABLE POSSESSION.—For purposes of this paragraph, the term 'applicable possession' means Guam, American Samoa, and the Commonwealth of the Northern Mariana Islands.

''(9) EXISTING CREDIT CLAIMANT.—For purposes of this subsection—

''(A) IN GENERAL.—The term 'existing credit claimant' means a corporation—

''(i) which was actively conducting a trade or business in a possession on October 13, 1995, and

''(ii) with respect to which an election under this section is in effect for the corporation's taxable year which includes October 13, 1995.

''(B) NEW LINES OF BUSINESS PROHIBITED.—If, after October 13, 1995, a corporation which would (but for this subparagraph) be an existing credit claimant adds a substantial new line of business, such corporation shall cease to be treated as an existing credit claimant as of the close of the taxable year ending before the date of such addition.

''(C) BINDING CONTRACT EXCEPTION.—If, on October 13, 1995, and at all times thereafter, there is in effect with respect to a corporation a binding contract for the acquisition of assets to be used in, or for the sale of assets to be produced from, a trade or business, the corporation shall be treated for purposes of this paragraph as actively conducting such trade or business on October 13, 1995. The preceding sentence shall not apply if such trade or business is not actively conducted before January 1, 1996.

''(10) SEPARATE APPLICATION TO EACH POSSESSION.—For purposes of determining—

''(A) whether a taxpayer is an existing credit claimant, and

''(B) the amount of the credit allowed under this section,

this subsection (and so much of this section as relates to this subsection) shall be applied separately with respect to each possession.''

(b) ECONOMIC ACTIVITY CREDIT FOR PUERTO RICO.—

(1) IN GENERAL.—Subpart B of part IV of subchapter A of chapter 1 is amended by adding at the end the following new section:

''SEC. 30A. PUERTO RICAN ECONOMIC ACTIVITY CREDIT.

''(a) ALLOWANCE OF CREDIT.—

''(1) IN GENERAL.—Except as otherwise provided in this section, if the conditions of both paragraph (1) and paragraph (2) of subsection (b) are satisfied with respect to a qualified domestic corporation, there shall be allowed as a credit against the tax imposed by this chapter an amount equal to the portion of the tax which is attributable to the taxable income, from sources without the United States, from—

''(A) the active conduct of a trade or business within Puerto Rico, or

''(B) the sale or exchange of substantially all of the assets used by the taxpayer in the active conduct of such trade or business.

In the case of any taxable year beginning after December 31, 2001, the aggregate amount of taxable income taken into account under the preceding sentence (and in applying subsection (d)) shall not exceed the adjusted base period income of such corporation, as determined in the same manner as under section 936(j).

''(2) QUALIFIED DOMESTIC CORPORATION.—For purposes of paragraph (1), the term 'qualified domestic corporation' means a domestic corporation—

''(A) which is an existing credit claimant with respect to Puerto Rico, and

''(B) with respect to which section 936(a)(4)(B) does not apply for the taxable year.

''(3) SEPARATE APPLICATION.—For purposes of determining—

''(A) whether a taxpayer is an existing credit claimant with respect to Puerto Rico, and

''(B) the amount of the credit allowed under this section,

this section (and so much of section 936 as relates to this section) shall be applied separately with respect to Puerto Rico.

''(b) CONDITIONS WHICH MUST BE SATISFIED.—The conditions referred to in subsection (a) are—

''(1) 3-YEAR PERIOD.—If 80 percent or more of the gross income of the qualified domestic corporation for the 3-year period immediately preceding the close of the taxable year (or for such part of such period immediately preceding the close of such taxable year as may be applicable) was derived from sources within a possession (determined without regard to section 904(f)).

''(2) TRADE OR BUSINESS.—If 75 percent or more of the gross income of the qualified domestic corporation for such period or such part thereof was derived from the active conduct of a trade or business within a possession.

''(c) CREDIT NOT ALLOWED AGAINST CERTAIN TAXES.—The credit provided by subsection (a) shall not be allowed against the tax imposed by—

''(1) section 59A (relating to environmental tax),

''(2) section 531 (relating to the tax on accumulated earnings),

''(3) section 541 (relating to personal holding company tax), or

''(4) section 1351 (relating to recoveries of foreign expropriation losses).

''(d) LIMITATIONS ON CREDIT FOR ACTIVE BUSINESS INCOME.—The amount of the credit determined under subsection (a) for any taxable year shall not exceed the sum of the following amounts:

''(1) 60 percent of the sum of—

''(A) the aggregate amount of the qualified domestic corporation's qualified possession wages for such taxable year, plus

''(B) the allocable employee fringe benefit expenses of the qualified domestic corporation for such taxable year.

''(2) The sum of—

''(A) 15 percent of the deprecation allowances for the taxable year with respect to short-life qualified tangible property,

''(B) 40 percent of the depreciation allowances for the taxable year with respect to medium-life qualified tangible property, and

''(C) 65 percent of the depreciation allowances for the taxable year with respect to long-life qualified tangible property.

''(3) If the qualified domestic corporation does not have an election to use the method described in section 936(h)(5)(C)(ii) (relating to profit split) in effect for the taxable year, the amount of the qualified possession income taxes for the taxable year allocable to nonsheltered income.

''(e) ADMINISTRATIVE PROVISIONS.—For purposes of this title—

''(1) the provisions of section 936 (including any applicable election thereunder) shall apply in the same manner as if the credit under this section were a credit under section 936(a)(1)(A) for a domestic corporation to which section 936(a)(4)(A) applies,

''(2) the credit under this section shall be treated in the same manner as the credit under section 936, and

''(3) a corporation to which this section applies shall be treated in the same manner as if it were a corporation electing the application of section 936.

''(f) DEFINITIONS.—For purposes of this section, any term used in this section which is also used in section 936 shall have the same meaning given such term by section 936.

''(g) APPLICATION OF SECTION.—This section shall apply to taxable years beginning after December 31, 1995, and before January 1, 2006.''

(2) CONFORMING AMENDMENTS.—

(A) Paragraph (1) of section 55(c) is amended by striking ''and the section 936 credit allowable under section 27(b)'' and inserting '', the section 936 credit allowable under section 27(b), and the Puerto Rican economic activity credit under section 30A''.

(B) Subclause (I) of section 56(g)(4)(C)(ii) is amended—

(i) by inserting ''30A,'' before ''936'', and

(ii) by striking ''and (i)'' and inserting '', (i), and (j)''.

(C) Clause (iii) of section 56(g)(4)(C) is amended by adding at the end the following new subclause:

''(VI) APPLICATION TO SECTION 30A CORPORATIONS.—References in this clause to section 936 shall be treated as including references to section 30A.''

(D) Subsection (b) of section 59 is amended by striking ''section 936,'' and all that follows and inserting ''section 30A or 936, alternative minimum taxable income shall not include any income with respect to which a credit is determined under section 30A or 936.''.

(E) The table of sections for subpart B of part IV of subchapter A of chapter 1 is amended by adding at the end the following new item:

''Sec. 30A. Puerto Rican economic activity credit.''

(F)(i) The heading for subpart B of part IV of subchapter A of chapter 1 is amended to read as follows:

''Subpart B—Other Credits''.

(ii) The table of subparts for part IV of subchapter A of chapter 1 is amended by striking the item relating to subpart B and inserting the following new item:

''Subpart B. Other credits.''

(c) EFFECTIVE DATE.—The amendments made by this section shall apply to taxable years beginning after December 31, 1995.

SEC. 1602. REPEAL OF EXCLUSION FOR INTEREST ON LOANS USED TO ACQUIRE EMPLOYER SECURITIES.

(a) IN GENERAL.—Section 133 (relating to interest on certain loans used to acquire employer securities) is hereby repealed.

(b) CONFORMING AMENDMENTS.—

(1) Subparagraph (B) of section 291(e)(1) is amended by striking clause (iv) and by redesignating clause (v) as clause (iv).

(2) Section 812 is amended by striking subsection (g).

(3) Paragraph (5) of section 852(b) is amended by striking subparagraph (C).

(4) Paragraph (2) of section 4978(b) is amended by striking subparagraph (A) and all that follows and inserting the following:

''(A) first from qualified securities to which section 1042 applied acquired during the 3-year period ending on the date of the disposition, beginning with the securities first so acquired, and

''(B) then from any other employer securities. If subsection (d) applies to a disposition, the disposition shall be treated as made from employer securities in the opposite order of the preceding sentence.''.

(5)(A) Section 4978B (relating to tax on disposition of employer securities to which section 133 applied) is hereby repealed.

(B) The table of sections for chapter 43 is amended by striking the item relating to section 4978B.

(6) Subsection (e) of section 6047 is amended by striking paragraphs (1), (2), and (3) and inserting the following new paragraphs:

''(1) any employer maintaining, or the plan administrator (within the meaning of section 414(g)) of, an employee stock ownership plan which holds stock with respect to which section 404(k) applies to dividends paid on such stock, or

''(2) both such employer or plan administrator,''.

(7) Subsection (f) of section 7872 is amended by striking paragraph (12).

(8) The table of sections for part III of subchapter B of chapter 1 is amended by striking the item relating to section 133.

(c) EFFECTIVE DATE.—

(1) IN GENERAL.—The amendments made by this section shall apply to loans made after October 13, 1995.

(2) REFINANCINGS.—The amendments made by this section shall not apply to loans made after October 13, 1995, to refinance securities acquisition loans (determined without regard to section 133(b)(1)(B) of the Internal Revenue Code of 1986, as in effect on the day before the date of the enactment of this Act) made on or before such date or to refinance loans described in this paragraph if—

(A) the refinancing loans meet the requirements of section 133 of such Code (as so in effect),

(B) immediately after the refinancing the principal amount of the loan resulting from the refinancing does not exceed the principal amount of the refinanced loan (immediately before the refinancing), and

(C) the term of such refinancing loan does not extend beyond the last day of the term of the original securities acquisition loan.

For purposes of this paragraph, the term ''securities acquisition loan'' includes a loan from a corporation to an employee stock ownership plan described in section 133(b)(3) of such Code (as so in effect).

(3) EXCEPTION.—Any loan made pursuant to a binding written contract in effect on October 13, 1995, and at all times thereafter before such loan is made, shall be treated for purposes of paragraphs (1) and (2) as a loan made before such date.

SEC. 1603. CERTAIN AMOUNTS DERIVED FROM FOREIGN CORPORATIONS TREATED AS UNRELATED BUSINESS TAXABLE INCOME.

(a) GENERAL RULE.—Subsection (b) of section 512 (relating to modifications) is amended by adding at the end the following new paragraph:

''(17) TREATMENT OF CERTAIN AMOUNTS DERIVED FROM FOREIGN CORPORATIONS.—

''(A) IN GENERAL.—Notwithstanding paragraph (1), any amount included in gross income under section 951(a)(1)(A) shall be included as an item of gross income derived from an unrelated trade or business to the extent the amount so included is attributable to insurance income (as defined in section 953) which, if derived directly by the organization, would be treated as gross income from an unrelated trade or business. There shall be allowed all deductions directly connected with amounts included in gross income under the preceding sentence.

''(B) EXCEPTION.—Subparagraph (A) shall not apply to income attributable to a policy of insurance or reinsurance with respect to which the person (directly or indirectly) insured is—

''(i) such organization,

''(ii) an affiliate of such organization which is exempt from tax under section 501(a), or

''(iii) a director or officer of, or an individual who (directly or indirectly) performs services for, such organization or affiliate but only if the insurance covers primarily risks associated with the performance of services in connection with such organization or affiliate.

For purposes of this subparagraph, the determination as to whether an entity is an affiliate of an organization shall be made under rules similar to the rules of section 168(h)(4)(B).

''(C) REGULATIONS.—The Secretary shall prescribe such regulations as may be necessary or appropriate to carry out the purposes of this paragraph, including regulations for the application of this paragraph in the case of income paid through 1 or more entities or between 2 or more chains of entities.''

(b) EFFECTIVE DATE.—The amendment made by this section shall apply to amounts included in gross income in any taxable year beginning after December 31, 1995.

SEC. 1604. DEPRECIATION UNDER INCOME FORECAST METHOD.

(a) GENERAL RULE.—Section 167 (relating to depreciation) is amended by redesignating subsection (g) as subsection (h) and by inserting

after subsection (f) the following new subsection:

''(g) DEPRECIATION UNDER INCOME FORECAST METHOD.—

''(1) IN GENERAL.—If the depreciation deduction allowable under this section to any taxpayer with respect to any property is determined under the income forecast method or any similar method—

''(A) the income from the property to be taken into account in determining the depreciation deduction under such method shall be equal to the amount of income earned in connection with the property before the close of the 10th taxable year following the taxable year in which the property was placed in service,

''(B) the adjusted basis of the property shall only include amounts with respect to which the requirements of section 461(h) are satisfied,

''(C) the depreciation deduction under such method for the 10th taxable year beginning after the taxable year in which the property was placed in service shall be equal to the adjusted basis of such property as of the beginning of such 10th taxable year, and

''(D) such taxpayer shall pay (or be entitled to receive) interest computed under the look-back method of paragraph (2) for any recomputation year.

''(2) LOOK-BACK METHOD.—The interest computed under the look-back method of this paragraph for any recomputation year shall be determined by—

''(A) first determining the depreciation deductions under this section with respect to such property which would have been allowable for prior taxable years if the determination of the amounts so allowable had been made on the basis of the sum of the following (instead of the estimated income from such property)—

''(i) the actual income earned in connection with such property for periods before the close of the recomputation year, and

''(ii) an estimate of the future income to be earned in connection with such property for periods after the recomputation year and before the close of the 10th taxable year following the taxable year in which the property was placed in service,

''(B) second, determining (solely for purposes of computing such interest) the overpayment or underpayment of tax for each such prior taxable year which would result solely from the application of subparagraph (A), and

''(C) then using the adjusted overpayment rate (as defined in section 460(b)(7)), compounded daily, on the overpayment or underpayment determined under subparagraph (B).

For purposes of the preceding sentence, any cost incurred after the property is placed in service (which is not treated as a separate property under paragraph (5)) shall be taken into account by discounting (using the Federal midterm rate determined under section 1274(d) as of the time such cost is incurred) such cost to its value as of the date the property is placed in service. The taxpayer may elect with respect to any property to have the preceding sentence not apply to such property.

''(3) EXCEPTION FROM LOOK-BACK METHOD.—Paragraph (1)(D) shall not apply with respect to any property which, when placed in service by the taxpayer, had a basis of $100,000 or less.

''(4) RECOMPUTATION YEAR.—For purposes of this subsection, except as provided in regulations, the term 'recomputation year' means, with respect to any property, the 3d and the 10th taxable years beginning after the taxable year in which the property was placed in service, unless the actual income earned in connection with the property for the period before the close of such 3d or 10th taxable year is within 10 percent of the income earned in connection with the property for such period which was taken into account under paragraph (1)(A).

''(5) SPECIAL RULES.—

''(A) CERTAIN COSTS TREATED AS SEPARATE PROPERTY.—For purposes of this subsection, the following costs shall be treated as separate properties:

''(i) Any costs incurred with respect to any property after the 10th taxable year beginning after the taxable year in which the property was placed in service.

''(ii) Any costs incurred after the property is placed in service and before the close of such 10th taxable year if such costs are significant and give rise to a significant increase in the income from the property which was not included in the estimated income from the property.

''(B) SYNDICATION INCOME FROM TELEVISION SERIES.—In the case of property which is an episode in a television series, income from syndicating such series shall not be required to be taken into account under this subsection before the earlier of—

''(i) the 4th taxable year beginning after the date the first episode in such series is placed in service, or

''(ii) the earliest taxable year in which the taxpayer has an arrangement relating to the future syndication of such series.

''(C) SPECIAL RULES FOR FINANCIAL EXPLOITATION OF CHARACTERS, ETC.—For purposes of this subsection, in the case of television and motion picture films, the income from the property shall include income from the exploitation of characters, designs, scripts, scores, and other incidental income associated with such films, but only to the extent that such income is earned in connection with the ultimate use of such items by, or the ultimate sale of merchandise to, persons who are not related persons (within the meaning of section 267(b)) to the taxpayer.

''(D) COLLECTION OF INTEREST.—For purposes of subtitle F (other than sections 6654 and 6655), any interest required to be paid by the taxpayer under paragraph (1) for any recomputation year shall be treated as an increase in the tax imposed by this chapter for such year.

''(E) DETERMINATIONS.—For purposes of paragraph (2), determinations of the amount of income earned in connection with any property shall be made in the same manner as for purposes of applying the income forecast method; except that any income from the disposition of such property shall be taken into account.

''(F) TREATMENT OF PASS-THRU ENTITIES.—Rules similar to the rules of section 460(b)(4) shall apply for purposes of this subsection.''

(b) EFFECTIVE DATE.—

(1) IN GENERAL.—The amendment made by subsection (a) shall apply to property placed in service after September 13, 1995.

(2) BINDING CONTRACTS.—The amendment made by subsection (a) shall not apply to any property produced or acquired by the taxpayer pursuant to a written contract which was binding on September 13, 1995, and at all times thereafter before such production or acquisition.

SEC. 1605. REPEAL OF EXCLUSION FOR PUNITIVE DAMAGES AND FOR DAMAGES NOT ATTRIBUTABLE TO PHYSICAL INJURIES OR SICKNESS.

(a) IN GENERAL.—Paragraph (2) of section 104(a) (relating to compensation for injuries or sickness) is amended to read as follows:

''(2) the amount of any damages (other than punitive damages) received (whether by suit or agreement and whether as lump sums or as periodic payments) on account of personal physical injuries or physical sickness;''.

(b) EMOTIONAL DISTRESS AS SUCH TREATED AS NOT PHYSICAL INJURY OR PHYSICAL SICKNESS.—Section 104(a) is amended by striking the last sentence and inserting the following new sentence: ''For purposes of paragraph (2), emotional distress shall not be treated as a physical injury or physical sickness. The preceding sentence shall not apply to an amount of damages not in excess of the amount paid for medical care (described in subparagraph (A) or (B) of section 213(d)(1)) attributable to emotional distress.''.

(c) APPLICATION OF PRIOR LAW FOR STATES IN WHICH ONLY PUNITIVE DAMAGES MAY BE AWARDED IN WRONGFUL DEATH ACTIONS.—Section 104 is amended by redesignating subsection (c) as subsection (d) and by inserting after subsection (b) the following new subsection:

''(c) APPLICATION OF PRIOR LAW IN CERTAIN CASES.—The phrase '(other than punitive damages)' shall not apply to punitive damages awarded in a civil action—

''(1) which is a wrongful death action, and

''(2) with respect to which applicable State law (as in effect on September 13, 1995 and without regard to any modification after such date) provides, or has been construed to provide by a court of competent jurisdiction pursuant to a decision issued on or before September 13, 1995, that only punitive damages may be awarded in such an action.

This subsection shall cease to apply to any civil action filed on or after the first date on which the applicable State law ceases to provide (or is no longer construed to provide) the treatment described in paragraph (2).''

(d) EFFECTIVE DATE.—

(1) IN GENERAL.—Except as provided in paragraph (2), the amendments made by this section shall apply to amounts received after June 30, 1996, in taxable years ending after such date.

(2) EXCEPTION.—The amendments made by this section shall not apply to any amount received under a written binding agreement, court decree, or mediation award in effect on (or issued on or before) September 13, 1995.

SEC. 1606. REPEAL OF DIESEL FUEL TAX REBATE TO PURCHASERS OF DIESEL-POWERED AUTOMOBILES AND LIGHT TRUCKS.

(a) IN GENERAL.—Section 6427 (relating to fuels not used for taxable purposes) is amended by striking subsection (g).

(b) CONFORMING AMENDMENTS.—

(1) Paragraph (3) of section 34(a) is amended to read as follows:

''(3) under section 6427 with respect to fuels used for nontaxable purposes or resold during the taxable year (determined without regard to section 6427(k)).''.

(2) Paragraphs (1) and (2)(A) of section 6427(i) are each amended—

(A) by striking ''(g),'', and

(B) by striking ''(or a qualified diesel powered highway vehicle purchased)'' each place it appears.

(c) EFFECTIVE DATE.—The amendments made by this section shall apply to vehicles purchased after the date of the enactment of this Act.

Subtitle G—Technical Corrections

SEC. 1701. COORDINATION WITH OTHER SUBTITLES.

For purposes of applying the amendments made by any subtitle of this title other than this subtitle, the provisions of this subtitle shall be treated as having been enacted immediately before the provisions of such other subtitles.

SEC. 1702. AMENDMENTS RELATED TO REVENUE RECONCILIATION ACT OF 1990.

(a) AMENDMENTS RELATED TO SUBTITLE A.—

(1) Subparagraph (B) of section 59(j)(3) is amended by striking ''section 1(i)(3)(B)'' and inserting ''section 1(g)(3)(B)''.

(2) Clause (i) of section 151(d)(3)(C) is amended by striking ''joint of a return'' and inserting ''joint return''.

(b) AMENDMENTS RELATED TO SUBTITLE B.—

(1) Paragraph (1) of section 11212(e) of the Revenue Reconciliation Act of 1990 is amended by striking ''Paragraph (1) of section 6724(d)'' and inserting ''Subparagraph (B) of section 6724(d)(1)''.

(2)(A) Subparagraph (B) of section 4093(c)(2), as in effect before the amendments made by the Revenue Reconciliation Act of 1993, is amended by inserting before the period ''unless such fuel is sold for exclusive use by a State or any political subdivision thereof''.

(B) Paragraph (4) of section 6427(l), as in effect before the amendments made by the Revenue Reconciliation Act of 1993, is amended by

inserting before the period ''unless such fuel was used by a State or any political subdivision thereof''.

(3) Paragraph (1) of section 6416(b) is amended by striking ''chapter 32 or by section 4051'' and inserting ''chapter 31 or 32''.

(4) Section 7012 is amended—

(A) by striking ''production or importation of gasoline'' in paragraph (3) and inserting ''taxes on gasoline and diesel fuel'', and

(B) by striking paragraph (4) and redesignating paragraphs (5) and (6) as paragraphs (4) and (5), respectively.

(5) Subsection (c) of section 5041 is amended by striking paragraph (6) and by inserting the following new paragraphs:

''(6) CREDIT FOR TRANSFEREE IN BOND.—If—

''(A) wine produced by any person would be eligible for any credit under paragraph (1) if removed by such person during the calendar year,

''(B) wine produced by such person is removed during such calendar year by any other person (hereafter in this paragraph referred to as the 'transferee') to whom such wine was transferred in bond and who is liable for the tax imposed by this section with respect to such wine, and

''(C) such producer holds title to such wine at the time of its removal and provides to the transferee such information as is necessary to properly determine the transferee's credit under this paragraph,

then, the transferee (and not the producer) shall be allowed the credit under paragraph (1) which would be allowed to the producer if the wine removed by the transferee had been removed by the producer on that date.

''(7) REGULATIONS.—The Secretary may prescribe such regulations as may be necessary to carry out the purposes of this subsection, including regulations—

''(A) to prevent the credit provided in this subsection from benefiting any person who produces more than 250,000 wine gallons during a calendar year, and

''(B) to assure proper reduction of such credit for persons producing more than 150,000 wine gallons of wine during a calendar year.''

(6) Paragraph (3) of section 5061(b) is amended to read as follows:

''(3) section 5041(f),''.

(7) Section 5354 is amended by inserting ''(taking into account the appropriate amount of credit with respect to such wine under section 5041(c))'' after ''any one time''.

(c) AMENDMENTS RELATED TO SUBTITLE C.—

(1) Paragraph (4) of section 56(g) is amended by redesignating subparagraphs (I) and (J) as subparagraphs (H) and (I), respectively.

(2) Subparagraph (B) of section 6724(d)(1) is amended—

(A) by striking ''or'' at the end of clause (xii), and

(B) by striking the period at the end of clause (xiii) and inserting '', or''.

(3) Subsection (g) of section 6302 is amended by inserting '', 22,'' after ''chapters 21''.

(4) The earnings and profits of any insurance company to which section 11305(c)(3) of the Revenue Reconciliation Act of 1990 applies shall be determined without regard to any deduction allowed under such section; except that, for purposes of applying sections 56 and 902, and subpart F of part III of subchapter N of chapter 1 of the Internal Revenue Code of 1986, such deduction shall be taken into account.

(5) Subparagraph (D) of section 6038A(e)(4) is amended—

(A) by striking ''any transaction to which the summons relates'' and inserting ''any affected taxable year'', and

(B) by adding at the end thereof the following new sentence: ''For purposes of this subparagraph, the term 'affected taxable year' means any taxable year if the determination of the amount of tax imposed for such taxable year is affected by the treatment of the transaction to which the summons relates.''.

(6) Subparagraph (A) of section 6621(c)(2) is amended by adding at the end thereof the following new flush sentence:

''The preceding sentence shall be applied without regard to any such letter or notice which is withdrawn by the Secretary.''.

(7) Clause (i) of section 6621(c)(2)(B) is amended by striking ''this subtitle'' and inserting ''this title''.

(d) AMENDMENTS RELATED TO SUBTITLE D.—

(1) Notwithstanding section 11402(c) of the Revenue Reconciliation Act of 1990, the amendment made by section 11402(b)(1) of such Act shall apply to taxable years ending after December 31, 1989.

(2) Clause (ii) of section 143(m)(4)(C) is amended—

(A) by striking ''any month of the 10-year period'' and inserting ''any year of the 4-year period'',

(B) by striking ''succeeding months'' and inserting ''succeeding years'', and

(C) by striking ''over the remainder of such period (or, if lesser, 5 years)'' and inserting ''to zero over the succeeding 5 years''.

(e) AMENDMENTS RELATED TO SUBTITLE E.—

(1)(A) Clause (ii) of section 56(d)(1)(B) is amended to read as follows:

''(ii) appropriate adjustments in the application of section 172(b)(2) shall be made to take into account the limitation of subparagraph (A).''

(B) For purposes of applying sections 56(g)(1) and 56(g)(3) of the Internal Revenue Code of 1986 with respect to taxable years beginning in 1991 and 1992, the reference in such sections to the alternative tax net operating loss deduction shall be treated as including a reference to the deduction under section 56(h) of such Code as in effect before the amendments made by section 1915 of the Energy Policy Act of 1992.

(2) Clause (i) of section 613A(c)(3)(A) is amended by striking ''the table contained in''.

(3) Section 6501 is amended—

(A) by striking subsection (m) (relating to deficiency attributable to election under section 44B) and by redesignating subsections (n) and (o) as subsections (m) and (n), respectively, and

(B) by striking ''section 40(f) or 51(j)'' in subsection (m) (as redesignated by subparagraph (A)) and inserting ''section 40(f), 43, or 51(j)''.

(4) Subparagraph (C) of section 38(c)(2) (as in effect on the day before the date of the enactment of the Revenue Reconciliation Act of 1990) is amended by inserting before the period at the end of the first sentence the following: ''and without regard to the deduction under section 56(h)''.

(5) The amendment made by section 1913(b)(2)(C)(i) of the Energy Policy Act of 1992 shall apply to taxable years beginning after December 31, 1990.

(f) AMENDMENTS RELATED TO SUBTITLE F.—

(1)(A) Section 2701(a)(3) is amended by adding at the end thereof the following new subparagraph:

''(C) VALUATION OF QUALIFIED PAYMENTS WHERE NO LIQUIDATION, ETC. RIGHTS.—In the case of an applicable retained interest which is described in subparagraph (B)(i) but not subparagraph (B)(ii), the value of the distribution right shall be determined without regard to this section.''

(B) Section 2701(a)(3)(B) is amended by inserting ''CERTAIN'' before ''QUALIFIED'' in the heading thereof.

(C) Sections 2701 (d)(1) and (d)(4) are each amended by striking ''subsection (a)(3)(B)'' and inserting ''subsection (a)(3) (B) or (C)''.

(2) Clause (i) of section 2701(a)(4)(B) is amended by inserting ''(or, to the extent provided in regulations, the rights as to either income or capital)'' after ''income and capital''.

(3)(A) Section 2701(b)(2) is amended by adding at the end thereof the following new subparagraph:

''(C) APPLICABLE FAMILY MEMBER.—For purposes of this subsection, the term 'applicable family member' includes any lineal descendant of any parent of the transferor or the transferor's spouse.''

(B) Section 2701(e)(3) is amended—

(i) by striking subparagraph (B), and

(ii) by striking so much of paragraph (3) as precedes ''shall be treated as holding'' and inserting:

''(3) ATTRIBUTION OF INDIRECT HOLDINGS AND TRANSFERS.—An individual''.

(C) Section 2704(c)(3) is amended by striking ''section 2701(e)(3)(A)'' and inserting ''section 2701(e)(3)''.

(4) Clause (i) of section 2701(c)(1)(B) is amended to read as follows:

''(i) a right to distributions with respect to any interest which is junior to the rights of the transferred interest,''.

(5)(A) Clause (i) of section 2701(c)(3)(C) is amended to read as follows:

''(i) IN GENERAL.—Payments under any interest held by a transferor which (without regard to this subparagraph) are qualified payments shall be treated as qualified payments unless the transferor elects not to treat such payments as qualified payments. Payments described in the preceding sentence which are held by an applicable family member shall be treated as qualified payments only if such member elects to treat such payments as qualified payments.''

(B) The first sentence of section 2701(c)(3)(C)(ii) is amended to read as follows: ''A transferor or applicable family member holding any distribution right which (without regard to this subparagraph) is not a qualified payment may elect to treat such right as a qualified payment, to be paid in the amounts and at the times specified in such election.''.

(C) The time for making an election under the second sentence of section 2701(c)(3)(C)(i) of the Internal Revenue Code of 1986 (as amended by subparagraph (A)) shall not expire before the due date (including extensions) for filing the transferor's return of the tax imposed by section 2501 of such Code for the first calendar year ending after the date of enactment.

(6) Section 2701(d)(3)(A)(iii) is amended by striking ''the period ending on the date of''.

(7) Subclause (I) of section 2701(d)(3)(B)(ii) is amended by inserting ''or the exclusion under section 2503(b),'' after ''section 2523,''.

(8) Section 2701(e)(5) is amended—

(A) by striking ''such contribution to capital or such redemption, recapitalization, or other change'' in subparagraph (A) and inserting ''such transaction'', and

(B) by striking ''the transfer'' in subparagraph (B) and inserting ''such transaction''.

(9) Section 2701(d)(4) is amended by adding at the end thereof the following new subparagraph:

''(C) TRANSFER TO TRANSFERORS.—In the case of a taxable event described in paragraph (3)(A)(ii) involving a transfer of an applicable retained interest from an applicable family member to a transferor, this subsection shall continue to apply to the transferor during any period the transferor holds such interest.''

(10) Section 2701(e)(6) is amended by inserting ''or to reflect the application of subsection (d)'' before the period at the end thereof.

(11)(A) Section 2702(a)(3)(A) is amended—

(i) by striking ''to the extent'' and inserting ''if'' in clause (i),

(ii) by striking ''or'' at the end of clause (i),

(iii) by striking the period at the end of clause (ii) and inserting '', or'', and

(iv) by adding at the end thereof the following new clause:

''(iii) to the extent that regulations provide that such transfer is not inconsistent with the purposes of this section.''

(B)(i) Section 2702(a)(3) is amended by striking ''incomplete transfer'' each place it appears and inserting ''incomplete gift''.

(ii) The heading for section 2702(a)(3)(B) is amended by striking ''INCOMPLETE TRANSFER'' and inserting ''INCOMPLETE GIFT''.

(g) AMENDMENTS RELATED TO SUBTITLE G.—

(1)(A) Subsection (a) of section 1248 is amended—

(i) by striking '', or if a United States person receives a distribution from a foreign corporation which, under section 302 or 331, is treated as an exchange of stock'' in paragraph (1), and

(ii) by adding at the end thereof the following new sentence: ''For purposes of this section, a United States person shall be treated as having sold or exchanged any stock if, under any provision of this subtitle, such person is treated as realizing gain from the sale or exchange of such stock.''.

(B) Paragraph (1) of section 1248(e) is amended by striking '', or receives a distribution from a domestic corporation which, under section 302 or 331, is treated as an exchange of stock''.

(C) Subparagraph (B) of section 1248(f)(1) is amended by striking ''or 361(c)(1)'' and inserting ''355(c)(1), or 361(c)(1)''.

(D) Paragraph (1) of section 1248(i) is amended to read as follows:

''(1) IN GENERAL.—If any shareholder of a 10-percent corporate shareholder of a foreign corporation exchanges stock of the 10-percent corporate shareholder for stock of the foreign corporation, such 10-percent corporate shareholder shall recognize gain in the same manner as if the stock of the foreign corporation received in such exchange had been—

''(A) issued to the 10-percent corporate shareholder, and

''(B) then distributed by the 10-percent corporate shareholder to such shareholder in redemption or liquidation (whichever is appropriate).

The amount of gain recognized by such 10-percent corporate shareholder under the preceding sentence shall not exceed the amount treated as a dividend under this section.''

(2) Section 897 is amended by striking subsection (f).

(3) Paragraph (13) of section 4975(d) is amended by striking ''section 408(b)'' and inserting ''section 408(b)(12)''.

(4) Clause (iii) of section 56(g)(4)(D) is amended by inserting '', but only with respect to taxable years beginning after December 31, 1989'' before the period at the end thereof.

(5)(A) Paragraph (11) of section 11701(a) of the Revenue Reconciliation Act of 1990 (and the amendment made by such paragraph) are hereby repealed, and section 7108(r)(2) of the Revenue Reconciliation Act of 1989 shall be applied as if such paragraph (and amendment) had never been enacted.

(B) Subparagraph (A) shall not apply to any building if the owner of such building establishes to the satisfaction of the Secretary of the Treasury or his delegate that such owner reasonably relied on the amendment made by such paragraph (11).

(h) AMENDMENTS RELATED TO SUBTITLE H.—

(1)(A) Clause (vi) of section 168(e)(3)(B) is amended by striking ''or'' at the end of subclause (I), by striking the period at the end of subclause (II) and inserting '', or'', and by adding at the end thereof the following new subclause:

''(III) is described in section 48(l)(3)(A)(ix) (as in effect on the day before the date of the enactment of the Revenue Reconciliation Act of 1990).''

(B) Subparagraph (B) of section 168(e)(3) (relating to 5-year property) is amended by adding at the end the following flush sentence:

''Nothing in any provision of law shall be construed to treat property as not being described in clause (vi)(I) (or the corresponding provisions of prior law) by reason of being public utility property (within the meaning of section 48(a)(3)).''

(C) Subparagraph (K) of section 168(g)(4) is amended by striking ''section 48(a)(3)(A)(iii)'' and inserting ''section 48(l)(3)(A)(ix) (as in effect on the day before the date of the enactment of the Revenue Reconciliation Act of 1990)''.

(2) Clause (ii) of section 172(b)(1)(E) is amended by striking ''subsection (m)'' and inserting ''subsection (h)''.

(3) Sections 805(a)(4)(E), 832(b)(5)(C)(ii)(II), and 832(b)(5)(D)(ii)(II) are each amended by striking ''243(b)(5)'' and inserting ''243(b)(2)''.

(4) Subparagraph (A) of section 243(b)(3) is amended by inserting ''of'' after ''In the case''.

(5) The subsection heading for subsection (a) of section 280F is amended by striking ''INVESTMENT TAX CREDIT AND''.

(6) Clause (i) of section 1504(c)(2)(B) is amended by inserting ''section'' before ''243(b)(2)''.

(7) Paragraph (3) of section 341(f) is amended by striking ''351, 361, 371(a), or 374(a)'' and inserting ''351, or 361''.

(8) Paragraph (2) of section 243(b) is amended to read as follows:

''(2) AFFILIATED GROUP.—For purposes of this subsection:

''(A) IN GENERAL.—The term 'affiliated group' has the meaning given such term by section 1504(a), except that for such purposes sections 1504(b)(2), 1504(b)(4), and 1504(c) shall not apply.

''(B) GROUP MUST BE CONSISTENT IN FOREIGN TAX TREATMENT.—The requirements of paragraph (1)(A) shall not be treated as being met with respect to any dividend received by a corporation if, for any taxable year which includes the day on which such dividend is received—

''(i) 1 or more members of the affiliated group referred to in paragraph (1)(A) choose to any extent to take the benefits of section 901, and

''(ii) 1 or more other members of such group claim to any extent a deduction for taxes otherwise creditable under section 901.''

(9) The amendment made by section 11813(b)(17) of the Revenue Reconciliation Act of 1990 shall be applied as if the material stricken by such amendment included the closing parenthesis after ''section 48(a)(5)''.

(10) Paragraph (1) of section 179(d) is amended by striking ''in a trade or business'' and inserting ''a trade or business''.

(11) Subparagraph (E) of section 50(a)(2) is amended by striking ''section 48(a)(5)(A)'' and inserting ''section 48(a)(5)''.

(12) The amendment made by section 11801(c)(9)(G)(ii) of the Revenue Reconciliation Act of 1990 shall be applied as if it struck ''Section 422A(c)(2)'' and inserted ''Section 422(c)(2)''.

(13) Subparagraph (B) of section 424(c)(3) is amended by striking ''a qualified stock option, an incentive stock option, an option granted under an employee stock purchase plan, or a restricted stock option'' and inserting ''an incentive stock option or an option granted under an employee stock purchase plan''.

(14) Subparagraph (E) of section 1367(a)(2) is amended by striking ''section 613A(c)(13)(B)'' and inserting ''section 613A(c)(11)(B)''.

(15) Subparagraph (B) of section 460(e)(6) is amended by striking ''section 167(k)'' and inserting ''section 168(e)(2)(A)(ii)''.

(16) Subparagraph (C) of section 172(h)(4) is amended by striking ''subsection (b)(1)(M)'' and inserting ''subsection (b)(1)(E)''.

(17) Section 6503 is amended—

(A) by redesignating the subsection relating to extension in case of certain summonses as subsection (j), and

(B) by redesignating the subsection relating to cross references as subsection (k).

(18) Paragraph (4) of section 1250(e) is hereby repealed.

(i) EFFECTIVE DATE.—Except as otherwise expressly provided—

(1) the amendments made by this section shall be treated as amendments to the Internal Revenue Code of 1986 as amended by the Revenue Reconciliation Act of 1993; and

(2) any amendment made by this section shall apply to periods before the date of the enactment of this section in the same manner as if it had been included in the provision of the Revenue Reconciliation Act of 1990 to which such amendment relates.

SEC. 1703. AMENDMENTS RELATED TO REVENUE RECONCILIATION ACT OF 1993.

(a) AMENDMENT RELATED TO SECTION 13114.—Paragraph (2) of section 1044(c) is amended to read as follows:

''(2) PURCHASE.—The taxpayer shall be considered to have purchased any property if, but for subsection (d), the unadjusted basis of such property would be its cost within the meaning of section 1012.''

(b) AMENDMENTS RELATED TO SECTION 13142.—

(1) Subparagraph (B) of section 13142(b)(6) of the Revenue Reconciliation Act of 1993 is amended to read as follows:

''(B) FULL-TIME STUDENTS, WAIVER AUTHORITY, AND PROHIBITED DISCRIMINATION.—The amendments made by paragraphs (2), (3), and (4) shall take effect on the date of the enactment of this Act.''

(2) Subparagraph (C) of section 13142(b)(6) of such Act is amended by striking ''paragraph (2)'' and inserting ''paragraph (5)''.

(c) AMENDMENT RELATED TO SECTION 13161.—

(1) IN GENERAL.—Subsection (e) of section 4001 (relating to inflation adjustment) is amended to read as follows:

''(e) INFLATION ADJUSTMENT.—

''(1) IN GENERAL.—The $30,000 amount in subsection (a) and section 4003(a) shall be increased by an amount equal to—

''(A) $30,000, multiplied by

''(B) the cost-of-living adjustment under section 1(f)(3) for the calendar year in which the vehicle is sold, determined by substituting 'calendar year 1990' for 'calendar year 1992' in subparagraph (B) thereof.

''(2) ROUNDING.—If any amount as adjusted under paragraph (1) is not a multiple of $2,000, such amount shall be rounded to the next lowest multiple of $2,000.''

(2) EFFECTIVE DATE.—The amendment made by paragraph (1) shall take effect on the date of the enactment of this Act.

(d) AMENDMENT RELATED TO SECTION 13201.—Clause (ii) of section 135(b)(2)(B) is amended by inserting before the period at the end thereof the following: '', determined by substituting 'calendar year 1989' for 'calendar year 1992' in subparagraph (B) thereof''.

(e) AMENDMENTS RELATED TO SECTION 13203.—Subsection (a) of section 59 is amended—

(1) by striking ''the amount determined under section 55(b)(1)(A)'' in paragraph (1)(A) and (2)(A)(i) and inserting ''the pre-credit tentative minimum tax'',

(2) by striking ''specified in section 55(b)(1)(A)'' in paragraph (1)(C) and inserting ''specified in subparagraph (A)(i) or (B)(i) of section 55(b)(1) (whichever applies)'',

(3) by striking ''which would be determined under section 55(b)(1)(A)'' in paragraph (2)(A)(ii) and inserting ''which would be the pre-credit tentative minimum tax'', and

(4) by adding at the end thereof the following new paragraph:

''(3) PRE-CREDIT TENTATIVE MINIMUM TAX.—For purposes of this subsection, the term 'pre-credit tentative minimum tax' means—

''(A) in the case of a taxpayer other than a corporation, the amount determined under the first sentence of section 55(b)(1)(A)(i), or

''(B) in the case of a corporation, the amount determined under section 55(b)(1)(B)(i).''

(f) AMENDMENT RELATED TO SECTION 13221.—Sections 1201(a) and 1561(a) are each amended by striking ''last sentence'' each place it appears and inserting ''last 2 sentences''.

(g) AMENDMENTS RELATED TO SECTION 13222.—

(1) Subparagraph (B) of section 6033(e)(1) is amended by adding at the end thereof the following new clause:

''(iii) COORDINATION WITH SECTION 527(f).—This subsection shall not apply to any amount on which tax is imposed by reason of section 527(f).''.

(2) Clause (i) of section 6033(e)(1)(B) is amended by striking ''this subtitle'' and inserting ''section 501''.

(h) AMENDMENT RELATED TO SECTION 13225.—Paragraph (3) of section 6655(g) is amended by striking all that follows ''3rd month'' in the sentence following subparagraph (C) and inserting '', subsection (e)(2)(A) shall be applied by substituting '2 months' for '3 months' in clause (i)(I), the election under clause (i) of subsection (e)(2)(C) may be made separately for each installment, and clause (ii) of subsection (e)(2)(C) shall not apply.''.

(i) AMENDMENTS RELATED TO SECTION 13231.—(1) Subparagraph (G) of section 904(d)(3) is amended by striking ''section 951(a)(1)(B)'' and inserting ''subparagraph (B) or (C) of section 951(a)(1)''.

(2) Paragraph (1) of section 956A(b) is amended to read as follows:

''(1) the amount (not including a deficit) referred to in section 316(a)(1) to the extent such amount was accumulated in prior taxable years beginning after September 30, 1993, and''.

(3) Subsection (f) of section 956A is amended by inserting before the period at the end thereof: ''and regulations coordinating the provisions of subsections (c)(3)(A) and (d)''.

(4) Subsection (b) of section 958 is amended by striking ''956(b)(2)'' each place it appears and inserting ''956(c)(2)''.

(5)(A) Subparagraph (A) of section 1297(d)(2) is amended by striking ''The adjusted basis of any asset'' and inserting ''The amount taken into account under section 1296(a)(2) with respect to any asset''.

(B) The paragraph heading of paragraph (2) of section 1297(d) is amended to read as follows:

''(2) AMOUNT TAKEN INTO ACCOUNT.—''.

(6) Subsection (e) of section 1297 is amended by inserting ''For purposes of this part—'' after the subsection heading.

(j) AMENDMENT RELATED TO SECTION 13241.—Subparagraph (B) of section 40(e)(1) is amended to read as follows:

''(B) for any period before January 1, 2001, during which the rates of tax under section 4081(a)(2)(A) are 4.3 cents per gallon.''

(k) AMENDMENT RELATED TO SECTION 13261.—Clause (iii) of section 13261(g)(2)(A) of the Revenue Reconciliation Act of 1993 is amended by striking ''by the taxpayer'' and inserting ''by the taxpayer or a related person''.

(l) AMENDMENT RELATED TO SECTION 13301.—Subparagraph (B) of section 1397B(d)(5) is amended by striking ''preceding''.

(m) CLERICAL AMENDMENTS.—

(1) Subsection (d) of section 39 is amended—

(A) by striking ''45'' in the heading of paragraph (5) and inserting ''45A'', and

(B) by striking ''45'' in the heading of paragraph (6) and inserting ''45B''.

(2) Subparagraph (A) of section 108(d)(9) is amended by striking ''paragraph (3)(B)'' and inserting ''paragraph (3)(C)''.

(3) Subparagraph (C) of section 143(d)(2) is amended by striking the period at the end thereof and inserting a comma.

(4) Clause (ii) of section 163(j)(6)(E) is amended by striking ''which is a'' and inserting ''which is''.

(5) Subparagraph (A) of section 1017(b)(4) is amended by striking ''subsection (b)(2)(D)'' and inserting ''subsection (b)(2)(E)''.

(6) So much of section 1245(a)(3) as precedes subparagraph (A) thereof is amended to read as follows:

''(3) SECTION 1245 PROPERTY.—For purposes of this section, the term 'section 1245 property' means any property which is or has been property of a character subject to the allowance for depreciation provided in section 167 and is either—''.

(7) Paragraph (2) of section 1394(e) is amended—

(A) by striking ''(i)'' and inserting ''(A)'', and

(B) by striking ''(ii)'' and inserting ''(B)''.

(8) Subsection (m) of section 6501 (as redesignated by section 1602) is amended by striking ''or 51(j)'' and inserting ''45B, or 51(j)''.

(9)(A) The section 6714 added by section 13242(b)(1) of the Revenue Reconciliation Act of 1993 is hereby redesignated as section 6715.

(B) The table of sections for part I of subchapter B of chapter 68 is amended by striking ''6714'' in the item added by such section 13242(b)(2) of such Act and inserting ''6715''.

(10) Paragraph (2) of section 9502(b) is amended by inserting ''and before'' after ''1982,''.

(11) Subsection (a)(3) of section 13206 of the Revenue Reconciliation Act of 1993 is amended by striking ''this section'' and inserting ''this subsection''.

(12) Paragraph (1) of section 13215(c) of the Revenue Reconciliation Act of 1993 is amended by striking ''Public Law 92–21'' and inserting ''Public Law 98–21''.

(13) Paragraph (2) of section 13311(e) of the Revenue Reconciliation Act of 1993 is amended by striking ''section 1393(a)(3)'' and inserting ''section 1393(a)(2)''.

(14) Subparagraph (B) of section 117(d)(2) is amended by striking ''section 132(f)'' and inserting ''section 132(h)''.

(n) EFFECTIVE DATE.—Any amendment made by this section shall take effect as if included in the provision of the Revenue Reconciliation Act of 1993 to which such amendment relates.

SEC. 1704. MISCELLANEOUS PROVISIONS.

(a) APPLICATION OF AMENDMENTS MADE BY TITLE XII OF OMNIBUS BUDGET RECONCILIATION ACT OF 1990.—Except as otherwise expressly provided, whenever in title XII of the Omnibus Budget Reconciliation Act of 1990 an amendment or repeal is expressed in terms of an amendment to, or repeal of, a section or other provision, the reference shall be considered to be made to a section or other provision of the Internal Revenue Code of 1986.

(b) TREATMENT OF CERTAIN AMOUNTS UNDER HEDGE BOND RULES.—

(1) Clause (iii) of section 149(g)(3)(B) is amended to read as follows:

''(iii) AMOUNTS HELD PENDING REINVESTMENT OR REDEMPTION.—Amounts held for not more than 30 days pending reinvestment or bond redemption shall be treated as invested in bonds described in clause (i).''

(2) The amendment made by paragraph (1) shall take effect as if included in the amendments made by section 7651 of the Omnibus Budget Reconciliation Act of 1989.

(c) TREATMENT OF CERTAIN DISTRIBUTIONS UNDER SECTION 1445.—

(1) IN GENERAL.—Paragraph (3) of section 1445(e) is amended by adding at the end thereof the following new sentence: ''Rules similar to the rules of the preceding provisions of this paragraph shall apply in the case of any distribution to which section 301 applies and which is not made out of the earnings and profits of such a domestic corporation.''

(2) EFFECTIVE DATE.—The amendment made by paragraph (1) shall apply to distributions after the date of the enactment of this Act.

(d) TREATMENT OF CERTAIN CREDITS UNDER SECTION 469.—

(1) IN GENERAL.—Subparagraph (B) of section 469(c)(3) is amended by adding at the end thereof the following new sentence: ''If the preceding sentence applies to the net income from any property for any taxable year, any credits allowable under subpart B (other than section 27(a)) or D of part IV of subchapter A for such taxable year which are attributable to such property shall be treated as credits not from a passive activity to the extent the amount of such credits does not exceed the regular tax liability of the taxpayer for the taxable year which is allocable to such net income.''

(2) EFFECTIVE DATE.—The amendment made by paragraph (1) shall apply to taxable years beginning after December 31, 1986.

(e) TREATMENT OF DISPOSITIONS UNDER PASSIVE LOSS RULES.—

(1) IN GENERAL.—Subparagraph (A) of section 469(g)(1) is amended to read as follows:

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

''(i) any loss from such activity for such taxable year (determined after the application of subsection (b)), over

''(ii) any net income or gain for such taxable year from all other passive activities (determined after the application of subsection (b)),

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

(2) EFFECTIVE DATE.—The amendment made by paragraph (1) shall apply to taxable years beginning after December 31, 1986.

(f) MISCELLANEOUS AMENDMENTS TO FOREIGN PROVISIONS.—

(1) COORDINATION OF UNIFIED ESTATE TAX CREDIT WITH TREATIES.—Subparagraph (A) of section 2102(c)(3) is amended by adding at the end thereof the following new sentence: ''For purposes of the preceding sentence, property shall not be treated as situated in the United States if such property is exempt from the tax imposed by this subchapter under any treaty obligation of the United States.''

(2) TREATMENT OF CERTAIN INTEREST PAID TO RELATED PERSON.—

(A) Subparagraph (B) of section 163(j)(1) is amended by inserting before the period at the end thereof the following: ''(and clause (ii) of paragraph (2)(A) shall not apply for purposes of applying this subsection to the amount so treated)''.

(B) Subsection (j) of section 163 is amended by redesignating paragraph (7) as paragraph (8) and by inserting after paragraph (6) the following new paragraph:

''(7) COORDINATION WITH PASSIVE LOSS RULES, ETC.—This subsection shall be applied before sections 465 and 469.''

(C) The amendments made by this paragraph shall apply as if included in the amendments made by section 7210(a) of the Revenue Reconciliation Act of 1989.

(3) TREATMENT OF INTEREST ALLOCABLE TO EFFECTIVELY CONNECTED INCOME.—

(A) IN GENERAL.—

(i) Subparagraph (B) of section 884(f)(1) is amended by striking ''to the extent'' and all that follows down through ''subparagraph (A)'' and inserting ''to the extent that the allocable interest exceeds the interest described in subparagraph (A)''.

(ii) The second sentence of section 884(f)(1) is amended by striking ''reasonably expected'' and all that follows down through the period at the end thereof and inserting ''reasonably expected to be allocable interest.''

(iii) Paragraph (2) of section 884(f) is amended to read as follows:

''(2) ALLOCABLE INTEREST.—For purposes of this subsection, the term 'allocable interest' means any interest which is allocable to income which is effectively connected (or treated as effectively connected) with the conduct of a trade or business in the United States.''

(B) EFFECTIVE DATE.—The amendments made by subparagraph (A) shall take effect as if included in the amendments made by section 1241(a) of the Tax Reform Act of 1986.

(4) CLARIFICATION OF SOURCE RULE.—

(A) IN GENERAL.—Paragraph (2) of section 865(b) is amended by striking ''863(b)'' and inserting ''863''.

(B) EFFECTIVE DATE.—The amendment made by subparagraph (A) shall take effect as if included in the amendments made by section 1211 of the Tax Reform Act of 1986.

(5) REPEAL OF OBSOLETE PROVISIONS.—

(A) Paragraph (1) of section 6038(a) is amended by striking '', and'' at the end of subparagraph (E) and inserting a period, and by striking subparagraph (F).

(B) Subsection (b) of section 6038A is amended by adding ''and'' at the end of paragraph (2), by striking '', and'' at the end of paragraph (3) and inserting a period, and by striking paragraph (4).

(g) TREATMENT OF ASSIGNMENT OF INTEREST IN CERTAIN BOND-FINANCED FACILITIES.—

(1) IN GENERAL.—Subparagraph (A) of section 1317(3) of the Tax Reform Act of 1986 is amended by adding at the end thereof the following new sentence: ''A facility shall not fail to be treated as described in this subparagraph by reason of an assignment (or an agreement to an assignment) by the governmental unit on whose behalf the bonds are issued of any part of its interest in the property financed by such bonds to another governmental unit.''

(2) EFFECTIVE DATE.—The amendment made by paragraph (1) shall take effect as if included in such section 1317 on the date of the enactment of the Tax Reform Act of 1986.

(h) CLARIFICATION OF TREATMENT OF MEDICARE ENTITLEMENT UNDER COBRA PROVISIONS.—

(1) IN GENERAL.—

(A) Subclause (V) of section 4980B(f)(2)(B)(i) is amended to read as follows:

''(V) MEDICARE ENTITLEMENT FOLLOWED BY QUALIFYING EVENT.—In the case of a qualifying event described in paragraph (3)(B) that occurs less than 18 months after the date the covered employee became entitled to benefits under title XVIII of the Social Security Act, the period of coverage for qualified beneficiaries other than the covered employee shall not terminate under this clause before the close of the 36-month period beginning on the date the covered employee became so entitled.''

(B) Clause (v) of section 602(2)(A) of the Employee Retirement Income Security Act of 1974 is amended to read as follows:

''(v) MEDICARE ENTITLEMENT FOLLOWED BY QUALIFYING EVENT.—In the case of a qualifying event described in section 603(2) that occurs less than 18 months after the date the covered employee became entitled to benefits under title XVIII of the Social Security Act, the period of coverage for qualified beneficiaries other than the covered employee shall not terminate under this subparagraph before the close of the 36-month period beginning on the date the covered employee became so entitled.''

(C) Clause (iv) of section 2202(2)(A) of the Public Health Service Act is amended to read as follows:

''(iv) MEDICARE ENTITLEMENT FOLLOWED BY QUALIFYING EVENT.—In the case of a qualifying event described in section 2203(2) that occurs less than 18 months after the date the covered employee became entitled to benefits under title XVIII of the Social Security Act, the period of coverage for qualified beneficiaries other than the covered employee shall not terminate under this subparagraph before the close of the 36-month period beginning on the date the covered employee became so entitled.''

(2) EFFECTIVE DATE.—The amendments made by this subsection shall apply to plan years beginning after December 31, 1989.

(i) TREATMENT OF CERTAIN REMIC INCLUSIONS.—

(1) IN GENERAL.—Subsection (a) of section 860E is amended by adding at the end thereof the following new paragraph:

''(6) COORDINATION WITH MINIMUM TAX.—For purposes of part VI of subchapter A of this chapter—

''(A) the reference in section 55(b)(2) to taxable income shall be treated as a reference to taxable income determined without regard to this subsection,

''(B) the alternative minimum taxable income of any holder of a residual interest in a REMIC for any taxable year shall in no event be less than the excess inclusion for such taxable year, and

''(C) any excess inclusion shall be disregarded for purposes of computing the alternative tax net operating loss deduction.

The preceding sentence shall not apply to any organization to which section 593 applies, except to the extent provided in regulations prescribed by the Secretary under paragraph (2).''

(2) EFFECTIVE DATE.—The amendment made by paragraph (1) shall take effect as if included in the amendments made by section 671 of the Tax Reform Act of 1986 unless the taxpayer elects to apply such amendment only to taxable years beginning after the date of the enactment of this Act.

(j) EXEMPTION FROM HARBOR MAINTENANCE TAX FOR CERTAIN PASSENGERS.—

(1) IN GENERAL.—Subparagraph (D) of section 4462(b)(1) (relating to special rule for Alaska, Hawaii, and possessions) is amended by inserting before the period the following: '', or passengers transported on United States flag vessels operating solely within the State waters of Alaska or Hawaii and adjacent international waters''.

(2) EFFECTIVE DATE.—The amendment made by paragraph (1) shall take effect as if included in the amendments made by section 1402(a) of the Harbor Maintenance Revenue Act of 1986.

(k) AMENDMENTS RELATED TO REVENUE PROVISIONS OF ENERGY POLICY ACT OF 1992.—

(1) Effective with respect to taxable years beginning after December 31, 1990, subclause (II) of section 53(d)(1)(B)(iv) is amended to read as follows:

''(II) the adjusted net minimum tax for any taxable year is the amount of the net minimum tax for such year increased in the manner provided in clause (iii).''

(2) Subsection (g) of section 179A is redesignated as subsection (f).

(3) Subparagraph (E) of section 6724(d)(3) is amended by striking ''section 6109(f)'' and inserting ''section 6109(h)''.

(4)(A) Subsection (d) of section 30 is amended—

(i) by inserting ''(determined without regard to subsection (b)(3))'' before the period at the end of paragraph (1) thereof, and

(ii) by adding at the end thereof the following new paragraph:

''(4) ELECTION TO NOT TAKE CREDIT.—No credit shall be allowed under subsection (a) for any vehicle if the taxpayer elects to not have this section apply to such vehicle.''

(B) Subsection (m) of section 6501 (as redesignated by section 1602) is amended by striking ''section 40(f)'' and inserting ''section 30(d)(4), 40(f)''.

(5) Subclause (III) of section 501(c)(21)(D)(ii) is amended by striking ''section 101(6)'' and inserting ''section 101(7)'' and by striking ''1752(6)'' and inserting ''1752(7)''.

(6) Paragraph (1) of section 1917(b) of the Energy Policy Act of 1992 shall be applied as if ''at a rate'' appeared instead of ''at the rate'' in the material proposed to be stricken.

(7) Paragraph (2) of section 1921(b) of the Energy Policy Act of 1992 shall be applied as if a comma appeared after ''(2)'' in the material proposed to be stricken.

(8) Subsection (a) of section 1937 of the Energy Policy Act of 1992 shall be applied as if ''Subpart B'' appeared instead of ''Subpart C''.

(l) TREATMENT OF QUALIFIED FOOTBALL COACHES PLAN.—

(1) IN GENERAL.—Subparagraph (F) of section 3(37) of the Employee Retirement Income Security Act of 1974 (29 U.S.C. 1002(37)(F)) is amended by redesignating clause (ii) as clause (iii) and by inserting after clause (i) the following new clause:

''(ii) For purposes of the Internal Revenue Code of 1986—

''(I) clause (i) shall apply, and

''(II) a qualified football coaches plan shall be treated as a multiemployer collectively bargained plan.''.

(2) EFFECTIVE DATE.—The amendment made by paragraph (1) shall apply to years beginning after December 22, 1987.

(m) DETERMINATION OF UNRECOVERED INVESTMENT IN ANNUITY CONTRACT.—

(1) IN GENERAL.—Subparagraph (A) of section 72(b)(4) is amended by inserting ''(determined without regard to subsection (c)(2))'' after ''contract''.

(2) EFFECTIVE DATE.—The amendment made by paragraph (1) shall take effect as if included in the amendments made by section 1122(c) of the Tax Reform Act of 1986.

(n) MODIFICATIONS TO ELECTION TO INCLUDE CHILD'S INCOME ON PARENT'S RETURN.—

(1) ELIGIBILITY FOR ELECTION.—Clause (ii) of section 1(g)(7)(A) (relating to election to include certain unearned income of child on parent's return) is amended to read as follows:

''(ii) such gross income is more than the amount described in paragraph (4)(A)(ii)(I) and less than 10 times the amount so described,''.

(2) COMPUTATION OF TAX.—Subparagraph (B) of section 1(g)(7) (relating to income included on parent's return) is amended—

(A) by striking ''$1,000'' in clause (i) and inserting ''twice the amount described in paragraph (4)(A)(ii)(I)'', and

(B) by amending subclause (II) of clause (ii) to read as follows:

''(II) for each such child, 15 percent of the lesser of the amount described in paragraph (4)(A)(ii)(I) or the excess of the gross income of such child over the amount so described, and''.

(3) MINIMUM TAX.—Subparagraph (B) of section 59(j)(1) is amended by striking ''$1,000'' and inserting ''twice the amount in effect for the taxable year under section 63(c)(5)(A)''.

(4) EFFECTIVE DATE.—The amendments made by this subsection shall apply to taxable years beginning after December 31, 1995.

(o) TREATMENT OF CERTAIN VETERANS' REEMPLOYMENT RIGHTS.—

(1) IN GENERAL.—Section 414 is amended by adding at the end the following new subsection:

''(u) SPECIAL RULES RELATING TO VETERANS' REEMPLOYMENT RIGHTS UNDER USERRA.—

''(1) TREATMENT OF CERTAIN CONTRIBUTIONS MADE PURSUANT TO VETERANS' REEMPLOYMENT RIGHTS.—If any contribution is made by an employer or an employee under an individual account plan with respect to an employee, or by an employee to a defined benefit plan that provides for employee contributions, and such contribution is required by reason of such employee's rights under chapter 43 of title 38, United States Code, resulting from qualified military service, then—

''(A) such contribution shall not be subject to any otherwise applicable limitation contained in section 402(g), 402(h), 403(b), 404(a), 404(h), 408, 415, or 457, and shall not be taken into account in applying such limitations to other contributions or benefits under such plan or any other plan, with respect to the year in which the contribution is made,

''(B) such contribution shall be subject to the limitations referred to in subparagraph (A) with respect to the year to which the contribution relates (in accordance with rules prescribed by the Secretary), and

''(C) such plan shall not be treated as failing to meet the requirements of section 401(a)(4), 401(a)(26), 401(k)(3), 401(k)(11), 401(k)(12), 401(m), 403(b)(12), 408(k)(3), 408(k)(6), 408(p), 410(b), or 416 by reason of the making of (or the right to make) such contribution.

For purposes of the preceding sentence, any elective deferral or employee contribution made under paragraph (2) shall be treated as required by reason of the employee's rights under such chapter 43.

''(2) REEMPLOYMENT RIGHTS UNDER USERRA WITH RESPECT TO ELECTIVE DEFERRALS.—

''(A) IN GENERAL.—For purposes of this subchapter and section 457, if an employee is entitled to the benefits of chapter 43 of title 38, United States Code, with respect to any plan which provides for elective deferrals, the employer sponsoring the plan shall be treated as meeting the requirements of such chapter 43 with respect to such elective deferrals only if such employer—

''(i) permits such employee to make additional elective deferrals under such plan (in the amount determined under subparagraph (B) or such lesser amount as is elected by the employee) during the period which begins on the

date of the reemployment of such employee with such employer and has the same length as the lesser of—

''(I) the product of 3 and the period of qualified military service which resulted in such rights, and

''(II) 5 years, and

''(ii) makes a matching contribution with respect to any additional elective deferral made pursuant to clause (i) which would have been required had such deferral actually been made during the period of such qualified military service.

''(B) AMOUNT OF MAKEUP REQUIRED.—The amount determined under this subparagraph with respect to any plan is the maximum amount of the elective deferrals that the individual would have been permitted to make under the plan in accordance with the limitations referred to in paragraph (1)(A) during the period of qualified military service if the individual had continued to be employed by the employer during such period and received compensation as determined under paragraph (7). Proper adjustment shall be made to the amount determined under the preceding sentence for any elective deferrals actually made during the period of such qualified military service.

''(C) ELECTIVE DEFERRAL.—For purposes of this paragraph, the term 'elective deferral' has the meaning given such term by section 402(g)(3); except that such term shall include any deferral of compensation under an eligible deferred compensation plan (as defined in section 457(b)).

''(D) AFTER-TAX EMPLOYEE CONTRIBUTIONS.—References in subparagraphs (A) and (B) to elective deferrals shall be treated as including references to employee contributions.

''(3) CERTAIN RETROACTIVE ADJUSTMENTS NOT REQUIRED.—For purposes of this subchapter and subchapter E, no provision of chapter 43 of title 38, United States Code, shall be construed as requiring—

''(A) any crediting of earnings to an employee with respect to any contribution before such contribution is actually made, or

''(B) any allocation of any forfeiture with respect to the period of qualified military service.

''(4) LOAN REPAYMENT SUSPENSIONS PERMITTED.—If any plan suspends the obligation to repay any loan made to an employee from such plan for any part of any period during which such employee is performing service in the uniformed services (as defined in chapter 43 of title 38, United States Code), whether or not qualified military service, such suspension shall not be taken into account for purposes of section 72(p), 401(a), or 4975(d)(1).

''(5) QUALIFIED MILITARY SERVICE.—For purposes of this subsection, the term 'qualified military service' means any service in the uniformed services (as defined in chapter 43 of title 38, United States Code) by any individual if such individual is entitled to reemployment rights under such chapter with respect to such service.

''(6) INDIVIDUAL ACCOUNT PLAN.—For purposes of this subsection, the term 'individual account plan' means any defined contribution plan (including any tax-sheltered annuity plan under section 403(b), any simplified employee pension under section 408(k), any qualified salary reduction arrangement under section 408(p), and any eligible deferred compensation plan (as defined in section 457(b)).

''(7) COMPENSATION.—For purposes of sections 403(b)(3), 415(c)(3), and 457(e)(5), an employee who is in qualified military service shall be treated as receiving compensation from the employer during such period of qualified military service equal to—

''(A) the compensation the employee would have received during such period if the employee were not in qualified military service, determined based on the rate of pay the employee would have received from the employer but for absence during the period of qualified military service, or

''(B) if the compensation the employee would have received during such period was not reasonably certain, the employee's average compensation from the employer during the 12-month period immediately preceding the qualified military service (or, if shorter, the period of employment immediately preceding the qualified military service).

''(8) USERRA REQUIREMENTS FOR QUALIFIED RETIREMENT PLANS.—For purposes of this subchapter and section 457, an employer sponsoring a retirement plan shall be treated as meeting the requirements of chapter 43 of title 38, United States Code, only if each of the following requirements is met:

''(A) An individual reemployed under such chapter is treated with respect to such plan as not having incurred a break in service with the employer maintaining the plan by reason of such individual's period of qualified military service.

''(B) Each period of qualified military service served by an individual is, upon reemployment under such chapter, deemed with respect to such plan to constitute service with the employer maintaining the plan for the purpose of determining the nonforfeitability of the individual's accrued benefits under such plan and for the purpose of determining the accrual of benefits under such plan.

''(C) An individual reemployed under such chapter is entitled to accrued benefits that are contingent on the making of, or derived from, employee contributions or elective deferrals only to the extent the individual makes payment to the plan with respect to such contributions or deferrals. No such payment may exceed the amount the individual would have been permitted or required to contribute had the individual remained continuously employed by the employer throughout the period of qualified military service. Any payment to such plan shall be made during the period beginning with the date of reemployment and whose duration is 3 times the period of the qualified military service (but not greater than 5 years).

''(9) PLANS NOT SUBJECT TO TITLE 38.—This subsection shall not apply to any retirement plan to which chapter 43 of title 38, United States Code, does not apply.

''(10) REFERENCES.—For purposes of this section, any reference to chapter 43 of title 38, United States Code, shall be treated as a reference to such chapter as in effect on December 12, 1994 (without regard to any subsequent amendment).''

(2) EFFECTIVE DATE.—The amendment made by this subsection shall be effective as of December 12, 1994.

(p) REPORTING OF REAL ESTATE TRANSACTIONS.—

(1) IN GENERAL.—Paragraph (3) of section 6045(e) (relating to prohibition of separate charge for filing return) is amended by adding at the end the following new sentence: ''Nothing in this paragraph shall be construed to prohibit the real estate reporting person from taking into account its cost of complying with such requirement in establishing its charge (other than a separate charge for complying with such requirement) to any customer for performing services in the case of a real estate transaction.''

(2) EFFECTIVE DATE.—The amendment made by paragraph (1) shall take effect as if included in section 1015(e)(2)(A) of the Technical and Miscellaneous Revenue Act of 1988.

(q) CLARIFICATION OF DENIAL OF DEDUCTION FOR STOCK REDEMPTION EXPENSES.

(1) IN GENERAL.—Paragraph (1) of section 162(k) is amended by striking ''the redemption of its stock'' and inserting ''the reacquisition of its stock or of the stock of any related person (as defined in section 465(b)(3)(C))''.

(2) CERTAIN DEDUCTIONS PERMITTED.—Subparagraph (A) of section 162(k)(2) is amended by striking ''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) deduction for amounts which are properly allocable to indebtedness and amortized over the term of such indebtedness, or''.

(3) CLERICAL AMENDMENT.—The subsection heading for subsection (k) of section 162 is amended by striking ''REDEMPTION'' and inserting ''REACQUISITION''.

(4) EFFECTIVE DATE.—

(A) IN GENERAL.—Except as provided in subparagraph (B), the amendments made by this subsection shall apply to amounts paid or incurred after September 13, 1995, in taxable years ending after such date.

(B) PARAGRAPH (2).—The amendment made by paragraph (2) shall take effect as if included in the amendment made by section 613 of the Tax Reform Act of 1986.

(r) CLERICAL AMENDMENT TO SECTION 404.—

(1) IN GENERAL.—Paragraph (1) of section 404(j) is amended by striking ''(10)'' and inserting ''(9)''.

(2) EFFECTIVE DATE.—The amendment made by paragraph (1) shall take effect as if included in the amendments made by section 713(d)(4)(A) of the Deficit Reduction Act of 1984.

(s) PASSIVE INCOME NOT TO INCLUDE FSC INCOME, ETC.—

(1) IN GENERAL.—Paragraph (2) of section 1296(b) is amended by striking ''or'' at the end of subparagraph (B), by striking the period at the end of subparagraph (C) and inserting '', or'', and by inserting after subparagraph (C) the following new subparagraph:

''(D) which is foreign trade income of a FSC or export trade income of an export trade corporation (as defined in section 971).''

(2) EFFECTIVE DATE.—The amendment made by paragraph (1) shall take effect as if included in the amendments made by section 1235 of the Tax Reform Act of 1986.

(t) MISCELLANEOUS CLERICAL AMENDMENTS.—

(1) Subclause (II) of section 56(g)(4)(C)(ii) is amended by striking ''of the subclause'' and inserting ''of subclause''.

(2) Paragraph (2) of section 72(m) is amended by inserting ''and'' at the end of subparagraph (A), by striking subparagraph (B), and by redesignating subparagraph (C) as subparagraph (B).

(3) Paragraph (2) of section 86(b) is amended by striking ''adusted'' and inserting ''adjusted''.

(4)(A) The heading for section 112 is amended by striking ''combat pay'' and inserting ''combat zone compensation''.

(B) The item relating to section 112 in the table of sections for part III of subchapter B of chapter 1 is amended by striking ''combat pay'' and inserting ''combat zone compensation''.

(C) Paragraph (1) of section 3401(a) is amended by striking ''combat pay'' and inserting ''combat zone compensation''.

(5) Clause (i) of section 172(h)(3)(B) is amended by striking the comma at the end thereof and inserting a period.

(6) Clause (ii) of section 543(a)(2)(B) is amended by striking ''section 563(c)'' and inserting ''section 563(d)''.

(7) Paragraph (1) of section 958(a) is amended by striking ''sections 955(b)(1) (A) and (B), 955(c)(2)(A)(ii), and 960(a)(1)'' and inserting ''section 960(a)(1)''.

(8) Subsection (g) of section 642 is amended by striking ''under 2621(a)(2)'' and inserting ''under section 2621(a)(2)''.

(9) Section 1463 is amended by striking ''this subsection'' and inserting ''this section''.

(10) Subsection (k) of section 3306 is amended by inserting a period at the end thereof.

(11) The item relating to section 4472 in the table of sections for subchapter B of chapter 36 is amended by striking ''and special rules''.

(12) Paragraph (3) of section 5134(c) is amended by striking ''section 6662(a)'' and inserting ''section 6665(a)''.

(13) Paragraph (2) of section 5206(f) is amended by striking ''section 5(e)'' and inserting ''section 105(e)''.

(14) Paragraph (1) of section 6050B(c) is amended by striking ''section 85(c)'' and inserting ''section 85(b)''.

(15) Subsection (k) of section 6166 is amended by striking paragraph (6).

(16) Subsection (e) of section 6214 is amended to read as follows:

''(e) CROSS REFERENCE.—

''For provision giving Tax Court jurisdiction to order a refund of an overpayment and to award sanctions, see section 6512(b)(2).''

(17) The section heading for section 6043 is amended by striking the semicolon and inserting a comma.

(18) The item relating to section 6043 in the table of sections for subpart B of part III of subchapter A of chapter 61 is amended by striking the semicolon and inserting a comma.

(19) The table of sections for part I of subchapter A of chapter 68 is amended by striking the item relating to section 6662.

(20)(A) Section 7232 is amended—

*(i) by striking ''**LUBRICATING OIL**,'' in the heading, and*

(ii) by striking ''lubricating oil,'' in the text.

(B) The table of sections for part II of subchapter A of chapter 75 is amended by striking ''lubricating oil,'' in the item relating to section 7232.

(21) Paragraph (1) of section 6701(a) of the Omnibus Budget Reconciliation Act of 1989 is amended by striking ''subclause (IV)'' and inserting ''subclause (V)''.

(22) Clause (ii) of section 7304(a)(2)(D) of such Act is amended by striking ''subsection (c)(2)'' and inserting ''subsection (c)''.

(23) Paragraph (1) of section 7646(b) of such Act is amended by striking ''section 6050H(b)(1)'' and inserting ''section 6050H(b)(2)''.

(24) Paragraph (10) of section 7721(c) of such Act is amended by striking ''section 6662(b)(2)(C)(ii)'' and inserting ''section 6661(b)(2)(C)(ii)''.

(25) Subparagraph (A) of section 7811(i)(3) of such Act is amended by inserting ''the first place it appears'' before ''in clause (i)''.

(26) Paragraph (10) of section 7841(d) of such Act is amended by striking ''section 381(a)'' and inserting ''section 381(c)''.

(27) Paragraph (2) of section 7861(c) of such Act is amended by inserting ''the second place it appears'' before ''and inserting''.

(28) Paragraph (1) of section 460(b) is amended by striking ''the look-back method of paragraph (3)'' and inserting ''the look-back method of paragraph (2)''.

(29) Subparagraph (C) of section 50(a)(2) is amended by striking ''subsection (c)(4)'' and inserting ''subsection (d)(5)''.

(30) Subparagraph (B) of section 172(h)(4) is amended by striking the material following the heading and preceding clause (i) and inserting ''For purposes of subsection (b)(2)—''.

(31) Subparagraph (A) of section 355(d)(7) is amended by inserting ''section'' before ''267(b)''.

(32) Subparagraph (C) of section 420(e)(1) is amended by striking ''mean'' and inserting ''means''.

(33) Paragraph (4) of section 537(b) is amended by striking ''section 172(i)'' and inserting ''section 172(f)''.

(34) Subparagraph (B) of section 613(e)(1) is amended by striking the comma at the end thereof and inserting a period.

(35) Paragraph (4) of section 856(a) is amended by striking ''section 582(c)(5)'' and inserting ''section 582(c)(2)''.

(36) Sections 904(f)(2)(B)(i) and 907(c)(4)(B)(iii) are each amended by inserting ''(as in effect on the day before the date of the enactment of the Revenue Reconciliation Act of 1990)'' after ''section 172(h)''.

(37) Subsection (b) of section 936 is amended by striking ''subparagraphs (D)(ii)(I)'' and inserting ''subparagraphs (D)(ii)''.

(38) Subsection (c) of section 2104 is amended by striking ''subparagraph (A), (C), or (D) of section 861(a)(1)'' and inserting ''section 861(a)(1)(A)''.

(39) Subparagraph (A) of section 280A(c)(1) is amended to read as follows:

''(A) as the principal place of business for any trade or business of the taxpayer,''.

(40) Section 6038 is amended by redesignating the subsection relating to cross references as subsection (f).

(41) Clause (iv) of section 6103(e)(1)(A) is amended by striking all that follows ''provisions of'' and inserting ''section 1(g) or 59(j);''.

(42) The subsection (f) of section 6109 of the Internal Revenue Code of 1986 which was added by section 2201(d) of Public Law 101–624 is redesignated as subsection (g).

(43) Subsection (b) of section 7454 is amended by striking ''section 4955(e)(2)'' and inserting ''section 4955(f)(2)''.

(44) Subsection (d) of section 11231 of the Revenue Reconciliation Act of 1990 shall be applied as if ''comma'' appeared instead of ''period'' and as if the paragraph (9) proposed to be added ended with a comma.

(45) Paragraph (1) of section 11303(b) of the Revenue Reconciliation Act of 1990 shall be applied as if ''paragraph'' appeared instead of ''subparagraph'' in the material proposed to be stricken.

(46) Subsection (f) of section 11701 of the Revenue Reconciliation Act of 1990 is amended by inserting ''(relating to definitions)'' after ''section 6038(e)''.

(47) Subsection (i) of section 11701 of the Revenue Reconciliation Act of 1990 shall be applied as if ''subsection'' appeared instead of ''section'' in the material proposed to be stricken.

(48) Subparagraph (B) of section 11801(c)(2) of the Revenue Reconciliation Act of 1990 shall be applied as if ''section 56(g)'' appeared instead of ''section 59(g)''.

(49) Subparagraph (C) of section 11801(c)(8) of the Revenue Reconciliation Act of 1990 shall be applied as if ''reorganizations'' appeared instead of ''reorganization'' in the material proposed to be stricken.

(50) Subparagraph (H) of section 11801(c)(9) of the Revenue Reconciliation Act of 1990 shall be applied as if ''section 1042(c)(1)(B)'' appeared instead of ''section 1042(c)(2)(B)''.

(51) Subparagraph (F) of section 11801(c)(12) of the Revenue Reconciliation Act of 1990 shall be applied as if ''and (3)'' appeared instead of ''and (E)''.

(52) Subparagraph (A) of section 11801(c)(22) of the Revenue Reconciliation Act of 1990 shall be applied as if ''chapters 21'' appeared instead of ''chapter 21'' in the material proposed to be stricken.

(53) Paragraph (3) of section 11812(b) of the Revenue Reconciliation Act of 1990 shall be applied by not executing the amendment therein to the heading of section 42(d)(5)(B).

(54) Clause (i) of section 11813(b)(9)(A) of the Revenue Reconciliation Act of 1990 shall be applied as if a comma appeared after ''(3)(A)(ix)'' in the material proposed to be stricken.

(55) Subparagraph (F) of section 11813(b)(13) of the Revenue Reconciliation Act of 1990 shall be applied as if ''tax'' appeared after ''investment'' in the material proposed to be stricken.

(56) Paragraph (19) of section 11813(b) of the Revenue Reconciliation Act of 1990 shall be applied as if ''Paragraph (20) of section 1016(a), as redesignated by section 11801,'' appeared instead of ''Paragraph (21) of section 1016(a)''.

(57) Paragraph (5) section 8002(a) of the Surface Transportation Revenue Act of 1991 shall be applied as if ''4481(e)'' appeared instead of ''4481(c)''.

(58) Section 7872 is amended—

(A) by striking ''foregone'' each place it appears in subsections (a) and (e)(2) and inserting ''forgone'', and

(B) by striking ''FOREGONE'' in the heading for subsection (e) and the heading for paragraph (2) of subsection (e) and inserting ''FORGONE''.

(59) Paragraph (7) of section 7611(h) is amended by striking ''approporiate'' and inserting ''appropriate''.

(60) The heading of paragraph (3) of section 419A(c) is amended by striking ''SEVERENCE'' and inserting ''SEVERANCE''.

(61) Clause (ii) of section 807(d)(3)(B) is amended by striking ''Commissoners' '' and inserting ''Commissioners' ''.

(62) Subparagraph (B) of section 1274A(c)(1) is amended by striking ''instument'' and inserting ''instrument''.

(63) Subparagraph (B) of section 724(d)(3) by striking ''Subparagaph'' and inserting ''Subparagraph''.

(64) The last sentence of paragraph (2) of section 42(c) is amended by striking ''of 1988''.

(65) Paragraph (1) of section 9707(d) is amended by striking ''diligence,'' and inserting ''diligence''.

(66) Subsection (c) of section 4977 is amended by striking ''section 132(i)(2)'' and inserting ''section 132(h)''.

(67) The last sentence of section 401(a)(20) is amended by striking ''section 211'' and inserting ''section 521''.

(68) Subparagraph (A) of section 402(g)(3) is amended by striking ''subsection (a)(8)'' and inserting ''subsection (e)(3)''.

(69) The last sentence of section 403(b)(10) is amended by striking ''an direct'' and inserting ''a direct''.

(70) Subparagraph (A) of section 4973(b)(1) is amended by striking ''sections 402(c)'' and inserting ''section 402(c)''.

(71) Paragraph (12) of section 3405(e) is amended by striking ''(b)(3)'' and inserting ''(b)(2)''.

(72) Paragraph (41) of section 521(b) of the Unemployment Compensation Amendments of 1992 shall be applied as if ''section'' appeared instead of ''sections'' in the material proposed to be stricken.

(73) Paragraph (27) of section 521(b) of the Unemployment Compensation Amendments of 1992 shall be applied as if ''Section 691(c)(5)'' appeared instead of ''Section 691(c)''.

(74) Paragraph (5) of section 860F(a) is amended by striking ''paragraph (1)'' and inserting ''paragraph (2)''.

(75) Paragraph (1) of section 415(k) is amended by adding ''or'' at the end of subparagraph (C), by striking subparagraphs (D) and (E), and by redesignating subparagraph (F) as subparagraph (D).

(76) Paragraph (2) of section 404(a) is amended by striking ''(18),''.

(77) Clause (ii) of section 72(p)(4)(A) is amended to read as follows:

''(ii) SPECIAL RULE.—The term 'qualified employer plan' shall not include any plan which was (or was determined to be) a qualified employer plan or a government plan.''

(78) Sections 461(i)(3)(C) and 1274(b)(3)(B)(i) are each amended by striking ''section 6662(d)(2)(C)(ii)'' and inserting ''section 6662(d)(2)(C)(iii)''.

(79) Subsection (a) of section 164 is amended by striking the paragraphs relating to the generation-skipping tax and the environmental tax imposed by section 59A and by inserting after paragraph (3) the following new paragraphs:

''(4) The GST tax imposed on income distributions.

''(5) The environmental tax imposed by section 59A.''

(u) CERTAIN PROPERTY NOT TREATED AS SECTION 179 PROPERTY.—

(1) IN GENERAL.—Paragraph (1) of section 179(d) is amended by adding at the end thereof the following new sentence: ''Such term shall not include any property described in section 50(b) and shall not include air conditioning or heating units and horses.''

(2) EFFECTIVE DATE.—The amendment made by paragraph (1) shall apply to property placed in service after May 14, 1996.

The SPEAKER pro tempore. Under the rule, the gentleman from Texas [Mr. ARCHER] and the gentleman from Florida [Mr. GIBBONS] each will control 30 minutes.

The Chair recognizes the gentleman from Texas [Mr. ARCHER].

□ 1845

GENERAL LEAVE

Mr. ARCHER. Mr. Speaker, I ask unanimous consent that all Members may have 5 legislative days within which to revise and extend their remarks and include extraneous material on H.R. 3448.

The SPEAKER pro tempore. Is there objection to the request of the gentleman from Texas?

There was no objection.

Mr. ARCHER. Mr. Speaker, I yield myself such time as I may consume.

Mr. Speaker, millions of Americans worry about their ability to retire with security and comfort.

Some worry because their employer is unable to provide them with a benefit and pensions. Others worry about whether their existing pensions will be there for them when they retire.

The bill that we pass in the House today will come as a blessing for all of these Americans. This bill will make it easier for people to get pensions and it will protect the pensions of those who already have them.

These Republican pension reforms should provide relief and comfort for countless middle-income Americans struggling to make ends meet.

Republicans recognize that the middle-class crunch is real and these reforms are designed to help people make more and save more.

Our bill contains more than two dozen specific pension reforms.

Thirty-six million Americans work for small businesses that can't afford to provide pensions to their employees. These 36 million people will benefit from our simple plan. This plan allows small businesses tax favored treatment when they establish pension plans for their workers.

Two million Americans who work for tax-exempt organizations will, for the first time, be eligible to sign up for 401(k) savings plans.

And in what is called the Orange County provision, 16 million people who work for State and local governments will no longer have to fear losing their pensions in the event of a bankruptcy. Our section 457 trust reforms protect their retirement savings from creditors.

In addition to pension reforms, the bill we pass today includes seven other items that will help small businesses and their workers. They include creation of the work opportunity tax credit designed to encourage the hiring of hard-to-place works, and an increase in expensing for small businesses to help the Nation's job creators grow and create more jobs. I note that this item was part of our Contract With America.

We change S corporation laws to make it easier for families to maintain their enterprises and we extend a popular tax provision that allows employers to provide their workers with educational assistance on a tax favored basis.

All these changes will give small businesses and their workers a helping hand as they wrestle with the middle-class crunch. Although President Clinton vetoed them once before, I am confident he will now sign these Republican reforms.

One final note. This isn't all we've done on pension reforms and we are about to do even more. Last year, we passed expanded individual retirement accounts; IRA's for homemakers; we created a new American dream savings account that can be used for education, first-time home purchases, and extraordinary medical expenses.

President Clinton vetoed all these measures, but we're going to pass them again and this time we hope he'll support them.

I am delighted these initiatives are passing in the House today and I look forward to them becoming law.

Mr. Speaker, I reserve the balance of my time.

Mr. GIBBONS. Mr. Speaker, I yield myself such time as I may consume.

Mr. Speaker, I am going to yield to the gentleman from Puerto Rico [Mr. ROMERO-BARCELÓ]. The gentleman from Puerto Rico [Mr. ROMERO-BARCELÓ] represents the millions of Americans, the millions of Americans, who are disenfranchised because they happen to live in Puerto Rico. He is a distinguished Member of Congress, and he deserves our rapt attention. He is the former Governor of Puerto Rico, and a great part of this bill affects the lives of the people of Puerto Rico. So I hope all Member will pay rapt attention to his words.

Mr. Speaker, I yield 4 minutes to the gentleman from Puerto Rico [Mr. ROMERO-BARCELÓ].

Mr. ROMERO-BARCELÓ. Mr. Speaker, I thank the gentleman from Florida for yielding me time.

Mr. Speaker, the differences between democracy and totalitarianism is that in totalitarianism the end justifies the means. In a democracy the means are at least as important as the end, if not more important.

This act has a good purpose, to provide businesses, small businesses, with tax breaks. We are all for that. But how does it go about providing small businesses with tax breaks?

It collects revenues from Puerto Rico. Tax revenues that up to now have not been collected, to the tune of $4.8 billion, which is more than half of the tax cuts that are going to be provided for the small businesses in eight years.

Now, this funding, this money that is being collected from Puerto Rico, is not being turned back to Puerto Rico at all. Puerto Rico, which is the poorest jurisdiction in the Nation, Puerto Rico has the lowest per capita income than the State with the lowest per capital income, which is Mississippi, we have less than half the per capita income, we have more than double the unemployment of the Nation, and the tax cuts that were being given to Puerto Rico and the other territories is for the purpose of promoting jobs.

Now, is it fair for the poorest jurisdiction in the Nation to subsidize the tax cuts for small businesses in 50 States of the Nation? I submit, Mr. Speaker, that that is grossly unfair. That is something that should not be allowed.

But I have no vote. I represent 3.8 million U.S. citizens, six times more than the average here in the House, but I am not allowed to vote. I am disenfranchised. We are all disenfranchised. But we are not merely resident aliens, we are U.S. citizens, and have been since 1917.

Mr. Speaker, what do we say to the children of men who have given their lives in defense of the Nation? That here, when we need to have tax cuts for small businesses, we cannot find it anywhere else, but we go to Puerto Rico and grab $4.8 billion in 8 years to subsidize these tax cuts? And I have not been given an opportunity even to submit an amendment here on the floor?

I was not given an opportunity to really participate in anything, any of the discussions in the Committee on Ways and Means. Mr. Speaker, I have been probably the most critical person of the tax breaks based on income, the tax credit based on income, the so-called section 936. But we are proposing a substitute, that we have tax credits based on salaries, on wages. And this has been supported by some of the speakers here today when they were discussing the rule, by some of the Republicans when they were discussing the rule. That is what we proposed as a substitute.

Why try to save the companies or give them a 10-year holiday, the ones that earn the most money in Puerto Rico, the ones that receive the most profits, the most benefits, give them a 10-year holiday for now, but it does not produce a single new job, when we could be taxing them, but at the same time providing for tax credits based on wages, which would stimulate further investment to create more jobs, and the revenues obtained in Puerto Rico; that we listen to what the President is proposing and what we have proposed, that because the people of Puerto Rico do not have the same safety net that at least in health care, at least in health care, this money be used to make Puerto Rico whole in health care.

We get less than 10 percent of what we would get in Medicaid for health care in Puerto Rico if we were treated as a State. Now, if any State in the Nation had to pay over 90 percent of their Medicaid costs now, they would be broke. And here we are not being given anything out of this revenue for Medicaid.

Mr. Speaker, I submit that this bill should be reviewed and that this should not be approved today.

Mr. ARCHER. Mr. Speaker, I yield 2 minutes to the gentleman from new York [Mr. HOUGHTON], a respected member of the Committee on Ways and Means.

(Mr. HOUGHTON asked and was given permission to revise and extend his remarks.)

Mr. HOUGHTON. Mr. Speaker, I thank the gentleman for yielding me time.

Mr. Speaker, I am here to support not only the minimum wage bill, but also the work opportunity tax credit. I would first like to say a word about the gentleman from Buffalo, NY, Mr. JACK QUINN, because he has been a leading light and real pusher of this thing from way back, and I also would like to thank the gentleman from Pennsylvania, Mr. PHIL ENGLISH, for what he has done and the gentleman from Kansas, Mr. PAT ROBERTS, for his work on the work opportunity tax credit, and also my friend the gentleman from New York, Mr. CHARLIE RANGEL, over here.

This is a plain sense bill. It is part of the tax package. I would like to focus just the few seconds I have on the work opportunity tax credit.

This is something, really, which makes sense, not only for the people who are to be hired, but also for the businesses. For the businesses, what it does is help those businesses that are going to be having an increase in the minimum wage to absorb the cost. As a matter of fact, if you hire an individual, the arithmetic works out that you, in terms of the total 2-year period which you will be hiring this individual and having him work in your establishment, that the cost will be less than the minimum wage is now because of the incentive which the Government gives.

So it is a real incentive for businesses. On the other hand, of course, what it does is take those needy people, who are working off welfare or getting off of food stamps or getting off a whole variety of things, to come into the work force. Now, this is not a perfect bill, and with any bill like this, it will be changed and adopted over the years. But it makes a great deal of sense.

So, Mr. Speaker, with the minimum wage, combined with the work opportunity tax credit, I think we have a winnable combination. I thank you very much for letting me express myself.

□ 1900

Mr. GIBBONS. Mr. Speaker, I yield 4 minutes to the gentleman from New York [Mr. RANGEL].

(Mr. RANGEL asked and was given permission to revise and extend his remarks.)

Mr. RANGEL. Mr. Speaker, I think this is going to be an historic vote. The Republicans have been forced to bring to the floor a minimum wage bill so they had to put some sweetness in there, of course, for small employers, where they get a few tax breaks, and, hopefully, we would have a good sweetener.

But when we see how they are going to pay for this it is almost like those old enough to remember when we had to take castor oil. They used to mix it with the orange juice. Well, we have got the orange juice with the watered down minimum wage bill, but the castor oil is how do we pay for it?

I would guess that, following Republican logic, we will pay for it by going to the poorest people with the weakest political posture and, if we can find any Americans that cannot vote, then hit them where it hurts.

We get $4.8 billion over the next couple of years, not in grants for health care or for housing, but in order to create jobs. And, again, it gives it to the corporations to encourage them to invest there. Some people say it is too much for the corporations. Some people say it is too expensive of a project. Well, they might be right. But if we are going to take 3.8 million Americans, and every time there is a war we call upon them to get in a suit and go over to fight for the United States of America; if we are going to take 3.8 million Americans who stand up to the United Nations and say we are no colony, the United States is no imperialistic nation, we are citizens of the United States, but we decide for sweetness for those on the mainland that we are going to whack it to them.

Well, listen, if they have the votes, they should do it. I understand that. But should they not do it with hearings? Have we reached a point that we are dealing with tax bills that the tax committee does not even look at it; we just get it? Has it reached the point that we do not have hearings anymore? Have we fallen so much in common decency that we do not ask the duly elected representative from the 4 million people what he thinks?

They have a Governor. I do not know what people think about him, but he has the responsibility for the health, for the welfare, for the economy. Do we say to him, ''What would you like to do; do you have a substitute?'' Or do we just take away $4 billion because we have the power to do it?

I tell my colleagues one thing, I am not here to defend 936. Whatever the economists and the people in Puerto Rico think is good to encourage jobs for them, good. But I notice one thing, especially when the chairman of the committee says, ''Oh, Charlie, I know you like 936 companies.'' Oh, no, the chairman likes 936 companies, because in this bill the only people that are protected are not the people of Puerto Rico but the American companies that are in Puerto Rico. They get 10 years to get their money out. But there is nothing there to encourage one nickel of investment, as these companies now have 10 years to look at other parts of the Caribbean or Ireland or any low-wage based country.

So what we have said now is that we cannot find enough poor on the mainland to beat up on. We have already hit them when we talked about the earned income tax credit. If we are talking about housing for the poor, we put a damper on the low-income housing credit. We have done everything we could, but somebody said we have some poorer Americans in Puerto Rico, hit them, and that is exactly what the Republicans have done.

All I can say is, Mr. President, wherever you are, do not sign this bill.

Mr. ARCHER. Mr. Speaker, I yield 2 minutes to the gentleman from Pennsylvania [Mr. ENGLISH], another valued member of the Committees on Ways and Means.

Mr. ENGLISH of Pennsylvania. Mr. Speaker, I rise in strong support of H.R. 3448, the Small Business Job Protection Act, strong legislation to help small business and to help American workers.

Mr. Speaker, this bipartisan bill would enact several key tax incentives critical to working students, critical to trainees with limited skills, and critical to small businesses that are the most dynamic sector of the American economy.

Mr. Speaker, this bill encourages investment in jobs by cash-starved small economies, small businesses. H.R. 3448 will increase the limit on the amount of equipment that a small business can expense from the current level of $17,500 to $25,000. This will allow small companies to grow and to create more jobs.

This bill encourages the hiring of low-skilled workers through the work opportunity tax credit, a critical initiative to bring more people out of the welfare system and into the work force.

This bill encourages critical investment in worker training through a tax break for employer-provided undergraduate tuition, that, unfortunately, the last Congress had allowed to expire.

This legislation increases access to pension benefits for workers through pension reform and pension simplification.

Mr. Speaker, all of these provisions passed the Committee on Ways and Means with strong bipartisan support. I invite my colleagues on both sides of the aisle to support our workers by giving employers the tools to create and improve jobs by voting ''yes'' on H.R. 3448.

Mr. GIBBONS. Mr. Speaker, I yield 3 minutes to the gentlewoman from Connecticut [Mrs. KENNELLY].

Mrs. KENNELLY. Mr. Speaker, I rise to talk about this bill that is before us this evening, and I have to say that it has some very excellent provisions in it. Having said that, I must admit that one of the reasons that I say that is that it contains one of the things that I have worked on for years, and I thank Chairman ARCHER for including it in the bill.

This reduces the vesting period for multiemployer pension plans from 10 years to 5 years. What that means is that 1 million people will receive a well-deserved pension when and if the President signs this bill.

This bill also extends employer-provided educational assistance through December 31, 1996. This is so important to workers who want to maintain their

competitiveness in an ever changing world.

I do wish, and I almost cannot understand why if we put in the additional continuation of the educational assistance, that we did not do it for graduate school. If we are really serious about competing in a world economy, we certainly have to continue our education. As we know, people have job after job throughout their careers, and I just wish this could be reconsidered and we would have that deduction for our graduate education.

But I look at another thing in this bill and I see it has very good increases on the limitation on expensing to $25,000 in the year 2003. Many people in this body will remember when in 1993 we increased, when I say we, I say the Clinton administration and the majority at that time, took the expensing limit from $10,000 to $17,500. Now we are going to take it up to an additional amount.

But there are disappointments in this bill and I remain deeply concerned about one of them, and that is one that the delegate from Puerto Rico just spoke about, and that is section 936. Section 936 has played a critical role in the economic development of Puerto Rico and has certainly provided good jobs in Puerto Rico so people could work and take care of themselves and their families.

What happens in this bill is that the 936 is phased out. There has been discussion about that over the years, but having phased it out, it is not replaced with anything that addresses the economic needs of Puerto Rico.

I am also disappointed that this legislation does not include other extenders such as the R&D, the research and development credit in particular. Once again, how will we compete in an international world if we do not do what we do best, research?

But the most profound disappointment concerns the fact that even as we consider this very important legislation to provide assistance to small businesses, we will have an amendment before us, as this process continues, of stripping away one of the most important protections relied on by workers and many of these businesses, and that is the minimum wage.

The amendment that is going to come before us is an effort to roll back the minimum wage coverage for as many as 10 million individuals employed by small businesses. This amendment should not pass.

Mr. ARCHER. Mr. Speaker, I yield 2 minutes to the gentleman from Ohio [Mr. PORTMAN], another valued member of the Committee on Ways and Means; a gentleman who, through his efforts, has made a major contribution to the pension provisions that are in this bill. He has almost singlehandedly created those provisions, and so I am proud to yield to him.

Mr. PORTMAN. Mr. Speaker, I thank the chairman for those words, and I will return the compliment. We would not have the small business package on the floor if not for his support of it, and I think if we can make these changes, we will see immediate benefits to small business America and to the jobs they create. After all, that is what this is all about.

Mr. Speaker, last year the gentleman from Maryland, Mr. BEN CARDIN, and I introduced legislation to simplify the pension system in this country. It was in the Balanced Budget Act that was vetoed by the President. It is a common sense approach. There is strong bipartisan support for it.

The idea is to make it just a lot easier for companies to offer a pension plan, particularly smaller businesses. The current system cries out for reform because of its cost and complexity.

Let me give my colleagues a statistic. Only 20 percent of businesses with less than 25 employees offer any kind of pension plan today, any kind of profit sharing plan, 401(k), or any other pension system.

I think there are three main reasons this pension reform is long overdue.

First, it will help the savings rate, by which economists will tell us it will help productivity and result in more jobs in this country. We now have the lowest savings rate of all the industrialized worlds and it is hurting us. It gives us a competitive disadvantage.

Second, I think we need to do all we can to encourage private savings in this country for retirement. The reason for that is we need to backstop our Social Security System. The American people are way ahead of us on this. They understand that Social Security is at risk and we need to encourage private savings so it will be there, particularly when the baby boom generation begins to retire.

Third, and most important, this provision is going to help American workers, the workers who are caught in the wage and benefits squeeze, because this makes more generous a very important fringe benefit, and that is the pension benefit. That is the most important part of this.

It is a win-win situation. It is overdue, something we should have done already, and I am very pleased it is part of this legislation.

Let us simplify our retirement security system in this country. Let us do this for our workers. Let us enable more working Americans to save and let us increase retirement security.

Mr. ARCHER. Mr. Speaker, I yield myself such time as I may consume in order to expand my compliments to include the gentleman from Maryland, [Mr. CARDIN], who also has made a major contribution to these pension simplification provisions of this bill.

It has been bipartisan, and I would say to the Speaker that when this bill passed out of our committee in its entirety, there were only three negative votes against it. So it is truly a bipartisan bill.

Mr. Speaker, I reserve the balance of my time.

Mr. GIBBONS. Mr. Speaker, I yield 3 minutes to the gentleman from Maryland, [Mr. CARDIN,] who I am proud to say has made mammoth contributions to this pension plan we are talking about now.

Mr. CARDIN. Mr. Speaker, I thank my friend from Florida for yielding me this time, and compliment my colleague, the gentleman from Ohio [Mr. PORTMAN], for the work that he has done in the pension area, and I thank the chairman of the committee, the gentleman from Texas [Mr. ARCHER] for his comments.

It has clearly been a bipartisan effort on the pension simplification, and the gentleman from Ohio [Mr. PORTMAN] has done a great job this year in bringing this bill to the floor for the second time. I hope we are going to be able to get these pension simplifications enacted.

We have moved many of the provisions in this bill on previous occasions. We have broad support both in this House, the other body, the Clinton administration, and the public for many provisions that are in this bill.

We have seen most of these provisions included in the pension simplification in 1992 as passed by a Democratic Congress. It was vetoed by a Republican President for unrelated reasons. The provisions were passed again in 1995 by a Republican Congress and vetoed by a Democratic President for unrelated reasons. So I hope the third time is the charm and we will get this bill passed and signed into law, because it contains many important provisions for people in this Nation.

We have already heard some of those reasons. We are restoring the exclusion for employer-provided education assistance. That is long overdue and good news many hundreds of thousands of Americans.

Thousands more Americans will welcome the newly configured work opportunity tax credit, which will help businesses hire people and give them a chance to learn new skills.

☐ 1915

The reform in subchapter S, very important for American small businesses that will help them accumulate capital and prosper and raise the necessary funds in order to grow in our economy. And the expensing of capital from $17,500 to $25,000 for small business is a continuation of a process that we started in 1993 tax legislation.

But as the gentleman from Ohio [Mr. PORTMAN] has pointed out, the provision I guess I am the most pleased to see us move forward is the pension simplification. All too frequently in the last 15 years in the name of simplification and reform, we made it impossible for many small businesses to have pension plans. The complicated test that Government required small businesses to go through prevented many small businesses financially from being able to offer pension plans.

What this bill will do, by offering new opportunities and safe harbor provisions, will allow small companies to

in fact have pension plans to provide for the future of their workers. I am extremely pleased that those provisions are included in this bill, and I trust that we will be able to get this to the President's desk in a form that it can be signed.

Mr. Speaker, let me point out, when we work together, Democrats and Republicans, to craft legislation, it is in the best interest of the American people. I hope what we are doing tonight in this legislation we can do in many more bills throughout the year, work together on behalf of the American people.

Mr. ARCHER. Mr. Speaker, I yield 2 minutes to the gentleman from Michigan [Mr. CAMP], another valued member of the Committee on Ways and Means.

Mr. CAMP. Mr. Speaker, I thank the chairman for yielding me the time.

Mr. Speaker, a cornerstone of our Nation is education. A small investment in education can reap tremendous rewards. The United States is the world's greatest Nation, and we owe this success in large part to the commitment we have made to learning.

Today the Congress affirms its commitment to education. The bill before us today continues favorable tax treatment when employers pay for employee education. Employers benefit from this education tax assistance through access to a better educated and more productive work force.

Employees benefit from this provision by enhancing their education and expanding their opportunities. By promoting education, we ensure the United States maintains the most educated and productive work force in the world.

As an original cosponsor of this proposal, I am pleased it was included in the bill. It preserves our tradition of excellence and affirms our commitment to education and to lifelong learning.

I urge my colleagues to support America's students and vote in favor of this bill.

Mr. GIBBONS. Mr. Speaker, I yield 3 minutes and 30 seconds to the gentleman from Massachusetts [Mr. NEAL].

Mr. NEAL of Massachusetts. Mr. Speaker, this evening we are debating the Small Business Job Protection Act. The basic provisions of this bill are good measures which would help small businesses. Most of the provisions in the bill are bipartisan. The reason we are debating this bill today is to provide a sweetener to small businesses because of the minimum wage. I have no problem with passing tax legislation to assist them, but I think we should have had the opportunity for a clean minimum wage bill.

During this Congress, we have not passed much tax legislation and there are many noncontroversial provisions where there is bipartisan agreement that should have been included in this package. Last night, I went to the Committee on Rules to testify about an amendment which I offered during the Ways and Means markup. This amendment would have allowed a $5,000 deduction for expenses associated with the higher costs of education. The deduction would be phased out for taxpayers with modified adjusted gross income [AGI] between $70,000 and $90,000 for single filers and $100,000 and $120,000 for joint returns.

This amendment proposed originally by President Clinton would help with the high rising costs of education. The costs of a college education have risen steadily in the past 15 years. However, the average family's income has not increased at the same rate. I realize the purpose of this legislation is to assist small businesses. Our business will be greatly assisted by this type of provision. The need for higher education is more important than ever. The world economy mandates the necessity of education and training for workers.

This provision assists 14 million families and this results in 17 million students. We should have used this opportunity today to help the middle class with the rising costs of tuition. The bill is weak on education. Under the bill, the provision to provide tax-free employer-provided educational assistance would be extended from January 1, 1995, through December 31, 1996. However, educational expenses for graduate studies would not receive the exclusion after December 31, 1995. As a former college instructor, I taught many students in continuing education programs. These students worked hard to increase knowledge and greatly benefited their employer.

I am pleased the legislation included pension simplification provisions. Pension security is an extremely important issue. I wish this bill included additional provisions which would assist with pension portability. We have to make it easier for workers to keep their pension when they change jobs. Additional provisions could have been added to make pension more portable. True pension reform needs to include the expansion of Individual Retirement Accounts [IRA's]. Expanded IRA's will allow an additional 20 million families to utilize the tax advantages of IRA's. More individuals would benefit from a tax incentive to save for their retirement. Expanded IRA's would encourage individuals to become more personally responsible for their savings. IRA's would make pensions easier for employers.

This bill contains a provision which affects the economy of Puerto Rico. I am concerned with the changes to section 936 and I encourage Congress to continue to work with the Governor of Puerto Rico and the administration to improve this provision.

I support this bill, but I wish it could have been a better product. We need to work in a bipartisan manner to enact the proposals that we can agree on such as education, IRA's, and the R&D tax credit.

Let me close by saying, Mr. Speaker, I want to thank Mr. ARCHER this evening for addressing an issue that has been long held for the community of New Bedford, MA. I want to thank the chairman for the manner in which he addressed that legislation and helped to secure its passage. It was long overdue. And while I wish we could have spoken to education, IRA's, and the R&D tax credit, I am indeed grateful that we were able to address the needs of the New Bedford fishermen.

Mr. ARCHER. Mr. Speaker, I yield 2 minutes to the gentleman from Connecticut [Mr. SHAYS].

Mr. SHAYS. Mr. Speaker, as a member of the Committee on the Budget, we were looking at getting at some of the what I would call the corporate loopholes, the corporate write-offs, and I just find it somewhat disingenuous that when we attempt to do that, then we are being accused of hurting the poor.

The bottom line is we have a special provision to big businesses in Puerto Rico who admittedly are there working to employ people, but in some cases, the write-off is $100,000, $200,000 benefit per job for some of these very large corporations. These large corporations, some of them are in my district, they benefit from it. But we are saving basically $4.9 billion over 10 years. We are phasing it out over 10 years. We are taking that $4.9 billion, and we are truly helping in a whole host of ways.

Expensing for small business to me makes sense, but I particularly like the work opportunity tax credit. We are giving a tax credit to individuals that hire what I would call the least employable, the people who are on welfare, the people who simply have not had work experience.

I am proud that my side is dealing with the minimum wage, having an economic engine along with the minimum wage. We are given a vote to have a vote up or down on the minimum wage. We have that. We are given a vote to also provide an economic engine for our companies who employ.

One of the best, to my mind, ways of looking at it, the work opportunity tax credit. It is going to be funded in part by eliminating what I call a significant loophole to large businesses who happen to just have activity in a possession of the United States.

So I applaud what the Committee on Ways and Means has done. I thank them for eliminating what I think is a loophole that does not benefit enough people and in the end allow for small businesses to pay the minimum wage.

Mr. RANGEL. Mr. Speaker, will the gentleman yield?

Mr. SHAYS. I yield to the gentleman from New York.

Mr. RANGEL. Mr. Speaker, the gentleman may be right about this 936, but we do not have a vote on that. That was not allowed by the rule. And we never had any hearings as to how we could improve, eliminate or substitute 936. We have just said the poor people in Puerto Rico have to take our word for it.

Mr. GIBBONS. Mr. Speaker, I yield 2 minutes to the gentlewoman from New York [Ms. VELÁZQUEZ].

Ms. VELÁZQUEZ. Mr. Speaker, I rise today in strong opposition to H.R. 3448. World War I, World War II, Korea, Vietnam, the Persian Gulf, this country has sent our brave and courageous Americans from the island of Puerto Rico, such as my uncle, to fight in foreign lands. Now, through their repeal of section 936, Republicans intend to use the people of Puerto Rico as human shields to give businesses more tax breaks. This bill is an insult to the 3.8 million American citizens in Puerto Rico. What is good for American citizens in the mainland should be good for the people in Puerto Rico.

If this was not cruel enough, Puerto Rico will get nothing for this national sacrifice in the name of more tax cuts. In typical Republican style, you go after the one group of Americans who have no vote in this Chamber.

Section 936 is not charity. It has been successful for the island and for the United States. It has created 300,000 jobs through private capital and tax incentives. Without it, the already high poverty and unemployment rates on the island will skyrocket. Many companies will move out of Puerto Rico, but they will not move to the mainland. They will move to such places like Mexico and Singapore.

Many Puerto Ricans forced out of work will need public assistance to survive. We will all pay sooner or later, jobs under section 936 or more public assistance. Be ready to invest in jobs creation, because there will be thousands of Puerto Rican workers migrating to the mainland. I thought you were the party of work, not welfare. Your radical, heartless agenda is clear: Up with tax breaks for business; down with the middle class, down with Puerto Rico.

I urge my colleagues to vote no on this legislation.

Mr. ARCHER. Mr. Speaker, I reserve the balance of my time.

Mr. GIBBONS. Mr. Speaker, I yield myself such time as I may consume.

Mr. Speaker, the first speaker we had, Mr. RANGEL, the last speaker we had, Ms. VELÁZQUEZ, and the next speaker we have, the gentleman from Illinois [Mr. GUTIERREZ], point out something I think is very significant here. The first speaker represents Puerto Rico here, 3½ million people, almost 4 million people got no vote. There is something in this bill that is very important to his people, but he is not allowed to vote on it.

The last speaker represents many people whose origin is in Puerto Rico, but they have a vote here in the Congress because they chose to move to the mainland as Americans from Puerto Rico.

The next speaker, Mr. Speaker, that I am going to yield 2 minutes to is in the same position. Mr. QUTIERREZ represents a lot of people whose origins were in Puerto Rico but they are here now because they have got a vote here in the Congress and they can vote for President.

I just do not think, as I editorialize here, we have paid enough attention to the political novelties that we have created with Puerto Rico. I think we better spend some time on it, Mr. Speaker.

Mr. Speaker, I yield 2 minutes to the gentleman from Illinois [Mr. GUTIERREZ].

Mr. GUTIERREZ. Mr. Speaker, I want to begin my remarks by making clear that I can support a break for small businesses, but I cannot support breaking the economy of Puerto Rico to do it.

The supporters of this bill will give you lots of interesting rhetoric about the great breaks they want to give small businesses today. But they won't tell you the truth about what this bill means for the 3.8 million American citizens who live in Puerto Rico.

We are breaking their backs.

We are breaking their dreams.

And, we are breaking our promise to give the Puerto Rican economy a chance to thrive.

This is a simple bill. It is a bill to destroy Puerto Rico's economy. Eliminating Section 936 will cause a stampede of companies to foreign shores where they will be warmly received for the thousands of jobs they will bring.

And what will this mean for the revenue we pretend to be generating by targeting Puerto Rico's jobs for elimination? Empty factories don't create profits. Empty factories don't pay taxes. Empty factories don't create jobs.

Eliminating jobs is an awfully strange way to raise revenue. Yet, it's not too surprising. Not surprising that the most powerless are once again asked to pay for this Republican election-year political payoff.

The people of Puerto Rico have not been asked or consulted about this critical issue.

Let's be completely clear. The people of Puerto Rico overwhelmingly support Section 936. And the people of Puerto Rico have earned the right to be consulted. The names of more than 2,000 * * * 2,000 of the sons of Puerto Rico—American citizens—are inscribed on the Vietnam War Memorial Wall; 2,000. How do we recognize their supreme sacrifice? How does this Congress show that we understand the importance and contributions of the Puerto Rican people to our Nation? The majority wishes to ram through a proposal that will eviscerate the jobs of 300,000 decent, hard working Puerto Rican working people who want only to honestly earn a living for their families.

Puerto Rico has a per capita income one-third the United States average, and three times its rate of unemployment. Yet we target them for economic destruction.

The voices of hundreds of thousands of workers on the island ask only for fairness for their families. They ask only not to become the pawn in an election-year political game.

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They have paid the price, they have paid taxes, the taxes of their blood, and I demand that this Congress respect it.

Mr. ARCHER. Mr. Speaker, I yield myself such time as I may consume.

Mr. Speaker, it is fascinating to me to listen to my colleagues on the other side of the aisle, the minority, support tax breaks for big corporations simply because they believe that the end result might benefit something that they are interested in. But let us introduce a tax rate reduction on capital gains that would create jobs for all Americans, and they rail that we are giving special preference to the big corporations and to the rich. But here they are today, emotionally supporting tax breaks for big corporations. It is a strange irony, it is almost a strange contradiction, and yet we are here witnessing it.

Mr. Speaker, I reserve the balance of my time.

Mr. GIBBONS. Mr. Speaker, I yield 30 seconds to the gentleman from Illinois [Mr. GUTIERREZ].

Mr. GUTIERREZ. Mr. Speaker, it is not the companies we have come here to support, it is the jobs, and I think that we all, if we honestly speak about this, those corporations are going to Singapore, those corporations are going to Mexico, those corporations are going to leave Puerto Rico. What revenues do they have? Who are you going to tax when the American corporations that are in Puerto Rico precisely because of 936 go to foreign shores? Where do our colleagues get the revenue for them?

It is not the corporations that I am here to defend but the 300,000 jobs that are created. Let us look at the laws that govern Puerto Rico, but we do not want to have a debate about that.

Mr. ARCHER. Mr. Speaker, I yield myself such time as I may consume.

The gentleman has made an outstanding argument in behalf of the repealing the alternative minimum tax, repealing the foreign-source income taxes, all of which apply to great corporations who would be creating jobs in this country instead of overseas. But let us bring up something about the alternative minimum tax and let them rail against the help for big corporations. They do not want to talk about jobs then. They want to talk about how the Republicans want a tax break for big corporations, and here they are defending tax breaks for big corporations because they say it creates jobs. It is one of the most incredible inconsistencies that I have seen in the years that I have been in the Congress of the United States, and apparently it is supported by all of the minority Members. None of them has spoken against it, none of them has spoken for doing away with 936, special tax breaks for big corporations, but they have taken all of their time supporting those big

tax breaks because they say it creates jobs.

I want to hear them again when we get back to capital gains and we get back to alternative minimum tax and all of those parts of the code that create jobs for all Americans across this country. Let them then come and defend that.

Mr. Speaker, I reserve the balance of my time.

Mr. GIBBONS. Mr. Speaker, I yield 30 seconds to the gentleman from New York [Mr. RANGEL].

Mr. RANGEL. Mr. Speaker, all we are saying is that in this form of Government we do not make these determinations in the backroom. If our colleagues think that really is big corporations that is the beneficiary, then let us have hearings on it, let us bring the economists from Puerto Rico, let us bring the elected officials from Puerto Rico, let us bring the businesses, and let us do the right thing. But it is unfair for people who cannot vote not to have hearings here and just make the determination that the benefits go to the corporation.

If our colleagues bring a bill out, we will talk about it.

Mr. GIBBONS. Mr. Speaker, I yield 3 minutes to the gentleman from Michigan [Mr. LEVIN], who does a very conscientious job in this body.

Mr. LEVIN. Mr. Speaker, I thank the distinguished gentleman from Florida [Mr. GIBBONS] for yielding this time to me.

Mr. Speaker, I rise in support of this bill. It has several important bipartisan provisions. I have long supported increases in small business expending and expensing employer-provided education assistance and improving the targeted jobs tax credit and in simplifying pension and subchapter S rules. I am pleased these are in the bill.

But there are several provisions in this bill that run counter to its stated purpose to preserve and create small business jobs. I hope these shortcomings are fixed in the Senate.

The first provision repeals the tax exclusion for employer-provided graduate education. This provision helps hardworking Americans who, on average, make $30,000 per year. They are small business people, nurses, engineers, scientists, programmers, and teachers of tomorrow. They are precisely the people everyone tells us we need more of in this global, high-technology economy.

A majority of our Committee on Ways and Means voted for provision for employer-provided graduate education, but the leadership blocked it. I hope the Senate puts it back in.

The second provision repeals the tax exclusion for banks that lend to employee owned companies. The ESOP provision in the bill today would lose jobs, not protect them.

And let me just say the issue is not tax breaks. The issue is a Tax Code provision: Does it encourage business expansion and job creation or does it not? And I do not think we ought to throw labels around and call it a break if we do not like it.

I am for changes in the alternative minimum tax if it is tailored to help job creation, and I do not understand why this provision, this ESOP provision in this bill, why it would eliminate a part of our present code that helps employees keep their jobs, take control of their companies, improve productivity and make CEO's more accountable.

So I hope this provision and the other one I mentioned on graduate education is changed in the Senate.

Mr. ARCHER. Mr. Speaker, I yield 1 minute to the gentlewoman from Connecticut [Ms. DELAURO].

Mr. GIBBONS. Mr. Speaker, I yield 30 seconds to the gentlewoman from Connecticut [Ms. DELAURO].

The CHAIRMAN. The gentlewoman from Connecticut [Ms. DELAURO] is recognized for 1½ minutes.

Ms. DELAURO. Mr. Speaker, I thank my colleagues for yielding me the time.

Mr. Speaker, working Americans deserve tax relief, and I am glad to see that this bill takes needed steps in that direction.

We have heard a lot in this Congress about encouraging work, a goal I strongly support, and I am happy to say that extending the targeted jobs tax credit will encourage work. This credit, now named the work opportunity tax credit, will give employers the proper incentive to hire those who might not find work otherwise.

Continued education will enhance workers' skills and enable them and their companies to prosper in an ever more competitive economy. Extending the tax deduction for employer-provided educational assistance will encourage businesses and individuals to invest in the most valuable kind of capital, human capital.

I also support enhanced pension security for American workers, and am glad that the bill takes steps in that direction. The bill guarantees that workers in multiemployer pension plans, such as construction workers, will not lose their pension benefits after 5 years instead of 10. The large number of workers in nonprofit organizations also will be able to take advantage of 401(k) plans. I strongly support these steps to help Americans in their retirement years, but I am concerned that these steps do not do enough to ensure that all workers will have the security they deserve after a lifetime of work.

We must be fair to those working American families who are struggling harder and harder for less and less. This pension plan expands access to retirement savings but does so in a way that leaves many low-wage workers out. Let me read from the business section of today's New York Times. It says, and I quote: ''In a break from decades of pension policy, the bill would let owners reap tax benefits for themselves even if their workers do not participate.''

Helping only those at the top is not the way Congress should improve retirement security. A better and more comprehensive plan that would help all workers has been outlined by the President and I hope that as this bill moves forward, elements of the President's plan will be incorporated so that all workers may benefit.

I encourage my colleagues to support this bill for its needed tax relief, but I hope that its pension provisions may be improved before becoming law.

Mr. ARCHER. Mr. Speaker, I yield 2 minutes to the gentleman from Virginia [Mr. PAYNE].

Mr. PAYNE. of Virginia. Mr. Speaker, I rise in support of H.R. 3448, and I commend the chairman and the ranking member for the work they have done in this bill.

As a member of the coalition of conservative Democrats and a strong proponent of deficit reduction, I have in the past opposed cutting taxes before we have a blueprint in place which would bring us to a balanced budget, and I was particularly concerned last year about the tax cut provisions in the budget resolution in part because of their magnitude and in part because they were back-end-loaded in a way that would make the cost rise dramatically outside the budget window. This package, however, is reasonable and provides opportunities to improve our fiscal responsibility.

H.R. 3448 is a very targeted measure with its provisions benefiting small businesses and their employees. These businesses are the engine of economic growth in this country and represent the sector of our economy that is least able to adjust in difficult economic times.

The bill's two major provisions and expansion of small business ability to expense money that is spent on capital improvements and the restoration of a tax provision that encourages business to send their employees to college represent good public policy that will help our Nation increase its stock of capital in both our equipment and our people.

These provisions are accounted for honestly without accounting gimmicks designed to mask their costs by pushing much of the revenue into years outside the budget window, and while it is difficult to find sources of revenue to replace this much money without some level of controversy, the revenue offsets in this bill are not illusory. They require the type of decisionmaking our constituents expect of us, prioritizing how to best spend our limited resources.

This is a good bill, and I urge my colleagues to support it.

Mr. ARCHER. Mr. Speaker, I yield 2½ minutes to the gentleman from Ohio [Mr. KASICH], the very active, very respective chairman of the Committee on the Budget.

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Mr. KASICH. Mr. Speaker, I want to first of all pay a very high tribute to

the gentleman from Texas [Mr. ARCHER]. Most of my lifetime as a young man and then entering the Congress, still as a young man, I was very frustrated as I heard a lot of rhetoric from many of my colleagues about the fact that we had passed out so many tax breaks to all these big corporations.

I come to find out that the minority party basically controlled the Committee on Ways and Means for 40 years, and they passed out all these loopholes to all these big corporations. So out of one side I heard people saying, I do not like the fact that big business is getting all these benefits, and it is an outrage, and at the other side of their mouth, or the other side of their body, they were passing out the tax breaks.

Mr. Speaker, I had said at the beginning of the last session of the Congress to Chairman ARCHER, we need to close loopholes. We have to take benefits away from corporations that had powerful lobbyists who were able to get these things enacted into law. The gentleman from Texas [Mr. ARCHER] said that there are things in this code that are outdated. There are things in this code that do not make sense anymore. Chairman ARCHER agreed to close loopholes. He agreed to take the loopholes that lobbyists had passed in this town and take them out of the Tax Code so hardworking Americans would have more in their pocket.

Mr. Speaker, this 936 business; we have given very powerful corporations very large tax giveaways to locate in Puerto Rico. What we find is that there are companies getting huge amounts of tax breaks and they are supposedly creating jobs of Puerto Ricans, and frankly, in some cases companies are getting several hundred thousand dollars' worth of tax write-offs and the employees are only being paid $30,000.

What we intend to do is to repeal this whole section which has given a huge tax loophole to very big, wealthy corporations. We are saying we are going to scrap it.

Mr. Speaker, we are going to phrase this out over a period of 10 years. If in the course of time we figure out that a wage credit makes some sense, we will come back and do it. But frankly, we started phasing this out in 1993. I compliment the minority for beginning that process, but we want to complete that process. We think this is a bad provision for hardworking American taxpayers and, frankly, they ought to be happy with the fact that we are closing the loopholes that I heard many people complain about, and we are using this in order to help Americans who work hard and pay their taxes and do not have lobbyists to give them tax breaks.

Mr. GIBBONS. Mr. Speaker, I yield myself such time as I may consume.

Mr. Speaker, I would say to the chairman of the Committee on the Budget, this debate is not about taxes. This debate is about taxation and representation, with an emphasis upon the representation. Puerto Rico has in it 3.8 million Americans and no vote in this Congress. That is what this debate is about. It is the fact that they were not consulted; no attention has been properly paid to their economic status. That is what this debate is about. You can go ahead and get lost in the budget over there all you want to, but I am lost in the equities of the fact that the Americans in Puerto Rico are just disenfranchised.

Mr. Speaker, I yield such time as he may consume to the gentleman from New York [Mr. RANGEL].

Mr. RANGEL. Mr. Speaker, when you have the votes, you have the votes. But this is very interesting. We are talking about a tax issue with the eminent chairman from the Committee on Ways and Means here. The only point we raised was that we never had any opportunity to determine whether 936 was effective. But it makes a lot of sense.

It is the distinguished chairman of the Committee on the Budget that comes to the floor. He needs some money. The Committee on the Budget needs some money. Does the Committee on the Budget hold hearings? Does the Committee on the Budget find out what programs work or what do not work? Does the chairman of the Committee on the Budget go to Puerto Rico to talk with the Governor? No. The Committee on the Budget chairman dictates to the Committee on Ways and Means, do not have hearings, just bring the money. That is exactly what we did.

Mr. ROMERO-BARCELÓ. Mr. Speaker, will the gentleman yield?

Mr. RANGEL. I yield to the gentleman from Puerto Rico.

Mr. ROMERO-BARCELÓ. Mr. Speaker, I thank the gentleman for yielding.

Mr. RANGEL. Mr. Speaker, I would ask the distinguished elected representative in yielding, did anyone ever go to Puerto Rico, to his Governor or to him, and ask him to study this bad bill and report back?

Mr. ROMERO-BARCELÓ. No. That is what I want to say. I have been a proponent of elimination of the tax reservation of income of section 936 but to substitute it for a tax credit based on wages, so we would really promote jobs in Puerto Rico. What has happened here is that the way this bill is structured, they eliminate everything. No corporation is going to get any new incentives, so there would be nothing for new business. Then corporations are allowed for 10 years to keep what they are earning and to not pay any taxes, or to pay limited taxes for 10 years.

That is the giveaway. That is unnecessary. We can take that tax and provide a wage credit, and it would be more useful.

The SPEAKER pro tempore. All time for the minority has expired.

Mr. ARCHER. Mr. Speaker, I yield 1 minute to the gentleman from Ohio [Mr. KASICH].

Mr. KASICH. Mr. Speaker, let me just say to the gentleman who is going to be the ranking member, does he know the heat that we took when we recommended, as both the Committee on the Budget and the Committee on Ways and Means, that we close loopholes on corporations that won over in Gucci Gluch? We took a lot of heat. No one ever dreamt that Republicans would lead the way to close the loopholes on large corporations.

The gentleman may not be totally thrilled with the whole process, I would say to him, but let me just suggest to him that this way was not easy. When the gentleman says hearings on 936, 936 as defined by everybody who has analyzed this Tax Code, they have said this is a loophole that is so unfair you could drive a truck through, and it needed to be closed. This has been a mantra from people on both the conservative and liberal side of economic expertise. They said 936 is bad.

What I am saying to the gentleman is this: Imagine that at the end of this century, the Republicans are beginning to clean up the Tax Code and we are taking on a lot of people that this gentleman tries to take on every week. This time, I say to the gentleman from New York [Mr. RANGEL], we are going to win.

Mr. ARCHER. Mr. Speaker, I yield 2½ minutes to the gentlewoman from Connecticut [Mrs. JOHNSON], a valued member of the Committee on Ways and Means and chairman of the Subcommittee on Oversight.

Mrs. JOHNSON of Connecticut. Mr. Speaker, first of all, I want to commend the chairman of the committee, the gentleman from Texas [Mr. ARCHER], for his leadership in this Congress on tax reform. It is unfortunate, in my mind, that the really excellent tax bill that we sent to the President I believe twice, and he vetoed, was talked about in the press only as a bill containing capital gains relief and a $500 credit for families with children, because in that bill were many, many provisions whose goal it was to stimulate growth and create jobs in our economy, providing educational opportunity for our people, work opportunity for women on welfare, and retirement security for many, many women who work at home and many, many people who work for small businesses.

So I am very proud to stand here today as a member of the Committee on Ways and Means and recognize my chairman's leadership, because over all the years that this body has legislated tax law it has not cared about small business. In fact, over the years we have built a tax code that rested on the interests of big business in America, thinking that big business was the job creator in our economy.

We now know differently, so we have here before us tonight a bill that drives growth in the small business sector; that for the first time will expand expensing for small businesses, allowing them the money to buy the equipment to create the jobs and hire the

people to drive our economy forward. This is an economic growth package, because it addresses the tax needs and alleviates the tax burden on the very sector that is creating the most jobs in America and that holds the potential for future strength.

It also renews that opportunity for employers to supplement the education of their people; and we know education, quality, expertise, that creates high value-added jobs, high-wage jobs, and an opportunity.

Mr. Speaker, in addition, this bill renews the work opportunities tax credit, formerly known as the targeted jobs tax credit, which again will help those people on welfare get jobs. We want women to have the independence and the self-respect of work, and this is one key piece of the policy pyramid that has to be developed to give women that independence and self-respect.

In addition, the pension reform section of this bill restores to small business the opportunity to provide their employees the same right to create retirement security as larger businesses have. I commend my chairman on an excellent bill.

Mr. ARCHER. Mr. Speaker, I yield 1 minute to the gentleman from Michigan [Mr. SMITH], who has done such good work on cost recovery for creation of jobs.

Mr. SMITH of Michigan. Mr. Speaker, I thank the chairman of the committee for yielding time to me.

Mr. Speaker, in 1993 we increased the marginal tax rate on small business from 31 to 39.6 percent. Small business creates jobs. The first bill that I introduced when I came to Congress in 1993 was neutral cost recovery. It allowed a business to deduct the cost of machinery and equipment and facilities in the year they bought it.

This is an excellent bill for small business. It does include an increase in expensing up to $25,000. It is what we have to do if we want to expand jobs in this country, and ultimately expand revenues coming into the Federal Government to pay off this mess that we have found ourselves in as far as overspending and overborrowing.

Mr. ARCHER. Mr. Speaker, I yield myself the balance of my time.

Mr. Speaker, this is a good bill. That has been said on both sides of the aisle. It is a good bill because it gives incentives for small businesses to do their job, to create more jobs for working Americans. As we all know, small businesses have been creating over 80 percent of the new jobs. This bill give them assistance in expensing of capital cost equipment, without having to go through laborious depreciation schedules. It will give them tax credits to hire those who are the least employable. It will give them the opportunity for pension reform, pension simplification, so they, as well as big corporations, will be able to provide retirement help for their workers and for themselves. It implements a number of things that were in the Contract With America and in the Balanced Budget Act of 1995. This time, Mr. Speaker, the President will sign this legislation. It is not only good for small business, it is good for working Americans. It is good for all of America.

Mr. PETRI. Mr. Speaker, while the minimum wage debate is important, what we are not debating is more important.

For the 20th time since the enactment of the Fair Labor Standards Act, we will debate the part of that act that affects less than 10 percent of the American work force. For the 20th time we will ignore the remainder of the statute—its overtime provisions—that affect 90 percent of the work force.

The original minimum wage was 25 cents. In failing to update the act's overtime provisions, we are left with provisions that have as much relevance to today's workforce needs as a 25-cent wage would to today's economy.

Employers and employees can't ignore these provisions. Rather, they must shoehorn their weekly operations into a construct that was designed for the workplace of the 1930's, not the 1990's, let alone the 21st century.

For example, when an employee works more than 40 hours in a week, the law requires her to be compensated for overtime with money. However, many workers would prefer to be paid with more time off rather than money. State, local, and Federal employees have such a choice. Yet, by law, private sector employees do not.

In addition, many employees resent being strapped to the traditional 40-hour week concept. They prefer more flexible arrangement such as ''9/80'' schedules that allow employees to compress 80 hours into 9 workdays over a 2-week period. That way, they can take every other Friday off.

Unfortunately, under current law employers who give them this option have to pay overtime. That creates morale problems for other employees with traditional schedules who work the same number of hours but don't get overtime.

The law should allow employees to choose these schedules voluntarily without incurring overtime penalties for their employer.

The most egregious effects of the law stem from the requirement that covered employees be paid an hourly wage rather than a salary. For most workers, this is not a problem.

But many employees—particularly professional and administrative employees—prefer not to have their lives tied to a time clock. They would prefer the certainty of a salary to an hourly paycheck that requires them to clock overtime hours in order to meet their income goals. The law requires payment on an hourly basis to anyone who does not fall within the white-collar worker exemption.

The concept of the exemption is fine, but the reality is that the employee has to have exactly the same duties as a 1950's white-collar worker, which is when the definitions were written.

Thus many employees who clearly view themselves as while-collar workers—such as engineers, accountants, marketing representatives, and insurance underwriters—are outraged when they have to start filling out time sheets and asking permission to work past 5 p.m.

What stands in the way of our addressing these problems and giving the FLSA a long-overdue tuneup. Nothing less than pure demagoguery.

Exaggerated claims that even the most modest improvements to the FLSA will mean the death of the 40-hour workweek have produced total paralysis on these issues.

So we are left with modest tinkering with the statute, such as the company vehicle provision, that address anomalies that have cropped up in certain industries, but in the grand scheme of things affect very few workers. The FLSA is already riddled with such provisions.

Mr. Chairman, after we resolve this current minimum wage issue, I hope we can focus on issues that affect the day-to-day worklives of most American workers.

Once the smoke has cleared on this issue and the rhetoric has toned down a few notches, I will introduce legislation to provide this focus.

Mr. Chairman, reason, not paranoia, should prevail. Let's listen to real workers and give them a wage-hour law they can live with.

Mr. SAXTON. Mr. Speaker, for a better understanding of why I believe a higher minimum wage is the wrong course to take, I am putting into the RECORD today the Joint Economic Committee's latest report entitled ''The Case Against a Higher Minimum Wage'' (May 1996).

Also, available from the Government Printing Office are the transcripts of two Joint Economic Committee hearings held last year on the minimum wage. When contacting the GPO, request the following two documents:

Senate Hearing 104–377 Part I: JEC Hearing on Evidence Against a Higher Minimum Wage: February 22, 1995, part I.

Senate Hearing 104–377 Part II: JEC Hearing on Evidence Against a Higher Minimum Wage: April 5, 1995, part II.

For any additional information on this or any other economic issue, please contact my JEC office located at 1537 Longworth HOB, Washington, DC 20515.

JOINT ECONOMIC COMMITTEE REPORT

THE CASE AGAINST A HIGHER MINIMUM WAGE

The voices clamoring for a minimum wage hike are getting ever louder. Proponents argue that the current wage level does not provide an adequate incentive for work. Also, they argue that an increase in the minimum wage will have only a very minor impact on jobs. These arguments are not grounded in fact. The impact of raising the minimum wage has been studied since its inception. All credible research has come to the same conclusion: raising the minimum wage hurts the poor. It takes away jobs, keeps people on welfare, and encourages high school students to drop out. Policy makers should be clear on the consequence of higher minimum wages.

JOBS AND THE MINIMUM WAGE

Economists have studied the job-destroying features of a higher minimum wage. Estimates of the job losses of raising the minimum wage from $4.25 to $5.15 have ranged from 625,000 to 100,000 lost jobs. It is important to recognize that the jobs lost are mainly entry-level jobs. By destroying entry-level jobs, a higher minimum wage harms the lifetime earnings prospects of low-skilled workers.

Proponents have been able to muddle the debate by pointing to a study done by two Princeton economists, David Card and Alan Krueger. These economists claimed to find that raising the minimum wage does not lower employment.[1] In one paper, they succeeded in casting doubt on 200 years of economic research and theory. Economists took

their challenge seriously and attempted to recreate their results. It could not be done. Economists who attempted to replicate their work demonstrated conclusively that raising the minimum wage destroys jobs.[2]

Even after the Card and Krueger study was fully discredited by economic science, it is still being used by proponents of higher minimum wages to support an increase. Why must they rely on discredited research to support their call for raising the minimum wage? Because they recognize that Americans do not support proposals that destroy jobs. Proponents often like to show survey results that say more than eighty percent of Americans support a higher minimum wage. Yet, the same survey shows less than half surveyed, 46 percent, support raising the minimum wage if it ''might reduce the number of jobs available for workers with limited skills.[3] '' Clearly, if Americans were informed of the true effects of raising the minimum wage, support would rapidly erode.

MINIMUM WAGE WORKERS

Supporters claim that raising the minimum wage is important for working families. Secretary of Labor Robert Reich often repeats the fact that forty percent of minimum wage workers are the sole source of income for their families. This is misleading because it relies on lumping single, non-family individuals with families. Only 2.8 percent of workers earning less than $5.15 are single parents.[4] Only 1.2 percent of all minimum wage workers were adult heads of households with incomes less than $10,000.[5] Fifty-seven percent of minimum wage workers are single individuals, many of them living with their parents.

Minimum wage workers are not parents struggling to feed their children. Rather, they are high school or college students living at home. The level of the minimum wage is irrelevant for most people in poverty. Only 9.2 percent of poor people of working age have full-time jobs.[6]

SIDE EFFECTS OF RAISING THE MINIMUM WAGE

It has been well documented that the minimum wage destroys jobs, particularly the jobs of low-skilled, young workers. However, there are other equally pernicious side effects of higher minimum wages. Higher minimum wages make it more difficult for people to leave welfare and induce high-school students to drop out.

Dr. Peter Brandon of the Institute for Research on Poverty studied how raising the minimum wage affects the transition from welfare to work.[7] He found that raising it keeps welfare mothers on welfare longer. Mothers on welfare in states that raised their minimum wage remained on welfare 44 percent longer than mothers on welfare in states where it was not raised.[8]

The reason for this result is that raising the minimum wage induces some people to enter the labor market who would not apply if not for the higher level. With a larger labor market, employers choose higher-skilled applicants. Thus, raising the minimum wage hurts low-skilled workers in two ways. First, there are fewer jobs available. Second, with a larger pool of applicants, competition is stiffer. Low-skilled workers have a more difficult time getting those job skills that are crucial to economic well-being.

Another side effect of raising the minimum wage is that it increased the number of high-school students who drop out.[9] Some of these students do not find employment. Another group of students are part of those applicants that compete jobs away from welfare recipients. Dropping out of school is very destructive. High school drop-outs have a very difficult time improving their well-being.

Footnotes at end of article.

THE ELUSIVE BENEFITS OF A HIGHER MINIMUM WAGE

The proponents of a higher minimum wage argue that it is vitally important to raise it in order to improve the lives of poor workers. However, the raise will have only a limited impact on poor working families.[10] A single parent with two children living in California would gain only 26 cents from a 90 cent increase in the minimum wage.

To put this gain in perspective, each minimum wage worker who earns $4.25 an hour brings home $3.92 for each hour worked once payroll taxes are deducted. The employer costs of a minimum wage worker is $4.58 an hour when the employers share of the payroll tax is included.[11] If workers could take home the amount of money it costs the employer to hire workers, they could have 62 cents more per hour. Clearly, the California parent would be better off if the tax wedge were reduced, rather than increasing the minimum wage.

CONCLUSION

The campaign to raise the minimum wage will have little positive impact on the lives of poor people. Rather, it is a political measure that plays to a misunderstanding of the impact of higher minimum wages. The future of the American economy depends on a correct understanding of the causes of prosperity. For too long, attempts to relieve poverty have been misguided. To lift people out of poverty, we need a system that maximizes opportunities for economic well-being of low-skilled workers. Raising the minimum wage is a wrong-headed solution that will deprive young, poor Americans of an opportunity to improve their economic situation.

ENDNOTES

[1] Card, David and Alan B. Krueger, ''Minimum Wages and Employment: A Case Study of the Fast-Food Industry in New Jersey and Pennsylvania.'' American Economic Review, September 1994: pp. 772–793.

[2] Neumark, David and William Wascher, The Effect of New Jersey's Minimum Wage Increase on Fast-Food Employment: A Re-evaluation using Payroll Records. National Bureau of Economic Research: Cambridge, MA. 1995.

[3] Washington Post, April 26, 1996, p. F1.

[4] EPI Edge. Employment Policies Institute. April 1996.

[5] Vedder, Richard and Lowell Gallaway, Should the Federal Minimum Wage Be Increased? National Center for Policy Analysis: Dallas, TX. 1995.

[6] Ibid.

[7] Brandon, Peter. Jobs Taken by Mothers Moving from Welfare to Work and the Effects of Minimum Wages on this Transition. Employment Policies Institute: Washington, DC. 1995.

[8] Ibid.

[9] Neumark, David and William Wascher, The Effects of Minimum Wages of Teenage Employment and Enrollment: Evidence from Matched CPS Surveys. National Bureau of Economic Research: Cambridge, MA, 1995.

[10] The reason for the minimum impact is that raising higher incomes causes a loss of benefits in Aid to Families with Dependent Children (AFDC), Food Stamps, and the Earned Income Tax Credit (EITC).

[11] This discussion only focuses on the payroll taxes. Many other taxes such as workers compensation and employment insurance also raise the costs of hiring workers for employers.

Mr. LANTOS. Mr. Speaker, the time has come for the Congress to raise the minimum wage—without gimmicks, without linking it with unacceptable provisions, without political posturing, and without delay. It is time to take this action without adding amendments and gimmicks and riders and poison pills that will limit and lessen the impact of an increase in the minimum wage.

Adjusted for inflation, the current minimum wage is worth 50 cents less today than it was in 1991 when it was last increased. To restore the same purchasing power that the minimum wage had in the late 1970's would require us to increase its level to $6.10 today. Even if we adopt the legislation I am supporting and increase the minimum wage to $5.15, we are not keeping up with the increased cost of living.

Although the proposed increase is very modest, it will benefit our national economy. Economists estimate that 12 million people will be helped by a 90-cent increase. In addition, some 4 million workers who earn less than $6.00 per hour will see their incomes increase as a result of a boost in the Federal minimum wage. In my home State of California our minimum wage is higher than the Federal level, but if we increase the Federal minimum wage, it will have a positive effect on the lowest wages in our area as well.

The people who will benefit from an increase are not just teenagers at local fast food restaurants trying to earn extra cash for a rock concert or a pair of baggy Levis. Of those earning the minimum wage, 63 percent are workers over the age of 20 and 46 percent are over the age of 25; 59 percent of workers earning the minimum wage are women and more than half of these women are over 25 years of age; 43 percent of minimum wage earners are working full time.

Mr. Speaker, as a former professor of economics, I have been particularly interested in recent economic research on the effects of the minimum wage on workers and their families and the economy. A number of studies demonstrate that the possible negative impact of moderate increases in the minimum wage phased in over a period of more than a year is minimal. Studies show that with the minimum wage relatively low compared with the average wage—a consequence of the fact that the minimum wage has not kept pace with the increase in the cost of living—the effect of this increase on both employment and incomes will be positive. In fact, several prominent scholars have argued quite convincingly that the income gains from an increase in the minimum wage would outweigh any job losses that might result from the increase.

More importantly, Mr. Speaker, this is a question of fundamental fairness. At a time when we are seeing a growing gap between wealthy Americans and working Americans, it is fundamentally unfair to maintain the minimum wage at levels which shrink with every increase in the cost of living. At the same time, Mr. Speaker, we have seen vast increases in the compensation of chief executive officers of America's corporations—last year corporate executives saw their salaries jump by 31 percent while workers earning the minimum wage stayed at exactly the same level.

Mr. Speaker, the time has come to increase the minimum wage. I urge my colleagues to join me in supporting this action in the interest of fundamental fairness and in the interest of millions of American workers.

Mr. ORTON. Mr. Speaker, I rise in support of H.R. 3448, the Small Business Job Protection Act.

This bill contains a number of provisions that I have long supported, and which encourage the creation and growth of small businesses. First, the bill increases the amount a small business can deduct for the purchase of business-related equipment from $17,500 to $25,000.

The bill also includes a number of provisions which make it easier for small businesses to receive S corporation classification,

the most notable being an increase in the maximum number of shareholders from 35 to 75. This important change makes it easier for many small businesses to maintain a simplified corporate structure, without being subject to double taxation.

This legislation includes important pension simplification provisions for small businesses, including a simplified retirement plan, called a savings incentive match plan.

For restaurants, this bill expands a 1993 law which gives restaurants a credit for the Federal payroll taxes paid on tips earned by their employees. Specifically, the bill would now expand the credit to include unreported tips, and would expand restaurant eligibility to include carryouts.

Finally, the bill extends a number of expiring provisions, including a revised targeted jobs tax credit and section 127, the exemption for employer-provided educational assistance. I am concerned that section 127 renewal is limited to undergraduate education. It is my hope that this can be expanded in conference to reinstate graduate education.

I am pleased to see that the revenue loss from these provisions is fully offset with other provisions which increase revenues. In other words, this bill will not increase the deficit. In fact, this is precisely the pay-as-you-go approach advocated since early last year by the blue dog coalition, of which I am a member.

Last year, the coalition questioned the approach of borrowing hundreds of billions of dollars to pay for tax cuts. Instead, we in the coalition argued that tax cuts should be considered apart from spending cuts, and should be fully paid for with offsetting changes in the Tax Code.

After a year of debate, the Republicans are now beginning to see the wisdom of this approach. Two weeks ago, during debate on the budget resolution, the Republican Budget Committee chairman announced that they would fully pay for economic growth, savings, and job creation tax incentives with offsetting revenue increases.

Last month, we expanded deductibility of health care costs for small businesses, paid for through offsetting revenue increases. Today, we are taking the same approach for a number of small business tax incentives.

So, I applaud the majority for adopting our suggestion. I also encourage the majority party in the next few months to act on capital gains relief, expanded IRA eligibility, and estate tax relief for family farms and businesses, with offsetting revenue increases to make such changes deficit neutral. The result will be a stronger, more efficient economy.

I urge adoption of this bill.

Mr. CRANE. Mr. Speaker, today I will vote for the Small Business Job Protection Act. The highlights of the bill in my view include the expansion of the expensing provisions for small business, the package of S corporation reforms and pension simplification items, and the employer-provided educational assistance provision. If signed into law, these provisions will do a great deal of good for small businesses in this country and will in turn provide real job opportunities for American workers.

However, I must express my deep concern with regard to that portion of this bill which would phase out section 936 of the Tax Code over a 10-year period. Section 936 of the Tax Code provides tax incentives to companies that locate production facilities in Puerto Rico. Frankly, I have been concerned that many of those who will vote for this entire package know little about the positive impact that section 936 has had on employment in Puerto Rico. Nor, I fear do they appreciate the negative impact that eliminating section 936 will have with regard to the economic vitality of Puerto Rico and what the decline in that regard will mean to our Federal budget in the long run.

Having served on the committee with jurisdiction over this issue for the past 20 years, the Ways and Means Committee, I can unequivocally report to my colleagues that section 936 has been one of the most successful provisions in our entire Tax Code. Section 936 has spurred economic development in Puerto Rico which has in turn created thousands of jobs, dramatically reduced the unemployment rate in Puerto Rico. By removing this incentive for companies to locate in Puerto Rico, an economic vacuum will be created which I do not see being filled any time soon. This void will bring on increased unemployment, and hope and opportunity, which has been on the rise over the last 20 years in Puerto Rico, will decline steadily. As the economy declines there will be an increased dependency—dependency on Uncle Sam to help those that no longer have jobs. Just what form this dependency will take, whether it be statehood or some other arrangement, remains to be seen, but mark my words, it will mean greater expenditures by the U.S. Treasury. So I would say to those that think they are savings taxpayers dollars when they vote to eliminate this so-called corporate welfare in the Tax Code, that you can either pay not by encouraging economic growth and opportunity, or you can pay later by increasing Federal outlays for welfare and creating a dependency which I don't think the American citizens—either on the mainland or in Puerto Rico will appreciate.

Mr. Chairman, it is my sincere hope that Congress will either revise the provision of the bill before it becomes law or revisit this issue at a later time.

Mr. ARCHER. Mr. Speaker, I yield back the balance of my time.

The SPEAKER pro tempore (Mr. WALKER). Pursuant to House Resolution 440, the previous question is ordered on the committee amendment in the nature of a substitute and on the bill.

The question is on the committee amendment in the nature of a substitute.

The committee amendment in the nature of a substitute was agreed to.

The SPEAKER pro tempore. The question is on the engrossment and third reading of the bill.

The bill was ordered to be engrossed and read a third time, and was read the third time.

The SPEAKER pro tempore. The question is on the passage of the bill.

Pursuant to House Resolution 440, the yeas and nays are ordered.

The vote was taken by electronic device, and there were—yeas 414, nays 10, not voting 9, as follows:

[Roll No. 190]

YEAS—414

Abercrombie
Ackerman
Allard
Andrews
Archer
Armey
Bachus
Baesler
Baker (CA)
Baker (LA)
Baldacci
Ballenger
Barcia
Barr
Barrett (NE)
Barrett (WI)
Bartlett
Barton
Bass
Bateman
Becerra
Beilenson
Bentsen
Bereuter
Berman
Bevill
Bilbray
Bilirakis
Bishop
Blute
Boehlert
Boehner
Bonilla
Bonior
Bono
Borski
Boucher
Brewster
Browder
Brown (CA)
Brown (FL)
Brown (OH)
Brownback
Bryant (TN)
Bryant (TX)
Bunn
Bunning
Burr
Burton
Buyer
Callahan
Calvert
Camp
Campbell
Canady
Cardin
Castle
Chabot
Chambliss
Chapman
Chenoweth
Christensen
Chrysler
Clay
Clayton
Clement
Clinger
Clyburn
Coble
Coburn
Coleman
Collins (GA)
Collins (IL)
Collins (MI)
Combest
Condit
Cooley
Costello
Cox
Coyne
Cramer
Crane
Crapo
Cremeans
Cubin
Cummings
Cunningham
Danner
Davis
de la Garza
Deal
DeFazio
DeLauro
DeLay
Deutsch
Dickey
Dicks
Dingell
Dixon
Doggett
Dooley
Doolittle
Dornan
Doyle
Dreier
Duncan
Dunn
Durbin
Edwards
Ehlers
Ehrlich
Emerson
Engel
English
Ensign
Eshoo
Evans
Everett
Ewing
Farr
Fattah
Fawell
Fazio
Fields (LA)
Fields (TX)
Filner
Flake
Flanagan
Foglietta
Foley
Forbes
Ford
Fowler
Fox
Frank (MA)
Franks (CT)
Franks (NJ)
Frelinghuysen
Frisa
Frost
Funderburk
Furse
Gallegly
Ganske
Gejdenson
Gekas
Gephardt
Geren
Gibbons
Gilchrest
Gillmor
Gilman
Gonzalez
Goodlatte
Goodling
Gordon
Goss
Graham
Green (TX)
Greene (UT)
Greenwood
Gunderson
Gutknecht
Hall (OH)
Hall (TX)
Hamilton
Hancock
Hansen
Harman
Hastert
Hastings (FL)
Hastings (WA)
Hayes
Hayworth
Hefley
Hefner
Heineman
Herger
Hilleary
Hilliard
Hinchey
Hobson
Hoekstra
Hoke
Holden
Horn
Hostettler
Houghton
Hoyer
Hunter
Hutchinson
Hyde
Inglis
Istook
Jackson (IL)
Jackson-Lee (TX)
Jacobs
Jefferson
Johnson (CT)
Johnson (SD)
Johnson, E. B.
Johnson, Sam
Johnston
Jones
Kanjorski
Kaptur
Kasich
Kelly
Kennedy (MA)
Kennedy (RI)
Kennelly
Kildee
Kim
King
Kingston
Kleczka
Klink
Klug
Knollenberg
Kolbe
LaFalce
LaHood
Lantos
Latham
LaTourette
Laughlin
Lazio
Leach
Levin
Lewis (CA)
Lewis (GA)
Lewis (KY)
Lightfoot
Lincoln
Linder
Lipinski
Livingston
LoBiondo
Lofgren
Longley
Lowey
Lucas
Luther
Maloney
Manton
Manzullo
Markey
Martinez
Martini
Mascara
Matsui
McCarthy
McCollum
McCrery
McDermott
McHale
McHugh
McInnis
McIntosh
McKeon
McKinney
McNulty
Meehan
Meek
Metcalf
Meyers
Mica
Millender-McDonald
Miller (CA)
Miller (FL)
Minge
Mink
Moakley
Mollohan
Montgomery
Moorhead
Moran
Morella
Murtha
Myers
Myrick
Nadler
Neal
Nethercutt
Neumann
Ney
Norwood
Nussle
Oberstar
Obey
Olver
Ortiz
Orton
Owens
Oxley
Packard
Pallone
Parker
Pastor
Paxon
Payne (NJ)

Payne (VA)	Scarborough	Thompson
Pelosi	Schaefer	Thornberry
Peterson (FL)	Schiff	Thornton
Peterson (MN)	Schroeder	Thurman
Petri	Schumer	Tiahrt
Pickett	Scott	Torkildsen
Pombo	Sensenbrenner	Torres
Pomeroy	Shadegg	Torricelli
Porter	Shaw	Traficant
Portman	Shays	Upton
Poshard	Shuster	Vento
Pryce	Sisisky	Visclosky
Quillen	Skaggs	Volkmer
Quinn	Skeen	Walker
Radanovich	Skelton	Walsh
Rahall	Slaughter	Wamp
Ramstad	Smith (MI)	Waters
Reed	Smith (NJ)	Watt (NC)
Regula	Smith (TX)	Watts (OK)
Richardson	Smith (WA)	Waxman
Riggs	Solomon	Weldon (FL)
Rivers	Souder	Weldon (PA)
Roberts	Spence	Weller
Roemer	Spratt	White
Rogers	Stearns	Whitfield
Rohrabacher	Stenholm	Wicker
Ros-Lehtinen	Stockman	Williams
Roth	Stokes	Wilson
Roukema	Studds	Wise
Roybal-Allard	Stump	Wolf
Royce	Stupak	Woolsey
Rush	Talent	Wynn
Sabo	Tanner	Yates
Salmon	Tate	Young (AK)
Sanders	Tauzin	Young (FL)
Sanford	Taylor (MS)	Zeliff
Sawyer	Tejeda	Zimmer
Saxton	Thomas	

NAYS—10

Conyers	Rangel	Towns
Dellums	Rose	Velazquez
Gutierrez	Serrano	
Menendez	Stark	

NOT VOTING—9

Bliley	McDade	Taylor (NC)
Diaz-Balart	Molinari	Vucanovich
Largent	Seastrand	Ward

□ 2016

Mr. TOWNS changed his vote from ''yea'' to ''nay.''

So the bill was passed.

The result of the vote was announced as above recorded.

A motion to reconsider was laid on the table.

LEGISLATIVE PROGRAM

(Mr. ARMEY asked and was given permission to address the House for 1 minute.)

Mr. ARMEY. Mr. Speaker, I take this time because I wish to give an explanation, and then ask a couple of unanimous consent requests.

Mr. Speaker, I am about to ask two unanimous consent requests. If they are agreed to, we would then proceed in consideration of H.R. 1227 for 30 minutes of general debate tonight. At that point we would rise from our work on the bill. We would move on then to resume general debate for the remaining hour on the bill and the remaining consideration of the bill beginning at 9 a.m. tomorrow morning, with the first vote tomorrow morning, with the exception of the possibility of a journal vote, we would expect would be around 10 or 10:30 a.m.

Mr. VOLKMER. Mr. Speaker, will the gentleman yield?

Mr. ARMEY. I yield to the gentleman from Missouri.

Mr. VOLKMER. Mr. Speaker, will there be 1 minutes in the morning?

Mr. ARMEY. Mr. Speaker, reclaiming my time, through consultation with the minority, we have agreed there will not be.

Mr. VOLKMER. One additional question: Will there be any other legislative business, other than the pending bill tomorrow?

Mr. ARMEY. I do not expect to conduct any other legislative business.

POSTPONING FURTHER CONSIDERATION OF H.R. 1227, EMPLOYEE COMMUTING FLEXIBILITY ACT, AFTER 30 MINUTES OF INITIAL DEBATE, UNTIL THE FOLLOWING LEGISLATIVE DAY

Mr. ARMEY. Mr. Speaker, I ask unanimous consent that during consideration of H.R. 1227, pursuant to House Resolution 440, notwithstanding the order of the previous question, it may be in order after 30 minutes of the 90 minutes provided for initial debate on the bill, as amended pursuant to the rule, for the Chair to postpone further consideration of the bill until the following legislative day, on which consideration may resume at a time designated by the Speaker.

The SPEAKER pro tempore (Mr. WALKER). Is there objection to the request of the gentleman from Texas?

There was no objection.

HOUR OF MEETING ON TOMORROW

Mr. ARMEY. Mr. Speaker, I ask unanimous consent that when the House adjourns today, it adjourns to meet at 9 a.m. tomorrow.

The SPEAKER pro tempore. Is there objection to the request of the gentleman from Texas?

There was no objection.

FURTHER LEGISLATIVE PROGRAM

Mr. ARMEY. Mr. Speaker, if I may just inform Members, this then is the situation: We have had our last vote for the evening. Those interested in general debate on H.R. 1227 may wish to remain, but the rest of us will be expecting a vote by 10 a.m. or so tomorrow morning.

REMOVAL OF NAME OF MEMBER AS COSPONSOR OF H.R. 3396

Mr. BARR of Georgia. Mr. Speaker, I ask unanimous consent that the gentleman from Florida, Mr. ALCEE HASTINGS be removed as a cosponsor of my bill, H.R. 3396, the Defense of Marriage Act. It should have read Mr. HASTINGS of Washington. I apologize to Mr. HASTINGS of Florida.

The SPEAKER pro tempore. Is there objection to the request of the gentleman from Georgia?

There was no objection.

REMOVAL OF NAME OF MEMBER AS COSPONSOR OF H.R. 3024

Ms. MCKINNEY. Mr. Speaker, I ask unanimous consent that my name be removed as a consponsor of H.R. 3024, the United States-Puerto Rico Political Status Act.

The SPEAKER pro tempore (Mr. WALKER). Is there objection to the request of the gentlewoman from Georgia?

There was no objection.

EMPLOYEE COMMUTING FLEXIBILITY ACT OF 1996

Mr. GOODLING. Mr. Speaker, pursuant to House Resolution 440, I call up the bill (H.R. 1227) to amend the Portal-to-Portal Act of 1947 relating to the payment of wages to employees who use employer owned vehicles, and ask for its immediate consideration in the House.

The Clerk read the title of the bill.

The SPEAKER pro tempore. Pursuant to the rule, the committee amendment in the nature of a substitute, modified by the amendment printed in section 3 of House Resolution 440, is adopted.

The text of the committee amendment in the nature of a substitute, as modified, is as follows:

H.R. 1227

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

SECTION 1. This Act may be cited as the ''Employee Commuting flexibility Act of 1990''.

SEC. 2. PROPER COMPENSATION FOR USE OF EMPLOYER VEHICLES.

Section 4(a) of the Portal-to-Portal Act of 1947 (29 U.S.C. 254(a)) is amended by adding at the end of the following: ''For purposes of this subsection, the use of an employer's vehicle for travel by an employee and activities performed by an employee which are incidental to the use of such vehicle for commuting shall not be considered part of the employee's principal activities if the use of such vehicle for travel is within the normal communing area for the employer's business or establishment and the use of the employer's vehicle is subject to an agreement on the part of the employer and the employee or representative of such employee.''.

SEC. 3. EFFECTIVE DATE.

The amendment made by section 1 shall take effect on the date of the enactment of this Act and shall apply in determining the application of section 4 of the Portal-to-Portal Act of 1947 to an employee in any civil action brought before such date of enactment but pending on such date.

The SPEAKER pro tempore. Under the rule the gentleman from Pennsylvania, [Mr. GOODLING] and the gentleman from Missouri [Mr. CLAY] will each control 45 minutes.

Pusuant to the order of the House of today, the Chair intends to recognize the gentleman from Pennsylvania, [Mr. GOODLING], and the gentleman from Missouri [Mr. CLAY] for 15 minutes each, before postponing further consideration of the bill.

The Chair recognizes the gentleman from Pennsylvania [Mr. GOODLING].

Mr. GOODLING. Mr. Speaker, I yield myself 1 minute.

Mr. MILLER of California. Mr. Speaker, will the gentleman yield?

Mr. GOODLING. I yield to the gentleman from California.

Mr. MILLER of California. Mr. Speaker, the markup tomorrow on