[15] The full text of the relevant paragraph of §7 provides:

''Every Bill which shall have passed the House of Representatives and the Senate, shall, before it becomes a law, be presented to the President of the United States: If he approves he shall sign it, but if not he shall return it, with his Objections to that House in which it shall have originated, who shall enter the Objections at large on their Journal, and proceed to reconsider it. If after such Reconsideration two thirds of that House shall agree to pass the Bill, it shall be sent, together with the Objections, to the other House, by which it shall likewise be reconsidered, and if approved by two thirds of that House, it shall become a Law. But in all such Cases the Votes of both Houses shall be determined by Yeas and Nays, and the Names of the Persons voting for and against the Bill shall be entered on the Journal of each House respectively. If any Bill shall not be returned by the President within ten Days (Sundays excepted) after it shall have been presented to him, the Same shall be a Law, in Like Manner as if he had signed it, unless the Congress by their Adjournment prevent its Return, in which Case it shall not be a Law.'' U.S. Const., Art. I, §7.

[16] The respondents' assertion of their right to vote on legislation is not simply generalized interest in the proper administration of government, cf. *Allen v. Wright, 468 U.S. 737, 754 (1984)*, and the legislators' personal interest in the ability to exercise their constitutionally ensured power to vote on laws is certainly distinct from the interest that an individual citizen challenging the Act might assert.

[17] The majority's reference to the absence of any similar suit in earlier disputes between Congress and the President, see ante, at 14–17, does not strike me as particularly relevant. First, the fact that others did not choose to bring suit does not necessarily mean the Constitution would have precluded them from doing so. Second, because Congress did not authorize declaratory judgment actions until the Federal Declaratory Judgment Act of 1934, 48 Stat. 955, the fact that President Johnson did not bring such an action in 1868 is not entirely surprising.

TAXPAYER RELIEF ACT OF 1997

The SPEAKER pro tempore (Mr. ROGAN). Pursuant to House Resolution 174 and rule XXIII, the Chair declares the House in the Committee of the Whole House on the State of the Union for the consideration of the bill, H.R. 2014.

□ 1155

IN THE COMMITTEE OF THE WHOLE

Accordingly the House resolved itself into the Committee of the Whole House on the State of the Union for the consideration of the bill (H.R. 2014) to provide for reconciliation pursuant to subsections (b)(2) and (d) of section 105 of the concurrent resolution on the budget for fiscal year 1998, with Mr. GOODLATTE in the chair.

The Clerk read the title of the bill.

The CHAIRMAN. Pursuant to the rule, the bill is considered as having been read the first time.

Under the rule, the gentleman from Texas [Mr. ARCHER] and the gentleman from New York [Mr. RANGEL] each will control 90 minutes.

The Chair recognizes the gentleman from Texas [Mr. ARCHER].

Mr. ARCHER. Mr. Chairman, I yield myself such time as I may consume.

Mr. Chairman, it has been 16 years since the American people have received tax relief, 16 years. While taxes have not gone down for such a long time, they surely have gone up over and over again. For too many years, the Government has failed to listen to those who sent us here. For too many years, taxes went up, spending went up, and the size and power of Washington Government went up.

But in the last 2½ years, since the American people elected a new Congress, I am proud to say that the era of big government is over and the era of big taxes is over. With the vote that we cast today, we will tell the American people that we have heard their message. It is time for Washington to tax less, so that the American people can do more.

This plan provides tax relief for life. It lets people keep more of the money that they make so that they can spend it or save it as they see fit. This plan will be a helping hand from the childhood years to the education years, from the saving years to the retirement years.

It offers a $500 per child tax credit, including teenagers. It provides educational tax relief so parents can send their children to college. It creates incentives for people to work hard and save by reducing the capital gains tax rate, and by expanding the individual retirement accounts. It even provides long overdue relief from the death tax.

This plan is dedicated to America's forgotten middle-income taxpayers. Fully 76 percent of the tax relief in this plan goes to people with incomes between $20,000 and $75,000 a year.

When it comes to taxes, my philosophy is simple. We must cut taxes because tax money does not belong to the government; it belongs to the middle-income workers of America who earned it, who made it and who are entitled to spend it in the way that they want to spend it. People in Washington, I think, sometimes forget that, but I never will.

Yesterday a young couple working in Manassas, VA, came to Washington. They are middle income. The husband and wife both have to work in order to make ends meet. They are the backbone of this country. With two children, I told them yesterday and I repeat it today, tax relief is dedicated to them. A working mom and dad, they get up every morning, go to work, play by the rules and try every day to make ends meet. Because they are middle income, they should not lose this credit as they do on the suggested Democrat substitute.

□ 1200

Even with a strong economy they know how tough it can be to get by, especially with teenage children. They both have to work so they can live the American dream.

Some Democrats in Washington consider them rich and want to take the $500-per-child credit away, but we will not let that happen. Like millions of other middle-income Americans they need and deserve tax relief, and that is what the vote today is all about.

Today's vote is about providing tax relief to the people who pay taxes. We are not only providing tax relief to the couple I mentioned, Debbie and Phil Spindle, we are cutting wasteful Washington spending so we can balance the budget for their children, James and Philip, and for the grandchildren one day they will have.

Remember, my colleagues, balancing the budget and providing tax relief are not matters of accounting; they are issues involving our values, our sense of right and wrong, how to be helpful and how to make the government work for a change. In the end what we are doing is downsizing the power and the scope of Washington, DC, and upsizing the power, responsibilities, and opportunities of the American people.

So in closing I dedicate this vote to Debbie and Phil Spindle of Manassas and to the millions of other middle-income Americans who have their taxes raised and want relief. What we do today we do for Debbie and Phil and working couples across this country who are trying to make ends meet, trying to rear their children, trying to provide an education. They are the backbone of America.

Mr. Chairman, I reserve the balance of my time.

Mr. RANGEL. Mr. Chairman, I yield myself such time as I may consume.

Mr. Chairman, there is a lot of talk about this being the first tax cut in 16 years. We do not hear much about what President is the one that is advocating the tax cut. We do not hear much about how the economy has improved from a deficit that was inherited toward a balanced budget, and our major problem today is that people have a different concept of the middle class.

President Clinton has reached out to my Republican friends and said, ''Can't we work together?''

Mr. Chairman, I think the President will speak for himself in saying what a terrible disappointment it has been where the White House, the policy makers, has been excluded from the Republican bill.

Bipartisanship means Democrats and Republicans working together with the President of the United States, and the President now says that this has moved so far away from the issue of fairness that he would not be able to sign the Republican bill.

Even in the State of Texas they have so skewed and increased the number of people that will be ineligible for the child credit that half of the kids in Texas and over half of the kids in the State of New York will be ineligible for the family tax credit.

It seems to me that fairness is something that should govern, but somehow if we can find people who are working every day, paying taxes to local and State government, that when it comes to saying give them a break, the people on the other side think that people who work in low incomes are asking for welfare.

Mr. Chairman, I think it is arrogant and all Americans ought to be indignant, when people do not even consider going on welfare and they work every day, they work with their families. We will hear cases like this, but we are saying, ''We have to pass over you because we want to make tax lighter on the very richest of Americans.''

It seemed to me, too, that when my colleagues get a chance to see the Democratic substitute, we really believe that we should have strong law enforcement but we should concentrate on our school system the same way the other side of the aisle concentrates on death penalties and jail sentences. What we are talking about is that the Democratic bill improves our public educational system, brings in the private sector working as partners. We do not just talk about diplomas, we talk about jobs, and we are talking about getting America to move forward in this next century with productivity, effectiveness and the education to do the job we have to do.

Mr. Chairman, I now would like to hold onto the time that we have for the other speakers that are here, and I do hope that people listen and see the difference between how we can deal with a tax bill in a bipartisan manner in which the President would want and how our Republican friends deserted and left him, locked him out of the room when these important decisions were made.

Mr. Chairman, I reserve the balance of my time.

Mr. ARCHER. Mr. Chairman, I yield 4 minutes to the gentleman from Ohio [Mr. KASICH] who has really brought us here, a gentleman who has spent so many untold hours working so we can achieve the goal of a balanced budget for our children and their children with tax relief.

Mr. KASICH. Mr. Chairman, I have to take a moment to pay very high tribute to the gentleman from Texas [Mr. ARCHER], and I would like the Members of the House to note something that is very significant that sometimes goes unnoticed in this debate. Americans all of my lifetime argued that lobbyists, the special interest groups, should not be able to carve out special benefits for themselves because they had powerful lobbyists or fancy lawyers, and in fact for many, many years, the years in which we were in the minority, the Tax Code had benefits carved out for special interest groups who because of the slickness and because of their ability to meet with the right people, to gain access to the right people, were able to carve out in the Tax Code loopholes that were not fair.

Now I listened to this from liberals all these years about the need to close loopholes, and it took the elevation of the gentleman from Texas [Mr. ARCHER] to become chairman of the Committee on Ways and Means so that over the course of the last 2 years we have closed loopholes, we have closed loopholes on those powerful special interest groups that were able to carve out benefits that should have flowed to all hard-working American taxpayers.

Contained in this tax bill are the closing of loopholes to the rich and the powerful, and when we closed those loopholes we were able to, instead of giving special benefits to a select group of people, we were able to have a more broad-based tax cut program that would do a number of things:

One, a child tax credit. Every family with kids who pay taxes under the income level $100,000 are going to get a $500 tax credit. Got two kids? Keeps $1,000 in their pockets. We do not want them to give it to the Government. We want them to be enhanced, we want them to be made more powerful. The child tax credit is all about putting power in the pockets of America's families and to reinforce that most precious American institution.

Second, capital gains tax cut. Look, folks, I am the son of a blue collar worker. The bottom line on a capital gains tax cut is this: ''If you take a risk, if you work hard, if you put what you have on the table to build something, you ought to get a reward for it. You ought not to be punished for it.'' And there are millions upon millions of middle income Americans who will realize benefits under the capital gains tax cut, but it is about what is right about America, the idea that if someone takes a risk, they ought to get a reward.

Estate taxes? We want to reduce estate taxes. Why? Mr. Chairman, for those men and women who build businesses, who have high blood pressure, who have bypasses, who have employed many, many people and help many families across this country . For those men and women that made the great sacrifice, at the end of the day they should not have to give 55 percent of everything they earn to the Government. They ought to be able to give more to their families. They ought to be able to give more to their communities.

The bottom line is today we are significantly beginning to shift not just power and not just influence but our constituents' money away from this city, back into their hands.

Now as we get these tax cuts, as we get more personal power, it is not good enough. It is not good enough to bury that money in the backyard and just buy a fancy boat. Part of the responsibility as we get more of our money back is not just to take care of our family, but to help in our own communities, to help heal the communities across this country.

The gentleman from Texas [Mr. ARCHER] has done a terrific job. He has fought the powerful special interests, he has closed loopholes, he has provided tax relief to the American people. He has helped people who take risks, he has helped people who have built businesses, and he has given them a reason to let every boy and girl in this country know that in America if someone works hard, if they sacrifice, they can get ahead, and if we can couple that with some good old fashioned American values, America will shine on.

Mr. RANGEL. Mr. Chairman, I yield 15 minutes to the gentleman from Washington [Mr. MCDERMOTT].

Mr. MCDERMOTT. Mr. Chairman, I would like to begin by saying that the last speaker talked about the child credit. I think everyone should know that 50 percent of the children in Ohio, the State he represents, will not get the child credit. That is more than 1.4 million children in that State will not get this so-called fair tax credit.

Mr. Chairman, I want to talk about the fact that Democrats always want to reduce taxes but they want to do it fairly, and that is, really, I think, we ought to have a little discussion out here about this question because fairness is a central issue in taxation in this country, in a democracy.

We started on taxation without representation. That was what the whole thing was about. That is how we came into existence. But in this debate we have to have honesty.

I listen to the special orders that go on in this place, and a couple of nights ago one of the Members got up and said it is important for the American people to understand when they hear things like, ''If you're earning $20,000, you're not going to get a tax cut,'' there is a very good reason that a family of four earning $20,000 is not going to get a tax cut. Listen to this: They do not pay Federal taxes.

Now since I was 16 years old I have been working. I started at the National Tea Store in Illinois, and every week we got a check and always got a tax stub with it, and I have always looked at my tax stub. And everybody watching and thinking about this should take out their tax stub and look at it. On my tax stub it says I pay Federal tax. That is withholding tax on the income.

Then there is something called FICA.

In my FICA tax, 7 percent of what I pay is Federal taxes. It goes to pay for Medicare and Social Security. Anybody who is paying FICA is paying taxes. They are paying Federal taxes. The other side here wants to say, ''If you don't have to pay income tax on a 1040, you're not paying taxes.'' But if someone is a $20,000 worker in this country and they are paying 7 percent of their $20,000 on FICA taxes, they are paying Federal taxes, and they ought to be able to get the tax breaks in this bill.

There are a number of issues that I think we ought to talk about, and, Mr. Chairman, the gentleman from Louisiana [Mr. JEFFERSON] knows about capital gains. Let us talk about the fairness of capital gains in this bill that the Republicans have put out here.

Mr. JEFFERSON. Mr. Chairman, will the gentleman yield?

Mr. MCDERMOTT. I yield to the gentleman from Louisiana.

Mr. JEFFERSON. Mr. Chairman, I appreciate the gentleman yielding to me.

The question is whether ordinary working families, ordinary working people, will benefit from this capital gains tax relief. The answer is very few of them will, because to get tax relief they have to own capital assets, and very, very few working families own capital assets in this country.

For instance last year if someone made between zero and $25,000, they paid 2.2 percent of all the capital gains taxes paid in the country. If they earned between $50,000 and $100,000, they paid 8 percent of all the capital gains taxes.

Mr. MCDERMOTT. The gentleman means up to 50 percent.

Mr. JEFFERSON. Up to $50,000, 10 percent of the capital gains taxes were paid, and between $50,000 and $100,000, another 16 percent of those persons paid capital gains tax. So between zero and $100,000, 26 percent of the capital gains taxes were paid, which means that above $100,000, 74 percent of all the capital gains taxes were paid in the country. Which means, to put it another way, if we give a break in capital gains, we are going to give a break that is going to affect, 76 percent of the capital gains tax is going to affect 4 to 5 percent of the taxpayers in this country.

□ 1215

Put another way, if one makes over $200,000, one paid 60 percent of the capital gains taxes last year. That is 1 percent of all of the taxpayers in this country; 110,000 taxpayers out of 110 million taxpayers in America.

So a great part of this bill, $8 billion a year, is going to end up in benefits for the top 1 percent of the earners in our country, people who make over $200,000 and who, on the average, make $650,000 a year. So if people are watching this television program now and are expecting a capital gains tax cut and are making $30,000 or less, even if one makes $50,000, as we just talked about, they can turn the TV off and go and do something more meaningful, because there is nothing in this bill that is really going to help those people.

But if one makes over $200,000, they want to stay tuned, because there is a whole lot here that is going to get them out of a big bunch of trouble. Those people are going to save collectively, as a group, $7 billion to $8 billion a year out of this bill just on the capital gains issue.

On the estate tax, it does not get any better. Out of the 2.5 million people who died last year, only 39,000 paid estate taxes. That is less than 2 percent.

Mr. MCDERMOTT. Mr. Chairman, reclaiming my time, is the gentleman saying that we are writing this provision on estate taxes for 1.8 percent of the people?

Mr. JEFFERSON. Mr. Chairman, if the gentleman will yield, those are the only people who are affected by this whole discussion about estate taxes.

Mr. MCDERMOTT. Mr. Chairman, I would ask the gentleman, is that fair?

Mr. JEFFERSON. Mr. Chairman, it is not fair, because it leaves out, as the gentleman can see, 98 percent of the taxpayers in one case, and in another case leaves out almost 99 percent for any meaningful tax relief.

This is a bill for people who make a lot of money and who have a great deal in their estates, and that is about it. It is not a bill that is going to help middle-income people or working families.

Mr. MCDERMOTT. Mr. Chairman, once again reclaiming my time, what is the level that the gentleman would say that people should stay and watch this program and it is going to do some good for them? What kind of income level would it really mean?

Mr. JEFFERSON. Mr. Chairman, if one makes more $200,000 a year, stay tuned on capital gains taxes. If one makes more than $100,000, they might want to watch part of the program. But $200,000 should really stay tuned.

Mr. MCDERMOTT. Mr. Chairman, how much money would the gentleman say one would have to have to stay tuned for the estate taxes?

Mr. JEFFERSON. Mr. Chairman, for the estate taxes, if one's estate net is over $600,000 last year, of course one paid estate taxes. This is going to raise it about to $700,000 or so on their side; $750,000 I think it goes this year.

So I suppose that if one has net estates of over that amount of money, less than 1 percent of the people in the country, then those people want to stay tuned also. But for everybody else, if people are watching this thing on TV to see what is in it for them on estate taxes and capital gains taxes, they might want to turn the TV off and engage in something else more meaningful.

Mr. MCDERMOTT. Mr. Chairman, reclaiming my time, I think that goes to the whole question of fairness and it really says this whole thing is skewed to the people at the top.

Mr. Chairman, we were talking before about the issue of, let us take a family making $23,000, living in Georgia, a police officer. What is he going to get out of this tax bill?

Mrs. THURMAN. Mr. Chairman, will the gentleman yield?

Mr. MCDERMOTT. I yield to the gentlewoman from Florida.

Mrs. THURMAN. Mr. Chairman, he gets nothing out of this tax bill.

Mr. MCDERMOTT. Nothing? Wait a minute. The gentlewoman is telling me a police officer who makes $23,000 is going to get nothing out of this tax bill?

Mrs. THURMAN. Mr. Chairman, he certainly will not get the part that has been debated over the last couple of years, and it has been the last couple of years where we have begun to talk about this $500 child credit or family credit so that we could make sure that every child was given the same advantages.

Under this, it is my understanding, unless somebody can correct me, that somebody even under $30,000 would not be eligible or would not have the advantage of that $500 tax credit. So if one has two children, it is not there.

In fact, for those who read the article this morning, it actually goes through a situation about a police officer who might be being paid about $23,078 a year starting off, has two kids, he does get an earned income tax credit, and he gets the earned income tax credit not because he is staying home, but because he is out there working every day.

Mr. MCDERMOTT. Mr. Chairman, I would reclaim my time and inquire of the gentlewoman, we are talking always about working people here?

Mrs. THURMAN. Mr. Chairman, absolutely. Working, every day getting up, or they are not eligible for any of this.

That is something that goes back to the Reagan years when it started and everybody believed that for hard-working people this was important that this happened. So now they are going to get up and they are going to believe that next April, they have two children and they think, guess what? I am actually going to receive possibly $1,000 because I have two children. They are going to be sorely displeased with what happens in their tax next year.

Mr. Chairman, the other thing that is interesting to me, it is the only place in this bill at all that one is penalized for taking advantage of what is available to people in the Tax Code today. Let me just say this. If one gets the example of having an IRA, which is also in this piece of legislation, which most of us support is a good idea to invest and to do those kinds of things.

Mr. MCDERMOTT. Mr. Chairman, does the gentlewoman think the average policeman making $23,000 has the money to put into an IRA?

Mrs. THURMAN. Oh, no, no. Or probably they are trying to buy their first house, so they do not have anything to sell. I would love the gentleman from Louisiana [Mr. JEFFERSON] to talk about just what a capital gains is, because I think sometimes we get lost in words up here. What is a capital gains? Where does that capital gains come from? Generally, for these folks, it could have been the sale of a house.

Well, if one is just starting off and trying to buy a house, one is not going to have a capital gains in this. So here we go. We have an IRA issue in here that is being proposed, we have a capital gains issue in here, and then on top of that, we have an education savings account that we can do up to $10,000 a year.

Now, I do not know very many people at that $23,000 level that will have the advantage of any of those, but those folks that can take advantage of that part of the tax structure get no penalty at all. I mean they continue to get everything, plus the $500 child credit.

The only people that are getting penalized would be those below $30,000 that really would have no access to some of these other areas of the tax bill.

Mr. BECERRA. Mr. Chairman, will the gentleman yield?

Mr. MCDERMOTT. I yield to the gentleman from California.

Mr. BECERRA. Mr. Chairman, listening to all of this, for those of us in a place like Los Angeles, a State as big

as California is, to know that more than half of the children in California will not get a child tax credit through this bill.

Mr. MCDERMOTT. Mr. Chairman, reclaiming my time, the gentleman is talking now about families who are working, with children, working families?

Mr. BECERRA. Mr. Chairman, working families.

Mr. MCDERMOTT. Mr. Chairman, half the kids in California do not get the tax break.

Mr. BECERRA. Mr. Chairman, if the gentleman will continue to yield, more than half of the kids, from what we have been able to determine, in this tax bill, they will not have an opportunity to take advantage of this child tax credit, even though they work full time.

Mr. MCDERMOTT. And pay FICA taxes. They are paying Federal taxes.

Mr. BECERRA. Mr. Chairman, what is more interesting, I have a district in Los Angeles where it is mostly working class. The median income is somewhere around $25,000.

Mr. MCDERMOTT. Mr. Chairman, I would say to the gentleman, just like the policeman in Georgia.

Mr. BECERRA. Yes, Mr. Chairman, just like the policeman there.

Mr. Chairman, if the gentleman will yield further, to know that 70,000 or so families, working families in my district are probably at risk of not being able to participate in something that is being touted as something for all families with children is unconscionable, but that is where we are heading.

If we could put a name to some of those faces. This individual does not live in my district, she happens to live in Missouri. Her name is Robin Acree. She earns about $21,000. She is divorced, she has three kids, age 14, 17, and 19. Now, it is interesting, under the 1995 bill that this Republican House passed, Robin would have qualified for a $500 tax credit, child tax credit. Under this year's bill, she does not get a cent. Even though she pays somewhere over $2,100 in taxes, income taxes, payroll taxes, she will get zero out of this.

Now, Robin lives in Missouri, she is not in my district in California, but she works just as hard, I imagine, as any of the folks and the families in my district that are also to be left out. I do not understand why under one bill this House was willing to give her a $500 tax credit, but now this year she gets zero, even though she pays more than $2,200 in taxes.

Mr. MCDERMOTT. Mr. Chairman, reclaiming my time, maybe they needed the money that would have gone to this lady to give the tax breaks to the people who need the estate tax break up at the top.

Mr. BECERRA. Mr. Chairman, certainly we are going to do away with $135 billion worth of money.

Mr. MCDERMOTT. And she does not get a nickel.

Mr. BECERRA. Not a nickel of it, Mr. Chairman.

Mr. MCDERMOTT. And she is working.

Mr. BECERRA. Working full time.

Mr. MCDERMOTT. Paying taxes.

Mr. BECERRA. Paying taxes. Has one child in college.

Mr. MCDERMOTT. Mr. Chairman, how could that be fair?

Mr. BECERRA. Mr. Chairman, if the gentleman will continue to yield, I know it is not fair to Robin. I am fortunate, I got myself a good education, I am making a decent salary. She is working just as hard as any one of us, and there is no reason why she should not be able to take advantage of that.

Mr. MCDERMOTT. Mr. Chairman, reclaiming my time again, if I could inquire of the gentleman from Louisiana [Mr. JEFFERSON], we were talking before about the whole issue of what a really smart person would do with this tax bill if they wanted to make a lot of money. Tell us about how one could play the game with this bill.

Mr. JEFFERSON. Mr. Chairman, this is what we might call a back-to-the-future kind of an idea here in this tax bill that takes us back to the idea of tax loopholes and tax shelters.

Now, there are any number of ways this game could be played out, but any time one has a marginal tax rate on individual income that is 39 percent and a capital gains rate that is 20 percent, which is roughly 20 points in the differential, one is going to have a great incentive for people to find and cover ways to avoid paying taxes on salaries and to find a way to pay taxes on capital gains. So it is a natural incentive and it is made far greater under this bill.

There are any number of ways that people can take advantage of this. Let us just talk about a couple. If one has a high income, then one has a higher capability, ordinarily speaking, of borrowing money. And one probably has a home that is worth a lot more than somebody that does not have a high income. So right now to make a home loan, the interest on the home loan is deductible. If one wants to get involved in a big capital acquisition like a stock purchase, one could take a home loan with deductible interest and buy a big stock purchase with it and take advantage of this huge capital gains break we are going to give the folks who are dealing in stocks.

Mr. MCDERMOTT. Mr. Chairman, does the gentleman think that a policeman in Georgia could take a loan on his house and buy a big stock purchase?

Mr. JEFFERSON. Mr. Chairman, a policeman in Georgia probably has a smaller house, probably would take a loan to send his kids to college, is not going to be for some big differential like that, plus there is not going to be enough money to play that much in the stock market with. So it will not be available for that person. At the very top of that level, if a person has a big salary from a big company, he can take his salary in stocks rather than take it in ordinary income, and therefore avoid paying the tax on the stock.

Mr. MCDERMOTT. Mr. Chairman, it is not fair.

ANNOUNCEMENT BY THE CHAIRMAN

The CHAIRMAN. The Chair will remind all Members engaging in dialog to yield and reclaim time each time that they yield or reclaim time.

Mr. ARCHER. Mr. Chairman, I yield myself such time as I may consume briefly to say that the bottom line of all of the colloquy that we just heard is that the Democrats want to take money away from families who are middle income with children, who pay taxes, pay income taxes, and they want to give it to people who do not pay any income taxes.

This bill should be a middle-income taxpayer relief bill that was promised by the President in 1992 and not be siphoning money away from them and giving it to people who pay no income tax.

Mr. Chairman, I yield 2 minutes to the gentleman from Pennsylvania [Mr. ENGLISH], a respected member of the Committee on Ways and Means.

Mr. ENGLISH of Pennsylvania. Mr. Chairman, I rise in very strong support of the Taxpayer Relief Act, legislation that will provide tax relief to people who pay taxes. Under this plan, 76 percent of the tax relief goes to people who make less than $75,000 a year, and over $100 billion of the tax relief out of $135 billion in our bill goes to the child tax credit and education tax relief.

Our tax cut plan makes the Tax Code a little fairer, not only by helping families, but also by encouraging economic growth and by creating and protecting good paying American jobs.

One of the ways we do this is by reforming the AMT. Now, the AMT is what is called the alternative minimum tax, but it should be called the anti-manufacturing tax. The AMT is one of the biggest tax barriers to the competitiveness of the American manufacturing sector. It penalizes companies that try to invest in jobs and improve their productivity. It directly penalizes companies that create the most desirable jobs in America by taxing companies when they buy equipment rather than taxing them on their profits. The AMT tax penalty directly encourages companies to create new jobs offshore. It is a job killer, stunting new job creation and imperiling existing good paying jobs right here in America.

The AMT even hurts the environment. It imposes what amounts to a 22 percent tax penalty on companies that invest in pollution control equipment. Because it does all of these things to companies in a down cycle, the AMT is really the ''kick-them-when-they-are-down'' tax, hitting basic industries and union workers when they are more vulnerable.

If we reform the AMT as proposed in this bill, studies have shown that it will increase the GDP growth by 1.6

percent and increase business investment by 7.9 percent. That will allow us to build a high-wage economy for the next century and restore the American dream for millions of working families.

If my colleagues care about these things, I urge you to vote for this bill.

□ 1230

Mr. ARCHER. Mr. Chairman, will the gentleman yield?

Mr. ENGLISH of Pennsylvania. I yield to the gentleman from Texas.

Mr. ARCHER. Mr. Chairman, I ask the gentleman, Is it not also true that as this negative impact on buying equipment occurs, does it not work against antipollution equipment also, and therefore make it more difficult to clean up the air and the water?

Mr. ENGLISH of Pennsylvania. That is exactly my point, Mr. Chairman. And this should be a good green vote, to vote for this tax act.

Mr. RANGEL. I yield myself 5 seconds, Mr. Chairman.

I would just like to point out that we can get all the statistics we want, but if we ask the Governors of the States, under the Republican bill almost half of the children will not get the credit that the President wants, and that is more than 1.6 million children.

Mr. Chairman, I reserve the balance of my time.

Mr. ARCHER. Mr. Chairman, I yield 2 minutes to the gentleman from Kentucky [Mr. BUNNING], a respected member of the Committee on Ways and Means.

(Mr. BUNNING asked and was given permission to revise and extend his remarks.)

Mr. BUNNING. Mr. Chairman, I rise in strong support of the Taxpayers Relief Act.

It has been 16 years since Americans got real tax relief. Now it is time we start letting them keep more of their own money instead of being forced to send it to Washington, D.C.

By giving families a child tax credit, by cutting the death tax that ruins small business and family-owned farms, by cutting capital gains taxes for families who sell their homes, by making education more affordable, we are saying that Washington needs to tax less so Americans can spend more.

Two specific parts of this package that I have been pushing really help illustrate this point. The first is the tax cut for withdrawals from State-run prepaid education plans. This bill lets families who save for their kids' college education to withdraw up to $40,000 tax-free with these plans. This means that in Kentucky, where the families of over 2,600 students are already saving in our plan, it is about to become a whole lot easier to educate their children with this plan.

Another exciting part of this tax package is the reform of the home office deduction. Fourteen million men and women, mostly women, are now making a living working at home. But because of the snafu in the tax law, they cannot deduct the expenses like other businesses.

At a time when companies are downsizing and workers are striking out on their own, this does not make any sense. We should not be penalizing these entrepreneurs. We ought to be encouraging them. This bill reforms the tax rules to do just that.

Last, both of these examples highlight the pivotal ideas behind this bill. We are getting Government off the backs of the people so they can do more on their own.

Mr. Chairman, it has been 16 years since the average American got some tax relief. It is time to do more. I support this bill and urge Members to do the same.

Mr. ARCHER. Mr. Chairman, I yield 2 minutes to the gentleman from Michigan [Mr. CAMP], another respected member of the Committee on Ways and Means.

Mr. CAMP. Mr. Chairman, I thank the chairman of the committee for yielding time to me.

Mr. Chairman, I rise in strong support of the tax relief bill before us today. This bill, the first tax relief in 16 years, represents a significant first step in our efforts to allow middle-income taxpayers to keep more of what they earn.

Today the average American pays more in taxes than they do for food, clothing, and housing combined. This tax relief bill will help stem this tide. This bill provides a $500-per-child tax credit, which will help 41 million children. Some people want to stop the tax credit once a child reaches 13. Our bill realizes that the cost of raising a child does not get any cheaper; in fact, costs rise.

This bill also eases the death tax, so our Nation's farmers and small business owners can pass their legacy on to their children. More than 60 percent of the family-owned businesses fold before reaching the second generation, not because of poor management, but because the Government taxes them at up to 50 percent.

We also make it easier for children to realize the goal of a college education by including and improving the President's HOPE scholarship proposal. We are hearing a lot about distribution charts that show who benefits from tax relief, and by how much.

In order to cook the numbers, the administration calculates how much you could earn if you rented your house and then adds this amount to your income. This is how they make you seem richer than you really are. In addition, they include your pension fund, your health benefits, and your life insurance to your income. The result is that the number of families with incomes between $50,000 and $75,000 rises by 25 percent under that plan.

The nonpartisan Joint Committee on Taxation estimates that 76 percent of the tax relief in this bill goes to Americans earning under $75,000 a year. Lost in this debate is a fundamental idea that Washington has ignored for 16 years. It is the idea that it is your money. The Government is not entitled to it, you are. You earned it. You know how best to spend it, and you deserve to keep it.

Mr. ARCHER. Mr. Chairman, I yield 2 minutes and 15 seconds to the gentleman from California [Mr. HERGER], another respected member of the Committee on Ways and Means.

Mr. HERGER. Mr. Chairman, this legislation provides tax relief to Americans who pay taxes. Under this plan, 76 percent of the tax relief goes to Americans who make less than $75,000. American families are struggling under the burden of increasing taxes and deserve relief.

The average American now pays almost 40 percent of their income to local, State, and Federal taxes, more than they spend on food, clothing, and shelter combined. Our tax plan provides needed relief by allowing families to keep more of their money through a $500 per child tax credit.

In my northern California congressional district alone, 89,000 children will benefit from the child tax credit, and more than 41 million children will benefit from it nationwide. A family with one child will get $500 taken off the top of their tax bill. A family with two children will get $1,000 taken off of their tax bill, and so on.

Mr. Chairman, voting against this tax plan is to look into the faces of 41 million children and say, sorry, we are not going to help you. Voting against this tax cut is saying no to giving Americans more freedom to spend their own money, and voting against this tax cut is saying no to helping struggling families that are just trying to get by.

Mr. Chairman, families have not had significant tax relief since 1981, 16 long years. Is it not about time we give them a break? They deserve it. I urge my colleagues to support this measure.

Mr. ARCHER. Mr. Chairman, will the gentleman yield?

Mr. HERGER. I yield to the gentleman from Texas.

Mr. ARCHER. Mr. Chairman, I ask the gentleman if he can point out for the Members here from these charts precisely where this tax relief goes. The first chart shows that 90 percent of the tax relief over 10 years goes to families and to education, with $23 billion as a small item that goes to the other areas of relief.

The second chart shows 76 percent of the tax relief goes to people with annual earnings under $75,000.

Mr. HERGER. I thank the chairman.

Mr. ARCHER. Mr. Chairman, I yield 3 minutes and 50 seconds to the respected gentlewoman from Connecticut [Mrs. JOHNSON], a member of the Committee on Ways and Means and the chairman of the Subcommittee on Oversight.

Ms. JOHNSON of Connecticut. Mr. Chairman, I thank the chairman for yielding time to me.

Mr. Chairman, I am proud to rise in strong support of the first tax-cutting

bill in 16 years. Today we adopt tax relief for working, tax-paying families, and powerful incentives for economic growth and job creation.

How does the bill help women, children, and fathers? It delivers benefits sooner and provides more generous benefits than the Democrats' alternative. True, it does not help nontax-paying working families. That is because they were our first priority. That is because a few years ago we adopted legislation that wipes out the burden of payroll taxes for working families who do not earn enough to pay any income taxes.

Now we move to relieve the tax burden of families earning enough to pay income taxes. We do not wipe out their payroll tax benefit, as we have done for families receiving the EITC. We merely offer them a modest $500-per-child reduction in their income tax liability in recognition of the fact that they are hard-working, tax-paying families in America.

Second, this tax bill increases the maximum deduction for child care costs. While for families over $60,000 we gradually reduce half of this benefit, that is far less than the Democrats' draconian repeal of the $500-per-child tax credit for families over $60,000. Again, the Republican bill provides a more generous bill sooner than does the alternative.

Third, this bill helps families save for college, helps kids through HOPE scholarships, helps women who want to set up a business in their home through the home office deduction, and helps senior women, who are the biggest winners, through capital gains benefits.

Further, Mr. Chairman, there are many important provisions in this bill that will help our economy grow more rapidly and create high-paying jobs.

Mr. Chairman, the R&D tax credit helps businesses develop new products, the kind of products they need to compete in a global economy. Capital gains cuts will shift capital to job-creating growth industries and particularly help our seniors, who hold 80 percent of America's assets. It also makes the orphan drug tax credit permanent, which will truly explode the research projects focused on rare diseases.

It helps teachers exercise their current rights to increase their pension benefits by buying back service years at a time in their lives when they can afford it. Finally, it helps States collect their taxes so that can be controlled at the State level as well as the Federal level.

Mr. Speaker, this is a great tax bill, a great step forward. I am proud to support it. I call Members' attention to the charts.

Mr. ARCHER. Mr. Chairman, will the gentlewoman yield?

Mrs. JOHNSON of Connecticut. I yield to the gentleman from Texas.

Mr. ARCHER. Mr. Chairman, I ask that the gentlewoman point out on the chart the part that supports the comments she has made, that the Republican plan gives more money to families with dependent care expenses, which is over in the right-hand chart, and that the Republican plan gives more money to families with children compared to the Democrat plan or to the Clinton plan.

Mrs. JOHNSON of Connecticut. Mr. Chairman, we are far more generous to families. We give them the benefits sooner, give them to more families, and we retain it longer.

I am proud to rise in strong support of the first tax cutting bill in 16 years. Today we adopt tax relief for working, tax-paying families, and powerful incentives for economic growth and job creation.

How does this bill help women, children, and fathers? It delivers benefits sooner and provides more generous benefits than the Democrats' alternative. True, it doesn't help nontax-paying working families. That's because they were our first priority. We adopted legislation to wipe out the burden of payroll taxes for those working families. Now we just relieve—modestly—just the income tax burden of those above the tax subsidy level who work and pay taxes. Unfortunately, the Democrats pay for additional benefits for working people who pay no income or payroll taxes by limiting to $300 the credit for tax-paying, working families until 2001.

Second, this tax bill increases the maximum deduction for child care costs. And while families over $60,000 will gradually lose half of this benefit that is far less than the Democrats' draconian repeal of the $500 child credit for all families over $60,000. Again the Republican bill provides more generous benefits sooner.

Third, this bill helps families save for college, helps kids through HOPE scholarships, helps women who want to set up a business in their home through the home office deduction, and helps senior women who are the biggest winners through capital gains reductions.

Further, Mr. Chairman, there are many important provisions in this bill that will help our economy grow more rapidly and create high-paying jobs. The research and development tax credit is an important incentive that encourages U.S. corporations to develop the products they need to compete globally. If the United States fails to provide some assistance to American companies, many—such as the aerospace, electronics, chemical, health technology, and telecommunications industries—will find it difficult to compete in an increasingly globalized marketplace. With Federal dollars in basic and applied research shrinking—and R&D a strong priority of our major foreign trade competitors—the extension of the R&D credit is critical. In fact, studies show that United States firms spend only about one-third as much as their German counterparts, and only two-thirds as much as Japan on research and product and development.

Capital gains reductions will shift capital to job creation, growth industries, and particularly help our seniors who hold 80 percent of the assets in our country. It is estimated that nearly $8 trillion of capital gains are locked in by people unwilling to sell their assets and be hit with a punitive tax. It is the sale and reinvestment of these very assets which creates the new capital needed to start up, modernize, or expand the businesses of the future. Many countries do not tax their long-term capital gains, giving foreign companies a competitive edge over their American counterparts. And this provision is particularly important to America's retirees, most of whom are women. Seniors hold 80 percent of our assets and 50 percent of those benefiting from capital gains have incomes under $50,000. So this capital gains relief will really help the retiree who needs to replace a roof and sell some stock to do it. Capital gains, the research and development credit, and reform of the alternative minimum tax will put Americans' capital where jobs can be created.

The bill also makes the orphan drug tax credit permanent, which will explode the research projects focused on cures for rare diseases. In the past, while the year-to-year extension of this widely-supported tax credit has helped encourage research on rare diseases, I believe the certainty of a permanent extension will cause an explosion in those critical projects. When Congress made the low-income-housing tax credit permanent several years ago, interest in the program skyrocketed, resulting in better quality housing and yielding 25 percent greater benefit for our tax dollars. The permanent extension of the orphan drug tax credit, in my view, will result in a similar explosion of new drugs to treat rare diseases.

Finally, I would like to mention two lesser-known but important provisions that are included in H.R. 2014. One helps teachers exercise their current rights to increase their pension benefits by buying back service years when they can afford it. For example, a teacher who worked for several years in New York but spent most of her career in Connecticut would receive a pension based on years of service in Connecticut. Under State law, she has the option to purchase the years worked in other States, however, her ability to do so is limited by annual contribution restrictions. This bill gives greater flexibility to teachers and other public employees to be able to buy back years of service, thereby raising their pension benefit.

And finally, this bill helps States collect their taxes so tax burdens can be held down on America's hard-working folks at the State as well as Federal level. Currently, 32 States already allow the Federal Government to participate in their State income tax refund offset programs. This provision reciprocates, providing a great benefit to States while actually saving the Federal Government a small amount of revenue.

Mr. Speaker, this tax bill takes many important steps forward to stimulate economic growth and high-paying jobs and to help working, tax-paying families. I urge my colleagues to support it.

Mr. RANGEL. Mr. Chairman, I yield myself 1 minute.

The President said he wanted working families, not welfare families, to get a tax break for their kids. So no matter how we cut it with charts, the bottom line is going to be how many kids are going to be denied because certain people thought they did not make enough money.

Almost half of the children in Connecticut, 44 percent, more than 430,000 children, will be denied because these working families are not entitled to the benefits under the Republican bill; and 56 percent in California, that is over 5 million children, will be denied. These are working families.

Half of the children in Michigan, 1.3 million children of working families, will be denied under the Republican plan; and 50 percent in the State of Kentucky, children of working families, will be denied the benefit that the President thought he had a promise made on when he went into a dialog with the Republicans.

For these reasons the President finds the unfairness, and for these reasons, he would veto.

Mr. Chairman, I yield 15 minutes to the gentleman from Michigan [Mr. BONIOR], the Democratic whip.

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Mr. BONIOR. Mr. Chairman, I thank my colleague for yielding me this time and for the outstanding job that he has done on this piece of legislation, the Democratic alternative.

Let me point out, before I begin my remarks, that the charts that we have just seen on this side of the aisle, when they talked about the child tax credit, let me just reinforce the comments by the gentleman from New York [Mr. RANGEL]. The percentage of dependent children ineligible for this $500 child tax credit in the State of Texas, 54 percent; 54 percent of kids from families in the State of Texas do not get it. In Connecticut, 44 percent of the children would not be able to get it. So when they put up these charts, it is just for a select few. It is not for the hard-working, middle-income folks that really need it the most.

America's working families deserve a tax cut. The Democratic tax plan gives it to them. Under the Democratic plan, 71 percent of the tax cuts go to households earning less than $100,000. Under the Democratic plan, the $500 child care credit goes to lower- and middle-income families, the teachers, the police officers, the nurses, the people who are working harder than ever to achieve the American dream. Under the Democratic plan, the HOPE scholarship is fully funded, making it possible for people from working families to afford that 13th and 14th year of education. The Democratic plan helps America's working families.

The Republican bill we are debating does just the opposite. It punishes America's working families and rewards the wealthy and the biggest corporations. The New York Times said this bill, the Republican bill, showers tax cuts on the Nation's wealthiest families.

Conservative commentator Kevin Phillips said, this bill is a payback to big contributors. Speaker GINGRICH admitted this last month, when he spoke to hundreds of wealthy contributors at a black tie dinner given by the Republican Party. People paid as much as a quarter of a million dollars each to go to that dinner. He said, whatever you have given, this is the Speaker to these wealthy contributors, whatever you have given is a tiny token of what you have saved.

That is what he is paying them back with today, their bill, what they have saved.

Who is paying for this giveaway to the rich? America's working families. Under the Republican tax bill, the working parents of almost 1.4 million children in Michigan, in my State, will be excluded from the child care credit. That is almost half the children in Michigan. Under the Republican tax bill, the value of the HOPE scholarships is slashed, in direct violation of the budget agreement. The Republicans are taking money away from family credit, away from education credit, away from working Americans, so that the corporate interests, the corporate titans can avoid paying taxes at all.

According to the Treasury Department, the Republican tax bill gives more benefits to the richest 1 percent, listen to this figure, the richest 1 percent of Americans, than to the bottom 60 percent combined. Today's Wall Street Journal described the Republican plan as, and I quote, a bonanza for the affluent, crumbs for the working class.

If the Republicans were not writing this lopsided tax bill into law, we would call it robbery. This tax bill rolls back the corporate minimum tax which says to big corporations, you have got to pay something like the rest of us. We had in the 1980's corporations like Texaco and Boeing and AT&T that were not paying any Federal income taxes. The corporations in the early 1960's would pick up about 25 percent of the tax load in this country. That has decreased because these large corporations paid no income taxes to the point that they were down to about 7 percent of the load in the mid-1980's. Everybody was embarrassed so we passed a corporate minimum tax where they were required to pay something. Now under this bill, the Republicans want to give them a $22 billion tax break to get that percentage back down to the low disgraceful numbers.

Mr. RANGEL. Mr. Chairman, will the gentleman yield?

Mr. BONIOR. I yield to the gentleman from New York.

Mr. RANGEL. Mr. Chairman, the gentleman is saying that successful corporations enjoying tax welfare benefits that now are forced by laws of the Congress to pay taxes, that in the Republican bill is just wiped out.

Mr. BONIOR. They move away from responsibility on the part of the corporations in paying any taxes at all in this country at the Federal level.

Mr. RANGEL. Mr. Chairman, if the gentleman will continue to yield, and for years all we have said is that they have a responsibility to pay something.

Mr. BONIOR. Mr. Chairman, they need to be part of the community of people who support our economy, our country and share the load. If they are not paying it, working people are going to pick up the difference. That is the problem here. Their bill is top-heavy in terms of benefits to those at the top; crumbs, as the Wall Street Journal and the New York Times and others have scribbled it, for working people.

There is no equity in their bill. That is why the poll that came out this morning said the American people support the Democratic bill over the Republican bill by a 2-to-1 margin, 60 to 30 percent. On top of all of this, their bill, this tax bill that the Republicans are offering actually raises taxes on the bottom 40 percent of Americans. Raises taxes.

This Republican bill also includes and encourages big corporations to redefine their employees as contract workers. What does that mean? That means you can define your people who work for you as contract workers and you do not have to worry about paying them the minimum wage. You do not have to worry about paying them health benefits or pension benefits. Under the Republican plan, the rich get richer, America's middle-income families have to work twice as hard just to stay even.

The Republicans tout their $500 child care credit. It is a good idea, but only if you actually give it to the families who need it. Today's Wall Street Journal notes that in Speaker GINGRICH's suburban district, a newly-hired police officer earning $23,000 a year, married with two kids, would not qualify for the child care credit under the Republican plan. Why? Well, the Republicans say that is because this police officer already receives the earned income tax credit. The child care credit would constitute welfare, they say. That is right. The Republicans are saying that a young police officer who is trying to raise a family, who puts his life on the line every day for $23,000 a year and pays thousands of dollars in taxes, payroll taxes, excise taxes, does not deserve a tax credit to help his family. None, zip, nothing, zero.

The richest 1 percent of Americans get a tax break that is worth more than that police officer makes all year under their bill. The richest 1 percent get more than the police officer makes all year. That is an absolute outrage. It is not right. It is not what this country is all about. It is America's working families who need this tax cut. According to a poll, as I said today, the American people agree with our position. Let us give them a tax cut that they can use and be proud of and we can help working families with.

Mr. GREEN. Mr. Chairman, will the gentleman yield?

Mr. BONIOR. I yield to the gentleman from Texas.

Mr. GREEN. Mr. Chairman, I have sat here on the floor and listened this morning, and time and time again we have had folks come up and say, we are going to help the struggling families with the first tax cut in 16 years. The gentleman said, and I know we have had Members come up on the floor, for example, the $500 child tax credit in Kentucky, over 50 percent, over 50 percent of the children will not be eligible for it. In my State of Texas, 54 percent of the children will not be able to enjoy that child care credit. And I know that is correct.

The other thing that I wanted to ask about is, a lot of us support a capital gains tax cut. But in the Democratic alternative, we have a solution in there. The small investor, the person who is not making a living investing but is really the person who is investing in it and we set a cap of $600,000 as a lifetime on capital gains tax cuts. So if somebody is making a living investing, if they are playing the stock market and that is their living, they are not getting a benefit from the person maybe working in a factory in Michigan or working in on a ship channel in Houston. We are encouraging people who are the workers to also invest and they get that capital gains tax cut. That is what I hear.

When I talk to people who say we want a capital gains tax cut and I say, what if you make your living as a stockbroker; no, they ought to pay regular income. Well, that is what the Democratic alternative is doing. It is making sure that that individual who is investing in part of this great country and this great free enterprise system will be able to take a tax cut. That is why the Democratic alternative is so important.

Mr. BONIOR. The gentleman has aptly described the difference between the capital gains provisions in our bill and their bill. In addition to that, of course, the problem with their capital gains provision is that it is indexed and it explodes in the outyears and creates these humongous deficits, $650 billion drained in the outyears, which will put us right back to where we were when this Congress unfortunately did the 1982 tax and spending bills that put us into debt for so many years. The gentleman is absolutely right. Ours is targeted to working families, to people who invest for a decent length of time and who are interested in the future of their families and their communities and who are not there to make it on a rollover basis, on a daily basis.

Mr. WISE. Mr. Chairman, will the gentleman yield?

Mr. BONIOR. I yield to the gentleman from West Virginia, who under the Republican plan would have 56 percent of his children ineligible for the child credit.

Mr. WISE. Mr. Chairman, I support tax cuts for rewarding work, particularly to those people who are getting up every morning, getting their kids off to school, driving to work, putting in a full day, playing by the rules. And at the end of the day they are going to find out, 56 percent of them are going to find out at least that their children did not qualify for the guts of this bill, which is a child care tax credit.

In West Virginia, where two-thirds of our working families, working families make $30,000 or less and we know that those making $25,000 or less, if they have two children, most likely will not see one dime of the child care credit. This thing is just a figment. This is illusory; it is a hoax. What do I tell the coal miner, the steel worker? What do I tell the State troopers, computer technicians, the chemical worker, the school teachers, all of those who think that there is something for them under this bill?

Yet if they are under $57,000 a year, according to the Treasury Department, they are only receiving 22 percent of the benefits in that package, while those over $100,000 a year get over 60 percent of the benefits of this package. It is simply not appropriate.

So that is why I support, and I have to ask, how can we say that this bill is about giving children tax relief when most of our States and in West Virginia, it is 56 percent, 56 percent of the children get no tax relief under the child care credit?

So this is why this is a bad bill, why I am voting today for the Democratic alternative which does give tax relief to the working people who need it most. But I am not voting for a bill that denies 56 percent of children of working parents a child care tax credit.

Mr. BONIOR. Mr. Chairman, I thank the gentleman. I might remind Members today that originally those 56 percent of the kids under the original Contract for America were going to get some of those dollars. But all of a sudden, all the big boys came in and they said, wait a minute, we want to make sure we get our capital gains index. We want to make sure we get this taken care of and that taken care of.

Of course, in the New York Times today there was an article that I do not believe I have with me right here, but they point out a special rifle-shot provision which will provide huge amounts of money. Right here, a break for a rich few snuck into the bill. They talk about $9 million a year in lost revenue and giving a bonanza worth thousands of dollars to about 1,000 wealthy taxpayers. That is what was snuck into this bill overnight and that is why kids in huge percentages, 56 percent from West Virginia, 50 percent from Michigan, New Jersey, my friend from New Jersey is standing up today, 48 percent of the kids will not be eligible for a child tax credit in his State. That is who is getting short cut today to take care of the fat cats and the big boys.

Mr. MENENDEZ. Mr. Chairman, will the gentleman yield?

Mr. BONIOR. I yield to the gentleman from New Jersey.

Mr. MENENDEZ. Mr. Chairman, I thank the gentleman for yielding to me.

No wonder 60 percent of the American public said the Democratic tax cutting plan is the plan that they want, because we address working and tax-paying families in our plan.

What we do in that respect is try to provide greater tax relief for lower- and middle-income families, immediate estate tax relief for farms and small family owned businesses, a capital gains tax cut for small businesses and also for being able to sell your home. To the extent that over 1.1 million New Jerseyans, children, get absolutely no relief under this bill and to the extent that there are real families like Anna Gonzalez, who just sent me a fax and said, I am employed as a medical office technologist for the Bayonne Dental Group. I have been working there for a year, making over $20,000 in 1997. I have three kids. I pay for child care. Unfortunately, the Republican child tax credit gives me no benefit at all.

That is a real person, a real family struggling to stay off welfare, to be working, to produce for this country. This is the family-friendly Congress supposedly. Yet the Republican tax plan works against working families, tax-paying families, families who we should be preserving in this tax cutting bill. That is why Democrats stand up for tax cutting for working families.

Mr. Chairman, I include for the RECORD the letter to which I referred:

ANNA L. GONZALEZ,
Bayonne, NJ, June 23, 1997.

Due to my job responsibilities, I am unable to appear in person for this News Conference. I would like to show my concern in regard to the guidelines for receiving the proposed Child Tax Credit. As a single mother of three children, living on a single income, I would like to stress the importance of how a Child Tax Credit would help to alleviate some of the financial burdens that come with raising a family on a single income.

I am employed as a Medical Office Technologist for the Bayonne Group of Bayonne, New Jersey. I've been working there for 1 year, and will earn $20,202 in 1997. I pay $93 per week for child care which totals to $4,836 per year. I pay for the child care in order to be able to work.

Unfortunately, the Republican Child Tax Credit proposal is targeted against those who need it most, those who are an inch away from going into the welfare system. We are the working poor, who work to pay for child care, food, and a roof over our family's heads and not much more. The Child Tax Credit should be given to financially benefit the children, and I think the children from a low-income family would benefit greatly by receiving this Credit. However, my family would receive NO BENEFIT AT ALL from the proposed Child Tax Credit.

I am eligible for a Dependent Care Tax Credit that reduces my income tax liability to zero. Therefore, I would receive no benefit from the Child Tax Credit passed by the Ways and Means Committee.

Sincerely,

ANNA L. GONZALEZ.

Mr. Chairman, Democrats want greater tax relief for lower- and middle-income families, immediate estate tax relief for farms and small family-owned businesses, a capital gains tax cut for small businesses, and help for post-secondary education.

The Republican tax bill is like the deal to divide the gold mine. The rich Republicans get the gold and the American people get the shaft.

More than half of the benefits of the Republican tax plan go to the wealthiest 5 percent—people making an average of $250,000 a year.

Under the Democratic plan 71 percent of the tax benefits go to families earning less than $100,000.

The Republican plan would cover only half of tuition costs for the first 2 years of college. The only tax relief for the third and fourth years comes from savings plans that only wealthier families can afford to join.

Under the Democratic plan, HOPE Scholarship credits would be available for all 4 years of post-secondary-education. After the first 2 years, a scholarship credit of 20 percent of tuition costs is available. These HOPE scholarship credits are available to all students who live in families with incomes under $80,000. The HOPE scholarship credits are not reduced by a student's Pell Grant and other nontaxable Federal scholarships. The Democratic plan makes permanent the tax-free treatment of employer-provided education assistance.

The Republican bill denies the $500 per child tax credit to 15 million families, by refusing to extend the credit to many working parents who qualify for an earned income tax credit, or to families who only pay payroll taxes. More than one-half of the children in New Jersey would be completely ineligible.

The Democratic plan allows families to offset payroll and income taxes and would continue the existing day care credit.

The Republican plan grants massive tax breaks to wealthy people who make money by selling their stocks, bonds, art works and antiques. Republicans also have designed their proposal so that it explodes over time and could wreck the balanced budget.

The Democratic Plan targets capital gains relief to homeowners, not mansion owners.

The Republican plan provides large estate tax breaks to very wealthy families. Only 1.5 percent of families currently pay any estate taxes.

The Democratic plan gives relief for those who dedicated their lives to building the family farm or small business.

The Democratic tax package is a better deal for more people. It gives the most tax relief to lower and middle-income families: immediate estate tax relief for farms and mom-and-pop businesses, a capital gains tax cut for small businesses, and provides $40 billion in for kids to get a college education.

Remember who is making the greatest contribution to reducing the deficit, it is the vast majority of Americans. I can only speak for my district. Most of my people are honest, hard working people who don't have capital gains on their art collectibles. They don't have lavish deductions for business expenses. They will never make enough money to ever worry about estate taxes. They would love the opportunity to pay a minimum alternative tax.

The Republican tax bill abandons 60 percent of all families, giving them a miserly 12 percent of the tax cuts. The Democratic tax cut substitute looks out for my people and their families. That is why the American people favored the Democratic tax plan by more than 2 to 1 when asked by the Wall Street Journal/NBC new poll. Support the Democratic substitute.

Ms. KILPATRICK. Mr. Chairman, will the gentleman yield?

Mr. BONIOR. I yield to the gentlewoman from Michigan.

Ms. KILPATRICK. Mr. Chairman, did I understand the gentleman to say that over 1.3 million children in Michigan will not be able to take advantage of this child credit?

Mr. BONIOR. Mr. Chairman, the gentlewoman is absolutely correct.

Ms. KILPATRICK. Mr. Chairman, did I further understand the gentleman to say that only 1 percent of Americans, the wealthy Americans, will be able to take advantage, and that 60 percent of the bottom rung of Americans will not take advantage of this?

Mr. BONIOR. The benefits in this tax bill for the top 1 percent equal that for the bottom 60 percent, so that 1 percent of the taxpayers in this country are getting as much as the 60 percent at the bottom in this country.

Ms. KILPATRICK. Mr. Chairman, the Republican tax bill would deny tax credits for another 4 million lower middle-income children. Forty percent—two out of every five children—would be ineligible for the credit because their family's incomes are not high enough. The total number of children denied this credit because their families do not make enough money would be 28 million. The Republican's highly touted $500 tax credit that is nonrefundable allegedly gives tax relief to families. While corporations will reap a $22 billion windfall in this bill, 28 million children would get nothing.

The Republican tax bill denies tax credits to working families. For example, a family of four with two children with no child care expenses would not receive any credit unless its income exceeded $24,385. Moreover, if the family had child care expenses, it could earn as much as $27,180 and fail to qualify for the credit. Also, families that have more than two children, or have high mortgage or health care costs and itemize their deductions, could make close to $30,000 and still not qualify for the credit.

The Democratic tax bill has real child care tax credits. The Democratic bill does not compute a family's child care tax credit after the earned income tax credit [EITC] is figured. This is a significant difference—millions of lower- to middle-income families owe income tax before EITC is calculated, but have little or no income tax obligation remaining after EITC is calculated. Under the Democratic bill, these families would be covered.

The Republican tax bill's largest tax cuts—capital gains, individual retirement accounts, estate, and corporate taxes—provide most of their benefits to the rich. The richest 1 percent get more of the overall tax break than the bottom 60 percent combined. According to the Center on Budget and Policy Priorities, the Joint Tax Committee's distribution tables do not reflect any of the benefits that taxpayers would receive from these four provisions.

The Democratic tax bill makes the benefits in these four areas, especially for working people, fair. It provides 71 percent of the tax breaks to families earning $100,000 or less. It provides a capital gains tax cut, an estate tax cut, and tax cuts for small businesses, family farms, and homeowners. The only way that you are eligible for these tax breaks is if you work and pay taxes.

Mr. RANGEL. Mr. Chairman, the official count of Democratic and Republican votes, how many Republicans voted for the Clinton budget that created the atmosphere so that we can even think about tax cuts?

Mr. BONIOR. Mr. Chairman, let me see here. I have my old 1993 count here, and there was not one Republican who voted for the 1993 budget that got us down from $300 billion.

Mr. RANGEL. Mr. Chairman, we really cannot cut taxes when we have a deficit, can we?

Mr. BONIOR. Mr. Chairman, the gentleman is right.

ANNOUNCEMENT BY THE CHAIRMAN

The CHAIRMAN. The gentleman from Michigan [Mr. BONIOR] has the time and should indicate each time he yields or reclaims the time.

□ 1300

Mr. ARCHER. Mr. Chairman, I yield 3 minutes to the gentleman from Mississippi [Mr. PARKER].

(Mr. PARKER asked and was given permission to revise and extend his remarks.)

Mr. PARKER. Mr. Chairman, I thank the gentleman from Texas [Mr. ARCHER], the chairman, for yielding me the time.

Mr. Chairman, I was very interested in the comments made by the minority whip and by the ranking member talking about one particular aspect of the committee's bill dealing with AMT. I think a very wise part of this bill has been the removal of the depreciation penalty from AMT.

It is fascinating to me that people always come to the floor of this House and they scream and yell about jobs going overseas, about companies leaving our Nation and us losing jobs. It is fascinating to me that people talk about that and at the same time they scream about the companies in this country that are not investing in their own companies and staying up, being modern, being able to produce, increase their productivity. Let me tell my colleagues what the most burdensome part of AMT is and how it has been removed from this bill.

In order for any company to modernize and be able to create new jobs and increase productivity, they must put money into the company. You do that by using depreciation, because equipment is just like people: It gets old, it wears out, and it eventually dies.

Depreciation is not a gift, it is an allowance to a company to modernize and to buy new equipment and to be state of the art. But what we did when we implemented AMT, and it was a terrible mistake, is we told companies we are going to allow to have depreciation, ''But, by the way, if you invest in your company, what we are going to do is we are going to say that does not count.''

So what we say to these companies is, ''We are going to penalize you, take away your depreciation, and force you to pay money to the Government in taxes,'' and companies are penalized for investing. That is a fascinating situation in which we put companies on a day-to-day basis in this Nation. As a matter of fact, they are rewarded for not investing.

Every union member in this Nation should rise up in revolt when leaders in this country say we should have a penalty on depreciation. It keeps them from having more productivity. It prevents them from losing jobs overseas. It prevents their salaries from raising. It is the most ridiculous, asinine piece of any tax legislation I have ever seen.

It needs to be changed. And the gentleman from Texas [Mr. ARCHER], the

chairman, in this bill has changed it. It will mean more jobs in this country than anything else in this bill.

Mr. RANGEL. Mr. Chairman, I yield myself 30 seconds to tell the gentleman from Mississippi [Mr. PARKER] that Democrats apologize to him that the corporations, because we are asking them to pay some minimum tax and they wipe that out, but the reason we do it is because two-thirds of the children in Mississippi will not get the child credit under the Republican bill, and that is over a half million children. That is why we cannot be that generous in excluding corporations from paying taxes.

Mr. ARCHER. Mr. Chairman, I yield myself 1½ minutes simply to respond to some of the information that has been misrepresented to this House.

The gentleman from Michigan [Mr. BONIOR] said, and it is a broken record, he has used it for so many years, it does not matter what the tax bill is before the Congress, it is always the rich get richer and all of these breaks go to the rich.

It is unfortunate we have to deal with this economic class warfare rhetoric over and over again. Frankly, I am offended by it at a time when this President and all of us should be pulling all Americans together instead of dividing them. But the Joint Committee evaluation of this bill, and bear in mind they are the official estimator, bear in mind they are nonpartisan, they advise Democrats and Republicans, House and Senate, shows that in the top 1 percent of income category, they will pay more under this bill. Their effective rate will go up from 29.9 to 30.5 percent. I do not know where these numbers come from that say the rich get richer.

The article in the New York Times which said that there would be 1,000 taxpayers who would get some kind of relief is a proposal made by the administration for simplification of the Tax Code. We put it in the bill because it was sent to us by the administration asking us to simplify the code. If they do not like it, we will take it out. But it is ridiculous for this sort of an allegation to be made against a bill when we are simply trying to simplify the code.

So Americans should understand that the rhetoric of class warfare, based on inaccurate figures in the first place, is not what this should be all about.

Mr. Chairman, I yield 2½ minutes to the gentleman from Illinois [Mr. WELLER], a respected member of the Committee.

(Mr. WELLER asked and was given permission to revise and extend his remarks.)

Mr. WELLER. Mr. Chairman, I rise in support of this very important piece of legislation. I am so proud that this House overwhelmingly passed with bipartisan support yesterday legislation to implement a bipartisan balanced budget agreement.

Today a key part of the balanced budget agreement, which is lower taxes for working families, will be passed by the House as well and deserves bipartisan support. I think it is important to note that this is the first real tax relief bill for working families in Illinois, in the land of Lincoln, in 16 years.

I also feel it is very important to note who receives the vast majority of this tax relief. Now the Joint Committee on Taxation, which is a bipartisan committee made up of Democrats and Republicans, it is respected and trusted by both sides and it is nonpolitical, they have honest numbers. If you look at the chart that they provided when analyzing this tax bill, they note that over three-fourths of the tax relief which is provided in this tax bill that we are going to be voting on today goes to families with incomes between $20,000 and $75,000, a group of people that most of us would call working middle-class families. Seventy-five percent of the tax relief goes to families with incomes of between $20,000 and $75,000.

Let me point this out again. In this bill, 75 percent, actually 76 percent of the tax relief goes to families with incomes between $20,000 and $75,000. That is real tax relief for people in my home State, the working families that I represent. In fact, a family in Illinois with a median income of $44,000 will see tax relief of over $10,000 over the lifetime of this bill, $3,000 more than the President proposed with his proposal earlier this year.

Clearly, this is a better deal for those who pay taxes and work hard back in Illinois. We include tax relief for families with children, $500-per-child tax credit. In the 11th District of Illinois that I represent, 110,000 children will benefit, 33,000 more than the President proposes.

Education incentives help send kids to college, capital gains tax deductions create jobs, individual retirement accounts encourage savings, death tax relief helps small business and agriculture pass on someone's fruit of their labors to the next generation, and welfare-to-work tax incentives.

This legislation deserves bipartisan support. Again, the bulk of the tax relief, 75 percent, goes to families with incomes between $20,000 and $75,000. Working and middle-class families are the beneficiaries of this tax bill, which deserves bipartisan support.

Mr. ARCHER. Mr. Chairman, I yield 4 minutes to the gentlewoman from Washington [Ms. DUNN], a respected member of the Committee on Ways and Means.

Ms. DUNN. Mr. Chairman, for the first time in 16 years, women across America are getting a tax cut. The truth is our tax bill helps women throughout their lives, at home and in the workplace. The only people who think that tax relief in this bill is not good for women are those who do not believe we women can manage our own money. That kind of thinking is passe.

What does this tax relief package really do for us? First of all, the mothers of 41 million American children will be able to keep more of their money. The child tax credit is money that desperately is needed to make ends meet. The child tax credit is money that can be used to pay for school, for clothes, for groceries, or for those often unexpected expenses that come with raising children.

Women and their families will also get a lot of help in sending their children to college. The cost of higher education these days is overwhelming. I just had two kids in college. I know.

Finally, women are provided additional options through our bill to save for their retirement through expanded IRA's that they can get involved. The fact is that women live longer than men, yet we also often have less savings. We should not force women these days into choosing whether to buy shoes for their 8-year-old daughter today or being able to put money aside for their own retirement later.

Let me talk about the workplace. Today women are starting businesses at twice the rate of men. Our lower capital gains tax leaves more vital capital in the hands of women-owned businesses, in the hands of women investors and women entrepreneurs.

Why is this so important to women? The reason is that in a very late survey, 1995, it was discovered that 84 percent of women-owned businesses used their personal savings to get their businesses started. We need to be able to give them this choice.

Here is another example. After death of a spouse where a woman is left with the family home as her only major asset, when she sells that home a reduction in the estate tax, relief which we offer her, is terribly significant to her. These are dollars that will make her life a little easier. It will help her make ends meet a little bit better during a tough time.

The American dream is for everyone, I say to my colleagues, including women. It is a little bit better place for our kids if we did right, little bit better place for our loved ones. But the current death tax is so onerous that the owner of a family farm or a family business who dies and leaves a home or business to his children, these kids often have to sell their business or their home simply to pay the debt of inheritance taxes, and all of this at a very, very tough time, sensitive time in the lives of those family people.

Let me give you an example of a woman who lives in my district in North Bend, WA. She lives on 50 acres of timber her parents bought when she was a little girl of four.

When her folks died, they left her the timber farm at a value of 155 percent in estate taxation, so she had to log 20 acres of prime timber. That meant cutting trees that were 60 years old.

Helen did not want to cut those mature trees, but she had to to get the money. She was paid $565,000 for the timber. Immediately she paid 21 percent to the forester, and then she paid

Federal estate taxes, State taxes, and her lawyers. Not a penny was left, and neither was the beautiful timber that had been enjoyed in that neighborhood by folks who hiked through it and by animals that lived there.

Finally, Mr. Chairman, this bill helps provide women the flexibility to start home-based businesses while at the same time staying home to take care of their children. No longer will women be forced to go to a job and leave their kids at home in order to pay the family's tax bill. I urge my colleagues to support this woman-friendly tax relief bill.

Mr. ARCHER. Mr. Chairman, I yield 2 minutes to the gentleman from Nebraska [Mr. CHRISTENSEN], another respected member of the Committee on Ways and Means.

Mr. CHRISTENSEN. Mr. Chairman, this bill is perhaps the best piece of small business legislation to come down the pike in over 40 years. Think about it: Capital gains reductions, death tax reforms, helping the independent contractor, the small business owner. The No. 1 piece of legislation, according to small business. Last year the White House Conference on Small Business said it was their No. 1 issue. Sixteen hundred delegates from all across the country, they came and thought about it and talked about it, and then took a number of sampling policies, talked with their members and said the No. 1 issue for small business in this country was reforming the independent contractor legislation, getting simplifications so that the IRS could help decide who is and who is not an independent contractor, who is and who is not an employee, bringing some clarification to this needed area.

□ 1315

For 26 years the gentleman from Texas [Mr. ARCHER] has been here fighting for capital gains, fighting for small business owners. This is a historic day, that the Democrat, the minority side, is talking about tax cuts, that they are talking about we want tax cuts, too, we just do not want quite as much, that it has gone so far, that this debate has come this far. The American people owe the gentleman from Texas [Mr. ARCHER] a debt of gratitude for the fact that he has been here, he has been fighting in the vineyards, he has been a lonely voice for a very long time, but now the President is on his side. We are going to pick up 40, 50, maybe 100 Democrats on this vote. The small business community thanks him, the American people thank him. This is a great tax package for small business America.

Mr. RANGEL. Mr. Chairman, I yield 3½ minutes to the gentlewoman from Connecticut [Mrs. KENNELLY], a senior member of the Committee on Ways and Means.

Mrs. KENNELLY of Connecticut. I thank the gentleman from New York [Mr. RANGEL] for yielding me this time.

Mr. Chairman, I would like to note that the gentleman who just spoke is from Nebraska. In Nebraska almost half the children there will not get the child credit under the Republican bill on the floor today.

Mr. Chairman, I was on the way to speak here just a little while ago. I had my statement in my hand. I was going to talk as I have talked for years, 10 years I have been on the Committee on Ways and Means, about the earned income tax credit. Then I said, why should I talk about that today? Everybody is talking about it. And I should be happy but I am not because of the way the earned income tax credit is being used in relation to the child credit. And so I thought I would give the genesis of the earned income tax credit.

I got involved in 1986 in tax reform and began to look at this legislation and put forth some proposals in that statute. I looked up the history, and it became law, the earned income tax credit, in 1975. The Senator from Louisiana, Senator Long, who was head of the Finance Committee, our tax counterpart in the Senate, understood something. He understood that because of the payroll tax and inflation and the way we did our taxes in this country, for some people who worked hard, it was not worth working when you took out the payroll tax. He introduced the earned income tax credit so those people could keep the fruit of their labor. That tax was little then, but it grew.

In 1986 when I got involved, it was bigger. But it was complicated to apply for it and a lot of people did not. In 1990, President Bush was President. He was looking at his budget. He had a chief of staff named John Sununu. He latched on to a piece of legislation I had introduced, the Kennelly bill, about the earned income tax credit, and he put it in President Bush's budget. I was so delighted. But then it went over to the Senate side and Senator Bentsen got involved and he took a piece of it, he had it, for a good reason, for health insurance for children. Then there was another piece taken, I believe John Sununu did it, for the President, he put it in and that was a tiny tot credit. If you stayed home with your child, with your baby under 1, you got some of this earned income tax credit. Lo and behold, it got so complicated, it had more money and people were not using it.

But then in 1993, something happened. Our President, Mr. Clinton, understood the earned income tax credit like Senator Long did. So what he did was infuse a very large amount of money into it, $23 billion. He understood you could not have it complicated because people would not apply for it. So there we were with the earned income tax credit finally working. You used it against Federal income tax, payroll tax, or the other income tax. Your income tax. I thought that I could relax, and I was very pleased. Then lo and behold we came to this year.

But wait, I forgot one year. 1994. How could I forget 1994? We got a new majority, they had a contract for America, and they had the earned income tax credit in, and yes, they did it the right way. You could play off your earned income tax credit against payroll tax or your income tax and everything was OK. But now we have got this bill before us today. We have got a child credit, a good child credit, except I look down and I see the child credit is played off against the earned income tax credit. That means if you have the earned income tax credit and you put that against your Federal income tax and then you do not have any more credit to go against your payroll tax.

What that means, Mr. Chairman, is the Republican plan would provide a $500 child credit for 39 million people, a lot, but the Democratic plan before us, 60 million children get it. Please, I have worked on this a long time. Let us do it the right way again.

Mr. ARCHER. Mr. Chairman, I yield myself 15 seconds to respond to the gentlewoman. Obviously she has not noted the changes in this bill that were accomplished by the rule that was passed, because under the rule, any taxpayer with adjusted gross income of under $60,000 will not lose the dependent care credit under the bill now before the House.

Mr. Chairman, I yield 3 minutes to the gentleman from Georgia [Mr. COLLINS], a respected member of the Committee on Ways and Means.

Mr. COLLINS. Mr. Chairman, I thank the gentleman for yielding me this time.

Mr. Chairman, a lot of comments have been made here today by different Members in reference to the President and his willingness to reach out and the Members of this side of the aisle and their willingness to reach back and also to reach out with ideas. I want to relate a conversation, a personal conversation that I had with President Bill Clinton in April of 1995, standing in the little White House in Warm Springs, GA, the Georgia home of F.D.R., F.D.R., who was considered the working man and the little man's friend. As we were departing that day, I looked at the President, and I said, ''You know, sir, we have to look after the little man because the big man can take care of himself. But every now and then you have to give just a little something to the big man so he'll help the little guy.''

And the President was nodding in agreement. And I said, ''Mr. President, that's our tax bill, the tax bill of the 104th Congress.'' Little known to each of us that day, we would not be back with that tax bill but one time, just one opportunity to pass and accept it. But we are back again in the 105th Congress. We are back with a lot of the good ideas that he says, ''Yes, there are a lot of good things in this tax bill that we will eventually agree on.'' But there is the old saying, ''Opportunity only knocks once, temptation will beat the door down.''

We missed that opportunity in the 104th Congress, but we are back with

those good ideas, not only our good ideas but some ideas of the President's, in the area of education, AMT relief that the President has proposed, capital gains relief that the President has proposed. This debate is good, it is real good. It is pointing out some differences yet that we still have in this bill. But we have an opportunity here today to move this bill forward, pass it, move it into conference, work on those additional ideas and differences that we have.

Let us not miss this opportunity. Let us work on the good points and the good parts that we have put in, that the President has put in, and let us work on those differences to improve this bill over the next 2 to 3 weeks, and let us give tax relief to the little man, the working people of this country, and let us also give some assistance to those who can help those working people by providing them jobs.

A lot has been said about the AMT. Business people understand that. They understand oftentimes under the AMT provisions you can actually lose money and still have a tax liability, and it drives behavior of business that also deletes a lot of jobs. A lot has been mentioned about the type of equipment that is purchased that comes under the AMT. Most of those jobs are assembly line jobs, union jobs.

This is a good bill and by the time we get through with it in 2 to 3 weeks, I know it is going to be a lot better. Let us take advantage of opportunity and let us move this piece of legislation forward.

Mr. ARCHER. Mr. Chairman, I yield 3 minutes to the gentleman from Louisiana [Mr. MCCRERY], another respected member of the Committee on Ways and Means.

(Mr. MCCRERY asked and was given permission to revise and extend his remarks.)

Mr. MCCRERY. Mr. Chairman, my colleagues have heard and will continue to hear criticism from some telling them that the Republicans have written a tax cut that benefits big corporations. I am here to plead guilty, sort of. I say ''sort of'' because there is much in this bill which directly benefits middle-class families, the $500 per child tax credit, education assistance, and exclusions for capital gains on home sales. In fact, most of the tax relief in this bill goes to middle-income families. But our tax cut will benefit corporations, and those who criticize that just do not get it. They cannot see that benefiting those who create jobs ultimately benefits workers as well.

Let us look at just one industry in my home State of Louisiana, forest products. Forestry in my State employs some 8,000 in harvesting and transplanting trees and another 26,000 in forest products manufacturing jobs and some 113,000 Louisianans own forestland. Tree farmers in Louisiana plant seedlings, then they wait, 20, 25, 30 years. They endure the threats of flood, fire and infestation. All the while they incur expenses caring for their crop and all the while inflation ticks along. After a couple of decades, if the trees are still standing, they are cut and sold. The capital gains tax reductions in this bill will reward those landowners who risk their capital to grow those trees, and because of the potential for greater rewards, more landowners will decide to risk their capital to grow trees, which will in turn provide our forest products industries with a ready, affordable source of raw material for their factories, which in turn will provide good-paying jobs for a great many people in Louisiana and across our country.

But for those jobs to stay here in the United States, our factories must be competitive in the world marketplace. For our industries to be competitive, they must continue to increase their productivity. To increase their productivity, they must continually invest in new equipment for their operations. The alternative minimum tax makes it much more difficult for forest products companies to invest in plant and equipment when they need to.

This bill gives some relief from the perverse consequences of the AMT, which will allow more timely investment by forest products industries, giving them a better chance to compete worldwide while continuing to pay high wages and benefits to their employees. The forest products industry and those who work in it will benefit from the tax relief in this bill. That is helpful to an industry that is very important to my State. But there are other industries, ones important to other States around this country, which will also benefit.

I urge my colleagues not to attempt to defeat this bill by demagoging it as a tax cut to big, faceless corporations. Corporations are not faceless. They are the faces of all those who work for them and the faces of all those whose retirement funds are invested in them. Let us quit trying to win political points by dividing Americans by income. Let us work together to provide an economic climate that will create jobs for everybody and make everybody richer.

Mr. RANGEL. Mr. Chairman, I yield 10 seconds to the gentlewoman from Connecticut [Mrs. KENNELLY].

Mrs. KENNELLY of Connecticut. Mr. Chairman, I would like to respectfully say to the gentleman from Texas [Mr. ARCHER] that he misunderstood me. I did thank him on the floor the other day for the dependent credit under $60,000. What I was talking about is something else he could do in conference and that is to fix those under $30,000 who cannot get the child care credit.

Mr. RANGEL. Mr. Chairman, I yield myself 15 seconds to point out that we wish we could afford the luxury of having corporations that make money not to pay taxes, but again it is just not fair because we would rather see whether we can change the Republican bill and maybe we can in conference. In its present form, 58 percent of the children of Louisiana would not be eligible and that is 3 out of 5; two-thirds of the kids in Mississippi will not receive it; 52 percent of the kids in Georgia will not receive it; 41 percent in the State of Washington will not receive it; half of those in Illinois will not receive it.

Mr. Chairman, I yield 4 minutes to the gentleman from Wisconsin [Mr. KLECZKA].

Mr. KLECZKA. Mr. Chairman, when the gentleman from Texas [Mr. ARCHER] started out the debate, he indicated that he is going to dedicate this tax bill to Debbie and Bill from Manassas. But what the Republicans are not telling Debbie and Bill and other Americans is about a provision in this bill which will have a devastating impact on workers, men and women alike, and their benefits.

☐ 1330

The provision I am about to talk to is disguised in this legislation as tax bill clarification. What I am talking about is the independent contractor language inserted by the Republicans on the committee, and let us use Bill from Manassas as the example.

Let us say Bill is a plumber. If this provision passes into law, Bill could go to his company on Monday of next week, ABC Plumbing Company, and the employer is going to say, ''Under a provision passed by the Republicans I don't have to call you, and I don't have to treat you as an employee anymore. I'm going to call you and treat you as an independent person, an independent contractor.'' Bill is going to say:

''Well, why?''

He says, ''Well, you have your education for being a plumber, you have your own tools, for the most part you work off the employer's premises; that's a definition of independent. So, Bill, you're not my employee anymore; we're going to pay you by the job, and if you go to Christine Place to replace a hot water heater on Monday or Tuesday, I'll give you a hundred bucks, you do the job, you keep the money.''

But what happens to Bill and what happens to Debbie and their family and their kids is that under this provision Bill has no retirement plan. For years he has been paying part of it, the employer has been paying part of it. ''Being independent now, Bill, I, the employer, don't have to offer you a retirement.''

''Well, how about health insurance?''

''It's a split. I pay 20 percent, you pay a portion. I have family health coverage. Sorry, Debbie and Bill. As an independent, get your own. Take that hundred bucks I gave you to replace the water heater, get your own coverage.''

Well, let us say Bill is injured seriously on the job, loses an arm. Under the current practice and under Bill's current condition, he gets workers compensation, which will take care of him should something like that occur.

''Under this provision, Bill, you're independent. You don't get workers' comp from us, get it yourself if you can.''

And how about the slow period in the fall? Bill is off for a couple of weeks. Right now the employer gives him unemployment compensation, and it helps feed the family. Under this provision Bill does not get any workers' compensation or unemployment compensation.

Also, currently under the current situation, Bill pays one-half of his Social Security and Medicare hospital tax, 7.65, the employer pays the other half. Under this provision, ''Bill, you pay the entire 15 percent. I, the employer, pay nothing.''

That is what is in this bill. That is the beginning of the end for employee benefits and protections as we know them today.

And know full well I view this as the biggest gift to employers, and if I were dedicating this bill to anyone, Bill and Debbie from Manassas, I would not dedicate it to them because they are going to lose, they are going to lose under this provision. I will dedicate it to the ABC Plumbing Companies of the world and other people who are going to treat their employees in this manner.

And know full well it is not only plumbers that are covered. Under this provision it could be the airline pilots, it could be teachers, it could be police officers, plumbers, electricians.

This is a new way to do business. This is a gift, a dangerous gift to employers who choose to treat their employees this way. And I am saying, and I have talked to the administration, they will not sign this bill with that provision in it.

But I challenge the Republicans, if they are going to dedicate this bill to working families, talk about this provision, talk about how this is going to harm them, how dangerous this is. And I ask my colleagues to vote against this bill if for no other reason than this provision.

I can put up with the harassment on union dues because unions happened to help Democrats in the last election. So it is a provision. Go and stick it to the unions. But this one is the harmful one. This is the one that forces me to vote against this legislation, and I ask my colleagues on behalf of Debbie and Bill and all other Americans to oppose this particular legislation.

Mr. CHRISTENSEN. Mr. Chairman, I yield myself 30 seconds to respond to the gentleman from Wisconsin's accusations.

First of all, it is a mutual agreement. There must be a signed agreement from the individual involved and also the person that we are contracting with. There is an independence and an investment component of this independent contractor legislation, so it is not a unilateral decision by one person to make that decision.

Second of all, it is the No. 1 area in small-business America that needs to be fixed under the code, and the White House Conference on Small Business decided this. So it is not something that is just being unilaterally decided by Republicans. It was a joint decision by also the administration with the White House Conference on Small Business.

With that, Mr. Chairman, I yield 2 minutes to the gentleman from Dallas, TX, Mr. SAM JOHNSON.

Mr. SAM JOHNSON of Texas. Mr. Chairman, as my colleagues know, this tax relief bill gives part of America back to Americans who pay too much in taxes. There is not a Member here who can deny that this bill provides relief to families through the $500 per child tax credit. Gives entrepreneurs and companies the opportunity to create more job opportunities in America by lowering the capital gains tax rate than the alternative minimum tax, allows families to keep their farms or small businesses by providing death tax relief and gives more Americans a way to send their kids to college and buy a first home by expanding IRAs.

During this debate there are going to be two different arguments about what tax cuts mean. By the time we finish, I think our differences will be clear. To Democrats tax cuts mean less money here in Washington for this Government to spend. To us Americans tax cuts means people will keep more of the money that they work so hard to earn. In America we ought not to discriminate on the basis of race or gender, and we also should not discriminate on the basis of income.

We in Congress have a responsibility to bring Americans together for everyone's benefit, not divide them with class warfare rhetoric. Seventy-six percent of the tax cuts in this bill go to people making under $75,000, and a hundred percent of these tax cuts go to all Americans, who are overtaxed. Neither the President nor Democrats in Congress should stand in the way of hard-working Americans getting a break from high taxes.

As my colleagues know, Americans want, need, and deserve their tax relief now.

Mr. CHRISTENSEN. Mr. Chairman, I yield 2 minutes to the gentleman from Ohio [Mr. BOEHNER].

Mr. BOEHNER. Mr. Chairman, America has enjoyed many months of uninterrupted economic recovery. But the recovery is not enough. If we are to prevail in the long run, we must expand the long won strength of our economy. To achieve these greater gains, one step above all is essential, the enactment this year of a substantial reduction and revision in Federal income taxes. This will increase the purchasing power of American families and businesses in every tax bracket with the greatest increase going to our low income consumers. It will encourage the initiative and risk taking on which our free system depends and reinforce the American principle of additional reward for additional efforts.

The enactment this year of tax relief overshadows all other domestic problems in this Congress, for we cannot leave the cause of peace and freedom if we cease to set the pace here at home.

Mr. Chairman, these are not my words. These words were spoken three decades ago in 1963 during the State of the Union Address by our President at that time, John F. Kennedy. President Kennedy made this statement as a man ahead of his time with a bold vision for America's future. He showed the courage to look past the skeptics, to look past the pessimists and call Americans to action in defense of their freedom.

Today we find ourselves at a similar crossroads, on the edge of a new century with new challenges to the freedoms of Americans and their families. Bold action again is needed to unshackle the American spirit. The question is whether our President will seek inspiration from his hero, John Kennedy, and join us in restoring freedom to overtaxed, overburdened and overwhelmed American families.

Mr. Chairman, today's vote is really about that. It is about freedom, freedom for Americans to save, to spend, to invest and to contribute to their own communities instead of handing an ever increasing amount to our government, their hopes and dreams along with it.

Passing this bill today, Washington takes a small step in the right direction.

Mr. RANGEL. Mr. Chairman, I yield 30 seconds to the gentleman from Wisconsin [Mr. KLECZKA].

Mr. KLECZKA. Mr. Chairman, let me respond to the gentleman from Nebraska on the independent contractor, the provision that employees lose their benefits.

First of all, the White House conference did meet made up of small business people. As part of that group there were no working men and women who could object to this provision, and the question of whether or not it is voluntary. If someone's employer calls them on Monday and says, ''Sign on the dotted line or you have no job, you have no income,'' they are going to sign. And that is exactly what happened at Microsoft, where the employees were forced to sign the statement that they are independent contractors. So do not tell me this was voluntary; this was forced, and any employee who does not sign on the dotted line goes home with no pay.

Mr. RANGEL. Mr. Chairman, I yield myself 30 seconds.

When the bottom line is there, we will find that over half of the kids from working families in the State of Texas, in the State of Ohio will not benefit under the Republican bill.

Mr. Chairman, I yield 10 minutes to the gentleman from California [Mr. MATSUI], a senior member of the Committee on Ways and Means.

Mr. MATSUI. Mr. Chairman, I thank the gentleman from New York, the ranking member of the Committee on

Ways and Means, for yielding this time to me.

Mr. Chairman, we have been hearing from the Republicans capital gains tax cuts, estate tax cuts. They want to eliminate the alternative minimum tax on corporations in America. They want to have back ended IRA's.

We must have amnesia in this room here today because just 24 hours ago we were saying how wonderful the agreement was with the President on balancing the Federal budget. And now all of a sudden we are talking about these enormous tax cuts.

I added up all the tax cuts that the Republicans have been taking about. Over a 10-year period these tax cuts come to $600 billion or about $60 billion a year. That is why the President in the budget agreement said over 10 years it can be no more than a net of $250 billion, less than half of the total tax cuts as they add up.

We thought the Republicans were going to be moderate, that they were going to try to compromise, they were going to pick and choose and prioritize what tax cuts they wanted to give the American public. What they did instead was committed a little duplicity. What they did was they phased these tax cuts in. They phased them in over a 10-, 12-, 15-year period.

For example, the capital gains tax cut does not come into effect until the year 2001, and as a result of that what we are going to see is, yes, the net tax cuts for the first 10 years will be $250 billion. Revenue loss of $250 billion.

But then if we look at this chart, we will find that in the year 2007, 2007 alone, it will be $41 billion just in that 1 year alone. Then by the year 2017 it will be $90 billion of revenue loss in that 1 year alone. It will make the deficits we had over the last 15 years look like chicken feed compared to the deficits that will occur when the children and the grandchildren are becoming the age when they want to buy a home or employment.

We are a great competitive Nation. We had growth over the last 6 years. We have been the strongest economy in the world. And the Republicans, if this bill passes and becomes law, will drag this economy down so that we will be a banana republic. We cannot afford this tax bill, which is going to explode the deficit, and the American public has to know that.

Mr. CARDIN. Mr. Chairman, will the gentleman yield?

Mr. MATSUI. I yield to the gentleman from Maryland.

Mr. CARDIN. Mr. Chairman, the gentleman is right. Yesterday we were talking about trying to balance the Federal budget and keep it balanced. We should learn from what happened in 1981 when we created the climate for exploding deficits. This bill should be known, since we are going on the Fourth of July break at the end of today, as the Fireworks Tax Act of 1997. We are going to have exploding deficits if this bill is passed in a way that it has been presented.

The gentleman points out in that chart very clearly the difference between the Democratic bill and the Republican bill. The Democrat bill has a capital gains tax cut in it, but it is mindful of how much we can afford in its target. The Republicans not only put in a differential rate for capital gains, but also indexing, and another chart that the gentleman has there really points out the fact of how we are going to have exploding deficits if this bill passes and is enacted the way that it has been presented.

It is convenient in the year 2002, the year that we have advertised that we are going to have a balanced budget, that the capital gains tax actually produces more revenue for the Treasury, and why? Because in that year the Republican bill allows people to sell and buy back their assets to get a lower capital gains rate and then to be able to take advantage of indexing. They get it twice.

To make matters worse, the indexing requires a 3-year holding period so the revenue losses will not be felt until we are well past the budget window.

□ 1345

We want to make sure that we do the right thing as far as the deficit of this country is concerned, that we actually have a balanced budget. We have all been arguing in this budget that we want to balance the Federal budget and keep it balanced. We should learn from history in 1981. This is just one of about five or six provisions in the Republican bill that advertises very little revenue loss in the first 5 years, but they explode in the outyears and we will have huge deficits.

The point that my colleague is making, the chart that he is showing, I hope that the American people will understand that if we vote for this tax bill that is on the floor today, we are voting for large deficits in the future.

Mr. TANNER. Mr. Chairman, will the gentleman yield?

Mr. MATSUI. I yield to the gentleman from Tennessee.

Mr. TANNER. Mr. Chairman, I want to follow up, if I could. I come from the wing of the Democratic Party here in the Congress that thinks that it is important that we get our Nation's books in balance. As a matter of fact, a group called The Coalition had a budget proposal that had entitlement reform and no tax cuts in the belief that more people in this country would benefit if we could get our Nation's books in order and get the Government out of the credit market as fast as possible, borrowing the least amount possible, as soon as possible. We did not prevail on that.

So there was an agreement reached between the President and the leadership of the Congress that we would have a tax bill now.

Well, we, in an effort to try to be constructive in the process, think that any tax bill ought to be responsible from the standpoint of the outyears. This one, I think, falls short on that score.

I do not see how we, as stewards of this land in our time in public office here, can think about leaving a country to our children and grandchildren that is as financially weak as this one will surely be if all we do is a touch and go in the year 2002, and then climb aboard the space shuttle and take back off on a rocket ship to oblivion and debt. I am afraid that is exactly what is going to happen in these outyears.

This bill was cleverly scored in the first 5 years. Some of us agree with the prospect of estate tax relief and capital gains tax relief because we think that tax relief, if we are going to have a tax bill now, makes sense from a standpoint of economic activity and generational transfer of property. But these outyears, this is something that the American people really ought to worry about, because it is going to affect every family.

There are a lot of statistics being bantered about; people read them different ways. This affects us all, no matter who we are.

Mr. MATSUI. Mr. Chairman, reclaiming my time, I thank the gentleman from Tennessee. The gentleman indicates that this is really going to affect our children and grandchildren.

Mr. LEVIN. Mr. Chairman, will the gentleman yield?

Mr. MATSUI. I yield to the gentleman from Michigan.

Mr. LEVIN. Mr. Chairman, if the gentleman from California [Mr. MATSUI] would trade places with me for a moment, I want the American public to see these two charts. This is based on material from the Treasury Department. The Democratic tax cut plan, 71 percent of Democratic tax cuts go to low- and middle-income families. Two-thirds of the Republican tax cuts go to the wealthy based on Treasury material.

Here is the 10-year analysis by the Republicans of their plan. It is right here. This is it. There is nothing. There is nothing. The Joint Tax Committee will not supply a 10-year distribution analysis. I will tell my colleagues why.

First of all, it puts to a lie, to a falsehood the notion that my colleagues have said 76-percent of the tax relief goes to people making below $75,000. Those are 5-year figures. The other chart, about 90 percent goes to families and education has 10 years on it, but not the 76 percent figure. It is based on 5 years because most of the tax cuts, the second 5 years, go to wealthy families, and my Republican colleagues are trying to hide it.

Second, those second 5-year tax cuts explode the deficit, and my Republican colleagues do not want to admit it. They do not want to admit what the effect is. That is it purely and simply. We have begged our Republican colleagues, come forth with a 10-year distribution analysis, and they will not do it.

My Republican colleagues challenge the Treasury figures, but they are the

same methodology used by Reagan and Bush Treasury Departments, and they come up and nitpick about imputing this or imputing that. The fact of the matter remains that the analysis by Treasury is this: 71 percent of the Democratic plan goes to low-income families, and here it is. Your plan: Treasury Department analysis, two-thirds of the Republicans' plan go to the wealthy.

If my Republican colleagues do not like the Treasury Department figures, come up with something better than this. The American public will never believe my Republican colleagues' blank slate. They explode the deficit and they benefit the very wealthy to the detriment of middle-income families.

We can do much better than this, and we are going to do that in conference. Americans need a fair tax cut.

Mr. ARCHER. Mr. Chairman, I yield myself 30 seconds simply to respond and say to the gentleman that it is not just minuscule as to the Treasury imputing rental value as income to someone that owns their own home and lives in it and it makes them wealthy. The joint committee, while it was still being run by the Democrat Congress, dropped that from their analysis because they knew it was wrong. The Treasury is still using it. Yes, it was used under Bush, and yes, it was used under Reagan. It was wrong, and it is wrong today. The American people understand that.

Mr. Chairman, I yield 3 minutes to the gentleman from Ohio [Mr. TRAFICANT].

(Mr. TRAFICANT asked and was given permission to revise and extend his remarks.)

Mr. TRAFICANT. Mr. Chairman, I am going to vote for the bill. There are tax cuts for working families, a $500-per-child tax credit, reduction in capital gains, and other elements I like. It will encourage savings, investments, and jobs.

There are elements of the bill I do not support, such as independent contractor matters and teacher retirement situations, but I am convinced they can be removed in conference and should not stop this bill.

But as far as this alternative minimum tax, very simple. This AMT eliminates depreciation benefits; thus, it discourages investment; thus, it kills jobs. In 1995 President Clinton agreed with the gentleman from Texas [Mr. ARCHER], and I believe he was on target then and should support the chairman now.

In addition, when companies consider opening a new plant in America, they shudder and open a plant overseas. In addition, companies must often decide under this law whether they are going to pay workers' wages or taxes.

This is a nonissue.

But I want to talk about the political spin here. Unfortunately, to win the spin we have all played to class warfare: rich, poor; workers, companies; politics and partisanship; politics of division; politics of confusion; politics of fear. I think it is wrong; I think it is bad. I think our country is overregulated, overtaxed.

Mr. Chairman, my dad was a lifelong Democrat, I say to my colleagues, and my dad never worked for a poor guy. I want to today as a Democrat thank every man and woman in America, every entrepreneur that made an investment, that thought enough of my dad and our family to give us a job. They hired my dad. I want to thank them for that.

I would also like to say that it is very simple today, I say to my colleagues. Our Tax Code penalizes achievement, it promotes dependence, it kills investment, it ships jobs overseas, it discourages savings. It has destroyed families, it has destroyed the families in many cases that the Democrats stand for. I hope we come to realize that.

The bottom line: This bill is better than the current law. I am a Democrat, and I want tax cuts. There are a lot of Democrats in America that want tax cuts. I am going to vote for it, and I am going to ask the chairman to give us fairness on the independent contractor issue and on that teacher retirement issue.

But there is one last thing. I think this Tax Code must be incentivized to recycle the money of the risk-taking entrepreneurs throughout America. We should not demean them, we should not punish them with our talk, and we certainly should not scare their money overseas. There is too much of that.

Quite frankly, anyone over there that can jump up and say, TRAFICANT, this vote hurts you politically; I think it does. But I think this vote of mine will help America. That is the bottom line.

Mr. ARCHER. Mr. Chairman, I yield 1 minute to the gentleman from New York [Mr. PAXON].

Mr. PAXON. Mr. Chairman, I find it appropriate that as the Nation prepares to celebrate Independence Day, this House is cutting taxes for our hard-working families back home. For too long liberals have treated the middle class as their personal ATM machine, a cash cow to pay for their big government schemes. They taxed your income, they taxed your gas, your cable, your electricity, your house, and they even taxed you when you died.

Liberals have come up with all kinds of clever new taxes, never giving a thought for a second to the people that have to pay those taxes, people like the truck driver who cannot afford to send his daughter to college, or the nurse and police officer who cannot give their twin sons some new school clothes.

Well, today, for those folks and millions more, we declare independence from big government and high taxes. In fact, 76 percent of our tax cuts go to those families who earn less than $75,000 a year.

Our plan includes education and per-child tax credits to make it a little easier for families to raise their kids.

Mr. Chairman, for the American taxpayers, the Fourth of July comes early this year, and for once, it is not the taxpayers who are getting barbecued.

Mr. ARCHER. Mr. Chairman, I yield 1 minute to the gentleman from California [Mr. DREIER].

(Mr. DREIER asked and was given permission to revise and extend his remarks.)

Mr. DREIER. Mr. Chairman, this capital gains issue is one that I believe is very important, and it is unfortunate that we see this class warfare thing going on over and over and over again.

When we testified on H.R. 14, the capital gains reduction package to take it from 28 to 14 percent before the Committee on Ways and Means, we had the gentleman from Florida [Mr. DEUTSCH] join us. He has stood in this well time and time again, talking about the fact that 63 million American families own mutual funds today.

It seems to me that we should look at the fact that 85 percent of the returns that are filed are among people who have less than $100,000 a year in income. That is very apparent; it cannot be forgotten, and class warfare is unfortunate. The late Paul Tsongas was right when he said, the problem with my Democratic Party is that they love employees, but they hate employers.

Mr. ARCHER. Mr. Chairman, I yield 1 minute to the gentleman from Alabama [Mr. RILEY].

Mr. RILEY. Mr. Chairman, here we go again. The liberal crowd is absolutely dismayed that this tax bill today does not contain tax relief for individuals who do not work and do not pay taxes. The other side of the aisle just does not get it.

Mr. Chairman, we believe that in order to qualify for tax relief that one ought to at least work and at least pay taxes. Seventy-six percent of the tax relief included in this legislation will benefit working families who earn less than $75,000 a year.

So let us stop the rhetoric and the scare tactics and talk about the truth. The truth is the big spenders on the other side of the aisle will now have less money to squander on wasteful Government spending. The American taxpayer works until May 9 to earn enough income to pay an entire year's worth of taxes. And the cost of Government regulations, the average American's debt to the government will not be satisfied until July 3. That is right. Americans this year will spend more than 6 months working for the government.

Let us stop this insanity and vote for H.R. 2014.

□ 1400

Mr. RANGEL. Mr. Chairman, I yield myself 10 seconds to respond that there is nobody on this side that is saying that, if you do not work, you should get the child credit. Let us not talk

about class war. The only class of people that we are talking about benefiting and the President wants benefited by this legislation are hard-working Americans. If you do not work, you do not get it.

Mr. Chairman, I yield 2 minutes to the gentleman from Oregon [Mr. BLUMENAUER].

Mr. BLUMENAUER. Mr. Chairman, I personally am disappointed and saddened with the turn of this debate on a tax cut proposal. In the rush to pass the Republican tax program, we are leaving behind the vast majority of Americans. It shortchanges working families, some of whom will end up paying more to concentrate the relief to the top 1 percent, who have already received the bulk of Congress' generosity over the last 20 years. Instead, we should be concentrating on provisions that would give all working families more equitable treatment.

The most burdensome tax for working families is the Social Security payroll tax, which takes a bite out of everyone, but falls most heavily on those who make lower incomes and on small business people. The simple remedy of a credit against the Social Security tax would help those who need it most, still give the richest Americans a reduction, as well as, most important, create jobs, because employing Americans would be more economically advantageous.

Another adjustment that would be simple, low cost, and make a huge difference would be exempting the profit from the sale of residential property from capital gains. This is the capital gains cut that would reach most Americans. It would cost the Treasury almost nothing, because most people do not pay that tax now. They simply hold onto their property or roll it over to buy more expensive property. Nobody pays it but the dumb, the distressed, and the divorced.

This would enable families to make wiser decisions about homes that best serve their family circumstances, not the Tax Code, while it reverses a perverse tax incentive that promotes urban sprawl. Sadly, we are missing this opportunity to make America competitive and to help working families, while we read of the special interest provisions that are stuffed into this bill. How quickly the Republican Committee on Ways and Means have forgotten all the talk last year about tax simplification and fairness.

Mr. ARCHER. Mr. Chairman, I yield 2 minutes to the gentleman from Oklahoma [Mr. WATKINS], another respected member of the Committee on Ways and Means.

(Mr. WATKINS asked and was given permission to revise and extend his remarks.)

Mr. WATKINS. Mr. Chairman, I thank the gentleman for yielding time to me.

Mr. Chairman, I returned to Congress because I wanted my time to be effective. I wanted a balanced budget for the future of our children and our grandchildren. A future that would allow them to compete and succeed in a 21st century global economy.

Mr. Chairman, I want to thank you so much for offering us to shape that economy. An economy that will allow us to be more competitive. I did not want my children or the children or grandchildren in this country to end up having a Shanghai address. The great economic competition of Southeast Asia and China will place us in the situation where many of our children will have to be looking overseas for jobs if we do not reduce taxation, reduce taxation and reduce litigation.

Mr. Chairman, this particular bill allows us to have a better economy for the 21st century. Yes, it helps the children of middle class America by having a child tax credit, also an education tax credit, but the capital gains tax reductions and relief on the alternative minimum tax will allow us to maintain and sustain economic growth. That is a key economic variable. That is the card that my friends on the other side of the aisle keep overlooking.

If we sustain this kind of economic growth, Mr. Chairman, we will be able to look at having another tax cut next year, and reducing our deficit a great deal more to personally reach a balanced budget a lot quicker than the year 2002.

The budget we passed yesterday was based on an economic growth of 2.1 percent, very conservative numbers. Our growth is presently at 5.5 percent plus. If we could sustain and maintain that growth, yes we will have the kind of economic growth where we can give a tax cut again next year, and where we will be able to balance the budget a lot quicker. What a gift to give the American families.

Let me say, Mr. Chairman, this is not only an immediate help to American families, but the key element of a historic budget that will allow us to have the economic growth for the future. We must shape and craft an economy with less taxes, less regulations, and less litigation, so we can compete in the most competitive global economy that has existed in the history of our country. This is truly a victory for the American families.

Mr. RANGEL. Mr. Chairman, I yield myself 15 seconds.

Mr. Chairman, I would just point out that we want all of the kids of working families to receive this benefit. Over half of the kids in Oklahoma will not receive it under the Republican plan. Over half of the kids in Alabama will not receive it. Fifty-six percent of the kids in New York will not receive it. Almost half of the kids in Ohio will not receive it.

Mr. Chairman, I yield 4 minutes to the distinguished gentleman from Georgia [Mr. LEWIS], a civil rights leader, a member of the Democratic leadership.

Mr. HEFNER. Mr. Chairman, will the gentleman yield?

Mr. LEWIS of Georgia. I yield to the gentleman from North Carolina.

Mr. HEFNER. Mr. Chairman, they say what goes around comes around. In 1981 we heard the same arguments. We passed a package that was unfair in 1981, and we have a package today that repeats it. It is not fair.

If the people want to complain about us engaging in warfare and passing a tax package that benefits the wealthy, quit offering the packages that do not help the working people. But if Members want another package like they had in 1981, this is their baby.

Mr. LEWIS of Georgia. Mr. Chairman, it is time to be frank and honest about this tax bill. Republicans used budget gimmicks, smoke and mirrors, to hide the true effect of their plan. Why? Because the American people know the Republicans are looking out for Wall Street and wealthy Republican supporters.

This debate is not about whether to have a tax cut. Democrats support a tax cut. This debate is about who will get the tax cut, Wall Street or Main Street. Democrats support a child tax credit for all working families. We support a HOPE scholarship to help our children, all of our children, go to college. We support allowing middle class American families to sell their homes without paying taxes.

But this is not what the Republicans want. The Republicans deny more than 10 million working parents a child tax credit, parents who pay billions of dollars in Federal taxes. Republicans cut in half President Clinton's HOPE scholarship for millions of middle class students. Why? So they can give a huge tax break to the rich.

Republicans may tell us a different story, but do not be fooled. The Republican tax bill is not the Good Samaritan on the Jericho road. Do not be misled. What do the Republicans give a family of four making $24,000 a year? Nothing. What do Republicans give the mother who has left welfare to work at a minimum wage job? Nothing.

Yesterday Republicans raised the Medicare premium on the elderly. Today the Republicans will give the elderly middle class nothing. What do the Republicans give millions of working families? Nothing, nothing, nothing.

Empty Republican promises will not help hard-working families live the American dream. Republicans give a $22 billion tax break to America's largest corporations. They give 20 percent of that tax break to people with an average income of half a million dollars. At the same time, the Republicans raise taxes on people earning less than $10,000 a year.

Republicans will steal from the poor and give to the rich. When fully phased in, Republicans give 60 percent of their tax cut to the wealthiest 10 percent of Americans. That does not leave much for America's middle class.

I would say to the gentleman from New York [Mr. RANGEL], Mr. Chairman,

I was not here for voodoo economics. I did not vote for trickle-down economics that did not trickle down. We must not make the mistakes of the past. We must not travel down that road again. We must not let the Republicans hide a huge tax cut for the rich behind empty promises for the middle class.

Mr. Speaker, let us give a real tax cut to hard-working American families. I urge all of my colleagues to reject, to vote against, this Republican tax scheme for the rich and support the Democrat middle class tax cut for all Americans.

Mr. ARCHER. Mr. Chairman, I yield myself 2½ minutes.

Mr. Chairman, I would simply say that my friend, the gentleman from Georgia [Mr. LEWIS], makes a very excellent and emotional presentation. And he is right in some regards; he is right, we do not give income tax relief to people who do not pay income taxes, absolutely right. Those people in the middle-income category who pay income taxes, who bear the burden, who have received nothing in the last 16 years, do get the majority of the relief under this bill.

As for Wall Street and Main Street, I do not know how Wall Street benefits from the child credit. I do not know how Wall Street benefits from the education credit. But over a 10-year period, and if this is not true let it be refuted on the other side, $250 billion is the net tax relief. It is $225 billion over 10 years that goes to the child credit, which cannot be given to anybody who has over $100,000 in income, and to the educational tax relief. How does that help Wall Street?

Mr. KASICH. Mr. Chairman, will the gentleman yield?

Mr. ARCHER. I yield to the gentleman from Ohio.

Mr. KASICH. Mr. Chairman, I also want to say what confuses me is I was in this Congress for over a decade listening to people talk about all these big giveaways to the rich, powerful special interests. Yet, the then-majority did not have the guts to take any of those special benefits away by closing loopholes.

It was finally when the gentleman from Texas [Mr. BILL ARCHER] became chairman of the Committee on Ways and Means that we decided to deny special benefits to companies in Puerto Rico that were not living up to the spirit of the deal, to help people in Puerto Rico, and as the chairman of the Committee on Ways and Means that has closed a whole lot of loopholes and denied these loopholes to special interest groups so people who are normal, average working families can get tax relief, we ought to be given credit about that by everybody, on both sides of the aisle.

Mr. ARCHER. Mr. Chairman, this has been distorted also, and I would further add into the debate that over a 10-year period, and normally the House works only on 5 years, those are our rules, but because this is a special deal with the Senate, and the Senate works off of 10 years, we are now looking at both, over 10 years with this tax relief the budget is still balanced at the end of 10 years.

Mr. RANGEL. Mr. Chairman, I yield myself 1 minute and 10 seconds.

Mr. Chairman, it is just how we are designating these working people who are working every day, who will not receive the benefit, that is almost half of the families. We keep saying they do not pay taxes.

Mr. ARCHER. Mr. Chairman, will the gentleman yield?

Mr. RANGEL. I yield to the gentleman from Texas.

Mr. ARCHER. Mr. Chairman, they do not pay income taxes, I would say to my friend, the gentleman from New York.

Mr. RANGEL. Mr. Chairman, they cannot do this to the working people. It is just not fair to do it. If they are going out and paying taxes for clothes, for food, they do not care whether it is the city tax, the State tax, the Federal tax. These are working, proud people who do not want welfare.

The President said, the bipartisan committee said, if you are working and you have kids, we want to help you. But now we are saying, we really did not mean you people who do not have the Federal liability; we cannot help you.

Mr. ARCHER. The gentleman is absolutely right. If you pay in any income tax, you get relief under this bill. If you do not pay any income tax, you do not get relief. The gentleman is correct.

Mr. RANGEL. Taxes they can pay, and if it is not Federal income taxes and they are working hard, they do not count.

Mr. ARCHER. This is an income tax relief bill. That is correct. Those people who pay income tax get income tax relief.

Mr. Chairman, I yield 3 minutes to the gentleman from Florida [Mr. SHAW], another respected member of the Committee on Ways and Means, and the chairman of the Subcommittee on Human Resources.

Mr. SHAW. Mr. Chairman, I thank the chairman for yielding me this time.

Mr. Chairman, I think people who are watching this debate have to be just totally confused at this time. I think the gentleman from Texas [Mr. ARCHER], the chairman, has made a point very, very clearly. If you do not pay income taxes, you do not get income tax relief. Yet, when we hear the speeches going on in the well, as they are talking about all these people are rich, I am sorry, I do not think somebody who makes $20,000 a year is rich. Those are the people, between $20,000 and $70,000, they are the ones who are getting the major part of the relief in this bill, up to 76 percent.

□ 1415

That is the bulk of where this relief is coming from. Look at the child credit, the tax credit for people who have kids, this is a huge part of this bill, a huge part, and this does not go to the very wealthy, as I would define very wealthy. It goes to middle-income America.

I think when you look at the bill and you try to put it on balance, there are some Members in this House who just cannot stand the idea of giving the American people some tax relief. It has been 16 years. Republicans tried to do it last year. We were in the last Congress, it was vetoed. We have now come together working with the administration in trying to give America a very much-needed tax bill and give them the first tax cut in the last 16 years. That is what we need to talk about.

All the rhetoric and all the voice raising and all the yelling and screaming in the well of the House or at any of the microphones around the House is not going to change that. The figures do not lie. That is where the bulk of the tax break is going and that is where it is going to be.

One thing that I think all of us need to talk about and need to be concerned about, that is job creation. When we encourage corporate America, encourage small businesses, encourage the American people to invest in jobs, machinery and equipment, we become more competitive. When we talk about our jobs going overseas, we are trying to bring them home. We want people that have invested in machinery and equipment, that creates jobs. We want them to be able to get the tax write-offs that they deserve through the depreciation process. The depreciation process is just simply being able to subtract from your income a small portion every year of your investment so that at the end of the time, you just have not poured money down the drain. The same Members that are complaining about this are the same Members that complain about our jobs going overseas. You cannot have it both ways. We need economic development, economic growth in this country. We have had good economic growth but the jobs have not kept up. Wages have not kept up.

This is what this bill is going to do. Let us get away from the rhetoric. Let us stick with the facts and let us support the bill.

Mr. ARCHER. Mr. Chairman, I yield 5 minutes to the gentleman from California [Mr. THOMAS] another very respected member of the Committee on Ways and Means, who is also chairman of the Subcommittee on Health.

(Mr. THOMAS asked and was given permission to revise and extend his remarks.)

Mr. THOMAS. Mr. Chairman, first of all I want to thank the chairman of the Committee on Ways and Means for yielding me the time, but more importantly, for working cooperatively to produce a bill of which all of us can be proud.

I have listened to this debate carefully, and frankly there are two themes

that just baffle me. But that is okay. You folks baffle me often. One of them is that you have come to the floor and you have presented a number of charts which explain by graph lines that if you give more of the American people's money back to them, that is, leave it in their pocket, that somehow the Government is going to go into deficit. It is a very simple and fundamental question. What is the economic engine of this economy? Where are jobs created?

We believe the economic engine is the individual, not the Government. It is quite clear when you make the argument that if you leave money in the pocket of citizens to invest, to grow, to create jobs, you are threatening the deficit of the Government. You are wrong. What that does is grow the economic pie. It means they are going to have a better life and there will be more revenue available to the Government.

I know you do not believe that because you do not believe in leaving more money in the pockets of the citizens.

The other thing that I have marveled about in terms of the presentation today is that there is one myth that you absolutely have to perpetuate. I was pleased yesterday on the front page of the Washington Post that the myth that there were aliens who visited the Roswell, NM, area 51, I apologize if some of you do not believe that it is a myth; if you believe it is reality, then it just proves my point even more, but I think we are beginning to realize that it is a myth. We have just recently realized that spicy foods do not cause ulcers. That is an old wives' tale. That is a myth, it is Bacteria.

There is another other myth that is trying to be perpetuated on the floor of the House today. And that is if Republicans put together a tax cut, it must be for the rich. It cannot be any other way. They say aliens landed in Roswell, spicy foods cause you ulcers, Republicans' tax packages are for the rich.

Let me give you an example of how far the Democrats have had to go to maintain the myth that this tax package is for the rich.

Let us take a family that really has not had a very good year this year. It is the Smith family. There are three of them, Mr. and Mrs. Smith and their son, Tom, who is 16 years old. Mr. Smith worked in a foundry but because a lot of the work they are doing is being supplanted by imports, the job really has been threatened for some time. Mr. Smith was worried. He had an accident on the job and, as a matter of fact, the foundry closed down. He is getting workmen's comp because of his accident and he did get some severance pay from the company. They are fortunate, though, because over the years they have been able to save their money and they bought a modest home. They are living in the home. He has an insurance policy that is slowly getting bigger, like most of you have. And son, Tom, feeling pretty proud for a 16-year-old, works at a fast-food store to give himself some pocket change and help out around the house sometimes. He feels very good about it.

In real life, that family profile produces no tax paid. As a matter of fact, they could earn another $10,000 under current law and there would be no tax paid.

Look what the Democrats can do to this family, using their economic income profile. Do not look at the $70,000-a-year people. That is even worse. Look at the Smith family.

All of a sudden in their family income profile, Mr. Smith must count his $5,000 of separation pay. Tom Smith's fast food money goes onto the ledger, $3,000, the $5,000 for workmen's comp, that is added to their income, and guess what, that modest home they live in that would after expenses rent for $500 a month, requires that you slap another $6,000 on their income. Under the Democrats' arguments about who is getting the benefits in this tax cut, the Smiths would have made $20,000 last year. And if you then take the current tax structure and impose it upon what they say the Smith family earned, under their economic income test, these poor folks, the fellow on workmen's comp who lost his job, whose kid felt pretty good about working, winds up owing $772 in taxes.

That is what they do to reality to keep the myth alive that the Republicans have tax cuts for the rich.

REAL LIFE

Gross income for Mr. and Mrs. Smith, $5,000 (separation pay).
Standard deduction, ($6,000).
Personal exemptions (for Mr. and Mrs. Smith and son Tom), ($7,950).
Taxable income, ($9,850).
In real life, the Smiths owe no tax.

DEMOCRATS' FAMILY INCOME COMPENSATION

Mr. Smith (separation pay), $5,000 (separation pay).
Mrs. Smith, none.
Tom Smith (fast food res. salary), $3,000.
Mr. Smith's workman's compensation, $5,000.
Increase in value of life insurance policy, $1,000.
Imputed rental value of home, $6,000.
Total, $20,000.
Standard deduction, ($6,900).
Personal exemptions (for all three family members), ($7,950).
Taxable income, $5,150.
Taxable income, $5,150.
If Democrats' family income was law, Smiths would owe $772.50 in taxes.

Mr. RANGEL. Mr. Chairman, I yield myself 10 seconds.

The real myth is that this is a bipartisan bill. The person who reached out to make it bipartisan is the President of the United States. He will evaluate it and he will find out that it has to be vetoed.

Mr. Chairman, I yield 2 minutes to the gentleman from Massachusetts [Mr. MARKEY], an outstanding Member of this Congress.

Mr. MARKEY. Mr. Chairman, first of all, this budget is a house of cards. There are so many assumptions built into the Republican budget and tax bill that it is important for them to keep them separate. Yesterday, the budget. Then after a respectful overnight wait, we bring the tax breaks out here onto the floor. Today they give the tax breaks to the people who do not need them. Do they give them to the people who they hurt yesterday? Well, they say, with bleeding palms yesterday on the floor, look how much we would like to help those uninsured children. We have no money. Look how much it hurts us to cut the Medicare for the elderly. We have no money. And then after a respectful overnight wait, the tax break fairy shows up on the floor on the Republican side, sprinkling tax breaks across America. And who do they give them to? Do they give them to the families with uninsured children? No. Do they give them to the elderly on Medicare? No. They give them disproportionately, overwhelmingly to those that come from families of $100,000 or more.

Now, Mr. Chairman, these are the same Members who said that the Democrats in 1993, when they voted to reduce the deficit from $300 billion down to $50 billion today, were going to ruin the American economy. What do they do? They bring out a proposal here that increases the deficit next year and the year after and the year after and the year after and in the year 2001 magically it is going to balance itself. And how are they going to do it? Auction off spectrum. Auction off spectrum, like Rumpelstiltskin forcing the young maiden to spin gold.

Mr. ARCHER. Mr. Chairman, will the gentleman yield?

Mr. MARKEY. I yield to the gentleman from Texas.

Mr. ARCHER. Mr. Chairman, the gentleman just said that the benefits in the child credit went to families over $100,000. I am sure he did not mean to say that.

Mr. MARKEY. Mr. Chairman, I absolutely did. And it is an incontrovertible truth. That is how the tax benefit breaks, if you look at it over the 10-year period, as we should have done with the Reagan tax break in 1981, which ultimately turned out to be that kind of pinata of goodies for the rich.

Mr. ARCHER. Mr. Chairman, I yield myself 15 seconds to say that the tax benefits for families with children go almost totally to people under $100,000 in annual income. The gentleman knows that. He did not mean to distort it and say they all went to people over $100,000.

Mr. Chairman, I yield 2 minutes and 30 seconds to the gentleman from Arizona [Mr. HAYWORTH], respected member of the Committee on Ways and Means.

Mr. HAYWORTH. Mr. Chairman, I thank the chairman of the Committee on Ways and Means. I believe it was Art Linkletter in a joking vein who reminded us all that kids say the darndest things. I must tell you today,

Mr. Chairman, that listening to the gentleman from Massachusetts, I am reminded that liberals say the darndest things.

Let us say it as it really has been. The gentleman from Massachusetts talks about a house of cards. Here is the problem, Mr. Chairman. It is that the liberals on this side have built a house on credit cards, going to the American people time and time again to take more money out of their pockets, and the gentleman from Massachusetts speaks of a tax break fairy. No indeed, Mr. Chairman, a tax break reality is what the American people deserve. And that is what they receive under the majority's plan.

The gentleman from Massachusetts, indeed our friends on this side of the aisle, all know that this tax bill provides tax relief to working Americans. Indeed, well over 70 percent of the tax breaks here go to families earning between $20,000 and $75,000 a year. In my State of Arizona, 570,000 children will be eligible for the $500-per-child tax credit—$438 million in education tax benefits will go to Arizona families. And all Arizona small businessmen and ranch owners and farmers will benefit from an increase in the death tax exemption.

No, the fact is, Mr. Chairman, this plan makes imminent sense. Again, to echo the curious findings of my friend from Massachusetts who spoke about Rumpelstiltskin, the sad fact is that while this Government has not demanded the firstborn child of every family, it has asked for more and more and more of the average family's income until the tax-and-spenders who dominated Washington for so long asked for more and more and more to the point where, Mr. Chairman, the average family in this country pays more in taxes than on food, shelter, and clothing combined.

In the name of fairness, we ask the American people to join with us and let us make sure the American people hang onto more of their own money, send less of it here to Washington. That is the key to our future success. That is the true bridge to the 21st century.

Mr. RANGEL. Mr. Chairman, I yield myself 10 seconds to point out to the gentleman from Arizona that as a result of the Republican bill, working Arizonan families that do not pay the Federal income tax but pay taxes on everything that they eat and drink in Arizona will be denied the benefits under the Clinton bill.

Mr. Chairman, I yield 2 minutes to the distinguished gentlewoman from California [Ms. WATERS], chairperson of the Congressional Black Caucus.

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Ms. WATERS. Mr. Chairman, I rise today in strong opposition to the Republican reconciliation tax bill. Their $85 billion tax cut package gives the wealthiest huge tax benefits while ignoring the plight of the working and poor families who struggle every day to get by.

The combined effect of their spending and tax bill also gives the wealthiest 20 percent of the U.S. population a whopping 87 percent of the net benefits, while the bottom 60 percent would share only 4 percent of the net benefits.

In fact, under the Republican tax bill, the average savings for the 20.7 percent of families with incomes between $30,000 and $50,000 would be a measly $38. At the same time, the wealthiest 1.4 percent of households would get a tax break of over $21,000.

These tax cuts that benefit upper-income people include open-ended estate tax cuts that benefit only the richest 1.5 percent of families and include the deficit-busting capital gains tax breaks. At the same time, the Republicans' proposal denies the working poor the tax relief they guarantee the rich.

The Republicans took the President's education tax package, including the HOPE scholarship, and undermined its goal of reaching the neediest students.

The bill undercuts the wages and benefits of millions of workers by enabling employers to consider them independent contractors and not employees.

The bill also denies the $500-per-child tax credit to over 15 million families. Let me give my colleagues an example of what this means. In the State of California, 56 percent of the children do not get the child credit under the Republican bill. That is more than 5.5 million.

The Republican tax bill is an outrage. They do not want us to say it, but we are going to say it over and over again; it benefits the wealthiest in this Nation. I urge a ''no'' vote.

Mr. ARCHER. Mr. Chairman, I yield 1 minute to the gentleman from Illinois [Mr. MANZULLO].

Mr. MANZULLO. Mr. Chairman, the people of the district I represent earn between $30,000 and $40,000 a year. What does that mean to them? It means that 113,600 children in my congressional district are eligible for the $500-per-child tax credit.

That means that people in the district I represent will have an additional $48 million in money that they otherwise would have paid to the Federal Government. It means to those people that they will be able to keep an additional $1,500 in money they would have paid for Federal income tax in their own pockets to give to their kids who are going to college.

Who is the beneficiary of this? It is the people that I represent, the hard-working Americans, the ones earning between $30,000 and $40,000 a year. It is 113,000 children in the district that I represent. A good tax cut bill for the hard-working, middle-income American families.

Mr. RANGEL. Mr. Chairman, I yield myself 10 seconds.

Mr. Chairman, we are very pleased about the number of children that get the benefit. That is what the President wants. We are very disturbed that 1.8 million, that is half the kids in Illinois, will not get it.

Mr. Chairman, I yield 3 minutes to the gentleman from South Carolina [Mr. SPRATT], the Democratic leader of the Committee on the Budget, and publicly thank him for the bipartisan effort that he made on behalf of the President and the country.

(Mr. Spratt asked and was given permission to revise and extend his remarks.)

Mr. SPRATT. Mr. Chairman, I thank the gentleman from New York [Mr. RANGEL] for yielding me the time.

Mr. Chairman, I have been in this House for 15 years, and it has taken all of those years for us to get to this point, a day when we can honestly say a balanced budget is within our reach.

Over the last 5 years, we have lowered the deficit by 65 percent, brought it from a projected $332 billion in fiscal 1993 to $10 billion last year. This year, it is projected to be $65 billion, the lowest level in 20 years. We have succeeded, in part, because we finally restored the revenue base of the Federal Government, due in part, large part, to the tax bill that we Democrats passed in 1993.

Corporate income tax revenues this year are up by $72 billion, more than 70 percent over 1992. And, indeed, the only reason we are standing here debating a tax bill, or debating a balanced budget bill yesterday, is that CBO came up with $225 billion in additional revenues.

Now having come this far, our object is clear. We want to balance the budget, we want to finish the job, we want to get there by 2002. But we do not want to blow this opportunity, having come so close to the target. To move a 5-year budget in a divided government, we have got to have bipartisan consensus; and to have that consensus, we had to agree to tax cuts. Both sides, in truth, want them.

But since the overriding objective is a balanced budget, we had to agree that the tax cuts stay within strict limits: $85 billion in net revenue losses over the first 5 years, $250 billion over the full 10. We fixed those limits, once again, because we have come so far and we did not want to lose the ground we gained, to put our objective back any further or risk the objective. But it is so far out that it would be beyond resolution.

The first fault I have with their tax bill is it does not meet our objective. Specifically, it goes beyond limits laid down by our budget agreement. It breaks the letter of the agreement because the revenue losses in it add up to $4 billion too much over 10 years in the amount we specified. That is because the Committee on Rules yesterday removed the cutbacks in ethanol tax preferences without replacing them with anything.

This is not my back-of-the-envelope estimate, it is a ruling rendered yesterday by our official scorekeeper, the

Congressional Budget Office. The CBO refused the attempt to score this bill as though the ethanol bill will expire in time. Four billion dollars is not a lot of money in a budget that runs into the trillions, but it is the spirit. It is sort of a manipulative spirit that gives me the most problem, and it runs throughout this particular tax bill.

Look what happens to capital gains. Let me say something: I am for capital gains tax cuts, and I am one of the Members who are in this House that will benefit from tax cuts, I should be frank to say, that we are going to get. But let me say I do not want a double-barreled tax cut, low preferential rate coupled with indexation, if it has to come at the expense of millions of children who will not get the tax credit, if it has to come at the expense of families on the EITC. This is a bill that should be rejected because it did not keep the budget agreement, it is not fair, and it included the extraneous provisions in the first place.

Vote against this bill. Vote for the Democratic substitute.

Mr. ARCHER. Mr. Chairman, I yield 2 minutes to the gentleman from Maryland [Mr. GILCHREST] for a colloquy.

Mr. GILCHREST. Mr. Chairman, I thank the gentleman from Texas [Mr. ARCHER] for yielding me the time, and I thank him for the opportunity to have this colloquy with him.

In the State of Maryland, as in many other States, it is common practice for school boards to contract out school busing services to independent contractor schoolbus drivers. Nearly every school district on the Eastern Shore has operated under such a contractual arrangement for decades.

Recently, however, the Internal Revenue Service made a determination that under the 20-factor common law test used to classify workers for Federal tax purposes, the Maryland school boards are required to treat these schoolbus drivers as employees of the school districts. These school districts are faced with a closing agreement that takes effect September 1 under which the school districts would be forced to purchase the buses from the independent contractor owner-operators and make them employees of the school district.

The IRS determination will disrupt longstanding contractual relationships that are beneficial to both the school districts and the self-employed schoolbus drivers who provide this vital service.

My understanding is that the safe harbor for independent contractors in section 934 of the bill will cover the longstanding contractual relationships between Maryland school boards and their independent contractor schoolbus drivers.

Mr. ARCHER. Mr. Chairman, will the gentleman yield?

Mr. GILCHREST. I yield to the gentleman from Texas.

Mr. ARCHER. Mr. Chairman, based on the facts that the gentleman has outlined, the Maryland school boards' existing contractual arrangements would be covered by the safe harbor, and that is the intent of the committee.

Mr. GILCHREST. Mr. Chairman, I thank the gentleman for that clarification. However, I do have a lingering concern about the Maryland school districts' problem. Under the December 31 effective date of the independent contractor safe harbor contained in the bill, many school districts will be forced, since they have this contract beginning in September, the school districts will be forced to sign the contract and potentially lose their buses and their independent status.

Mr. ARCHER. Mr. Chairman, the committee intends that section 934 would address the Maryland situation, among many others. However, we now understand that the provision's effective date may be too late to thoroughly address the problem in the Maryland counties.

I assure the gentleman I will seek to correct this problem during the conference.

Mr. RANGEL. Mr. Chairman, I yield 1½ minutes to the distinguished gentleman from North Carolina [Mr. PRICE].

(Mr. PRICE of North Carolina asked and was given permission to revise and extend his remarks.)

Mr. PRICE of North Carolina. Mr. Speaker, I rise today in opposition to the Republican tax bill and in favor of the Democratic tax relief plan. The Republican plan distorts our priorities as a nation and, in particular, does not do enough for one of the most important resources our country has, our students.

First of all, the Republican bill cuts the value of the President's HOPE scholarship in half, severely limiting tuition relief for the neediest students and students attending community colleges. In addition, while the Democratic alternative would permanently extend the tax credit for employer-provided education assistance, the Republican bill offers only a short and temporary 6-month extension.

Perhaps the worst offenses in this bill concern graduate students. Graduate students are barely scraping by on small stipends to finance huge tuition costs. But the Republican bill creates a tax on these graduate students who work part time as teaching assistants and research assistants and receive, in return, a reduction in their tuition. Under the Republican bill, graduate students would be taxed on this tuition reduction, increasing their tax burden in many cases by as much as $3,000 or $4,000 a year.

The Durham Herald Sun recently reported that the Committee on Ways and Means spokesman commented that graduate students may not make much money while they are in school, but many—and he seems to think they are all going to be doctors or lawyers—will be earning very high salaries shortly after graduation. He went on to call graduate students ''privileged,'' the sort of group that quote, ''ought to be the first to pay.''

Well, if you are a graduate student, you certainly are going to pay. And if you want to use the HOPE scholarship to finance your tuition cost, forget it. Under the Republican bill you cannot because graduate students are totally ineligible.

Many Members today are expressing their support for tax cuts for hard-working Americans. But the competing bills before us differ greatly in the benefits they offer to working and middle-class Americans. And as Mr. SPRATT has just stressed, they also differ in their fiscal responsibility, in the extent to which they keep the lid on the deficit in future years. The Republican bill cuts taxes for corporations and for the wealthiest Americans. But it increases taxes on graduate students and does little to help students struggling to attend college. We can and should do better, and the Democratic alternative shows us the way.

Vote for the Democratic alternative that does justice to this country's priorities and values.

Mr. HULSHOF. Mr. Chairman, I yield myself such time as I may consume.

I strongly support the tax package that came out of our Committee on Ways and Means. I am privileged to serve on that committee.

When I go back home, Mr. Speaker, I am inevitably asked the question, usually by high school students, ''What is the difference between Republicans and Democrats?'' And I try to tell them, Mr. Chairman:

I believe both parties, of course, believe in democracy. I believe both on either side of this aisle believe in a better America. But I think our vision of how to get to a better America is where we find other differences.

I know, certainly, that those of us on our side of the aisle believe that America is an overtaxed nation. We believe it is a matter of principle that hard-working men and women in this country stop working so hard for the Government.

As a newly elected Member, I have got to tell my colleagues that I am a little bit incredulous. Why is it that when we talk about letting people keep more of their money, that that is such a novel, radical idea? Why is it that when we talk about making Washington spend less, that somehow we are talking about blowing up the deficit?

I believe, as a fundamental principle, in letting the hard-working people in this country keep more of what they earn. It is their money. It is not the Government's money.

Mr. Chairman, I go back home, hopefully, after today and after a hard week, and I am going to get a chance to sit on our front porch with my wife and visit with our neighbors. I think it is best to let the decisions about how their tax money should be spent, that they are better to make that decision, better than I am.

For those that continue to talk about these capital gains cuts, since

when did fighting and working for the American dream, when did it become a scarlet letter? When did it become appropriate for us to scold and even punish or penalize those that have tried to get ahead?

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Mr. Chairman, this tax package helps the economy, it helps all Americans. For those that are trying to achieve the American dream. We encourage every business owner, every investor, every inventor, every farmer, every business man, every woman, every stockholder, every homeowner to invest in America's neighborhoods and workplaces by significantly reducing this tax on savings and investment, otherwise known as capital gains. But we continue to resort to this old style politics of class warfare. I had hoped as a newly elected Member that we were beyond that. Instead of dividing America, instead of pitting one group against another, why are we not working together? Why are we not trying to forge a consensus? Why are we not celebrating this day?

Next week when we are home, Mr. Chairman, we have a chance, of course, to celebrate our Nation's independence, July 4. I believe that if we support this Republican tax package, that we will be providing a symbolic victory for those folks who truly want to celebrate their independence.

Mr. Chairman, I yield 1 minute to the gentleman from Colorado [Mr. HEFLEY].

Mr. HEFLEY. Mr. Chairman, I rise to support this bill even though it does not go as far as I would like it to. I think our goal should be to get rid of the capital gains tax, to get rid of the death tax. But I look at this package and see what it means to the folks in my home State of Colorado. It means that the hardworking high school student from central Denver who cannot go to college right now will be able to get some help with books and tuition. It means that the middle-class family in Colorado Springs struggling on a two-family income may be able to take the vacation they have not been able to take because they can keep more of the money they have earned.

It means that the family farm in LaJunta, the one that has been in the same family for generations, may be able to stay in that family, and that the mom and pop store in Greeley may be able to stay in the family and the kids will not be saddled with unbearable inheritance taxes.

Yes, I support this bill because it will create jobs across the State of Colorado and those who have had trouble getting jobs will have a bigger job market and be able maybe to become productive again.

Mr. Chairman, that is what this tax bill and this tax cut does to the people of Colorado and for all Americans. I urge my colleagues to support this legislation. America needs a tax break.

Mr. RANGEL. Mr. Chairman, I yield 1 minute to the gentleman from Vermont [Mr. SANDERS].

Mr. SANDERS. Mr. Chairman, I think everybody knows what is going on in America economically. The people on the top have never had it so good. The middle class is shrinking, and most working people are struggling hard to make a living.

Given that reality, look at the absurdity of this Republican tax proposal. Instead of helping working people and the middle class, 58 percent of the benefits go to the upper 5 percent. After giving out all of those tax breaks, they necessitate $115 billion cuts in Medicare, which in my State of Vermont will be a $75 million cut over a 5-year period, which will mean deteriorating health care services for our senior citizens. Huge tax breaks for the rich, significant cuts in health care for our senior citizens.

The bottom 40 percent of wage earners get no cuts at all. What an absurd proposal. Let us defeat it.

Mr. CHRISTENSEN. Mr. Chairman, I yield 1 minute to the gentleman from Colorado, [Mr. BOB SCHAFFER].

Mr. BOB SCHAFFER of Colorado. Mr. Chairman, this is a picture of my grandmother. Here she is, a small little child. This is her in Ukraine when she was a little baby. This is her soon-to-be husband, this is my grandfather in Ukraine before they both immigrated, or when they immigrated to the United States. Three percent of their income was taxed by the Federal Government.

How far we have come. Here is their great grandchildren, my children. They were born into a world where they owe $20,000 as their share of the national debt. This is their share. The party that has been in charge for 40 years has taken our country from this to this. The land that my grandparents immigrated to in search of freedom and liberty and low taxes and opportunity has become a country where nearly 50 percent of the average family income is taken away, confiscated through taxation at the Federal, State, and local level.

Here is a farmer from Colorado standing next to me. Democrats suggest he is rich. He is an average American. He deserves a tax break.

Mr. RANGEL. Mr. Chairman, I yield 1½ minutes to the gentleman from Arkansas [Mr. SNYDER].

Mr. SNYDER. Mr. Chairman, today we are considering the first tax cut bill in 16 years. Let us choose the right tax cut bill for working and middle-class families. This is one of my constituents, Ingrid, and her two lovely children. She makes $7.50 an hour, which comes out to approximately $15,000 a year. Every week or every month, like everybody in America, she gets a paycheck. This is a copy of her check stub. On it it shows what kind of State, Federal, and payroll taxes she pays, and I circled the payroll tax. The right tax bill for her is the Democratic bill because the Republican bill pretends that she does not really pay these Federal taxes.

That is just wrong, Mr. Chairman. It is the wrong bill for millions of families like her.

This is another set of my constituents. This is Judy and her two daughters. They are older, they are teenagers. She needs to be thinking about college. Under the Democratic bill she will get the full $1,500 tax credit per year for the first 2 years of college. Why is that important? Because college tuition at our 2-year colleges can vary from $800 to $1,500 a year. Under the Republican bill she would only get 50 percent credit for that. It is not fair that she is forced and her children are forced to consider going to more expensive schools just to take advantage of a full tax credit for college.

Mr. Chairman, the Republican bill is the wrong bill for working middle-class families. I am going to vote for the Democratic alternative.

Mr. CHRISTENSEN. Mr. Chairman, I yield 2½ minutes to the distinguished gentleman from Nevada [Mr. ENSIGN].

(Mr. ENSIGN asked and was given permission to revise and extend his remarks.)

Mr. ENSIGN. Mr. Chairman, I rise in support of the Republican tax bill today because it is truly time for us to give tax relief to all Americans but especially to those in the middle income categories. I want to talk about two couples, very close friends of mine. One of the couples, they both work at Hertz Rent A Car. One works at the counter, the other one works actually in the parking lot. Between the two salaries, they make about $70,000 a year, not including benefits.

According to the Democrats and how they would calculate their salary on imputed income and the like, they would probably make about $120,000 a year. But let us take what they say on their tax returns. It is around $70,000, two average middle income-type people. They have two kids. What the Republican tax bill will do is give this middle-income family $1,000 per year in a child tax credit. It will also give them the opportunity to send their kids to college. But it also gives them, because of the capital gains tax reduction, the incentive to save and invest for the future.

Another couple, he is a police officer, a sergeant who actually has been in Las Vegas for years working for the police department; she is a receptionist. They make somewhere around $75,000 a year. This chart here clearly shows that both of these couples will get 76 percent of this tax break. According to what all Americans look at, and that is what does their tax return show how much income they make.

The Democrats have been cooking the books this entire time. When people ask you how much money do you make, you do not think about the numbers the Democrats are using. You think about what the numbers show on your tax return. Those are the real numbers, not the cooking the books number.

Mr. Chairman, this tax bill is truly for working class American citizens. Does it also go to some of the wealthy? Yes. But the vast majority of this bill by any common sense figures goes to people in the middle income categories in America.

Mr. Chairman, I urge a strong yes vote to allow working Americans to keep more of the money that they earned, not the money sent to the Government.

Mr. RANGEL. Mr. Chairman, I yield 1½ minutes to the gentleman from North Dakota [Mr. POMEROY].

Mr. POMEROY. Mr. Chairman, I thank the gentleman for yielding me this time.

Mr. Chairman, this is not a balanced bill. A look at what it does to help folks save for retirement tells the whole story.

First, the bill will actually force the retirement benefits of many retired college professors to be reduced, cut benefits 3 to 5 percent. Then the bill does absolutely nothing to help middle income Americans save for retirement by expanding individual retirement accounts to make it a little easier for them to put money away. No, it does not do anything there at all.

Rather, it creates a brand new tax break that benefits the most affluent seniors. The great majority of this new tax break, called backloaded IRA's, goes to the wealthiest 5 percent in this country. And so as it is with retirement savings, it is throughout this bill. Most of us get nothing. And the wealthiest get the most.

With retirement savings, it is so unfortunate this decision has been made. Folks need help putting money away for retirement. But rather than extend help to those who need it the most, middle income and working income families, the bill does nothing. Rather, it creates all of the benefit for those who already have the money saved for retirement, the country's most affluent.

Mr. Chairman, reject this bill. We can make it much better.

Mr. CHRISTENSEN. Mr. Chairman, I yield 1 minute to the gentleman from Florida [Mr. STEARNS].

Mr. STEARNS. Mr. Chairman, I keep hearing from that side of the aisle, they talk about fairness and equality. Let me ask them to listen carefully to an example of a classroom of students about to take a final exam.

Some students worked hard all year, were well prepared for the exam, while other students routinely chose to blow off homework assignments and skip most of the reading. I think most school teachers today recognize that scenario. The students who worked hard all year, surprise, surprise, almost always do better on the final exam than those who goofed off. But what if the exam results were tallied and then the equality police, on this side of the aisle, came in and said ''That's not fair. That's not equal. We need to have equality''? So they go in, the equality police come in and take a few points from those that scored the highest and give it to those that scored at the bottom. Suddenly they declare, ''Then, that is fair.''

My question is, ''Fair to whom?''

Mr. RANGEL. Mr. Chairman, I yield 2 minutes to the gentleman from Massachusetts [Mr. OLVER].

Mr. OLVER. Mr. Chairman, today we are debating alternative bills which provide identical tax cuts over 5 years.

Now, Americans expect Republicans to be for the wealthy, but they are shocked when they come to realize how much the Republicans have helped the wealthiest Americans.

The Republican Taxpayer Relief Act is class warfare—the Republican bill when fully implemented gives the one of every six American families whose earnings are more than $100,000 a year almost two-thirds of the tax cut. The other five out of six families get just over one-third of the tax benefits.

By contrast, our Democratic alternative gives over 70 percent of the total tax cuts to those five of six families whose earnings are less than $100,000 a year.

The Republican bill actually gives no net tax relief to working families whose incomes are below $27,000 a year. That happens to be the group of Americans who pay the largest percentage of their income in taxes of every kind in this country.

By contrast, our Democratic alternative gives those working families the benefits of the child tax credit and education tax credit that the Republicans give only to higher income families.

So Republicans give nothing to the 40 million families whose earnings are less than $27,000 per year. They give one-third of their tax cut to the half of American families who earn between $27,000 and $100,000 per year, and they give two-thirds of their tax cuts to the one of six families who earn more than $100,000 per year.

Americans are pretty smart. They have learned to expect that Republicans help the wealthiest. Under the Republican bill, the rich get very much richer, middle income America gets the leftovers at the banquet and the poor lose their shirts.

That is truly class warfare.

Mr. ARCHER. Mr. Chairman, I yield 1 minute to the gentleman from Indiana [Mr. BUYER].

□ 1500

Mr. BUYER. Mr. Chairman, I thank the gentleman for yielding this time to me.

I had to come to the House floor. I had to come here because it is obvious that there are truths, there are nontruths. I believe there are unequivocal statements of fact and there are truths that are self-evident.

I now understand that the creators of this institution here put ''in God we trust'' because we are going to have to trust God here because the facts are getting spun out so far. America watching this debate says, ''My gosh, I don't even know who to believe or what to believe. Listen to all these numbers.''

Mr. Chairman, it is an attempt here by this side to somehow frame that they are the only ones who care about children and seniors, that they are the only ones who care about the poor. That is false, but that is politics.

Let me tell my colleagues what the administration did. Confused by all these numbers? Treasury, in order to calculate these numbers that this side of the aisle is using, calculated family income not the way one calculates their family income when they work. They went in and did a family income economic assessment. And what Treasury did was, they took the adjusted gross income and added to it what the administration's guess is about other forms of income.

So believe me, what they did was something as bizarre as saying, ''If you own your own home, and if that family lived in the house and had you been renting that house, if you paid yourself rent, $800 a month, the Treasury then would add $9,600 to your family's income.'' What that is, is Alice in Wonderland calculations that show that the tax benefits are going to wealthier people.

This is a complete distortion, and I want America to wake up that there is a complete distortion here. If I have an axiom for the moment, it is that in Washington, DC, facts and truth may be interesting things but often irrelevant.

Mr. RANGEL. Mr. Chairman, I would just like to thank the gentleman for clarifying the tax bill.

Mr. Chairman, I yield 1½ minutes to the distinguished gentleman from Texas [Mr. STENHOLM] who has been so helpful in drafting the Democratic alternative.

(Mr. STENHOLM asked and was given permission to revise and extend his remarks.)

Mr. STENHOLM. Mr. Chairman, I rise in opposition to the committee bill. I do not come to this point lightly because there are many things in this bill that I support. However, this bill has two serious shortcomings that compel me to vote against it.

First, this bill is fiscally irresponsible and will ultimately undo the benefit of our work yesterday to balance the budget. Second, this bill does not sufficiently target tax relief to small businesses, farmers, and working men and women.

In our current budget environment we cannot approve every worthwhile tax cut, just as we cannot fund every worthwhile spending program. Given this reality, we must set priorities in deciding how to target tax cuts.

This bill has its priorities backward. The capital gains reduction does not distinguish between Wall Street speculators and individuals who make investments that create jobs. This bill terribly shortchanges family farmers

and small businesses in the area of estate tax relief in order to provide tax breaks that are good but much less critical. The House will have an opportunity, though, to provide meaningful estate tax relief and targeted capital gains reduction by voting for the Blue Dog motion to recommit later today.

Finally, I am extremely concerned about the impact that this bill will have on our efforts to balance the budget. The cost of this bill will explode in the next century, sending the deficit back up again. The harm to our economic future that will result from an exploding deficit will overwhelm any benefit that this tax bill will have in the short run. It would be morally irresponsible for this generation to enjoy the benefits of a short-term tax cut and leave our children and grandchildren with increased debt and a weak economy.

Mr. ARCHER. Mr. Chairman, I yield myself 15 seconds simply to respond.

The gentleman knows that this is a 10-year budget as demanded by the White House and that it is in balance by the end of 10 years, and that is way into the next century. It is not a exploding deficit, but of course rhetoric seems to command this debate.

Mr. Chairman, I yield 1½ minutes to the gentleman from Ohio [Mr. GILLMOR] for the purpose of a colloquy.

Mr. GILLMOR. Mr. Chairman, I appreciate the chairman giving me the opportunity to engage in a colloquy in respect to a particular problem affecting my congressional district. One section of the Taxpayer Relief Act provides a $15.50 tax to be placed on the arrival of international airline passengers from destinations outside the United States. While this tax may make sense for passengers flying from London to Washington, it does not make sense when the distance is negligible, and I seek to have this section adjusted.

Here is the problem. Griffing Flying Service from Sandusky, Ohio flies charter aircraft from Sandusky to Pelee Island in Lake Erie and back. Pelee Island is only 25 miles from Sandusky, but it nonetheless lies in the territorial waters of Canada. Under certain circumstances flights from Pelee Island could be subject to the $15.50 international arrival tax proposed in the House bill. That means that a $20 plane ride now would cost $35.50, which would effectively terminate Griffing's service to Pelee and give the business to a competing Canadian-owned ferryboat service.

As a matter of simple fairness and common sense we should not have this tax apply in such a situation. I seek to have the chairman's assurances that Griffing Air Service and other short distance aircraft operations on the United States-Canadian border should not be subject to this onerous tax.

Mr. ARCHER. Mr. Chairman, will the gentleman yield?

Mr. GILLMOR. I yield to the gentleman from Texas.

Mr. ARCHER. Mr. Chairman, I assure the gentleman from Ohio that during the House-Senate conference we will address this matter so that U.S. air charter operations such as these will not be unfairly penalized by modifications affecting international travel.

Mr. GILLMOR. Mr. Chairman, I thank the gentleman.

Mr. RANGEL. Mr. Chairman, I yield 1 minute to the gentleman from Tennessee [Mr. CLEMENT].

Mr. CLEMENT. Mr. Chairman, what kind of America do we envision for the future? What kind of America do our constituents expect? I think all of us know, whether it be the Democratic plan or Republican plan, we are going to have some kind of tax relief this year. We have been fighting for it for a long time and it is going to come.

But what about it?

Americans want greater accessibility and affordability to education, Americans want tax exclusions on home sales, Americans want a child tax credit, Americans want greater exemptions for estate planning.

More than ever before, America's prosperity hinges on how we educate and train our people. Every day more Americans find an education out of reach of their pocketbooks. HOPE scholarships are a sensible way to address this problem; so are tax deductions. We must understand that every investment we make today enhances the dividends we receive tomorrow.

Yes, let us support the Democratic plan. It offers courage for the future. The American people want nothing less.

Mr. ARCHER. Mr. Chairman, I yield 1 minute to the gentlewoman from Florida [Mrs. FOWLER].

(Mrs. FOWLER asked and was given permission to revise and extend her remarks.)

Mrs. FOWLER. Mr. Chairman, today is truly a historic day. For the first time in 16 years millions of American taxpayers are headed toward receiving real tax relief from the Federal Government. Among the key items of the Taxpayer Relief Act are a $500-per-child tax credit and dependent care credits, substantial tax breaks to offset college expenses, estate tax relief and capital gains relief. These and other measures in this bill will yield significant relief to middle class Americans.

According to one nationally recognized Big Six accounting firm, a married couple with two children and a household income of $35,000 a year could see its tax liability cut by over $1,000 a year under this package. Now if one of those children were in college, that relief would nearly double.

Mr. Chairman this legislation represents a strong, balanced package of tax relief for our constituents. I urge its adoption.

Mr. RANGEL. Mr. Chairman, I yield 1 minute to the gentleman from Tennessee [Mr. FORD].

Mr. FORD. Mr. Chairman, today as we debate this tax relief package I think what we clearly see is Democrats and Republicans both want tax relief, but the issue boils down to those who work, play by the rules here in America and believe in the American dream, that they too deserve a tax break. They too have the right and should have the privilege to know that their children will go to schools with roofs over their heads, with air-conditioning in their schools, and will have the opportunity to go to college if indeed they work hard and play by the rules.

Mr. Chairman, I salute the hard work that the President, the Republicans, and the Democrats put forth on this bill, but I say to my colleagues as a new Member, we have heard the debate about middle class and rich Americans and poor Americans, but let us give a tax break to those who get up and go to work every day. Let us not put a value on work. Who are we to decide what workers and what Americans will get a tax break because we do not feel they earn enough or contribute enough to the American economy?

I say to my friends in this Chamber, Democrats and Republicans alike, do it for the next generation. Give tax relief to those American who get up every day, work hard and play by the rules.

Mr. ARCHER. Mr. Chairman, I yield 1 minute to the gentleman from South Carolina [Mr. GRAHAM].

Mr. GRAHAM. Mr. Chairman, congratulations on a super effort to give a little money and power back to the American people.

One thing I want to say: I was outside listening to the debate. If my colleagues have got kids at home, go and mark down on the calendar that the Democratic and Republican parties on the same day put a bill in to cut taxes.

I am not going to say a bad thing about my friends on the other side of the aisle. I appreciate them trying to cut taxes and send some money and power back home. I just wish they would stop distorting what we are trying to do. They are making everybody in America rich to get the numbers up. But that is OK. This is a good day. Both parties are trying to send back some of their money. Unfortunately, one party cannot let go of the past by demagoging everything we do. We will get over that one day.

Two and a half years we have been in charge, and the best results I can show the American people what it means to have us in charge is we got both parties wanting to cut taxes. Quit trying to defend stuff, Mr. Chairman. Be happy. This is a good day the Lord hath made and let us rejoice in it.

Mr. RANGEL. Mr. Chairman, I yield 1 minute to the gentlewoman from California [Ms. PELOSI].

Ms. PELOSI. Mr. Chairman, when people ask me what are the three most important issues facing the Congress, I always say: the children, the children, the children. But a close look at the Republican tax break bill shows that the rich are the winners in this bill and the losers, the losers are the children, the children, the children.

The children are losers because 40 million children are not eligible for the tax credit. The children are losers because the HOPE scholarships will be cut in half in the Republican tax bill. The children are losers because the economic security of their families is threatened by the concentrated and reckless assault on the American family, the American worker and the American dream.

Do not let children be losers, Mr. Chairman. We should all vote for the Democratic tax cut which is a vote for fairness, for opportunity and for work. Children can tell us, looking at this:

''Mirror, mirror, on the wall, who is the fairest of them all?''

Clearly the fairest of them all is the Democratic tax cut for working, low and moderate income families in America. I urge my colleagues to oppose the Republican tax break for the wealthy and support the Democratic tax plan for fairness.

Mr. ARCHER. Mr. Chairman, I yield myself 1 minute.

The gentleman from South Carolina was correct. This is a bipartisan effort, finally, to give back money to people that they have earned, finally let them keep more of their money, and I am happy that my friends on the Democrat side of the aisle are joining with us in this. I know it is difficult for them because their book on tax reductions is about one-sixteenth of an inch thick, but they are trying very hard to follow our lead and to give tax reductions to the American people, and that is something the American people I hope will appreciate, that this effort now is bipartisan.

Mr. Chairman, I reserve the balance of my time.

Mr. RANGEL. Mr. Chairman, I yield myself such time as I may consume.

Mr. Chairman, I guess bipartisan means liberal Republicans and conservative Republicans but did not include many Democrats, but anyway let us move on.

Mr. Chairman, I yield 1 minute to the gentlewoman from Texas [Ms. JACKSON-LEE].

(Ms. JACKSON-LEE of Texas asked and was given permission to revise and extend her remarks.)

Ms. JACKSON-LEE of Texas. Mr. Chairman, I thank the ranking member very much for his leadership and I thank my friend from Texas for his concern and initiative.

I do think that I will certainly adhere to those on the other side of the aisle, trust God and thank God, but I will thank God that the Democrats have offered a rebuttal to this tax plan offered by the Republicans that will show a large number, 54 percent of the children in Texas, who will not get the child credit plan under the Republican bill. That is more than 3.3 million children.

□ 1515

Then there are those in my district that are only making $31,000. They will not get the tax plan.

The real issue is, we are rushing this. The question is, who benefits? None of those who are making under $100,000 a year. It is important that we come together and deliberate. Why are we rushing this? This is not a fair tax bill, and it is not coming from just those of us on this side of the aisle.

The Wall Street Journal on Thursday, June 26, has indicated that the numbers that the Republicans have are distorted, and in fact, that the numbers do not suggest that those individuals who need it most will get the tax plan. I would hope that we vote for the Democratic alternative.

Mr. Speaker, I rise today to speak out in vigorous opposition to this outrageous short-changing of American working families. This bill clearly helps those Americans who do not need help. This bill is steak and cake for the wealthy and the crumbs for working families.

Mr. Speaker, Americans want us to help them in sending their children to college. But, look at the educational provisions of this bill. The budget agreement called for $37 billion for helping those families who need help in sending their children to college. But, the Republicans only have $22 billion in their version of the budget agreement and look how they want to use tax relief for education.

The Republican plan allows the deduction of up to $10,000 a year for college costs. These deductions were originally aimed at lower and middle class families who need the help. But, now there are no income limits on the deductions which means that it is worth twice as much to families in the top tax brackets-to families that do not need Government subsidies to send their children to college.

The HOPE scholarship has been changed to give less to students from lower-income and middle-income families who are more likely to attend community colleges. Students attending the more expensive schools are getting the biggest benefit. Is this a fair plan? Is this the greatest good for the greatest number of Americans who are trying to put their children through college? Certainly not. But that's what the Republicans want.

In the area of capital gains, the benefits for the wealthy is even more astounding. Under the Republican plan, a wealthy investor could pay a lower effective rate of taxes on a profit from the sale of stocks than moderate-income families pay on their wages and on interest they get on their savings accounts.

I ask you, Is this fair? Is it fair that the selling of a piece of paper should be taxed at a lower rate than the hard earned wages of working class families? Clearly not. But that's what the Republicans want.

Mr. Speaker, we are all trying to end the deficits that are building our national debt and strangling our ability to invest in the future of America. But, look what this tax bill does to the deficits in the long run. Look what this bill will cost our children.

The deficits explode after the initial 5- and 10-year phase-ins, $650 billion deficits in the out years as the effects of the cuts for the rich really begin to be felt. These are the years when the baby-boomers will begin to retire and when we can least afford this kind of fiscal explosion.

Mr. Speaker, this bill is rotten for working American families and kills Government investment for our children. I urge Members to vote against this patently unfair bill.

Thank you.

Mr. RANGEL. Mr. Chairman, I yield 1 minute to the gentleman from North Carolina [Mr. ETHERIDGE].

Mr. ETHERIDGE. Mr. Chairman, I rise to oppose this Republican bill. Let me tell my colleagues why. Fifty-one percent of the children in North Carolina will not be eligible for benefits under this plan. That is 1.1 million children. Hard-working families in my district and across America deserve a break from the burden of Federal taxes, but it should be fair. Unfortunately, this bill neglects the needs of our North Carolina families and provides an unfair windfall for the wealthiest of Americans.

I strongly support a balanced budget. I voted yesterday for spending cuts that will make that happen. I strongly support helping our middle class families, and I have written legislation to provide estate tax relief for our farmers and small businesses, and I strongly support education tax relief under the Rangel substitute to help families put their children through college.

I am a Democrat, and I am for tax cuts, but I am for tax cuts that are fair to all the people in this country, and this bill is absolutely not fair to the children in America.

Mr. RANGEL. Mr. Chairman, I yield 1 minute to the gentlewoman from Colorado [Ms. DEGETTE].

Ms. DEGETTE. Mr. Chairman, I support tax relief for working families in America. It is not right that so many hard-working parents are struggling to make ends meet. Yet, instead of helping these families today, we are slamming the door on them. We are telling school teachers, law enforcement officers, factory workers and nurses and every other hard-working American that we just do not care about their economic struggles. We are telling the next generation that we prefer tax giveaways to America's wealthy at the expense of real deficit reduction.

Let me tell my colleagues what is really happening in my home State of Colorado. Forty percent of the kids under this proposal will be left behind, kids from moderate and low-income families. Nearly 96 percent of the 23 million children whose parents earn less than $23,000 would be denied any child care credit under this bill. This is inexcusable.

I urge my colleagues to pause for a moment and think about what this means to their constituents back home, think about the struggling families they are leaving behind with this bill, think about the next generation. Let us pave a straight path, not a U-turn.

Mr. RANGEL. Mr. Chairman, I yield 1 minute to the gentleman from Pennsylvania [Mr. DOYLE].

(Mr. DOYLE asked and was given permission to revise and extend his remarks.)

Mr. DOYLE. Mr. Chairman, I rise in strong support of the Democratic tax cut plan. I came to Congress in 1995

committed to balancing the budget, and in an effort to move the budget process forward, I was one of the 51 Democrats who voted for the reconciliation spending bill yesterday.

I subscribe to the view that we should balance the budget first and then consider tax cuts. However, this bipartisan budget agreement demands that tax cuts be enacted this year. I recognize we must work within these given parameters, so I will support equitable, responsible tax relief that adheres to the budget agreement.

The Democratic alternative will provide tax relief for middle class families that can really use it and is still compatible with real long-term deficit reduction. It is a stronger measure than the Republican plan because it goes further in helping middle class families cope with the cost of owning a home and paying for their kids' college education.

However, the biggest difference is the fact that the alternative is more economically responsible and fair. It does not lay the groundwork for decades of mounting debt.

Mr. Chairman, I ask that Members support the Democratic plan.

Mr. RANGEL. Mr. Chairman I yield myself the balance of my time.

I really think that this President of the United States has singled out one of the most important issues that we as Americans face, and that is whether or not we are paying attention to hard-working Americans as relates to the burden of taxes that we placed on them. Our President saw fit to reach out and to recognize that in the House and Senate, Democrats did not win, but he won, and the Republicans won.

To that extent, he thought he was pulling together a group to present to the American people a bipartisan agreement as to spending in the budget and in reducing taxes, and in providing assistance for American education. Somewhere along the line, when it got to taxes, our Republican colleagues forgot the bipartisanship, because to my knowledge, the Secretary Treasurer, representing the President, did not know what was in that package until the chairman released it. Notwithstanding that, there was great hope that during the process of amendment, that we might work out a bill that would lend itself for the President of the United States to say, it is not all that I wanted, it is not all the Democrats wanted, but it is the basis for us to move forward in a bipartisan way. Notwithstanding my feelings about it, I knew one thing was abundantly clear, that the American people did want and did deserve a bipartisan effort.

Now when we get to what do we have left here, the President of the United States looked at the package and said, but where is the Democratic part of this? Why did Congress elect to put something in the bill that would be so costly, no matter how much we would want to do it, and I am talking about capital gains indexing, when the President has made it known, at least informally, that he did not think that the budget agreement could afford that luxury. And where would Congress go to get the money to pay for this type of thing?

A lot of debate is being had today by my Republican friends in saying, if one does not pay Federal income taxes, one does not get Federal relief. Well, let me congratulate them, because up until yesterday, they were actually calling these people that work every day receiving welfare, and I am glad to see that has stopped, because as mean-spirited as it sounds to other people who work and the people that the President had included, it is so important that when we say tax relief, that my colleagues on the other side do not start a class system.

There is one group of people that we should talk about, and that is the working class. I promise that there is no reason for us to call people by class, except my Republican colleagues are saying that if these people do not make enough money to pay Federal taxes, then the taxes they pay for food for their children, the taxes they pay for clothes, the excise taxes, and these are Federal taxes that are put on airplane flights, these are taxes. Why should they be so sophisticated because they do not make that much money that they should understand now that they belong to a different class?

The President and the Congress allowed people to believe that when we say $500 for a child tax credit, that we really mean it. And if we can find a way to give to the working people, the people that find that inflation has eaten them up, the people that every time they see an excise tax, it means more to them than it means to people that get the salary we get. We do not care how much a bottle of milk goes up or a loaf of bread, but to many families, these changes in supermarket costs mean how much money they would have for other things.

So let me join with the Republicans in saying, let us stop this class war and let us start talking about the people who work and do not put them in different categories. If one is a working American, they deserve the relief that the President wants.

I do not know how long we will be able to stick with this bipartisanship. The President is looking for the principles of fairness. The President is looking for his HOPE scholarship that somehow was promised around $35 billion. Somewhere along the line the President thinks that he lost several billions, and that he did not see anything close to what he thought was an agreement.

Mr. Chairman, we Democrats, we have stuck together. We have gone to the President, we have provided an alternative, we have stuck with his principles, and one of the most important things is we expand on the education package. So, Mr. Chairman, I think it is safe to say, without getting involved in the class war, that there is a difference philosophically between the Democratic program and the Republican program.

We are asking that my colleagues join with the President of the United States. We can reject this package today by the Republicans. We can do better with an alternative that we are working with, and maybe if we allow this to go into conference that we will be able to pick out the best from both of the bills and allow us to come forward once again in an effort to be bipartisan.

Mr. Chairman, I yield back the balance of my time.

Mr. ARCHER. Mr. Chairman, I yield the balance of my time to the gentleman from Texas [Mr. ARMEY], the respected majority leader of the House of Representatives.

Mr. ARMEY. Mr. Chairman, I thank the gentleman for yielding.

Mr. Chairman, let me first pay my regards to the committee for the fine work that they have done on writing this bill. It is such a privilege for me to be here today and to stand here in support of this legislation and to stand here, quite frankly, in appreciation for this legislation.

This legislation is tax reduction for American families. It is legislation that realizes that American families come in all shapes and sizes and all configurations of income-earners, and with all configurations of problems, but all American families are tied together today by some common understandings and some common hopes and dreams, and that it is our job in Congress to reflect our understanding of these things faced by the American family and to represent the best of their hopes and dreams.

I think of mom and dad sitting around the kitchen table looking at the little ones and thinking about all of the things they want to do for them. We have all done that while we are doing our bills at the first of the month, scared half to death we will run out of paycheck before we run out of bills. And every time we do that we start with the realization that at the beginning of that month, our taxes are too high and if they were lower, we could do more for the kids.

□ 1530

Mr. Chairman, I realize that mom and dad struggled on that, and yet they accept their responsibility and they say, to the best of our ability to understand it, we will do our duty to support the programs for this country, and yes, especially those programs that touch our heart, because they are programs that help those who are more needy than ourselves. So while we struggle with our taxes, we appreciate the fact that for the low-income, the working poor, there is an earned income tax credit that allows them to offset those terribly burdensome payroll taxes; that somebody has understood and cared about that.

I am willing to pay my share of the taxes, and I am willing to do that in appreciation that someone with a lesser job than mine, a smaller income, the same hopes and dreams for their children, have a little relief for that burden.

Yet I know, we all know, if we could have that $500 for a tax credit, we could do so much for each and every one of these children every year; if we both work, mom and dad both work, and we get that child care tax credit, we do not need the $500 per child tax credit as much as a family that has only one income earner. Because we have the second paycheck and we get some compensation with the child tax credit, we are willing to accept the trade offer, my $500 a year for this child credit, over and against the tax credit. That is fair.

I look at my neighbor and I look at me and I see the difference in the way we construct our families, they are configured, and I say that is fair. We all accept that.

We all need tax reductions, but we need to reduce the taxes on those people who are paying the taxes. If we think in terms of giving tax breaks to people who have no tax liability, the $500 child tax deduction means, when you finish filing your taxes and you know what you have to pay, you take the $500 away from that tax liability. If I do not have anything to pay, I have nothing from which to make the subtraction.

Mr. Chairman, then we dream about children and their education. We want to save. We know the importance of savings. We want children to see that. There is the idea of the education savings account, so we can have a hand in determining where our children will go to school. The tuition tax deduction is so important.

I just finished with five children going through school. I remember when I was a grad student raising my own baby girl, Kathy. That money we paid out for tuition, we thought then and think now, there ought to be a deduction on that in your taxes. It is fair.

We put that in there, because we understand how we struggled in order to pay that tuition and those fees so that education can be obtained. That is the best of our dream for our children, that they will have that education, and we can afford for us to do that, for us to work with them and for them to do that.

Parents begin a married life, and I look at my son David and his beautiful wife, Laurie, with my gorgeous grandbaby with his grandpa's eyes, and they say, we want to own our own home. They struggled hard to save money for a down payment. They want to own their own home. They do not want somebody to credit the hypothetical rent they would pay themselves if they were renting it out instead of living in it as a double increase in their tax, in their income, some hypothetical way to say you do not deserve a tax break.

They need the tax break. They need the American dream savings account so they can again save for their children, so they can save for emergencies. They work so hard and they try so hard, and they do not begrudge other people the help we give.

I laugh at that because, when the little ones are little, of course you know they cost money and the $500 is very important, but they do not stop costing money at the age of 13. We know by fact from the Department of Agriculture that at the age of 12 they jump up to $1,000 more. Mom and dad know that. Why do the people on the other side of the aisle not understand that: the prom dresses, braces, all the things that come?

Are we going to cut it off at age 13? No, we say. Let us keep it in effect until the child is 17, before his 18th birthday. Then, as long as we can, let us give this relief to moms and dads. We do that.

Now, about the time the child is 13 or 14, mom and dad begin to have a different realization in their life. They begin to understand that the best of the American dream is not to have our own home for the children, but the best of the American dream is to get them out of it. So we know that saving for that education is going to pay off someday when that youngster will have a chance for a job.

When will we get the best job opportunities for our children? When the economy is growing more, when people are willing to make investments. I was talking to a machinist just a few months ago in Dallas, TX. He was looking at the machine on which he worked.

He said: Congressman, I can get better levels of tolerance, I can do better quality work, I have more productivity with this than I had before. I can work all my life and I could not afford to buy a machine for myself like this machine. I thank those folks that saved, I thank those folks that invested, for putting that machine in place so that I can have a better job, and I can make a higher rate of pay and I can do more for my children.

Working men and women know better than anyone else, if you are a truck driver, if you do not have the truck, you do not have a job. Investment is what gives you the capital with which to work. The capital gains tax reduction is about jobs.

How about that family that decides, let us get together and build our own business? Mom and dad and the kids pitch in. They build their own business, they want and need to be able to make the investments, to make it safe. The alternative minimum tax should not come down on them. The alternative minimum tax says, if you are investing in your business and if you are building your business and you are taking depreciation under the Tax Code, and it comes to the point where you do not have any net earnings that are taxable, you have to pay taxes on earnings you did not have.

Mr. Chairman, my colleagues are saying on the $500 per child tax credit, let us give it to somebody who has no tax liability, and on the alternative minimum tax, let us put taxes on people who have no earnings. They have it exactly backwards.

What does that mean? It means mom and dad are going to build a business. You build a business so you can provide a living for your family. You hope it is a success and you hope it is something the kids can be proud of. They look at the youngsters, and my dad when I was young was a grain dealer and built his own business, he looked at us and said, one of these boys should take over that business. It is my creation, my life's work.

That did not happen. He could not pass it on. When he died, half of it went to government. Do you think your dad works all his life, mom pitches in, as my mom did, as partners, so that at the time of their death the government can come and take half of their life's work away from their children? This is not fair. This is not fair. We try to give the family some relief for that. If you have just some kind of accomplishment, some kind of a legacy that you can hold, the family farm has been in the family for three generations and it has to be sold for taxes, that is not right.

We hear about this being an unfair tax bill. This is a fair tax bill. It is a tax bill that knows the goodness of the American people and respects the goodness of the American people. It is a tax bill that says, Mr. and Mrs. America, we know your dreams, we know how hard you work, we know how much you share your caring and your good fortune with other people and how little you begrudge somebody else a break and a reduction of taxes.

Mr. and Mrs. America, we want to give you, at this time that we are marching towards a balanced budget, at this time when we can afford to do so, we want to give you a reduction in your taxes that reflects our understanding of your goodness, where you can look at us, look at the bill, and hear us say through this legislation, Mr. and Mrs. America, we are on your side. We agree with you. This tax should be a tax that allows you to do the things you dream about getting to do. It should not be a tax that tells you you must do those things that people in Washington think you should do.

It should not only know the goodness of the American people, but it should respect that goodness and it should reward that goodness. It should say, you are Americans. You deserve to be free because you accept your responsibilities, and we endorse that and we reward it by letting you keep more of your own hard-earned dollars.

Mr. Chairman, this is good legislation for America. I am proud to be associated with it. I am proud to tell my son and my daughter, build your business, save for the kids' education, have success in your life, and when your

days are over whatever it is that you have done in your life for your children will be your source of joy and happiness, and can probably be manifest in their life as you leave what you have to them, instead of to the government.

How can we do better to respect the children of this great Nation?

ANNOUNCEMENT BY THE CHAIRMAN PRO TEMPORE

The CHAIRMAN pro tempore (Mr. LATOURETTE). The Chair would remind all Members that comments by Members should be directed towards the Chair and no other party.

Mr. PORTMAN. Mr. Chairman, the alternative minimum tax [AMT] is recognized on a bipartisan basis as one of the most punitive provisions in the Tax Code. Simply put, it's a job killer. It also is one of the most complicated provisions in the Tax Code—accounting for as much as 26 percent of tax compliance costs. Anyone concerned about tax simplification and the integrity of the Tax Code has to be alarmed about the AMT.

The current AMT was enacted in 1986 to ensure that no individual or business taxpayer with substantial economic income can avoid significant tax liability by using exclusions, deductions, and credits. While the drafters of the AMT might have been well-intentioned, in reality there is no longer a sound policy justification for this onerous and complicated provision.

H.R. 2014, the tax cut package being considered today, doesn't repeal the AMT but it does provide some important AMT relief and that's good news for American workers. AMT relief will help put U.S. firms on more equal footing with our international competitors by eliminating the tax penalty on investments in new plant and equipment in the United States. The bill also averts an AMT trainwreck for individuals by indexing the annual exemption for the AMT. Without this change, there will be a ten-fold increase over the next 10 years in the number of individuals who will be subject to the AMT.

Mr. Chairman, I think the AMT provisions are an important job creating component of this bill and I hope it can be enacted soon.

Mr. STARK. Mr. Chairman, I cannot support H.R. 2014, a bill to provide $85 billion in tax cuts because I believe the provisions of this bill are unfair and unwise.

Our country would be far better off to delay tax cuts for a few years until we have a balanced budget. After almost two decades of trying to recover from the Reagan cuts of 1981, we should have learned that large tax cuts given when a budget is not yet balanced can create havoc for decades. We have not learned our lesson; this majority persists in pushing tax cuts with abandon.

If we had the surplus, I would prefer to invest $85 billion to preserve the Medicare system—$85 billion would guarantee solvency past the year 2020, providing assurance of health security for millions of seniors. The majority party rejects that option.

If the Nation had a balanced budget, I could support tax cuts but they would have to benefit all workers, not just the upper brackets. I could support education benefits, if they went to all young people, not just those whose parents have $10,000 a year to stuff in an education fund.

If the Nation had a balanced budget, I could support a child credit to help the hard working families with the costs of raising children. I could never support the illusion of a family credit which is held out to all families but, in reality, available only to more affluent families.

If the Nation had a balanced budget, I could support rate reduction for all taxpayers not just those who make their money from Wall Street investments.

We don't have a balanced budget today. Until this bill got the House floor, the Nation was on the path to a balanced budget but we are not quite there. Perversely, in a bill designed to balance the budget, we are today considering measures which will have devastating budget results that go well into the next century.

We owe it to our constituents, our children and ourselves to vote ''no'' on this bill.

Mr. CUNNINGHAM. Mr. Chairman, I rise in enthusiastic support of the Taxpayer Relief Act.

After a 17-year wait, the American people finally receive tax relief under this measure. Families with children get a $500-per-child tax credit. There's tax relief to help with college. There's relief from the capital gains tax, which will help spur investment and grow the economy. And there's relief from the onerous death tax, so Americans who have built their businesses with their own hard work will be more able to pass their businesses on to their children.

It is remarkable to contrast this product of a Republican Congress with the product adopted in 1993 by a Democratic Congress. President Clinton was elected in 1992, with a Democratic Congress, and enacted the largest tax increase in history without a single Republican vote in the House or the other body. President Clinton was re-elected in 1996, with a Republican Congress, and now we are working together to provide Americans the middle-class tax relief that he promised 5 years ago, but has thus far failed to deliver—until now.

Together with the bill we adopted yesterday cutting spending and preserving Medicare, this tax relief contributes to a balanced Federal budget, and ends the tide of red ink and deficits that threaten our future.

Other Members have discussed in detail the many excellent provisions of this bill. I would like to focus on just one. I would like to talk about how this legislation includes my provision to encourage companies to invest their computers and technology to upgrade our children's classrooms.

THE NEED FOR THE 21ST CENTURY CLASSROOM ACT

The General Accounting Office reported in 1995 that ''America's schools are not designed or equipped for the 21st century.'' Yet, we all know that an excellent education that provides American children with a fighting chance at the American Dream includes rigorous academic basic instruction—plus the new requirement for technological literacy and proficiency in working with computers. The need for technological literacy is immediate. By the year 2000, just 3 years way, 60 percent of American jobs will require high technology skills. Thus, without early training in technological literacy, many of our future leaders will start their adult lives at a severe economic disadvantage.

While America's classrooms are supported by dedicated teachers, involved families, and bright young children, many of our Nation's classrooms lack the important technological resources that they need to prepare both teachers and students for a technologically advanced present and future. While we are daily amazed at the ways that advanced technology has improved America's economic competitiveness, transformed commerce and communications, and improved the quality of life of millions of Americans, that same advanced technology has not yet made as transforming an impact on the way schools educate children. The Internet and the World Wide Web are revolutionizing the way individuals and organizations share and find information. Yet only 14 percent of our classrooms have a telephone jack, and about 1 in 50 are connected to the Internet. Furthermore, the most common computer in our Nation's schools is the Apple 2c, introduced over a decade ago and now on display at the Smithsonian Institution; and while 50 percent of schools have local area computer networks [LAN's], less than 10 percent of those networks connect with computers in classrooms.

Therefore, bringing America's classrooms into the 21st century requires a major national investment in technology, including computers, software, and interactive interconnectivity.

How can we accomplish this task?

We have three choices. We can do nothing, which appears inexpensive but bears an immense cost in lost opportunity and foregone economic growth. We can create and expand Federal Government programs which invest in education technology. However, because of the immense scale of the need, and because primary and secondary education are primarily a local and State responsibility, bringing our classrooms into the 21st century is best done in a manner that does not increase Federal Government expenditures or bureaucracy. Or we can encourage and maximize private investment for this purpose, keeping control as close as possible to the children, parents, and teachers who will benefit. This last choice is the option taken by the 21st Century Classrooms Act.

We are fortunate that many businesses invest their time and resources into classrooms. But we must do more, and we can do better.

The tremendous need for additional computer equipment and software in our classrooms, plus the wave of computer upgrades taking place among businesses in the United States, argue persuasively for an additional financial incentive to encourage businesses to invest their equipment into 21st century classrooms.

The bipartisan balanced budget agreement offers Congress an opportunity to expand technological investment in our schools through specialized tax incentives. The budget agreement includes tax relief for American families. And it also includes tax cuts related to education—but only for higher education. With so many students entering universities, community colleges and other higher education needing remedial coursework, it is right and wise for Congress to use this opportunity to spur private investment into technology upgrades for K–12 education.

PROVISIONS OF THE 21ST CENTURY CLASSROOMS ACT

The 21st Century Classrooms Act (Cunningham—H.R. 1153), included in the Taxpayer Relief Act as title II, subtitle C, sec. 223, is designed to spur private investment for technological upgrades to create and sustain a greater number of 21st century classrooms. Enactment of the 21st Century Classrooms

Act will help provide schools the tools they need to offer a better education to our young people, increase local private investment in our schools, and ensure a better future for our country.

This provision expands the tax deduction currently available to computer manufacturers making donations of high-tech equipment to university research institutions. It expands the class of donors to include any corporation, not just computer manufacturers. And it expands the class of recipients to include K–12 schools, certain private foundations, and certain other recipients whose primary purpose is to support K–12 education.

The measure is intended to provide corporations a greater incentive to donate the right kind of quality computer equipment and technology toward K–12 education. It takes advantage of the many ways such donations may be accomplished, including donations to computer recycling programs whose primary purpose is supporting K–12 education. It limits the expanded tax deduction to donations of relatively new equipment of 2 years age or less. It also limits the expanded tax deduction to donations which will expressly fit productively into the recipient's education plan.

PRACTICAL EXAMPLES OF HOW THE 21ST CENTURY CLASSROOMS ACT WORKS

Let me describe how this tax incentive works. For example, if a corporation buys a computer as an asset, it pays $1,000, which is the basis. If it sells the computer a year later, it may receive $400 in cash. If the company donates the computer to a nonprofit or school under current law, it may take a charitable tax deduction of the lower of fair market value—$400—or the amount that has not been depreciated. If the company donates the computer to an eligible K–12 education recipient under this act, however, it may take a charitable tax deduction of $1,000, which is the basis of $1,000, plus one-half of the asset's appreciation, which is zero.

If a corporation buys a computer as inventory, for example, it pays $500 to build it. If it sells the computer on the open market, it receives $1,000 in cash. If instead of selling the computer, the company donates it to a nonprofit or school—not to a scientific research institution—it may take a charitable tax deduction of $500, which is the lower of fair market value—$1,000—or the amount that has not depreciated, an amount equal to or less than the basis of $500. If instead of selling the computer, the company donates it to a qualified scientific research institution under current law, it may take a charitable tax deduction of $750, which is the $500 basis, plus one half of the $500 appreciation, totaling no more than twice the basis. And, finally, if instead of selling the computer, the company donates it to a qualified K–12 education recipient under the 21st Century Classrooms Act, it may take the charitable tax deduction of $750, which is now only available to donations to certain scientific research institutions.

This measure is designed to work hand-in-hand with the educational connectivity provisions of the Telecommunications Act. As the Federal Communications Commission develops regulations to insure that schools have affordable high-technology telecommunications connectivity available to them, the 21st Century Classrooms Act accelerates the availability of high-tech equipment in our schools and our classrooms.

SUPPORTED BY EDUCATORS AND CORPORATIONS

The 21st Century Classrooms Act has gained the support of over 30 members of the House, both Republicans and Democrats, including the chairman of the House Education and Workforce Committee, Mr. GOODLING. And obviously it was included in the Taxpayer Relief Act by the Ways and Means Committee Chairman, Mr. ARCHER.

Let me summarize just a few of the letters I have received in support of this measure:

Dr. Bertha Pendleton, superintendent of San Diego City Schools, says ''The 21st Century Classroom Act will provide additional incentives for private enterprise to involve themselves in preparing students for future employment by giving tax (deductions) to corporations who donate used computer equipment to schools. We applaud this effort and fully support this measure to help further education technology.''

Michael Casserly, executive director of the Council of the Great City Schools, says ''the Council is supportive of incentives to attract contemporary technology into our schools, particularly the neediest schools. As such, the Council is also supportive of H.R. 1153.* * * Congratulations on your success.* * *''

Thomas Tauke, executive vice president of government affairs for Nynex, says, ''Nynex fully supports your efforts to encourage businesses to invest in our children. Your new legislative proposal, the 21st Century Classrooms Act for Private Technology Investment, through its expanded tax incentives, will enable schools to immerse students into the new technological environment that they will live and work in!''

There are many more letters of support. But these excerpts summarize the enthusiasm which greets this initiative to technologically upgrade our K–12 classrooms.

IN APPRECIATION

There are many men and women who deserve credit for helping me to develop this measure, and include it into our bipartisan Taxpayer Relief Act.

In San Diego County, I want to specifically recognize Scott Himelstein and Bill Lynch at the Lynch Foundation for Children, John and Diana Detwiler at the Detwiler Foundation Computers for Schools Program in San Diego, and the students, teachers and principals at all of the San Diego County schools that showed me their education technology and their need for more. I also want to express my appreciation to the House Republican Leadership and to Chairman ARCHER for including this provision into the Taxpayer Relief Act.

Mr. Chairman, a vote today for the Taxpayer Relief Act provides Americans long overdue tax cuts. It also spurs private investment into technology upgrades for our schools and for our children, through inclusion of the 21st Century Classrooms Act.

I encourage adoption and enactment of this bill.

Mr. CONYERS. Mr. Chairman, I rise in opposition to the so-called Taxpayer Relief Act. Yet again, the majority has demonstrated that their first priority is to line the pockets of the richest Americans at the expense of working, taxpaying families.

I urge you not to be fooled by the majority's effort to pull the wool over the American taxpayers' eyes. Despite claims to the contrary, this tax bill will devastate both middle- and working-class families in order to pay for tax breaks for the rich. The majority has done everything possible to ensure that the wealthiest families will get the bulk of the benefits. A recent study by the Center for Budget and Policy Priorities found that the effect of the combined budget and tax bills will give a $27,000 annual boost to the top 1 percent of Americans while raising taxes for the bottom 20 percent of families.

Not only does this bill work against families, it is fiscally unsound and irresponsible. Paying for these tax breaks will cost us $85 billion over the next 5 years. In the next 10 years, that amount jumps up to $250 billion. And 10 years after that we will be spending $700 billion on these tax cuts. If you support this bill, you will be giving away $700 billion in tax breaks to the wealthiest Americans. All of America's taxpaying families should share fairly in any tax cuts that we propose, not just the select few who will profit under this bill.

With these facts in mind, I hope that you will join me in asking a few questions of the bill's supporters. We should ask why they constructed a bill where the bottom 60 percent of our population shares only 4 percent of the benefits and the top 20 percent of the U.S. population receives 87 percent of the benefits from this tax cut. We should ask why they support a bill that adds to the assault on our already fragile social safety net. We should ask them why they're giving a capital gains break to the 5 percent of Americans who earn $100,000 a year and will reap 75 percent of the benefits.

But don't expect an answer to any of these questions. With their underhanded approach, the majority has abandoned millions of hardworking, taxpaying Americans. If the supporters of these tax breaks on both sides of the aisle wanted to be honest about this bill's effects, they should stand up and tell the American people: ''We don't care if you can't afford day care for your children. We don't care if you can't afford to send your sons and daughters to college. We don't care that our tax and budget plans will assure that the rich get richer at your expense.''

But don't expect this kind of honesty from a group that has constructed a child tax credit that is more restrictive than the one proposed in the contract on America. Passing this bill will mean that virtually all families with incomes under $20,000 a year would not be eligible for this child tax credit. If you support this bill, 28 million of our neediest children and their families will receive no tax credit because their incomes are too low to qualify. We cannot allow such an attack on the American family to continue unchecked.

I urge my colleagues to oppose this inequitable tax cut. Unlike Mr. GINGRICH, who labels any proposal that gives lower and middle class families their proper share of these tax cuts welfare, I believe that hardworking Americans should be treated fairly under any tax cut proposal. I hope that you will demand answers to the questions I have raised and join me in exposing this bill for what it really is—a thinly veiled scheme to provide welfare for the rich.

Mr. STEARNS. Mr. Chairman, I would like to talk to you about an amendment I offered at the Rules Committee to the Budget Reconciliation Act. This amendment would have established a national fund for health research. I offered this amendment because I believe one of the best ways to bring health care costs down is to fund health care research. Did you know that nearly four to five

peer reviewed projects deemed worthy of funding by the National Institutes of Health [NIH] are not funded?

The purpose of my amendment was to provide additional funds for biomedical research by investing 1 percent of the Medicare savings included in the bill in critical projects at NIH. This would accomplished by transferring to this account each year an amount equal to 1 percent of the savings which are achieved in that year from the Medicare amendment included in the 1997 Budget Reconciliation Act. It is estimated that this would provide approximately $1.2 billion over 5 years.

This amendment provides that funds deposited in the research fund shall be distributed among NIH centers in the same proportion as provided in the regular appropriations bill. It is estimated that an additional 1,000 or more research grants could be funded over 5 years in such critical areas as Alzheimer's, Parkinson's disease, diabetes, breast cancer, etc.

It also ensures that the full $155 billion of savings required are still achieved by providing that no funds will be transferred to the NIH unless net savings to Medicare are estimated by CBO to reach the $115 billion level. Thus, no transfer would occur until gross savings exceed $116.5 billion. It does not impose any new taxes.

Less than 3 percent of the nearly $1 trillion our Nation spends on health care is devoted to health research, while the defense industry spends 15 percent of its budget on research and development.

Public opinion surveys have shown that Americans want more Federal resources put into health research and are willing to pay for it. That is why I support the initiative to double the NIH budget over the next 5 years.

The Alliance for Aging has recently conducted a study that supports the savings for health care costs for the elderly and permanently disabled who are Medicare eligible by investing in biomedical research efforts as proposed under my amendment.

In 1995, NIH issued a report that found the economic burden of several diseases was estimated to be of tremendous proportions. For instance: The costs involved with heart disease was $128 billion; cancer, $104 billion; Alzheimer's, $100 billion; diabetes, $138 billion; mental disorders, $148 billion; arthritis, $65 billion, stroke, $30 billion, and osteoporosis, $10 billion.

It is apparent to me that we must do all that we can to either prevent or least slow down the onset of these diseases. And we know that many of these diseases do not strike until we are in our golden years. These years would, in fact, be golden if we could prevent or least find a way to treat diseases such as Alzheimer's.

Current data tells us that one-third of the $1 trillion spent on health care today goes to people 65 and older. In a scant 15 years, the baby boom generation will begin qualifying for Social Security and Medicare and so, too, will their susceptibility to age-related diseases.

That is why it is incumbent upon us to find better ways to treat, prevent, or slow down these diseases and we can and must do this through research funded by the National Institutes of Health because the future costs of health care will increase dramatically as the boomers begin to experience these age-related maladies.

In these days of trying to balance the budget, we must not lose sight of the fact that by delaying the onset of diseases such as Alzheimer's, stroke, and cardiovascular disease we would save an estimated $35 billion through a reduction in the need for nursing home care. Now, to my way of thinking that's not chump change.

Ample evidence exists to demonstrate that health research has improved the quality of health care in the United States. Advances such as the development of vaccines, the cure of many childhood cancers, drugs that effectively treat a host of diseases and disorders, a process to protect our Nation's blood supply from HIV virus, progress against cardiovascular disease including heart attack and stroke, and new strategies for the early detection and treatment of diseases such as colon, breast, and prostate cancer clearly demonstrates the benefits of health research.

Expanded Medicare research is critical to holding down the long-term costs of the Medicare Program under title XVIII of the Social Security Act. For example, recent research had demonstrated that delaying the onset of debilitating and costly conditions like Alzheimer's disease could reduce general health care and Medicare costs by billions of dollars annually. I am hopeful that such a proposal will be enacted by Congress in the future.

Mr. KOLBE. Mr. Chairman, this is a great day for this House and for the citizens of the United States. Today we take a giant step in providing the tax relief that Americans so desperately need and deserve.

Today we are about to let people keep more of their income to spend as they want—not as the Federal Government wants. This is the right thing to do. Taxpayers deserve to enjoy more of the fruits of their labors. The Federal Government has become too greedy, continually increasing the burden on our citizens so Washington can distribute taxpayer earnings to other groups in society. Today we begin to reverse that condition. Even so, we still have a long way to go.

Mr. Chairman, I am pleased with many provisions of this bill. But two stand out as especially important for working Americans. The child tax credit and the education incentives. These provisions actually put money back in the pockets of ordinary, middle income people and help them provide for their children's education.

Taxpayers with children get to take $500 per child off their total tax liability. Think of what that means to a young family struggling to get ahead and give their children opportunities.

This bill gives families who send their children to college or other post secondary institutions a chance to keep more of their earnings to help with those higher education expenses. It provides a tax credit, up to $1,500 for each student, for half of the tuition and related expenses during the first 2 years of college or vocational training. It provides a $10,000 deduction per student per year for expenses through State prepaid tuition plans or education investment accounts. Further, it allows families to make penalty-free withdrawals from any IRA to cover the cost of education after high school Think what a relief this will be for hardworking families struggling to make sure their kids get an education.

Mr. Chairman, I wish we could be voting on bigger tax cuts. I wish the capital gains tax had been cut more. I wish we had abolished the estate tax. I wish we had given more relief in many areas. But I am very happy with this major step forward. I am going to consider it a substantial down payment on a commitment we made to the American people 4 years ago when we promised to downsize Government, balance the budget, and cut taxes.

We must continue to work in this House and in this Congress to totally deliver that promise in the next few years.

Mr. CRANE. Mr. Chairman, I rise in enthusiastic support of this bill to provide long-overdue tax relief to the American people.

I have heard criticisms of this bill primarily from liberals who are playing the old tired game of class warfare. I find their arguments—that this tax relief is unfairly targeted to the rich—rather ridiculous. These class warfare antagonists are from the same crowd who in 1993 rammed through the largest tax increase in the history of our Republic. It is no wonder that they are resisting the attempt by House Republicans to allow Americans to keep more of their own money, rather than sending it to Washington's bureaucrats.

The liberal misinformation campaign about this tax package is so out of touch with reality that they are alienating their overtaxed rank and file constituents. The fact of the matter is that the vast majority of the tax relief in this bill is provided for individuals, not corporations. More specifically, over 71 percent of the tax relief in this bill will go to those who earn between $20,000 and $75,000 a year. I do not know what some of my liberal colleagues consider the rich, but a family earning $40,000 a year with two children living in Palatine, IL, a city in my district, is far from rich.

Let me put this in another perspective. It has been 16 years since American taxpayers have had a significant tax cut from Washington. President Clinton signed the largest tax increase in history in 1993 and when vetoed a major tax cut bill, the Balanced Budget Act, in 1995. All the while, middle-income families have shouldered the largest tax burden than at any other time in our history. A family at the median income level budgets over half of their annual income to pay for government at all levels. Tax relief for them is long overdue.

I am pleased to see a number of items in this bill that I have been working on for some time. For example, I have promoted legislation to increase the value of the tax exemption for children and other dependents. The $500-per-child tax credit will give parents this tax relief I have sought for so long. In addition, I have pushed for capital gains tax relief, provided in this bill, which is so valuable to home and small business owners. I also support the relief in this bill from the estate or death tax which has been particularly devastating on family farms and small businesses. I would rather abolish the capital gains and death taxes, but I believe this bill makes significant improvements in both areas.

While the bulk of this bill provides tax cuts to individuals, employers also receive some much-needed tax relief. And let me make it clear that tax relief for businesses is about job creation, competitiveness in world markets, and more money in the pockets of American workers. Although the Constitution protects its citizens from double jeopardy in criminal cases, the Tax Code offers no similar protection. The alternative-minimum-tax [AMT] forces businesses into double jeopardy with two different sets of tax rules, the regular corporate schedule and the AMT schedule. If, after following the complex rules and regulations in

the corporate tax code, the company does not owe enough taxes, they must start all over with the AMT code, with its own rules and regulations. The compliance costs, in addition to the tax burden, has hurt the competitiveness of U.S. businesses against foreign businesses. This translates into lost jobs and lower wages for American workers. H.R. 2014 provides some much-needed relief from the burdens of the AMT.

If I had any criticism of this bill, it is that it does not provide as much tax relief as the American people deserve. I also appreciate the view of those who suggest that this bill does not provide for Tax Code simplification. I, too, am disappointed on both of these counts, but given the current political situation in Washington, we must deal with a President who, despite his rhetoric, is not interested in providing large-scale tax relief or reform to our country. Given these constraints, I believe that Chairman BILL ARCHER of our Committee on Ways and Means did an admirable job in constructing this tax bill.

I urge my colleagues to support H.R. 2014 and I look forward to moving ahead and meeting with members of the other body to put the finishing touches on tax relief for Americans. I only hope that the President will see fit to sign this bill into law.

Mr. KLECZKA. Mr. Chairman, I rise today to voice two major concerns regarding H.R. 2014, the reconciliation tax legislation before the House today. I understand that section 1053 of this bill is Republican payback against the unions who mainly supported Democrats in the last election. I object to use of the Tax Code to punish political adversaries, but that is not even among the two main reasons I will cast my vote against this bill today.

To begin with, I believe we should give the American people capital gains tax relief, but this bill clearly provides more than is reasonable. It both cuts the capital gains rates as well as indexes the values of assets for inflation. I am all for providing relief, but considering the huge potential revenue loss of these combined provisions 10, 15, or 20 years from now, we should pare down the capital gains cuts to a more reasonable size. After all, as the bill stands today, the capital gains cuts lead to a loss of $36 billion in 2003 through 2007 alone. This bill should either cut the capital gains rate or index assets, but not both.

But, Mr. Chairman, I rise today mainly to express my concerns about another provision in the tax bill before us today that could have a devastating impact on workers and their benefits. The measure is not only bad policy, but it does not belong in this bill in the first place. It is an attack on working men and women disguised as a Tax Code clarification. It could lead to the end of employee benefits and workplace protections as we know it.

The provision, innocently labeled as a safe harbor for independent contractors, would permit many employers to reclassify their workers as independent contractors and thus deny those workers employee benefits and worker protections.

Much of the social safety net enjoyed by workers in this country depends on employment status. Workers classified as independent contractors are not eligible for employer-provided health insurance or pensions. Independent contractors are not eligible for unemployment compensation. Independent contractors also have to pay the employer side of the Social Security and Medicare payroll taxes, an additional 7.65 percent.

In addition, although this provision purports to be limited to classification for tax purposes, it is likely that employers will also treat workers as independent contractors for other purposes. Worker compensation laws, minimum wage and hour laws, occupational safety laws, and age discrimination laws do not apply in the case of workers classified as independent contractors.

Reclassification is already being used against workers and this bill would make it even easier for employers to drop worker wages, benefits, and protections. The potential for abuse of this provision is real. Last year the Department of Labor found that 134 workers in Ohio were improperly classified as independent contractors and were receiving as little as $1.50 per hour. In October of last year, the Ninth Circuit Court of Appeals found that Microsoft must pay benefits to a group of workers that the company had intentionally misclassified as independent contractors. Reclassification has been regularly employed by some in the construction industry with respect to laborers and other workers such as supervised carpenters, masons, plumbers, and electricians. This practice is being carried out across this country by both large and small employers.

This provision—identical to H.R. 1972 of last Congress—too easily allows an employee to be reclassified as an independent contractor. The measure establishes a test which is too easy to meet, and therefore many workers could be reclassified if it were to become law. First, the worker must sign a written agreement providing that he or she will not be treated as an employee. This is not voluntary in any sense of the word: if a worker wants the job, he is going to have to sign that agreement or he returns home without work. Under the measure, once the written agreement has been signed, a worker can be classified as an independent contractor if the worker meets one criteria in test 1 and one criteria in test 2.

Test 1: The worker—has a significant investment in assets or training; or incurs significant unreimbursed expenses; or agrees to perform services for a particular time or to complete a specific result; or is paid primarily on a commission basis; or purchases products for resale.

Test 2: The worker—has a principal place of business; or does not primarily provide the service at the employer's place of business; or pays fair market rent for use of the employer's place of business; or is not required to perform services exclusively for the employer, and in the current, preceding, or subsequent year has: performed a significant amount of services for others, or offered to perform services for others through advertising, solicitations, or listing with referral agencies, or provided services under a registered business name.

Let me give an example to illustrate my point. Bill is a plumber who is an employee for a plumbing construction and repair company. If this provision were to pass into law, Bill would meet the criteria under this provision because he has his own tools and has paid for his own training and performs his work on-site at residences and businesses throughout the metropolitan area. Therefore he could be reclassified as an independent contractor. He would now have to pay double—about 15 percent—his previous payroll tax for Social Security and Medicare while his former employer would pay nothing. He could lose the ability to participate in the company pension plan. If either Bill or his wife, Debbie, needed to see a doctor, they might be surprised to find that they no longer had employer health coverage through Bill's work. If Bill was badly injured on the job, he might be disappointed to find that he could no longer collect workers compensation to help put food on the table and pay the mortgage while laid up. If he was laid off during a slow period, he might show up at his State labor office to collect unemployment, but would no longer qualify for unemployment insurance through his employer.

Similar reclassifications could occur not just for other tradespeople like electricians and carpenters, but also delivery people, policemen, reporters, and others.

It is not only workers who are concerned about this provision, but conscientious firms who are wary of unfair competition by unscrupulous employers. A group of construction industry employers testified before the Senate Finance Committee on June 5 of this year opposing a similar proposal. The Mechanical/Electrical/Sheet Metal Alliance consists of the Mechanical Contractors Association, the National Electrical Contractors Association, and the Sheet Metal and Air Conditioning Contractors National Association. They testified that: ''the Alliance does not support the proposals under consideration today because we are gravely concerned that the proposed classification criteria—when applied to the skilled construction workforce—would jeopardize the entire structure of training, health and welfare, pension and other workforce development and retention benefits.'' Citing a Bureau of Labor Statistics study showing independent contractors disproportionately represented in construction, the construction industry alliance witness alleged that: ''The rise of worker misclassification in construction has nothing to do with career enhancement and everything to do with unfair low-wage competition.''

The alliance alleged that this provision represents a threat to those conscientious construction businesses that undertake to pay, at the very least, the legally obligated minimum employer overhead taxes that are a legitimate cost of doing business. He concluded by stating that ''businesses that cannot afford to pay for the social policy objectives of unemployment insurance, social security and workers compensation should not per permitted greater leeway to avoid paying for these established social responsibility programs and shifting even greater costs on their employees, fair employers and the government, as well.''

This is a dangerous provision that will result in a race to the bottom where working men and women will lose workplace benefits and protections as we know them while legitimate employers will be forced to reduce benefits and worker protections to compete with unscrupulous employers taking advantage of the Republican independent contractor provision.

Mr. Chairman, because of the presence of this ill-conceived provision and the combination of both a capital gains rate cut in addition to capital gains indexing, I must vote against the bill before us today. I am hopeful that during conference my concerns will be addressed and I will be able to support the final version of this legislation.

Mr. DINGELL. Mr. Chairman, a few weeks ago. I cast my vote in favor of the budget resolution with the hope that it would yield a well-reasoned reconciliation package which I could support. Clearly, the majority has failed to assembled such a package.

I have heard the quote, ''Here we go again,'' used by some of my Republican colleagues. While I applaud the rhetorical effulgence and I agree that it is appropriate in this instance, I question the context in which it is being used. The legacy of that former President—who so eloquently spoke those words—is the massive Federal debt we are confronting today. So, after a careful review of this tax package, the only proper conclusion is, ''Here we go again.''

We have yet to learn the lesson of 1981. Yesterday, I spoke of how the proposed $20.3 billion savings from the broadcast spectrum auctions are an illusion. It isn't surprising that those very savings account for nearly one quarter of the offset for the tax package.

The budget gimmickry used for the capital gains tax cut will explode the deficit after 2002. Because wealthy Americans can pay their accrued capital gains in 2002 to receive the benefit of indexation, the end result is a one time $6 billion golden egg paid to the U.S. Treasury. It is a Ponzi scheme which benefits the wealthiest Americans, a throwback to the ''voodoo economics'' another Republican President warned us against.

In 1948, my father argued against a Republican plan to allow employers to skip out on Social Security taxes. It is ironic that I am here nearly 50 years later to argue the same position. This bill allows employers to easily reclassify employees as independent contractors and to deny employees health care coverage as well as their Social Security contribution. Republicans speak of class warfare; it is obvious who is on the offensive. This is a blatant assault on hard-working Americans.

It is clear that we are not talking about granting tax relief for those who need it most. A majority of the benefits in this package go to the wealthiest Americans and it squeezes those who need relief most, the working poor. Why will millionaires be able to sell off stock portfolios and pay less in taxes than middle-class Americans currently pay on income tax? It is shameful.

The Democratic substitute would correct these flaws. Our tax relief plan would allow the parents of 24 million more children to benefit from the $500-per-child tax credit. Capital gains and estate tax relief are targeted towards small businesses and families. It permits homeowners to who sell their homes at a loss to take a tax deduction. Most importantly, two-thirds of the benefit go to those making less than $75,000.

I urge all of my colleagues to oppose this shameful Republican tax scheme and vote for the Democratic substitute.

Mr. COYNE. Mr. Chairman, I rise today in opposition to the tax provisions of the 1997 reconciliation bill. I oppose this legislation for a number of reasons. The most important reason is that I believe that now is not the time for tax cuts. I believe that such a move would be irresponsible. Given the widespread support in Congress for a tax cut bill, however, I believe that a much more equitable bill could—and should—be enacted.

The economy today is in better shape than at any other time in the last 25 years. The economy is growing and inflation is low. The Federal deficit has been reduced from more than 6 percent of our national output to roughly 1 percent. These are things to celebrate, and I join with my colleagues in rejoicing over our good fortune and relatively responsible management. But as tempting as it would be to indulge ourselves, given these happy circumstances, in cutting taxes, I believe that it would be unwise and irresponsible to do so. It is at just such a prosperous time that we should begin addressing the long-term problems that we know will confront us in a few short years. Let's not wait until a crisis is upon us and more draconian solutions are necessary. Let us show some leadership today.

What problems lie on the horizon? What should we be doing instead of enacting tax cuts? In the coming years, we will face an increasingly competitive global economy and a demographic shift unparalleled in modern history. We will need to dedicate more of our national resources to caring for an increasingly older population and taking steps to increase our economic productivity. That means taking modest steps now to ensure the long-term solvency of Social Security and Medicare. That means keeping Federal deficits under control. That means investing in our infrastructure and promoting research and development. It means investing in early childhood development and improving public education. It means increasing access to higher education. And it means making health care available to all Americans. Our country would be better served by addressing these challenges than by cutting taxes for the affluent.

In addition, I am concerned that these tax cuts will increase Federal deficits substantially once they are fully phased in. I feel compelled to remind my colleagues that the last time we indulged in a package of massive tax cuts, we precipitated a long series of budget deficits that we are still paying off. As every spendthrift knows, you can have a pretty good time spending borrowed money, but eventually the money runs out and the loan comes due. The massive budget deficits of the Reagan years helped spur economic growth following the recession of the early 1980's, but at a heavy cost. Much of the more than $200 billion in interest payments the Federal Government makes each year is due to the deficit spending of the 1980's. The tax cuts enacted in 1981 contributed substantially to those deficits. Similarly, the tax cuts contained in the legislation we are considering here today will produce large revenue losses in the coming decades—just when the retirement of the baby boom generation will place increasing pressure on the Federal budget. I believe that the short-term benefits this legislation would provide would be more than offset in the outyears by the long-term fiscal difficulties that it would produce. That is a second reason that I believe these tax cuts are unwise.

As I stated earlier, however, it is clear that Congress intends to pass a substantial tax bill this year. Given the likelihood that we will, in fact, do so, I strongly believe that we should pass a bill that is more equitable than the bill we have before us today. The Republicans have produced a bill that would do relatively little for the average American family.

The $500 family tax credit is not refundable, which means that families that do not have any Federal income tax liability will not receive any family tax credit money. Many low-income families make so little money that they have no Federal income tax liability. While these families pay a significant percentage of their incomes in Federal payroll and excise taxes, many of them will nevertheless be denied the family credit. In addition, under the House Republicans' bill, the family tax credit is stacked after the earned income tax credit, meaning that taxpayers must offset their tax liability with the EITC before they can claim the family credit. Given that the family credit is nonrefundable, many working families will not have enough income tax liability left to claim the credit; other working families will receive far less than the full $500 credit. In all of these cases, the low- and moderate-income families who deserve and need a tax break as much or more than more affluent families will receive little or no tax relief under this bill. This is especially unfortunate, given that a modest increase in their disposable income would make a real difference in their lives.

Other provisions in this legislation would reduce taxes on capital gains and index future capital gains for inflation. These provisions would do little or nothing for most Americans, whose major life-time capital gain, the sale of their home after age 55, already goes untaxed in most cases. And because most capital gains taxes are paid by the wealthiest Americans, such a change would reduce the progressivity of the Federal Tax Code significantly. Moreover, the lower capital gains tax rate and the indexation of capital gains for inflation would result in a substantial Federal revenue loss in the years beyond the 5- and 10-year windows used in the budget reconciliation process. That revenue loss would kick in at just the time when the Federal Government will need to increase spending substantially for Social Security and Medicare to cover the costs associated with the retirement of the baby boom generation.

Similarly, this legislation has changed the college tuition tax credit proposed by President Clinton so that only taxpayers that spend over $3,000 on college costs will get the full $1,500 credit. The President's HOPE credit would have provided a full dollar-for-dollar tax credit for the first $1,500 in higher education costs. These changes from the President's proposal would make the credit less helpful to the low-income students who often attend low-cost community colleges, and they could prevent some of these students from pursuing education beyond high school. Such an outcome would deny many low-income individuals access to educational opportunity, but we would all suffer from the adverse impact that this outcome would have on our country's productivity.

The pattern is clear. The distributional effects of this tax cut package are abysmal. More than half of the tax relief in this bill would go to the top 5 percent of taxpayers—those with incomes of more than $100,000—once its provisions are completely phased in. If Congress is determined to pass a tax cut, it should at least ensure that the bulk of the tax relief that it provides goes to the people who need it most—the hard-pressed, hard-working low- and moderate-income households that are playing by the rules and struggling to make ends meet.

There are a number of other objectionable provisions in this legislation, too many to be mentioned here. Let me just mention one in passing. The bill would change the way in

which independent contractor status is determined. This change would most likely have the result of stripping thousands—and perhaps millions—of workers of their employee status and the benefits that that status conveys. It could lead to lower pay, the loss of health insurance coverage, ineligibility for pensions, and the loss of protection under State and Federal labor and workplace safety laws for many hard-working individuals.

Mr. Speaker, this legislation has very serious problems. I urge my colleagues to reject a major tax cut and, instead, to address the long-term fiscal problems that confront our country. Barring that approach, I urge them to work with me to produce a reconciliation bill that we can all support—one that provides tax relief for America's working families in a fiscally responsible fashion.

Mr. VENTO. Mr. Chairman, this legislation reminds me of Cinderella's stepsister trying to slip a size 10 foot in a size 5 glass slipper. It just won't work. And hopefully the American people will, like the Prince's emissary, discover what a fraud this legislation is.

I supported the budget framework adopted by Congress this year. Frankly, I was concerned and did have reservations about the tax portion of the agreement. I was concerned that the Republican majority would not be able to resist the opportunity to load up the tax bill with provisions that benefit the very rich at the expense of working and middle class Americans and that despite its rhetoric, the majority leadership is willing to sacrifice deficit reduction and the real progress that we have made over the past 4 years.

Unfortunately, these fears have been realized. Like children in a candy store, the majority party has not been able to restrain themselves from loading up with goodies. Like all candy, this bill is fattening. It will fatten the pocketbooks of the wealthiest in our Nation while swelling the Federal deficit.

The nonpartisan research organization, the Citizens for Tax Justice, has analyzed the real impacts of this tax bill. Their analysis has determined that 57 percent of the benefits of the tax cuts will go to people with incomes over $109,000, while average families, with incomes between $21,000 and $57,500, will only receive 17 percent of the benefits. Incredibly, families with income levels below $21,000 will get no tax cut or could actually pay more taxes under this bill. This outcome is particularly harsh for young families trying to succeed. The discrepancy between the very rich and ordinary working families is highlighted by the disclosure that this tax bill contains a $9 million tax break that benefits approximately 1,000 individuals.

Through a creative implementation schedule, the tax bill masks the true impact the loss of revenue and size of the tax breaks, resulting in a gap between tax expenditures and program expenditures. Just when the American taxpayer thinks the long fight to end the Federal deficit is at an end, the full impact of this backend loaded legislation will hit. The Center on Budget and Policy Priorities estimates that the Republican tax bill will blow a hole of between $600 and $700 billion for the second 10-year period from 2008 through 2017. That type of fiscal time bomb should not be fused by the passage of such a tax policy measure. Indexation of various tax breaks in this measure further digs the deficit hole that we are trying to extract ourselves from, experience would dictate and common sense prevail that such aspects of the Tax Code shouldn't be placed on automatic.

While I do not support the present tax bill, I do strongly support the alternative that will be offered today. That alternative provides a more targeted approach to tax relief. The Democratic substitute legislation fulfills the commitment to helping middle and working class families and children to afford the costs of post-secondary education. This alternative provides a child credit and does not deny that credit to families that have lower incomes and whose major tax payments are the payroll tax. The Democratic substitute maintains the commitment to estate tax reform and to reducing the real estate capital gains taxes without mortgaging our future. It permits the full earned income tax credit to remain in place, benefiting the working poor.

Mr. Speaker, the Rangel alternative builds upon the outstanding success that Congress has had in working with President Clinton to reduce the deficit. This has not been an easy process but now that the goal of a balanced budget is so close we must not yield to the siren call of tax breaks without discipline. We cannot and should not turn back on that progress to merely score political points. I urge my colleague to support meaningful deficit reduction and balanced tax reform by passing the Democratic alternative.

Mr. SOUDER. Mr. Chairman, on Wednesday, May 21, the Christian Action Network, a nonprofit lobbying organization dedicated to the protection of the American family, tried to display art funded by the National Endowment for the Arts on the steps of the U.S. Capitol as part of their touring exhibit, ''A Graphic Picture is Worth a Thousand votes.'' The purpose of this touring exhibit is to protest NEA funding of obscene and anti-Christian art.

However, the U.S. Capitol Police would not let the Christian Action Network display the NEA funded art on the basis that the art was obscene. In addition, the Capitol Police confiscated 17 pieces of NEA-funded art and are seeking a warrant for the arrest of Christian Action Network president, Martin Mawyer.

The simple fact that the U.S. Capitol Police would not let the Christian Action Network display this art proves Mr. Mawyer's point that the National Endowment for the Arts is using taxpayer money to pay for obscenity and to support people who produce illegal art. The NEA is an affront to religious beliefs, heritage, and sense of fairness and the agency needs to be eliminated. It has been proven over and over again that simple restrictions and reforms on the NEA don't work.

Jane Alexander maintains that she has cleaned up the NEA but this is clearly in doubt. For instance, the NEA has given $112,700 over the past 3 years to Women Make Movies, Inc., a nonprofit organization that produces and distributes independent films by and about women. One such film was ''Watermelon Woman'' which portrays graphic sex images, is strewn with graphic and degrading sexual language, and portrays the use of illegal drugs as a normal recreational activity. There are at least 14 other controversial films distributed by Women Makes Movies, Inc.

The Federal Government should not be in the business of determining what is art and what isn't art. Individual citizens and private groups should have the freedom to choose what art we wish to patronize and what we choose to ignore.

Today, I would like to enter into the CONGRESSIONAL RECORD a copy of a brief article from the May 30th edition of Human Events which covered Christian Action Network's art exhibit on Capitol Hill. I urge my colleagues to read this article and to vote to abolish the National Endowment for the Arts for fiscal year 1998.

[From Human Events, May 30, 1997]

CAPITOL POLICE CONFISCATE NEA 'ART' AS OBSCENE

On May 21, the U.S. Capitol Police confiscated 17 pieces of taxpayer-funded ''art'' displayed on the Capitol steps as a part of an exhibit put on by the Christian Action Network (CAN). Congress' security force is now seeking an arrest warrant for CAN President Martin Mawyer for publicly displaying obscene images.

The National Endowment for the Arts (NEA), long a target of conservatives for being wrong in principle, wasting taxpayer money and funding obscene and blasphemous art, granted federal funds to the artists who created the unfit-to-be-seen works. ''Finally,'' Mawyer told Human Events, ''someone in law enforcement authority has decided this is obscene. . . . Now, when we go around from [congressional] district to district to increase support for eliminating the NEA, we can show pictures of the Capitol Hill police confiscating this.''

NEA-funded photographs titled ''Bobby Masturbating'' and ''Woman Castrating a Man'' were among the confiscated material, as was a collection of stories called the ''Highways Brochure.'' One of them ''included a description of sex with [House Speaker] Newt Gingrich's mother,'' said Mawyer.

U.S. Capitol Police spokesman Sgt. Dan Nichols said May 22, ''It is up to the U.S. attorney's office for the District of Columbia to decide whether or not to issue a warrant. We will probably submit an affidavit today, perhaps tomorrow.'' He said they were definitely seeking Mawyer's arrest.

Since taking over Congress, Republicans have cut the NEA's budget to $99.5 million a year. But conservatives vow to enforce a deal struck in 1995 with House GOP moderates which called for the complete elimination of the NEA's funding by Fiscal 1998.

Mr. BERRY. Mr. chairman, I rise today in regretful opposition to the Republican tax proposal.

I am a strong supporter of tax relief for the American family and for our small business. Were I to craft the perfect tax package, I would devote over half of its tax relief to small business—reducing the estate tax so that families can pass on their business from generation to generation—establishing a better home office deduction—including provisions to allow for some independent contracting. In addition, I would provide relief for our families by including a $500 per-child tax credit—the President's tax credits for higher education—and deductibility of tuition and expenses.

This proposal violates the bipartisan budget deal and results in an escalating deficit over

the next 10 years. Not only does it not meet our objectives of balancing the budget, it worsens the deficit.

My ideal proposal would not include the Republicans' costly reduction in tax cuts to large corporations that explode our Nation's deficit and make it impossible to balance the Federal budget. While I support and will continue to fight for the enactment of the small business proposals included in the Republican package, and would in fact have preferred a larger reduction in the estate tax, I cannot support a return to the so-called trickle down economics that resulted in the rapid expansion of our national deficit since 1981. I am old enough to remember the incredibly adverse impact of the Reagan plan on our national economy.

In casting this vote today, I had to carefully consider what was best for those I represent—the citizens of the First District. I believe that the immediate, temporary political gain from supporting this Republican tax reform proposal is not worth the ultimate, long-term harm to America's economy that would result from the enactment of this tax package. The Republican tax proposal makes a lot of promises but does not contain any mechanism to ensure that the budget will continue to be balanced. It is fiscally irresponsible—phasing in the largest tax cuts over a 10-year period harms the budget and will destroy the deficit.

The Blue Dog Democratic alternative that I am supporting today is better for the American taxpayer, and better for American small business, than the Republican proposal for the following reasons: Our bill eliminates the so-called back loading from the Republican plan, which harms the economy in the long term and will increase the federal deficit; it provides more estate tax relief than the Republican plan—phasing it in immediately for our family farms and businesses; it eliminates the corporate welfare provisions in the Republic bill and dedicates that money to deficit reduction; and, it includes a $500 per-child tax credit; the President's Hope Scholarship, and deductibility of tuition for students.

Mr. Speaker, today's vote is simply the first step in a long budget process. I am confident that Congress will be able to work in a bipartisan manner to provide meaningful tax relief to America's families and small businesses.

Mr. FAZIO of California. Mr. Chairman, I thank the ranking member.

It is easy to see what the special interests want in a tax cut. Just look at the Republican bill.

But American families, according to a poll in the Wall Street Journal published today, want two things: A tax cut to make college affordable, and a tax credit so they can afford child care.

On both counts, the Democratic alternative wins hands down.

Instead of being loaded with fat capital gains cuts and benefits for corporations, it puts higher education in reach for millions of more Americans.

Instead of tax breaks for the rich, it makes community college an option for nearly every American who wants the opportunity to enroll.

Instead of massive estate tax reductions, it allows workers who want to learn new skills needed in our changing economy, tax credits so they can afford to learn—and earn—much more.

This debate isn't about whether we cut taxes. It's who we cut them for.

The Democratic plan is the one that makes the most sense for our economy, for education, and for our future.

Mr. UNDERWOOD. Mr. Chairman, it is truly unfortunate that this bill shortchanges the working poor of this Nation and carves out tremendous benefits for the wealthy. Those who need the relief the most are given the least under this legislation. It uses the language of helping all families with children but delivers to only half—the top half. But Mr. Chairman, I rise this afternoon to bring to the attention of my colleagues an issue of specific concern to Guam and the Insular areas—the airline tax provision contained in this reconciliation bill. I want my colleagues to know when they vote for this bill they will be voting to treat American citizens as foreigners. The new international tax of $15.50 for both departure and arrival may be a good idea when applied to just that—international passengers—but unfortunately this tax goes beyond just taxing international tourists. It affects American citizens flying from Guam traveling to the mainland United States. This issue has been addressed by a special rule for other communities that face a similar burden during an already costly trip to the U.S. mainland. I hope that the chairman examines this provision in conference and works to bring fairness in a bipartisan way to our American citizens from Guam and the other insular areas.

Mr. DUNCAN. Mr. Chairman, as members of the House of Representatives, we each hold dear to us a number of founding principles which make our democracy truly exceptional. One of these principles I am sure we all cherish is sensible, responsible, and coordinated government.

It has been a long-standing, established practice in the aviation industry to deduct as current expenses the costs of FAA-mandated aircraft safety inspections, maintenance, and repairs.

Recently, however, the IRS has sought to drastically reverse this policy. This reversal forces the cost of major FAA-mandated safety inspections, maintenance, and repairs to be capitalized, rather than being immediately expensed. This action unfairly penalizes airlines for complying with the FAA's mandated safety regulations.

Further, the IRS has not submitted this change to Congress as proposed regulation, nor as a proposed regulation change. If it had, these actions would be open to public scrutiny, interagency coordination and congressional review.

Changing tax-policy on airline safety-related activities should be consistent with, not contradict, the actions of the FAA. It is bad public policy to create a tax penalty on the safety-related efforts that others within the administration are trying to encourage.

In addition, the IRS, by avoiding the regulatory rulemaking and legislative process, is denying the public, other affected agencies, and, to some degree, even Congress participation in this aviation safety policy matter.

Mr. PORTMAN. Mr. Chairman, as many of you know, for the last year, I have cochaired the Commission on Restructuring the Internal Revenue Service. Yesterday we issued our report—the culmination of a year-long study of the IRS. One of our central recommendations deals with the need to simplify our tax system. In fact, quoting from our report, the Commission ''strongly recommends that Congress and the President work toward simplifying the tax code wherever possible.''

We provided Congress with 60 specific provisions of the tax code that the tax writing committees could consider simplifying or reforming. And, I'm pleased to note that, under the leadership of Chairman ARCHER, 23 of these tax simplification proposals are in this bill.

I'd like to mention two: providing broad capital gains tax relief for those who sell their homes; and protecting State and local public pension plans from needless IRS regulation.

Several months ago, BEN CARDIN and I introduced legislation to provide a capital gains exclusion from taxes for home sales. Under our proposal, which is incorporated in this bill, the number of people paying capital gains on the sale of a home will be reduced from 150,000 to 10,000 a year. This provision will eliminate the need to keep detailed records and file complicated reports. Mr. Speaker, that's real simplification.

And by doing away with the current rollover rules and the limited ''over 55 exclusion,'' homeowners will have more flexibility. They no longer will be forced to buy up in order avoid the tax bite. This will allow homeowners to use their savings to plan for retirement, meet education expenses for their kids and otherwise enhance their quality of life.

Our proposal recognizes that a home is the primary source of savings for most American families. Instead of forcing homeowners to give up all the money they've made on their home sale to Uncle Sam, Congress can give families a real break.

The second proposal, which I also authored with BEN CARDIN, will ensure that State and local pension plans will not have to undergo unnecessary and costly testing of their plans for compliance with complicated pension coverage rules. These rules are inappropriate for public plans. In fact, participation in public pension plans is often mandatory, and full-time public employees enjoy almost twice the pension coverage rate of their counterparts in the private sector. Furthermore, State and local governmental plans already come under a high level of scrutiny from elected officials, voters, and the media. There simply is no need to burden plans with unnecessary IRS regulations and costs.

Mr. Chairman, both of these proposals offer true simplification. I'm pleased the Ways and Means Committee included them and I'd like to note that the other body has incorporated them in its tax package as well. I urge my colleagues to support H.R. 2014.

Mr. PACKARD. Mr. Chairman, Americans are working harder than ever before, too often struggling to make ends meet, even with two incomes. The Taxpayer Relief Act is a first step toward allowing taxpayers to keep more of what they earn. We need to send more money back to hard-working Americans and keep it out of the Government coffers.

The Taxpayer Relief Act gives the American people the tax relief they deserve. We are helping every taxpayer at every stage of life. This tax relief proposal helps every taxpayer at every stage of life. Our child tax credit will help parents meet the needs of children and teenagers. Higher education is more within reach because we have built on the President's HOPE education proposal. And those who have worked hard, played by the rules and saved for retirement will be rewarded, not penalized.

Mr. Speaker, critics of our tax relief plan claim that it is geared toward the rich. Three-quarters of the tax relief provided in this proposal will go to those earning less than $75,000. I'd say it's obvious that hard-working, middle-income Americans benefit the most from our plan.

Under our plan, the typical family of four with a household income of $35,000 a year would see its taxes slashed 40 percent from $2,625 to $1,573 a year. If one child were in college, the tax relief would rise to 78 percent. This is real relief for middle-income families.

Mr. Speaker, the average Californian spends 2 hours and 45 minutes of each working day laboring to pay taxes. This is greater than the time worked to pay for food, shelter and clothing combined. It hasn't always been that way. Our plan ensures that this will not be the case in the future.

Hard-working, tax-paying citizens have finally won a major victory. Tax relief has become a reality because the American people spoke loudly and we have listened.

Ms. VELAZQUEZ. Mr. Chairman, I rise in strong opposition to this tax giveaway for the rich act of 1997. From capital gains tax breaks to hidden loopholes for the privileged few—Republicans have loaded this budget.

America's wealthy have much to celebrate under this bill—41 percent of the tax cuts will benefit taxpayers making more than $250,000. Meanwhile, families earning less than $23,000 will get no tax relief. This is unfair, Mr. speaker. Democrats and the American people will not stand for this tax sham.

Who do Republicans think they are fooling? They want to fatten the pockets of the rich and of the big corporations. Even the Wall Street Journal admits that the poor and middle class are given scraps. Just look at how this outrageous bill treats working mothers.

Republicans promised a $500 child tax credit to help all families. But now they want to exclude more than half of the children around the country. In New York alone, they would exclude over 3 million children. To Republicans, the child tax credit is acceptable only for a wealthy family, but they call it welfare for a working family.

If that injustice is not enough, Republicans want to punish 2 million working, middle-class women by reducing their child tax credit for child care. it is sad that the party of ''family values'' does not want to help working families.

Real tax relief should go to the struggling single mother with children, to the low-income family fighting poverty, to the middle class who carry the vast majority of the tax burden. These are the victims of your tax bill. These are the Americans who will suffer. We need tax relief that fairly benefits all communities.

The Republicans could not be trusted to keep their word under the budget agreement. And, they cannot be trusted with our children's future. They have failed working women. They have failed our children. They have failed the hard-working American family struggling to bring in a paycheck.

I strongly urge my colleagues to fail this outrageous Republican tax plan.

Mrs. McCARTHY of New York. Mr. Chairman: I rise in support of H.R. 2014, the budget reconciliation tax legislation.

When I talk to my constituents back home, they tell me overwhelmingly that taxes are by far their biggest concern. The median household income in the Fourth Congressional District is 50 percent higher than the national average, but we are not rich, because taxes and the cost of electricity take so much out of our pockets. It is not uncommon for a two-income household in my district to make over $70,000 a year and still just get by, having trouble putting their kids through college.

Long Island is a great place to live and raise a family, but the tax burden is driving young people and businesses away from our region. My constituents tell me that the best way to ensure Long Island remains productive and healthy is through tax relief.

The bill we are debating today is far from perfect, but I cannot in good conscience deny my constituents much-needed relief from taxes by letting the perfect be the enemy of the good. This bill will make a positive difference in the lives of people in my district, and for that reason alone, I plan to support it.

The family tax credit will provide relief for families struggling to make ends meet. The capital gains tax reductions will provide direct tax relief for the Fourth District, where the average home value is $173,600. The bill also provides needed estate tax reform, increasing the exemption from $600,000 to $1 million. This will help family-owned businesses in New York, a State which has over 600,000 small businesses.

Most importantly, this bill will provide tax incentives for higher education. My constituents believe very strongly in the importance of education, and they tell me that they want the Federal Government to help prepare young people for the future. As a member of the House Education and the Workforce Committee, I believe expanding access to education will lead young people to success in life and away from crime and gun violence.

As I said, there are several provisions in this bill which trouble me. For one thing, I am deeply concerned that section 931 will threaten the economic well-being of thousands of bakery drivers and their families. This provision, which would drastically overturn longstanding Federal policy, was attached to this bill with no debate or discussion in committee or the full House.

in addition, I oppose provisions which would reduce the retirement savings of current and future college and university retirees by removing the tax-exempt status of the Teachers Insurance and Annuity Association-College Retirement Equities Fund [TIAA–CREF].

Furthermore, I am afraid that provisions of this bill unfairly penalize graduate students by repealing section 117(d), which makes remitted tuition tax-free, and by failing to extend the section 127 exclusion for employer-provided tuition assistance for graduate students. As a cosponsor of H.R. 127, legislation to permanently extend section 127 for both undergraduate and graduate students, I will work to make this provision fair for all higher education students.

I pledge my continued efforts in the coming weeks to address these concerns, and I am hopeful that the bill will be improved in the conference committee. More importantly, I plan to work hard to ensure that Congress passes immediate, meaningful tax relief for the families and businesses of the Fourth Congressional District and the entire Nation.

Mr. POMEROY. Mr. Chairman, I believe that there are three important principles that Congress and the President should follow in delivering tax relief for American families: First, tax cuts should not explode the deficit in future years, increasing the tax burden on our children; second, the majority of the tax cut benefits should flow to those who need it most, working and middle-income families; and third, tax cuts should enhance the economic and retirement security of average Americans.

Unfortunately, in my view, the Ways and Means tax bill fails to adhere to these principles. I am especially concerned about the bill's shortcoming with regard to retirement security. First, the bill makes the wrong choices when it comes to expanding individual retirement accounts [IRA's]. And second, it targets educators for pension reductions.

Mr. Chairman, I am a strong proponent of expanding IRA's for working and middle-income families and have introduced legislation to do so. Yet, there is a right way to go about IRA expansion and a wrong way. The right way is to create new savers by providing extra tax incentives for low-wage workers and making more middle-income families eligible for IRA tax deductions. Working income Americans have tremendous difficulty saving today amid the press of monthly expenses and it is toward this group that we should direct IRA tax savings.

Unfortunately, the bill before goes about IRA expansion in precisely the wrong way. It establishes so-called backloaded IRA's which almost exclusively benefit the wealthy and which absolutely explode in cost outside the budget window. With backloaded IRA's, wealthy individuals can place substantial amounts of their investment income in an account where earnings and distributions will never be taxed. While the well-to-do can shelter their income in this way, backloaded IRA's do nothing to provide tax relief to the low- and moderate-income families who have such a difficult time saving for retirement. In fact, while taxpayers with incomes in the top 5 percent would save thousands per year with backloaded IRA's, families in the bottom 40 percent would realize no tax savings whatsoever.

Mr. Chairman, if there was one group whose retirement security we should all want to protect it is the dedicated individuals who educate our children. Yet, this bill singles out for pension reductions the educators who work to impart knowledge and values to our young people, the researchers who achieve the scientific and medical breakthroughs so critical to our quality of life, and the office and service workers who help make our universities the pride of the world. These are the people who have been served for 80 years by the Teachers Insurance and Annuity Association-College Retirement Equities Fund [TIAA–CREF].

This tax bill would revoke the longstanding tax-exempt status of TIAA–CREF's pension operations, a change which could reduce the incomes of retired university personnel by as much as 3 to 5 percent. And we're not talking about a group of wealthy professors here. The average TIAA–CREF beneficiary earns less than $12,000 per year in pension income. Mr. Chairman, at a time when we are rightly trying to attract the very best talent to help educate our Nation's children, we should not single out educators and jeopardize their retirement security.

Mr. Chairman, I urge may colleagues to oppose this tax bill. The Senate has taken a more balanced approach and I sincerely hope that the tax bill will come back from the conference in a form that we can all support.

However, this bill represents the wrong tax relief priorities and undermines rather than advances our Nation's retirement security.

Mr. OWENS. Mr. Chairman, I rise in vehement opposition to H.R. 2014, the Budget Reconciliation Tax Act. It is appalling that just 1 month ago, Republicans enjoyed photo opportunities and media blitzes in which they celebrated an historic agreement between the White House and the Republican leadership. Unsurprisingly, the parameters of this agreement have begun to unravel and H.R. 2014 represents the consummate slap in the face to everyone who was told that this agreement was honorable and genuinely beneficial to all of the children, women, and men of America. It must be exposed the H.R. 2014 is a moral and economic sneak attack on people who are not lucky enough to be rich, realize capital gains, utilize a corporate depreciation allowance, work on a job that provides real benefits.

At a time when individuals are bearing a larger share of the Federal tax burden, H.R. 2014 includes changes to U.S. tax policy which would overwhelmingly benefit the corporate wealth. H.R. 2014 would reduce the capital gains tax and modify the estate tax structure. According to the Center on Budget and Policy Priorities, the top 20 percent of the U.S. population would receive 87 percent of the benefits, while the bottom 60 percent of the population would receive a paltry 4 percent of these tax benefits. In fact, the wealthiest 1 percent of the population would enjoy a rise in after-tax income of approximately $27,000. And more than half of the benefits of the Republican tax plan would go to the wealthiest 5 percent—people making an average of $250,000 a year.

Moreover, H.R. 2014 would deny the highly publicized child tax credit to working-class families. Some families would be able to benefit from the $500 per child tax credit. However, those lower income families who receive the earned income tax credit [EITC] and have no Federal tax liability would be declared ineligible for the child credit—15 million families. Under H.R. 2014, the child tax credit could be nonrefundable and reduced by amounts received by families under EITC or the dependent care tax credit—which pays a portion of child care expenses. This means that a family with two children earning $25,000 per year would not receive the child credit. Republicans argue that the credit is not for families who have no Federal tax liability. Unfortunately, this shortsighted argument presents only half the picture: These families still pay payroll taxes, State taxes, and local taxes. As such, they deserve relief.

The Republicans further contend that families already receive a credit [EITC] and should not benefit from another one. This argument is laughable given that the majority is prepared to repeal and scale back the alternative minimum tax [AMT]—a tax that was first levied in 1969 and strengthened in 1986 when it was discovered that corporations took advantage of hundred of billions of dollars' worth of tax breaks and ended up paying no income taxes at all. The scaling back and repeal of AMT is expected to cost U.S. taxpayers an abominable $22 billion over a 10-year period. Because the Tax Code is rife with more than $70 billion in tax breaks, deductions, and credits—corporate welfare—billion-dollar corporations can end up owning $0 in taxes.

In despicable disregard for the nonwealthy American worker, Republicans have included a provision in H.R. 2014 that would expand the definition of independent contractor providing employers wholesale freedom to change the classification of their workers from employees to independent contractors. No one prepared the American people for another assault on the average worker and this provision was definitely not apart of the White House-Republican budget agreement. If a worker is classified as an employee then he or she is protected by a myriad of laws regarding minimum wage, overtime pay, workers' compensation, and health care and retirement benefits packages. However, if a worker is classified as an independent contractor, the employer can deny this worker these very basic protections and benefits. It is estimated that millions of workers would be affected should this provision be enacted into law.

Finally, H.R. 2014 would provide small tax incentives to economically depressed areas in the District of Columbia—a laudable goal at first glance. However, given the overall economic hunger in many U.S. cities, including our Capital City, the crumbs in this bill are grossly inadequate. The bill would designate a number of areas in the District of Columbia as enterprise zones for 5 years—four specific areas and any census tract where the poverty level is at least 35 percent. However, the Democratic substitute bill would expand the number of current empowerment zones from 9 to 29—and the number of enterprise communities from 20 to 100. Empowerment zones receive a combination of tax incentives and Federal grants in order to enhance employment opportunities and encourage community development in blighted areas. In 1994, when the first round of Federal EX's and EC's was completed, out of the 500 applications, only 29 were awarded. There are hundreds of cities in the United States with double-digit unemployment rates and high poverty rates and the Republicans wish to focus only on the District of Columbia—a city where a great deal of media attention is concentrated. We cannot be satisfied by this pittance when the overall need is so dramatic.

The Children's Defense Fund, Public Citizen, National Low-Income Housing Coalition, AFL–CIO, the National Education Association, and two dozen other organizations have circulated a letter to Members of Congress in collective opposition to the regressive tax cuts that are included in H.R. 2014. They state unequivocally,

> We * * * urge you to oppose significant tax cuts for our Nation's wealthiest citizens. * * * The budget accord diverts important resources to tax reductions * * * we hope you will focus on moderate tax cuts for low and middle-income Americans, not tax subsidies for the wealthy that have little economic rationale and blow a hole in the deficit.

I challenge my colleagues to declare the Republican crown jewel null and void. Send it back to the drawing board and bring the American people and this Congress a bill that is fair and genuinely poised to provide the economic relief that is needed by all of our communities and families. A great injustice is taking place. Vote ''no;; on H.R. 2014.

Mr. COSTELLO. Mr. Chairman, I rise today in opposition to the Republican leadership's tax bill. While I have supported a balanced budget amendment since coming to Congress in 1988, this bill mostly provides tax relief for upper income Americans with little relief for middle-income families.

A report issued by the Center on Budget and Policy Priorities shows that under this bill, the very wealthiest 1 percent of families would get their incomes boosted by an average of $27,000 a year, while families struggling at the bottom 20 percent of the economic ladder actually end up losing an average of $63 a year.

I will be supporting the Democratic alternative because it ensures that over 70 percent of the tax cuts go to families earning less than $100,000 per year. The American people want to see our Federal budget balanced. However, lower- and middle-income families need tax incentives themselves as they struggle to make ends meet financially.

The cost of college education for children is of major concern to many lower- and middle-income families. College tuition rates continue to increase at a staggering rate each year. The Democratic bill makes the HOPE scholarship tax credit available for all 4 years of college education, instead of just 2 years under the GOP bill. In the final 2 years, a 20-percent credit for tuition costs would be available. Also, the HOPE scholarship credits would not be reduced by a student's Pell grant and other nontaxable Federal scholarships.

Many middle-income families operate small businesses and farms and need estate and gift tax reform. The Democratic substitute raises the exemption among from paying estate taxes from $600,000 to $1 million effective January 1, 1998, instead of the year 2007 in the Republican version. Many of our family farms and family-owned businesses cannot survive from one generation to the next because of the high taxes our current laws bring about. Family-owned businesses are vital to expand our national economy, and this substitute allows for these businesses and farms to thrive.

Finaly, the Democratic bill targets the capital gains reductions to middle-income American families. Mr. Speaker, I realize that difficult choice have to be made to take on a challenge as large as reducing the Federal debt once and for all by 2002. However, I cannot support legislation which ignores the financial needs of lower- and middle-income families in order to benefit the wealthy.

All time for general debate has expired.

The CHAIRMAN pro tempore. Pursuant to the rule, the amendment numbered 2 in the CONGRESSIONAL RECORD is adopted. The bill, as amended, is considered as an original bill for the purpose of further amendment and is considered as read.

The text of H.R. 2014, as amended, pursuant to House Resolution 174, is as follows:

SECTION 1. SHORT TITLE; AMENDMENT OF 1986 CODE.

(a) SHORT TITLE.—This Act may be cited as the ''Taxpayer Relief Act of 1997''.

(b) AMENDMENT OF 1986 CODE.—Except as otherwise expressly provided, whenever in this Act 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.

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

Sec. 1. Short title; amendment of 1986 Code.

TITLE I—CHILD TAX CREDIT; TAX INCENTIVES FOR DEPENDENT CARE AND HEALTH CARE FOR CHILDREN
Sec. 101. Child tax credit.
Sec. 102. Inflation adjustment of limits and other modifications of dependent care credit.
TITLE II—EDUCATION INCENTIVES
Subtitle A—Tax Benefits Relating to Education Expenses
Sec. 201. Hope credit for higher education tuition and related expenses.
Sec. 202. Deduction for qualified higher education expenses.
Sec. 203. Penalty-free withdrawals from individual retirement plans for higher education expenses.
Sec. 204. Expenses for education which supplements elementary and secondary education.
Subtitle B—Expanded Education Investment Savings Opportunities
Sec. 211. Eligible educational institutions permitted to maintain qualified tuition programs; other modifications of qualified State tuition programs.
Sec. 212. Education investment accounts.
Subtitle C—Other Education Initiatives
Sec. 221. Extension of exclusion for employer-provided educational assistance.
Sec. 222. Increase in limitation on qualified 501(c)(3) bonds other than hospital bonds.
Sec. 223. Contributions of computer technology and equipment for elementary or secondary school purposes.
Sec. 224. Treatment of cancellation of certain student loans.
TITLE III—SAVINGS AND INVESTMENT INCENTIVES
Subtitle A—Retirement Savings
Sec. 301. Establishment of American Dream IRA.
Subtitle B—Capital Gains
PART I—INDIVIDUAL CAPITAL GAINS
Sec. 311. 20 percent maximum capital gains rate for individuals.
Sec. 312. Indexing of certain assets acquired after December 31, 2000, for purposes of determining gain.
Sec. 313. Exemption from tax for gain on sale of principal residence.
PART II—CORPORATE CAPITAL GAINS
Sec. 321. Reduction of alternative capital gain tax for corporations.
TITLE IV—ALTERNATIVE MINIMUM TAX REFORM
Sec. 401. Adjustment of exemption amounts for taxpayers other than corporations.
Sec. 402. Exemption from alternative minimum tax for small corporations.
Sec. 403. Repeal of adjustment for depreciation.
Sec. 404. Minimum tax not to apply to farmers' installment sales.
TITLE V—ESTATE, GIFT, AND GENERATION-SKIPPING TAX PROVISIONS
Subtitle A—Estate and Gift Tax Provisions
Sec. 501. Cost-of-living adjustments relating to estate and gift tax provisions.
Sec. 502. 20-year installment payment where estate consists largely of interest in closely held business.
Sec. 503. No interest on certain portion of estate tax extended under section 6166, reduced interest on remaining portion, and no deduction for such reduced interest.
Sec. 504. Extension of treatment of certain rents under section 2032A to lineal descendants.
Sec. 505. Clarification of judicial review of eligibility for extension of time for payment of estate tax.
Sec. 506. Gifts may not be revalued for estate tax purposes after expiration of statute of limitations.
Sec. 507. Termination of throwback rules for domestic trusts.
Sec. 508. Unified credit of decedent increased by unified credit of spouse used on split gift included in decedent's gross estate.
Sec. 509. Reformation of defective bequests, etc., to spouse of decedent.
Subtitle B—Generation-Skipping Tax Provisions
Sec. 511. Severing of trusts holding property having an inclusion ratio of greater than zero.
Sec. 512. Expansion of exception from generation-skipping transfer tax for transfers to individuals with deceased parents.
TITLE VI—EXTENSION AND MODIFICATION OF CERTAIN EXPIRING PROVISIONS
Sec. 601. Research tax credit.
Sec. 602. Contributions of stock to private foundations.
Sec. 603. Work opportunity tax credit.
Sec. 604. Orphan drug tax credit.
Sec. 605. Budgetary treatment of expiring preferential excise tax rates which are dedicated to trust funds.
TITLE VII—INCENTIVES FOR REVITALIZATION OF THE DISTRICT OF COLUMBIA
Sec. 701. Tax incentives for revitalization of the District of Columbia.
Sec. 702. Incentives conditioned on other DC reform.
TITLE VIII—WELFARE-TO-WORK INCENTIVES
Sec. 801. Incentives for employing long-term family assistance recipients.
TITLE IX—MISCELLANEOUS PROVISIONS
Subtitle A—Provisions Relating to Excise Taxes
Sec. 901. Repeal of tax on diesel fuel used in recreational boats.
Sec. 902. Continued application of tax on imported recycled Halon-1211.
Sec. 903. Uniform rate of tax on vaccines.
Sec. 904. Operators of multiple gasoline retail outlets treated as wholesale distributor for refund purposes.
Sec. 905. Exemption of electric and other clean-fuel motor vehicles from luxury automobile classification.
Subtitle B—Provisions Relating to Pensions and Fringe Benefits
Sec. 911. Section 401(k) plans for certain irrigation and drainage entities.
Sec. 912. Extension of moratorium on application of certain nondiscrimination rules to State and local governments.
Sec. 913. Treatment of certain disability benefits received by former police officers or firefighters.
Sec. 914. Portability of permissive service credit under governmental pension plans.
Sec. 915. Gratuitous transfers for the benefit of employees.
Sec. 916. Treatment of certain transportation on non-commercially operated aircraft as a fringe benefit excludable from gross income.
Sec. 917. Minimum pension accrued benefit distributable without consent increased to $5,000.
Sec. 918. Clarification of certain rules relating to employee stock ownership plans of S corporations.
Subtitle C—Revisions Relating to Disasters
Sec. 921. Authority to postpone certain tax-related deadlines by reason of presidentially declared disaster.
Sec. 922. Use of certain appraisals to establish amount of disaster loss.
Sec. 923. Treatment of livestock sold on account of weather-related conditions.
Sec. 924. Mortgage financing for residences located in disaster areas.
Subtitle D—Provisions Relating to Employment Taxes
Sec. 931. Clarification of employment tax status of individuals distributing bakery products.
Sec. 932. Clarification of standard to be used in determining employment tax status of retail securities brokers.
Sec. 933. Clarification of exemption from self-employment tax for certain termination payments received by former insurance salesmen.
Sec. 934. Standards for determining whether individuals are not employees.
Subtitle E—Provisions Relating to Small Businesses
Sec. 941. Waiver of penalty through 1998 on small businesses failing to make electronic fund transfers of taxes.
Sec. 942. Clarification of treatment of home office use for administrative and management activities.
Subtitle F—Other Provisions
Sec. 951. Use of estimates of shrinkage for inventory accounting.
Sec. 952. Assignment of workmen's compensation liability eligible for exclusion relating to personal injury liability assignments.
Sec. 953. Tax-exempt status for certain State worker's compensation act companies.
Sec. 954. Election to continue exception from treatment of publicly traded partnerships as corporations.
Sec. 955. Exclusion from unrelated business taxable income for certain sponsorship payments.
Sec. 956. Associations of holders of timeshare interests to be taxed like other homeowners associations.
Sec. 957. Additional advance refunding of certain Virgin Island bonds.
Sec. 958. Nonrecognition of gain on sale of stock to certain farmers' cooperatives.
Sec. 959. Exception from reporting of real estate transactions for sales and exchanges of certain principal residences.
Sec. 960. Increased deductibility of business meal expenses for individuals subject to Federal hours of service.
Sec. 961. Qualified lessee construction allowances for short-term leases.
Sec. 962. Tax treatment of consolidations of life insurance departments of mutual savings banks.
Sec. 963. Offset of past-due, legally enforceable State tax obligations against overpayments.
Sec. 964. Exemption of the incremental cost of a clean fuel vehicle from the limits on depreciation for vehicles.

Sec. 965. Tax benefits for law enforcement officers killed in the line of duty.
Sec. 966. Temporary suspension of taxable income limit on percentage depletion for marginal production.

Subtitle G—Extension of Duty-Free Treatment Under Generalized System of Preferences; Tariff Treatment of Certain Equipment and Repair of Vessels

Sec. 971. Generalized system of preferences.
Sec. 972. Equipment and repair of vessels.

Subtitle H—United States-Caribbean Basin Trade Partnership Act

Sec. 981. Short title.
Sec. 982. Findings and policy.
Sec. 983. Definitions.
Sec. 984. Temporary provisions to provide NAFTA parity to partnership countries.
Sec. 985. Effect of NAFTA on sugar imports from beneficiary countries.
Sec. 986. Duty-free treatment for certain beverages made with Caribbean rum.
Sec. 987. Meetings of trade ministers and USTR.
Sec. 988. Report on economic development and market oriented reforms in the Caribbean.

TITLE X—REVENUES

Subtitle A—Financial Products

Sec. 1001. Constructive sales treatment for appreciated financial positions.
Sec. 1002. Limitation on exception for investment companies under section 351.
Sec. 1003. Modification of rules for allocating interest expense to tax-exempt interest.
Sec. 1004. Gains and losses from certain terminations with respect to property.
Sec. 1005. Determination of original issue discount where pooled debt obligations subject to acceleration.
Sec. 1006. Denial of interest deductions on certain debt instruments.

Subtitle B—Corporate Organizations and Reorganizations

Sec. 1011. Tax treatment of certain extraordinary dividends.
Sec. 1012. Application of section 355 to distributions followed by acquisitions and to intragroup transactions.
Sec. 1013. Tax treatment of redemptions involving related corporations.
Sec. 1014. Modification of holding period applicable to dividends received deduction.

Subtitle C—Other Corporate Provisions

Sec. 1021. Registration and other provisions relating to confidential corporate tax shelters.
Sec. 1022. Certain preferred stock treated as boot.

Subtitle D—Administrative Provisions

Sec. 1031. Reporting of certain payments made to attorneys.
Sec. 1032. Decrease of threshold for reporting payments to corporations performing services for Federal agencies.
Sec. 1033. Disclosure of return information for administration of certain veterans programs.
Sec. 1034. Continuous levy on certain payments.
Sec. 1035. Modification of levy exemption.
Sec. 1036. Confidentiality and disclosure of returns and return information.
Sec. 1037. Returns of beneficiaries of estates and trusts required to file returns consistent with estate or trust return or to notify secretary of inconsistency.

Subtitle E—Excise Tax Provisions

Sec. 1041. Extension and modification of Airport and Airway Trust Fund taxes.
Sec. 1042. Kerosene taxed as diesel fuel.
Sec. 1043. Restoration of Leaking Underground Storage Tank Trust Fund taxes.
Sec. 1044. Application of communications tax to long-distance prepaid telephone cards.

Subtitle F—Provisions Relating to Tax-Exempt Entities

Sec. 1051. Expansion of look-thru rule for interest, annuities, royalties, and rents derived by subsidiaries of tax-exempt organizations.
Sec. 1052. Limitation on increase in basis of property resulting from sale by tax-exempt entity to a related person.
Sec. 1053. Modifications to exception from reporting, etc. of lobbying activities.
Sec. 1054. Termination of certain exceptions from rules relating to exempt organizations which provide commercial-type insurance.

Subtitle G—Other Revenue Provisions

Sec. 1061. Termination of suspense accounts for family corporations required to use accrual method of accounting.
Sec. 1062. Modification of taxable years to which net operating losses may be carried.
Sec. 1063. Expansion of denial of deduction for certain amounts paid in connection with insurance.
Sec. 1064. Allocation of basis among properties distributed by partnership.
Sec. 1065. Repeal of requirement that inventory be substantially appreciated.
Sec. 1066. Extension of time for taxing precontribution gain.
Sec. 1067. Restrictions on availability of earned income credit for taxpayers who improperly claimed credit in prior year.
Sec. 1068. Limitation on property for which income forecast method may be used.
Sec. 1069. Repeal of special rule for rental use of vacation homes, etc., for less than 15 days.
Sec. 1070. Expansion of requirement that involuntarily converted property be replaced with property acquired from an unrelated person.
Sec. 1071. Treatment of exception from installment sales rules for sales of property by a manufacturer to a dealer.

TITLE XI—SIMPLIFICATION AND OTHER FOREIGN-RELATED PROVISIONS

Subtitle A—General Provisions

Sec. 1101. Treatment of computer software as FSC export property.
Sec. 1102. Adjustment of dollar limitation on section 911 exclusion.
Sec. 1103. Certain individuals exempt from foreign tax credit limitation.
Sec. 1104. Exchange rate used in translating foreign taxes.
Sec. 1105. Election to use simplified section 904 limitation for alternative minimum tax.
Sec. 1106. Treatment of personal transactions by individuals under foreign currency rules.
Sec. 1107. All noncontrolled section 902 corporations which are not passive foreign investment companies in one foreign tax limitation basket.

Subtitle B—Treatment of Controlled Foreign Corporations

Sec. 1111. Gain on certain stock sales by controlled foreign corporations treated as dividends.
Sec. 1112. Miscellaneous modifications to subpart F.
Sec. 1113. Indirect foreign tax credit allowed for certain lower tier companies.

Subtitle C—Treatment of Passive Foreign Investment Companies

Sec. 1121. United States shareholders of controlled foreign corporations not subject to PFIC inclusion.
Sec. 1122. Election of mark to market for marketable stock in passive foreign investment company.
Sec. 1123. Effective date.

Subtitle D—Repeal of Excise Tax on Transfers to Foreign Entities

Sec. 1131. Repeal of excise tax on transfers to foreign entities; recognition of gain on certain transfers to foreign trusts and estates.

Subtitle E—Information Reporting

Sec. 1141. Clarification of application of return requirement to foreign partnerships.
Sec. 1142. Controlled foreign partnerships subject to information reporting comparable to information reporting for controlled foreign corporations.
Sec. 1143. Modifications relating to returns required to be filed by reason of changes in ownership interests in foreign partnership.
Sec. 1144. Transfers of property to foreign partnerships subject to information reporting comparable to information reporting for such transfers to foreign corporations.
Sec. 1145. Extension of statute of limitation for foreign transfers.
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Subtitle F—Determination of Foreign or Domestic Status of Partnerships

Sec. 1151. Determination of foreign or domestic status of partnerships.

Subtitle G—Other Simplification Provisions

Sec. 1161. Transition rule for certain trusts.
Sec. 1162. Repeal of stock and securities safe harbor requirement that principal office be outside the United States.

Subtitle H—Other Provisions

Sec. 1171. Definition of foreign personal holding company income.
Sec. 1172. Personal property used predominantly in the United States treated as not property of a like kind with respect to property used predominantly outside the United States.
Sec. 1173. Holding period requirement for certain foreign taxes.
Sec. 1174. Penalties for failure to disclose position that certain international transportation income is not includible in gross income.

Sec. 1175. Denial of treaty benefits for certain payments through hybrid entities.
Sec. 1176. Interest on underpayments not reduced by foreign tax credit carrybacks.
Sec. 1177. Clarification of period of limitations on claim for credit or refund attributable to foreign tax credit carryforward.
Sec. 1178. Miscellaneous clarifications.

TITLE XII—SIMPLIFICATION PROVISIONS RELATING TO INDIVIDUALS AND BUSINESSES

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Sec. 1202. Increase in amount of tax exempt from estimated tax requirements.
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Sec. 1206. Payment of tax by commercially acceptable means.

Subtitle B—Provisions Relating to Businesses Generally

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Sec. 1221. Simplified flow-through for electing large partnerships.
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Sec. 1231. Treatment of partnership items in deficiency proceedings.
Sec. 1232. Partnership return to be determinative of audit procedures to be followed.
Sec. 1233. Provisions relating to statute of limitations.
Sec. 1234. Expansion of small partnership exception.
Sec. 1235. Exclusion of partial settlements from 1-year limitation on assessment.
Sec. 1236. Extension of time for filing a request for administrative adjustment.
Sec. 1237. Availability of innocent spouse relief in context of partnership proceedings.
Sec. 1238. Determination of penalties at partnership level.
Sec. 1239. Provisions relating to court jurisdiction, etc.
Sec. 1240. Treatment of premature petitions filed by notice partners or 5-percent groups.
Sec. 1241. Bonds in case of appeals from certain proceeding.
Sec. 1242. Suspension of interest where delay in computational adjustment resulting from certain settlements.
Sec. 1243. Special rules for administrative adjustment requests with respect to bad debts or worthless securities.

PART III—PROVISION RELATING TO CLOSING OF PARTNERSHIP TAXABLE YEAR WITH RESPECT TO DECEASED PARTNER, ETC.

Sec. 1246. Closing of partnership taxable year with respect to deceased partner, etc.

Subtitle D—Provisions Relating to Real Estate Investment Trusts

Sec. 1251. Clarification of limitation on maximum number of shareholders.
Sec. 1252. De minimis rule for tenant services income.
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Sec. 1254. Credit for tax paid by REIT on retained capital gains.
Sec. 1255. Repeal of 30-percent gross income requirement.
Sec. 1256. Modification of earnings and profits rules for determining whether REIT has earnings and profits from non-REIT year.
Sec. 1257. Treatment of foreclosure property.
Sec. 1258. Payments under hedging instruments.
Sec. 1259. Excess noncash income.
Sec. 1260. Prohibited transaction safe harbor.
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Subtitle E—Provisions Relating to Regulated Investment Companies

Sec. 1271. Repeal of 30-percent gross income limitation.

Subtitle F—Taxpayer Protections

Sec. 1281. Reasonable cause exception for certain penalties.
Sec. 1282. Clarification of period for filing claims for refunds.
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Sec. 1285. Awarding of administrative costs.
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TITLE XIII—SIMPLIFICATION PROVISIONS RELATING TO ESTATE AND GIFT TAXES

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Sec. 1302. Clarification of waiver of certain rights of recovery.
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TITLE XIV—SIMPLIFICATION PROVISIONS RELATING TO EXCISE TAXES, TAX-EXEMPT BONDS, AND OTHER MATTERS

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TITLE I—CHILD TAX CREDIT; MODIFICATION OF DEPENDENT CARE CREDIT

SEC. 101. CHILD TAX CREDIT.

(a) IN GENERAL.—Subpart A of part IV of subchapter A of chapter 1 (relating to nonrefundable personal credits) is amended by inserting after section 23 the following new section:

"SEC. 24. CHILD TAX CREDIT.

''(a) ALLOWANCE OF CREDIT.—There shall be allowed as a credit against the tax imposed by this chapter for the taxable year an amount equal to $500 multiplied by the number of qualifying children of the taxpayer.

''(b) LIMITATIONS.—

''(1) LIMITATION BASED ON ADJUSTED GROSS INCOME.—For limitation based on adjusted gross income, see section 26(c).

''(2) REDUCTION FOR DEPENDENT CARE CREDIT.—In the case of taxable years beginning after December 31, 1999—

''(A) IN GENERAL.—The credit allowed by subsection (a) for the taxable year (determined after paragraph (1) but before paragraph (3)) shall be reduced by the amount equal to 50 percent of the credit allowed under section 21 for such taxable year (determined after section 26(c)).

''(B) EXCEPTION BASED ON ADJUSTED GROSS INCOME.—

''(i) IN GENERAL.—Subparagraph (A) shall not apply to a taxpayer whose modified adjusted gross income for the taxable year does not exceed the threshold amount.

''(ii) PHASEIN OF REDUCTION.—If the modified adjusted gross income of the taxpayer for the taxable year exceeds the threshold amount by less than $5,000, the amount of the reduction under subparagraph (A) shall be an amount which bears the same ratio to the amount of such reduction (determined without regard to this clause) as the excess of the taxpayer's modified adjusted gross income over the threshold amount bears to $5,000. In the case of a joint return, the preceding sentence shall be applied by substituting '$10,000' for '$5,000' each place it appears.

''(iii) THRESHOLD AMOUNT.—For purposes of this subparagraph, the term 'threshold amount' means—

''(I) $60,000 in the case of a joint return,

''(II) $33,000 in the case of an individual who is not married, and

''(III) $25,000 in the case of a married individual filing a separate return.

For purposes of this clause, marital status shall be determined under section 7703.

''(iv) MODIFIED ADJUSTED GROSS INCOME.—For purposes of this subparagraph, the term 'modified adjusted gross income' has the meaning given such term by section 26(c).''.

''(C) NO REDUCTION FOR DEPENDENT CARE OF INDIVIDUALS INCAPABLE OF SELF-CARE.—Subparagraph (A) shall not apply to so much of the credit which would have been allowed under section 21 (determined without regard to section 26(c)) if only qualifying individuals described in subparagraph (B) or (C) of section 21(b)(1) were taken into account.

''(3) LIMITATION BASED ON AMOUNT OF TAX.—The credit allowed by subsection (a) (determined after paragraphs (1) and (2)) shall not exceed the excess (if any) of—

''(A) the taxpayer's regular tax liability for the taxable year reduced by the credits allowable against such tax under this subpart (other than this section), over

''(B) the sum of—

''(i) the taxpayer's tentative minimum tax for such taxable year (determined without regard to the alternative minimum tax foreign tax credit), plus

''(ii) the credit allowed for the taxable year under section 32.

''(c) QUALIFYING CHILD.—For purposes of this section—

''(1) IN GENERAL.—The term 'qualifying child' means any individual if—

''(A) the taxpayer is allowed a deduction under section 151 with respect to such individual for the taxable year,

''(B) such individual has not attained the age of 17 as of the close of the calendar year in which the taxable year of the taxpayer begins, and

''(C) such individual bears a relationship to the taxpayer described in section 32(c)(3)(B).

''(2) EXCEPTION FOR CERTAIN NONCITIZENS.—The term 'qualifying child' shall not include any individual who would not be a dependent if the first sentence of section 152(b)(3) were applied without regard to all that follows 'resident of the United States'.

''(d) TAXABLE YEAR MUST BE FULL TAXABLE YEAR.—Except in the case of a taxable year closed by reason of the death of the taxpayer, no credit shall be allowable under this section in the case of a taxable year covering a period of less than 12 months.

''(e) PHASEIN OF CREDIT.—In the case of taxable years beginning in 1998, subsection (a) shall be applied by substituting '$400' for '$500'.''.

(b) HIGH RISK POOLS PERMITTED TO COVER DEPENDENTS OF HIGH RISK INDIVIDUALS.—Paragraph (26) of section 501(c) is amended by adding at the end the following flush sentence:

''A qualifying child (as defined in section 24(c)) of an individual described in subparagraph (B) (without regard to this sentence) shall be treated as described in subparagraph (B).''.

(c) CONFORMING AMENDMENTS.—

(1) Subsection (a) of section 26 is amended by inserting ''(other than the credit allowed by section 24)'' after ''credits allowed by this subpart''.

(2) The table of sections for subpart A of part IV of subchapter A of chapter 1 is amended by inserting after the item relating to section 23 the following new item:

''Sec. 24. Child tax credit.''.

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

(e) NOTICE OF CREDIT.—The Secretary of the Treasury or his delegate shall include in any booklet of instructions for Form 1040, 1040A, or 1040EZ prepared by such Secretary for filing individual income tax returns for taxable years beginning in 1998 a notice which states only the following: ''The Taxpayer Relief Act of 1997 which was recently passed by the Congress has fulfilled its promise to provide tax relief to American families. The Act's child tax credit allows American families to reduce their taxes by $400 per child for 1998 and $500 per child after 1998. You may wish to check with your employer about changing your tax withholding.''.

(f) ADJUSTMENTS TO WITHHOLDING.—

(1) IN GENERAL.—The Secretary of the Treasury or his delegate shall modify the tables and procedures under section 3402 of the Internal Revenue Code of 1986 such that every employer making payment of wages during calendar year 1998 to any specified employee—

(A) shall reduce the amount deducted and withheld as tax under chapter 24 of such Code for any payroll or other period during such year to reflect such period's proportionate share of the child care credit amount, and

(B) shall, before implementing such reduction, provide reasonable notice to such employees that such a reduction will apply to each specified employee who does not provide the employer with the notice referred to in paragraph (5).

(2) SPECIFIED EMPLOYEE.—For purposes of this subsection, the term ''specified employee'' means any employee—

(A) whose wages from the employer on an annualized basis are reasonably expected to be at least $30,000 but not more than $100,000, and

(B) who claims more than the base number of withholding exemptions on the withholding exemption certificate furnished to the employer.

For purposes of the preceding sentence, the term ''base number'' means 1 withholding exemption if the certificate reflects withholding for an unmarried individual and 2 withholding exemptions if the certificate reflects withholding for a married individual.

(3) CHILD CARE CREDIT AMOUNT.—For purposes of this subsection, the term ''child care credit amount'' means the lesser of $800 or the amount equal to the product of—

(A) $400, and

(B) the number of withholding exemptions claimed by the employee on the withholding exemption certificate furnished to the employer to the extent such number exceeds the base number (as defined in paragraph (2)) of such exemptions.

(4) PROPORTIONATE SHARE.—For purposes of this subsection, except as provided by the Secretary of the Treasury or his delegate, a period's proportionate share of the child care credit amount is the amount which bears the same ratio to the child care credit amount as the number of days in such period bears to 365.

(5) NOTICE TO HAVE SUBSECTION NOT APPLY TO EMPLOYEE.—This subsection shall not apply to any employee who provides written notice (in such form as the Secretary shall prescribe) to the employer of such employee's decision not to have this subsection apply to such employee.

(6) DEFINITIONS.—Terms used in this subsection which are also used in chapter 24 of the Internal Revenue Code of 1986 shall have the respective meanings given such terms by such chapter.

SEC. 102. INFLATION ADJUSTMENT OF LIMITS AND OTHER MODIFICATIONS OF DEPENDENT CARE CREDIT.

(a) INFLATION ADJUSTMENT.—

(1) IN GENERAL.—Subsection (c) of section 21 (relating to expenses for household and dependent care services necessary for gainful employment) is amended to read as follows:

''(c) DOLLAR LIMIT ON AMOUNT CREDITABLE.—

''(1) IN GENERAL.—The amount of the employment-related expenses incurred during any taxable year which may be taken into account under subsection (a) shall not exceed—

''(A) $2,400 if there is 1 qualifying individual with respect to the taxpayer for such taxable year, or

''(B) $4,800 if there are 2 or more qualifying individuals with respect to the taxpayer for such taxable year.

The amount determined under subparagraph (A) or (B) (whichever is applicable) shall be reduced by the aggregate amount excludable from gross income under section 129 for the taxable year.

''(2) INFLATION ADJUSTMENT.—In the case of taxable years beginning in a calendar year after 1997, each of the dollar amounts contained in paragraph (1) shall be increased by an amount equal to—

''(A) such dollar amount, multiplied by

''(B) the cost-of-living adjustment determined under section 1(f)(3) for such calendar year by substituting 'calendar year 1996' for 'calendar year 1992' in subparagraph (B) thereof.

If any amount as adjusted under the preceding sentence is not a multiple of $50, such amount shall be rounded to the next lowest multiple of $50.''.

(2) CONFORMING AMENDMENT.—Paragraph (2) of section 21(d) is amended by striking ''(c)(1)'' and inserting ''(c)(1)(A)'' and by striking ''(c)(2)'' and inserting ''(c)(1)(B)''.

(b) REDUCTION OF BENEFIT BASED ON ADJUSTED GROSS INCOME.—

(1) IN GENERAL.—Section 26 is amended by redesignating subsection (c) as subsection (d) and by inserting after subsection (b) the following new subsection:

''(c) REDUCTION OF DEPENDENT CARE CREDIT AND CHILD CREDIT BASED ON ADJUSTED GROSS INCOME.—

''(1) IN GENERAL.—The aggregate amount which would (but for subsection (a), this subsection, and paragraphs (2) and (3) of section 24(b)) be allowed under sections 21 and 24 shall be reduced (but not below zero) by $25 for each $1,000 (or fraction thereof) by which the taxpayer's modified adjusted gross income exceeds the threshold amount. For purposes of the preceding sentence, the term 'modified adjusted gross income' means adjusted gross income increased by any amount excluded from gross income under section 911, 931, or 933.

''(2) THRESHOLD AMOUNT.—For purposes of paragraph (1), the term 'threshold amount' means—

''(A) $110,000 in the case of a joint return,

''(B) $75,000 in the case of an individual who is not married, and

''(C) $55,000 in the case of a married individual filing a separate return.

For purposes of this paragraph, marital status shall be determined under section 7703.

''(3) REMAINING CREDIT TREATED AS ATTRIBUTABLE TO DEPENDENT CARE TAX CREDIT.—The aggregate amount allowable under sections 21 and 24 after the application of paragraph (1) shall be treated as allowable solely under section 21 to the extent such amount does not exceed the amount allowable under section 21 (determined without regard to section 21(a)(3)).''.

(2) CONFORMING AMENDMENTS.—

(A) Subsection (a) of section 21 is amended by adding at the end the following new paragraph:

''(3) LIMITATION BASED ON ADJUSTED GROSS INCOME.—

''For limitation based on adjusted gross income, see section 26(c).''.

(B) The section heading for section 26 is amended by inserting before the period ''; phaseout of certain credits based on income''.

(C) The item relating to section 26 in the table of sections for subpart A of part IV of subchapter A of chapter 1 is amended by inserting before the period ''; phaseout of certain credits based on income''.

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

TITLE II—EDUCATION INCENTIVES

Subtitle A—Tax Benefits Relating to Education Expenses

SEC. 201. HOPE CREDIT FOR HIGHER EDUCATION TUITION AND RELATED EXPENSES.

(a) IN GENERAL.—Subpart A of part IV of subchapter A of chapter 1 (relating to nonrefundable personal credits) is amended by inserting after section 25 the following new section:

''SEC. 25A. HIGHER EDUCATION TUITION AND RELATED EXPENSES.

''(a) ALLOWANCE OF CREDIT.—In the case of an individual, there shall be allowed as a credit against the tax imposed by this chapter for the taxable year the amount equal to 50 percent of qualified tuition and related expenses paid by the taxpayer during such taxable year for education furnished during any academic period beginning in such year.

''(b) LIMITATIONS.—

''(1) DOLLAR LIMITATION.—The amount allowed as a credit under subsection (a) for any taxable year with respect to the qualified tuition and related expenses of any 1 individual shall not exceed $1,500.

''(2) CREDIT ALLOWED ONLY FOR 2 TAXABLE YEARS.—No credit shall be allowed under subsection (a) for a taxable year with respect to the qualified tuition and related expenses of an individual unless the taxpayer elects to have this section apply with respect to such individual for such year. An election under this paragraph shall not take effect with respect to an individual for any taxable year if an election under this paragraph (by the taxpayer or any other individual) is in effect with respect to such individual for any 2 prior taxable years.

''(3) CREDIT ALLOWED FOR YEAR ONLY IF INDIVIDUAL IS AT LEAST ½ TIME STUDENT FOR PORTION OF YEAR.—No credit shall be allowed under subsection (a) for a taxable year with respect to the qualified tuition and related expenses of an individual unless such individual is an eligible student for at least one academic period which begins during such year.

''(4) CREDIT ALLOWED ONLY FOR FIRST TWO YEARS OF POSTSECONDARY EDUCATION.—No credit shall be allowed under subsection (a) for a taxable year with respect to the qualified tuition and related expenses of an individual if the individual has completed (before the beginning of such taxable year) the first 2 years of postsecondary education at an eligible educational institution.

''(c) LIMITATION BASED ON MODIFIED ADJUSTED GROSS INCOME.—

''(1) IN GENERAL.—The amount which would (but for this subsection) be taken into account under subsection (a) for the taxable year shall be reduced (but not below zero) by the amount determined under paragraph (2).

''(2) AMOUNT OF REDUCTION.—The amount determined under this paragraph is the amount which bears the same ratio to the amount which would be so taken into account as—

''(A) the excess of—

''(i) the taxpayer's modified adjusted gross income for such taxable year, over

''(ii) $40,000 ($80,000 in the case of a joint return), bears to

''(B) $10,000 ($20,000 in the case of a joint return).

''(3) MODIFIED ADJUSTED GROSS INCOME.—The term 'modified adjusted gross income' means the adjusted gross income of the taxpayer for the taxable year increased by any amount excluded from gross income under section 911, 931, or 933.

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

''(1) QUALIFIED TUITION AND RELATED EXPENSES.—

''(A) IN GENERAL.—The term 'qualified tuition and related expenses' means tuition and fees required for the enrollment or attendance of—

''(i) the taxpayer,

''(ii) the taxpayer's spouse, or

''(iii) any dependent of the taxpayer with respect to whom the taxpayer is allowed a deduction under section 151,

at an eligible educational institution and books required for courses of instruction of such individual at such institution.

''(B) EXCEPTION FOR EDUCATION INVOLVING SPORTS, ETC.—Such term does not include expenses with respect to any course or other education involving sports, games, or hobbies, unless such course or other education is part of the individual's degree program.

''(C) EXCEPTION FOR NONACADEMIC FEES.—Such term does not include student activity fees, athletic fees, insurance expenses, or other expenses unrelated to an individual's academic course of instruction.

''(2) ELIGIBLE EDUCATIONAL INSTITUTION.—The term 'eligible educational institution' means an institution—

''(A) which is described in section 481 of the Higher Education Act of 1965 (20 U.S.C. 1088), as in effect on the date of the enactment of this section, and

''(B) which is eligible to participate in a program under title IV of such Act.

''(3) ELIGIBLE STUDENT.—The term 'eligible student' means, with respect to any academic period, a student who—

''(A) meets the requirements of section 484(a)(1) of the Higher Education Act of 1965 (20 U.S.C. 1091(a)(1)), as in effect on the date of the enactment of this section, and

''(B) is carrying at least ½ the normal full-time work load for the course of study the student is pursuing.

''(4) OTHER TERMS RELATING TO THE HIGHER EDUCATION ACT.—The following terms shall have the meanings prescribed in regulations under section 481(g) of the Higher Education Act of 1965 (20 U.S.C. 1088(g)), as added by the Student Financial Aid Improvements Act of 1997:

''(A) Academic period.

''(B) Normal full-time workload.

''(C) First two years of postsecondary education.

''(e) TREATMENT OF EXPENSES PAID BY DEPENDENT.—If a deduction under section 151 with respect to an individual is allowed to another taxpayer for a taxable year beginning in the calendar year in which such individual's taxable year begins—

''(1) no credit shall be allowed under subsection (a) to such individual for such individual's taxable year, and

''(2) qualified tuition and related expenses paid by such individual during such individual's taxable year shall be treated for purposes of this section as paid by such other taxpayer.

''(f) TREATMENT OF CERTAIN PREPAYMENTS.—If qualified tuition and related expenses are paid by the taxpayer during a taxable year for an academic period which begins during the first 3 months following such taxable year, such academic period shall be treated for purposes of this section as beginning during such taxable year.

''(g) SPECIAL RULES.—

''(1) IDENTIFICATION REQUIREMENT.—No credit shall be allowed under subsection (a)

to a taxpayer with respect to the qualified tuition and related expenses of an individual unless the taxpayer includes the name and taxpayer identification number of such individual on the return of tax for the taxable year.

''(2) ADJUSTMENT FOR CERTAIN SCHOLARSHIPS, ETC.—The amount of qualified tuition and related expenses otherwise taken into account under subsection (a) with respect to an individual for an academic period shall be reduced (before the application of subsections (b) and (c)) by the sum of any amounts paid for the benefit of such individual which are allocable to such period as—

''(A) a qualified scholarship which is excludable from gross income under section 117,

''(B) an educational assistance allowance under chapter 30, 31, 32, 34, or 35 of title 38, United States Code, or under chapter 1606 of title 10, United States Code, and

''(C) a payment (other than a gift, bequest, devise, or inheritance within the meaning of section 102(a)) for such individual's educational expenses, or attributable to such individual's enrollment at an eligible educational institution, which is excludable from gross income under any law of the United States.

''(3) DENIAL OF CREDIT IF STUDENT CONVICTED OF A FELONY DRUG OFFENSE.—No credit shall be allowed under subsection (a) for qualified tuition and related expenses for the enrollment or attendance of a student for any academic period if such student has been convicted of a Federal or State felony offense consisting of the possession or distribution of a controlled substance before the end of the taxable year with or within which such period ends.

''(4) DENIAL OF DOUBLE BENEFIT.—No credit shall be allowed under this section for any expense for which a deduction is allowed under any other provision of this chapter.

''(5) NO CREDIT FOR MARRIED INDIVIDUALS FILING SEPARATE RETURNS.—If the taxpayer is a married individual (within the meaning of section 7703), this section shall apply only if the taxpayer and the taxpayer's spouse file a joint return for the taxable year.

''(6) NONRESIDENT ALIENS.—If the taxpayer is a nonresident alien individual for any portion of the taxable year, this section shall apply only if such individual is treated as a resident alien of the United States for purposes of this chapter by reason of an election under subsection (g) or (h) of section 6013.

''(h) INFLATION ADJUSTMENTS.—

''(1) DOLLAR LIMITATION ON AMOUNT OF CREDIT.—

''(A) IN GENERAL.—In the case of a taxable year beginning after 1998, the $1,500 amount in subsection (b)(1) shall be increased by an amount equal to—

''(i) such dollar amount, multiplied by

''(ii) the cost-of-living adjustment determined under section 1(f)(3) for the calendar year in which the taxable year begins, determined by substituting 'calendar year 1997' for 'calendar year 1992' in subparagraph (B) thereof.

''(B) ROUNDING.—If any amount as adjusted under subparagraph (A) is not a multiple of $50, such amount shall be rounded to the next lowest multiple of $50.

''(2) INCOME LIMITS.—

''(A) IN GENERAL.—In the case of a taxable year beginning after 2000, the $40,000 and $80,000 amounts in subsection (c)(2) shall each be increased by an amount equal to—

''(i) such dollar amount, multiplied by

''(ii) the cost-of-living adjustment determined under section 1(f)(3) for the calendar year in which the taxable year begins, determined by substituting 'calendar year 1999' for 'calendar year 1992' in subparagraph (B) thereof.

''(B) ROUNDING.—If any amount as adjusted under subparagraph (A) is not a multiple of $5,000, such amount shall be rounded to the next lowest multiple of $5,000.

''(i) REGULATIONS.—The Secretary may prescribe such regulations as may be necessary or appropriate to carry out this section, including regulations providing for a recapture of credit allowed under this section in cases where there is a refund in a subsequent taxable year of any amount which was taken into account in determining the amount of such credit.''.

(b) EXTENSION OF PROCEDURES APPLICABLE TO MATHEMATICAL OR CLERICAL ERRORS.—Paragraph (2) of section 6213(g) (relating to the definition of mathematical or clerical errors) is amended by striking ''and'' at the end of subparagraph (G), by striking the period at the end of subparagraph (H) and inserting '', and'', and by inserting after subparagraph (H) the following new subparagraph:

''(I) an omission of a correct TIN required under section 25A(g)(1) (relating to higher education tuition and related expenses) to be included on a return.''.

(c) RETURNS RELATING TO TUITION AND RELATED EXPENSES.—

(1) IN GENERAL.—Subpart B of part III of subchapter A of chapter 61 (relating to information concerning transactions with other persons) is amended by inserting after section 6050R the following new section:

''SEC. 6050S. RETURNS RELATING TO HIGHER EDUCATION TUITION AND RELATED EXPENSES.

''(a) IN GENERAL.—Any person—

''(1) which is an eligible educational institution which receives payments for qualified tuition and related expenses with respect to any individual for any calendar year, or

''(2) which is engaged in a trade or business and which, in the course of such trade or business, makes payments during any calendar year to any individual which constitute reimbursements or refunds (or similar amounts) of qualified tuition and related expenses of such individual,

shall make the return described in subsection (b) with respect to the individual at such time as the Secretary may by regulations prescribe.

''(b) FORM AND MANNER OF RETURNS.—A return is described in this subsection if such return—

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

''(2) contains—

''(A) the name, address, and TIN of the individual with respect to whom payments described in subsection (a) were received from (or were paid to),

''(B) the name, address, and TIN of any individual certified by the individual described in subparagraph (A) as the taxpayer who will claim the individual as a dependent for purposes of the deduction allowable under section 151 for any taxable year ending with or within the calendar year, and

''(C) the—

''(i) aggregate amount of payments for qualified tuition and related expenses received with respect to the individual described in subparagraph (A) during the calendar year, and

''(ii) aggregate amount of reimbursements or refunds (or similar amounts) paid to such individual during the calendar year, and

''(D) such other information as the Secretary may prescribe.

''(c) APPLICATION TO GOVERNMENTAL UNITS.—For purposes of this section—

''(1) a governmental unit or any agency or instrumentality thereof shall be treated as a person, and

''(2) any return required under subsection (a) by such governmental entity shall be made by the officer or employee appropriately designated for the purpose of making such return.

''(d) STATEMENTS TO BE FURNISHED TO INDIVIDUALS WITH RESPECT TO WHOM INFORMATION IS REQUIRED.—Every person required to make a return under subsection (a) shall furnish to each individual whose name is required to be set forth in such return under subparagraph (A) or (B) of subsection (b)(2) a written statement showing—

''(1) the name, address, and phone number of the information contact of the person required to make such return, and

''(2) the aggregate amounts described in subsection (b)(2)(C).

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

''(e) DEFINITIONS.—For purposes of this section, the terms 'eligible educational institution' and 'qualified tuition and related expenses' have the meanings given such terms by section 25A.

''(f) RETURNS WHICH WOULD BE REQUIRED TO BE MADE BY 2 OR MORE PERSONS.—Except to the extent provided in regulations prescribed by the Secretary, in the case of any amount received by any person on behalf of another person, only the person first receiving such amount shall be required to make the return under subsection (a).

''(g) REGULATIONS.—The Secretary shall prescribe such regulations as may be necessary to carry out the provisions of this section. No penalties shall be imposed under section 6724 with respect to any return or statement required under this section until such time as such regulations are issued.''.

(2) ASSESSABLE PENALTIES.—

(A) Subparagraph (B) of section 6724(d)(1) (relating to definitions) is amended by redesignating clauses (ix) through (xiv) as clauses (x) through (xv), respectively, and by inserting after clause (viii) the following new clause:

''(ix) section 6050S (relating to returns relating to payments for qualified tuition and related expenses),''.

(B) Paragraph (2) of section 6724(d) is amended by striking ''or'' at the end of the next to last subparagraph, by striking the period at the end of the last subparagraph and inserting '', or'', and by adding at the end the following new subparagraph:

''(Z) section 6050S(d) (relating to returns relating to qualified tuition and related expenses).''.

(3) CLERICAL AMENDMENT.—The table of sections for subpart B of part III of subchapter A of chapter 61 is amended by inserting after the item relating to section 6050R the following new item:

''Sec. 6050S. Returns relating to higher education tuition and related expenses.''.

(d) COORDINATION WITH SECTION 135.—Subsection (d) of section 135 is amended by redesignating paragraphs (2) and (3) as paragraphs (3) and (4), respectively, and by inserting after paragraph (1) the following new paragraph:

''(2) COORDINATION WITH HIGHER EDUCATION CREDIT.—The amount of the qualified higher education expenses otherwise taken into account under subsection (a) with respect to the education of an individual shall be reduced (before the application of subsection (b)) by the amount of such expenses which are taken into account in determining the credit allowable to the taxpayer or any other person under section 25A with respect to such expenses.''.

(e) CLERICAL AMENDMENT.—The table of sections for subpart A of part IV of subchapter A of chapter 1 is amended by inserting after the item relating to section 25 the following new item:

''Sec. 25A. Higher education tuition and related expenses.''.

(f) EFFECTIVE DATE.—The amendments made by this section shall apply to expenses paid after December 31, 1997 (in taxable years ending after such date), for education furnished in academic periods beginning after such date.

SEC. 202. DEDUCTION FOR QUALIFIED HIGHER EDUCATION EXPENSES.

(a) DEDUCTION ALLOWED.— Part VII of subchapter B of chapter 1 (relating to additional itemized deductions for individuals) is amended by redesignating section 221 as section 222 and by inserting after section 220 the following new section:

''SEC. 221. QUALIFIED HIGHER EDUCATION EXPENSES.

''(a) ALLOWANCE OF DEDUCTION.—In the case of an individual, there shall be allowed as a deduction the amount of qualified higher education expenses paid by the taxpayer during the taxable year for education furnished during any academic period (within the meaning of section 25A) beginning in such year.

''(b) LIMITATIONS.—

''(1) ANNUAL LIMIT.—The amount allowed as a deduction under subsection (a) for any taxable year with respect to expenses paid for education furnished to any 1 individual shall not exceed the lesser of—

''(A) $10,000, or

''(B) the amount includible in the taxpayer's gross income for such taxable year by reason of a distribution from a qualified tuition program (as defined in section 529), or an education investment account (as defined in section 530), the beneficiary of which is such individual.

''(2) AGGREGATE LIMIT.—The amount allowed as a deduction under subsection (a) to the taxpayer or any other individual with respect to expenses paid for education furnished to any 1 individual shall not exceed $40,000 for all taxable years.

''(3) DEDUCTION ALLOWED FOR YEAR ONLY IF INDIVIDUAL IS AT LEAST ½ TIME STUDENT FOR PORTION OF YEAR.—No deduction shall be allowed under subsection (a) for a taxable year with respect to the qualified higher education expenses of an individual unless such individual is an eligible student (as defined in section 25A(d)(3)) for at least one academic period which begins during such year.

''(4) DEDUCTION ALLOWED ONLY FOR FIRST 4 YEARS OF POSTSECONDARY EDUCATION.—No deduction shall be allowed under subsection (a) for a taxable year with respect to the qualified higher education expenses of an individual if the individual has completed (before the beginning of such taxable year) the equivalent of the first 4 years of postsecondary education at an eligible educational institution (determined under the rules of section 25A).

''(5) COORDINATION WITH CREDIT FOR HIGHER EDUCATION EXPENSES.—No deduction shall be allowed under this section for a taxable year with respect to the qualified higher education expenses of an individual if an election is in effect under section 25A with respect to such individual for such taxable year.

''(c) QUALIFIED HIGHER EDUCATION EXPENSES.—The term 'qualified higher education expenses' means qualified higher education expenses (as defined in section 529) for the education of—

''(1) the taxpayer,

''(2) the taxpayer's spouse, or

''(3) any dependent of the taxpayer with respect to whom the taxpayer is allowed a deduction under section 151,

at an eligible educational institution (as defined in section 529(e)(5)).

''(d) TREATMENT OF EXPENSES PAID BY DEPENDENT.—If a deduction under section 151 with respect to an individual is allowed to another taxpayer for a taxable year beginning in the calendar year in which such individual's taxable year begins—

''(1) no deduction shall be allowed under subsection (a) to such individual for such individual's taxable year, and

''(2) qualified higher education expenses paid by such individual during such individual's taxable year shall be treated for purposes of this section as paid by such other taxpayer.

''(e) COORDINATION WITH AMOUNTS INCLUDIBLE IN GROSS INCOME UNDER SECTION 529 OR 530.—If any deduction is allowed under subsection (a) with respect to the qualified higher education expenses of an individual with respect to whom the taxpayer is allowed a deduction under section 151(c), any amount which would (but for this subsection) be includible in such individual's gross income by reason of section 529 or section 530 shall be includible in the gross income of the taxpayer and not such individual.

''(f) ADJUSTMENT FOR CERTAIN SCHOLARSHIPS, ETC.—The amount of qualified higher education expenses otherwise taken into account under subsection (a) with respect to an individual for an academic period shall be reduced (before the application of subsection (b)) by the sum of—

''(1) the aggregate amount of the reductions under section 25A(g)(2) for the benefit of such individual for such period, and

''(2) the amount excludable from gross income under section 135 by reason of such expenses with respect to such individual which are allocable to such period.

''(g) DENIAL OF DEDUCTION IF STUDENT CONVICTED OF A FELONY DRUG OFFENSE.—No deduction shall be allowed under subsection (a) for qualified higher education expenses for the enrollment or attendance of a student for any academic period if such student has been convicted of a Federal or State felony offense consisting of the possession or distribution of a controlled substance before the end of the taxable year with or within which such period ends.

''(h) DENIAL OF DOUBLE BENEFIT.—No deduction shall be allowed under subsection (a) for any expense for which a deduction is allowed to the taxpayer under any other provision of this chapter.''.

(b) DEDUCTION ALLOWED WHETHER OR NOT TAXPAYER ITEMIZES OTHER DEDUCTIONS.—

(1) IN GENERAL.—Subsection (b) of section 63 is amended by striking ''and'' at the end of paragraph (1), by striking the period at the end of paragraph (2) and inserting '', and'', and by adding at the end the following new paragraph:

''(3) the deduction allowed by section 221 (relating to deduction for qualified higher education expenses).''.

(2) CONFORMING AMENDMENT.—Subsection (d) of section 63 is amended by striking ''and'' at the end of paragraph (1), by striking the period at the end of paragraph (2) and inserting '', and'', and by adding at the end the following new paragraph:

''(3) the deduction allowed by section 221 (relating to deduction for qualified higher education expenses).''.

(c) PHASEOUT OF EXCLUSION FOR QUALIFIED TUITION REDUCTIONS.—Subsection (d) of section 117 is amended by redesignating the last paragraph as paragraph (4) and by adding at the end the following new paragraph:

''(5) PHASEOUT OF EXCLUSION.—

''(A) TERMINATION.—Paragraph (1) shall not apply to any qualified tuition reduction for any course of instruction beginning after December 31, 2001.

''(B) PHASEOUT.—The amount excludable from gross income under paragraph (1) for any course of instruction beginning in a calendar year after 1997 and before 2002 shall not exceed the applicable percentage (determined in accordance with the following table) for such calendar year of the amount which would be so excludable but for this subparagraph:

In the case of calendar year:	The applicable percentage is:
1998	80
1999	60
2000	40
2001	20.''.

(d) TECHNICAL AMENDMENTS.—

(1) Subparagraph (A) of section 529(e)(3) is amended by inserting ''(except as provided in section 221(e))'' after ''distributee''.

(2) The table of sections for part VII of subchapter B of chapter 1 is amended by striking the item relating to section 221 and inserting:

''Sec. 221. Qualified higher education expenses.

''Sec. 222. Cross reference.''.

(e) EFFECTIVE DATE.—The amendments made by this section shall apply to expenses paid after December 31, 1997 (in taxable years ending after such date), for education furnished in academic periods beginning after such date.

SEC. 203. PENALTY-FREE WITHDRAWALS FROM INDIVIDUAL RETIREMENT PLANS FOR HIGHER EDUCATION EXPENSES.

(a) IN GENERAL.—Paragraph (2) of section 72(t) (relating to exceptions to 10-percent additional tax on early distributions from qualified retirement plans) is amended by adding at the end the following new subparagraph:

''(E) DISTRIBUTIONS FROM INDIVIDUAL RETIREMENT PLANS FOR HIGHER EDUCATION EXPENSES.—Distributions to an individual from an individual retirement plan to the extent such distributions do not exceed the qualified higher education expenses (as defined in paragraph (7)) of the taxpayer for the taxable year. Distributions shall not be taken into account under the preceding sentence if such distributions are described in subparagraph (A), (C), or (D) or to the extent paragraph (1) does not apply to such distributions by reason of subparagraph (B).''.

(b) DEFINITION.—Section 72(t) is amended by adding at the end the following new paragraph:

''(7) QUALIFIED HIGHER EDUCATION EXPENSES.—For purposes of paragraph (2)(E)—

''(A) IN GENERAL.—The term 'qualified higher education expenses' means qualified higher education expenses (as defined in section 529(e)(3) without regard to subparagraph (C) thereof) for education furnished to—

''(i) the taxpayer,

''(ii) the taxpayer's spouse, or

''(iii) any child (as defined in section 151(c)(3)) or grandchild of the taxpayer or the taxpayer's spouse,

at an eligible educational institution (as defined in section 529(e)(5)).

''(B) COORDINATION WITH OTHER BENEFITS.—The amount of qualified higher education expenses for any taxable year shall be reduced as provided in section 25A(g)(2).''.

(c) EFFECTIVE DATE.—The amendments made by this section shall apply to distributions after December 31, 1997, with respect to expenses paid after such date (in taxable years ending after such date), for education furnished in academic periods beginning after such date.

SEC. 204. EXPENSES FOR EDUCATION WHICH SUPPLEMENTS ELEMENTARY AND SECONDARY EDUCATION.

(a) IN GENERAL.—Subpart A of part IV of subchapter A of chapter 1 (relating to nonrefundable personal credits) is amended by inserting after section 25A, as added by this title, the following new section:

''SEC. 25B. EXPENSES FOR EDUCATION WHICH SUPPLEMENTS ELEMENTARY AND SECONDARY EDUCATION.

''(a) ALLOWANCE OF CREDIT.—In the case of an individual, there shall be allowed a credit against the tax imposed by this chapter for the taxable year an amount equal to 50 percent of the qualifying educational assistance expenses paid by the taxpayer during the taxable year.

''(b) LIMITATIONS.—

''(1) DOLLAR LIMITATION.—The amount allowed as a credit under subsection (a) for any taxable year with respect to the qualified educational assistance expenses of any 1 individual shall not exceed $150.

''(2) REDUCTION OF CREDIT BASED ON ADJUSTED GROSS INCOME.—

''(A) IN GENERAL.—The aggregate amount which would (but for this paragraph) be allowed by this section shall be reduced (but not below zero) by $25 for each $1,000 (or fraction thereof) by which the taxpayer's modified adjusted gross income exceeds the threshold amount. For purposes of the preceding sentence, the term 'modified adjusted gross income' means adjusted gross income increased by any amount excluded from gross income under section 911, 931, or 933.

''(B) THRESHOLD AMOUNT.—For purposes of subparagraph (A), the term 'threshold amount' means—

''(i) $80,000 in the case of a joint return,

''(ii) $50,000 in the case of an individual who is not married, and

''(iii) $40,000 in the case of a married individual filing a separate return.

For purposes of this subparagraph, marital status shall be determined under section 7703.

''(c) QUALIFIED EDUCATIONAL ASSISTANCE EXPENSES.—For purposes of this section—

''(1) IN GENERAL.—The term 'qualified educational assistance expenses' means amounts paid to a qualified entity to provide supplementary education to any dependent (within the meaning of section 152) of the taxpayer—

''(A) who is less than 18 years of age as of the close of the taxable year, and

''(B) who is enrolled as a full-time student in an elementary or secondary school.

''(2) SUPPLEMENTARY EDUCATION.—For purposes of paragraph (1), supplementary education is education provided with respect to reading, mathematics, or any subject that the dependent student is studying at the time in elementary or secondary school classes. Eligible courses of study shall not include courses providing assistance with respect to preparation for college entrance examinations.

''(3) QUALIFIED ENTITY.—The term 'qualified entity' means a person that is accredited as a supplementary education service provider by an accreditation organization that is recognized by the Secretary of Education or by any other agency, association, or group that is certified by the Secretary for purposes of this section.''.

(b) CLERICAL AMENDMENT.—The table of sections for subpart A of part IV of subchapter A of chapter 1 is amended by inserting after the item relating to section 25A the following new item:

''Sec. 25B. Expenses for education which supplements elementary and secondary education.''.

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

Subtitle B—Expanded Education Investment Savings Opportunities

SEC. 211. ELIGIBLE EDUCATIONAL INSTITUTIONS PERMITTED TO MAINTAIN QUALIFIED TUITION PROGRAMS; OTHER MODIFICATIONS OF QUALIFIED STATE TUITION PROGRAMS.

(a) ELIGIBLE EDUCATIONAL INSTITUTIONS PERMITTED TO MAINTAIN QUALIFIED TUITION PROGRAMS.—Paragraph (1) of section 529(b) (defining qualified State tuition program) is amended by inserting ''or by one or more eligible educational institutions'' after ''maintained by a State or agency or instrumentality thereof''.

(b) QUALIFIED HIGHER EDUCATION EXPENSES TO INCLUDE ROOM AND BOARD.—Paragraph (3) of section 529(e) (defining qualified higher education expenses) is amended to read as follows:

''(3) QUALIFIED HIGHER EDUCATION EXPENSES.—

''(A) IN GENERAL.—The term 'qualified higher education expenses' means tuition, fees, books, supplies, and equipment required for the enrollment or attendance of a designated beneficiary at an eligible education institution.

''(B) ROOM AND BOARD INCLUDED FOR STUDENTS WHO ARE AT LEAST HALF-TIME.—In the case of an individual who is an eligible student (as defined in section 25A(d)(3)) for any academic period, such term shall also include reasonable costs for such period (as determined under the qualified tuition program) incurred by the designated beneficiary for room and board while attending such institution. The amount treated as qualified higher education expenses by reason of the preceding sentence shall not exceed the minimum amount (applicable to the student) included for room and board for such period in the cost of attendance (as defined in section 472 of the Higher Education Act of 1965, 20 U.S.C. 1087ll, as in effect on the date of the enactment of this paragraph) for the eligible educational institution for such period.

''(C) EXCLUSION FOR GRADUATE LEVEL COURSES.—Such term shall not include expenses for any graduate level course of a kind normally taken by an individual pursuing a program leading to a law, business, medical, or other advanced academic or professional degree. Such courses shall not be taken into account in determining whether an individual is described in subsection (f)(3)(A).''.

(c) ADDITIONAL MODIFICATIONS.—

(1) MEMBER OF FAMILY.—Paragraph (2) of section 529(e) (relating to other definitions and special rules) is amended to read as follows:

''(2) MEMBER OF FAMILY.—The term 'member of the family' means—

''(A) an individual who bears a relationship to another individual which is a relationship described in paragraphs (1) through (8) of section 152(a), and

''(B) the spouse of any individual described in subparagraph (A).''.

(2) ELIGIBLE EDUCATIONAL INSTITUTION.—Section 529(e) is amended by adding at the end the following:

''(5) ELIGIBLE EDUCATIONAL INSTITUTION.—The term 'eligible educational institution' means an institution—

''(A) which is described in section 481 of the Higher Education Act of 1965 (20 U.S.C. 1088), as in effect on the date of the enactment of this paragraph, and

''(B) which is eligible to participate in a program under title IV of such Act.''.

(3) NO CONTRIBUTIONS AFTER BENEFICIARY ATTAINS AGE 18; DISTRIBUTIONS REQUIRED IN CERTAIN CASES.—Subsection (b) of section 529 (as amended by subsection (f) of this section) is amended by adding at the end the following new paragraph:

''(7) RESTRICTIONS RELATING TO AGE OF BENEFICIARY; COMPLETION OF EDUCATION.—

''(A) IN GENERAL.—A program shall be treated as a qualified tuition program only if—

''(i) no contribution is accepted on behalf of a designated beneficiary after the date on which such beneficiary attains age 18, and

''(ii) any balance to the credit of a designated beneficiary (if any) on the account termination date shall be distributed within 30 days after such date to such beneficiary (or in the case of death, the estate of the beneficiary).

''(B) ACCOUNT TERMINATION DATE.—For purposes of subparagraph (A), the term 'account termination date' means whichever of the following dates is the earliest:

''(i) The date on which the designated beneficiary completes the equivalent of 4 years of post-secondary education (whether or not at the same eligible educational institution).

''(ii) The date on which the designated beneficiary attains age 30.

''(iii) The date on which the designated beneficiary dies.''.

(4) ESTATE AND GIFT TAX TREATMENT.—

(A) GIFT TAX TREATMENT.—

(i) Paragraph (2) of section 529(c) is amended to read as follows:

''(2) GIFT TAX TREATMENT OF CONTRIBUTIONS.—For purposes of chapters 12 and 13, any contribution to a qualified tuition program on behalf of any designated beneficiary—

''(A) shall be treated as a completed gift to such beneficiary which is not a future interest in property, and

''(B) shall not be treated as a qualified transfer under section 2503(e).''.

(ii) Paragraph (5) of section 529(c) is amended to read as follows:

''(5) OTHER GIFT TAX RULES.—For purposes of chapters 12 and 13—

''(A) TREATMENT OF DISTRIBUTIONS.—In no event shall a distribution from a qualified tuition program be treated as a taxable gift.

''(B) TREATMENT OF DESIGNATION OF NEW BENEFICIARY.—The taxes imposed by chapters 12 and 13 shall apply to a transfer by reason of a change in the designated beneficiary under the program (or a rollover to the account of a new beneficiary) only if the new beneficiary is a generation below the generation of the old beneficiary (determined in accordance with section 2651).''.

(B) ESTATE TAX TREATMENT.—Paragraph (4) of section 529(c) is amended to read as follows:

''(4) ESTATE TAX TREATMENT.—

''(A) IN GENERAL.—No amount shall be includible in the gross estate of any individual for purposes of chapter 11 by reason of an interest in a qualified tuition program.

''(B) AMOUNTS INCLUDIBLE IN ESTATE OF DESIGNATED BENEFICIARY IN CERTAIN CASES.—Subparagraph (A) shall not apply to amounts distributed on account of the death of a beneficiary.''.

(5) LIMITATION ON CONTRIBUTIONS TO QUALIFIED TUITION PROGRAMS NOT MAINTAINED BY A STATE.—Subsection (b) of section 529 is amended by adding at the end the following new paragraph:

''(9) LIMITATION ON CONTRIBUTIONS TO QUALIFIED TUITION PROGRAMS NOT MAINTAINED BY A STATE.—In the case of a program not maintained by a State or agency or instrumentality thereof, such program shall not be treated as a qualified tuition program unless it limits the annual contribution to the program on behalf of a designated beneficiary to an amount equal to the lesser of—

''(A) $5,000, or

''(B) the excess of—

''(i) $50,000, over

''(ii) the aggregate amount contributed to such program on behalf of such beneficiary for all prior taxable years.''.

(d) ADDITIONAL TAX ON AMOUNTS NOT USED FOR HIGHER EDUCATION EXPENSES.—Section 529 is amended by adding at the end the following new subsection:

''(f) IMPOSITION OF ADDITIONAL TAX.—

''(1) IN GENERAL.—The tax imposed by this chapter for any taxable year on any taxpayer who receives a payment or distribution from a qualified tuition program which is includible in gross income shall be increased by 10 percent of the amount which is so includible.

''(2) EXCEPTIONS.—Paragraph (1) shall not apply if the payment or distribution is—

''(A) used for qualified higher education expenses of the designated beneficiary,

''(B) made to a beneficiary (or to the estate of the designated beneficiary) on or after the death of the designated beneficiary,

''(C) attributable to the designated beneficiary's being disabled (within the meaning of section 72(m)(7)), or

''(D) made on account of a scholarship, allowance, or payment described in subparagraph (A), (B), or (C) of section 135(d)(1) received by the account holder to the extent the amount of the payment or distribution does not exceed the amount of the scholarship, allowance, or payment.

''(3) EXCESS CONTRIBUTIONS RETURNED BEFORE DUE DATE OF RETURN.—In the case of a qualified tuition program not maintained by a State or any agency or instrumentality thereof, paragraph (1) shall not apply to the distribution to a contributor of any contribution made during a taxable year on behalf of a designated beneficiary to the extent that such contribution exceeds the limitation in section 4973(e) if—

''(A) such distribution is received on or before the day prescribed by law (including extensions of time) for filing such contributor's return for such taxable year, and

''(B) such distribution is accompanied by the amount of net income attributable to such excess contribution.

Any net income described in subparagraph (B) shall be included in the gross income of the contributor for the taxable year in which such excess contribution was made.''.

(e) COORDINATION WITH EDUCATION SAVINGS BOND.—Section 135(c)(2) (defining qualified higher education expenses) is amended by adding at the end the following:

''(C) CONTRIBUTIONS TO QUALIFIED TUITION PROGRAM.—Such term shall include any contribution to a qualified tuition program (as defined in section 529) on behalf of a designated beneficiary (as defined in such section) who is an individual described in subparagraph (A); but there shall be no increase in the investment in the contract for purposes of applying section 72 by reason of the portion of such contribution which is not includible in gross income by reason of this subparagraph.''.

(f) TAX ON EXCESS CONTRIBUTIONS.—

(1) IN GENERAL.—Subsection (a) of section 4973 is amended by striking ''or'' at the end of paragraph (2) and by inserting after paragraph (3) the following new paragraphs:

''(4) a qualified tuition program (as defined in section 529) not maintained by a State or any agency or instrumentality thereof, or

''(5) an education investment account (as defined in section 530),''.

(2) EXCESS CONTRIBUTIONS DEFINED.—Section 4973 is amended by adding at the end the following new subsection:

''(e) EXCESS CONTRIBUTIONS TO PRIVATE QUALFIED TUITION PROGRAM AND EDUCATION INVESTMENT ACCOUNTS.—For purposes of this section—

''(1) IN GENERAL.—In the case of private education investment accounts maintained for the benefit of any 1 beneficiary, the term 'excess contributions' means the amount by which the amount contributed for the taxable year to such accounts exceeds the lesser of—

''(A) the excess of—

''(i) $5,000, over

''(ii) the aggregate amount contributed to all qualified tuition programs (as defined in section 529) maintained by a State or any agency or instrumentality thereof on behalf of such beneficiary for such taxable year, or

''(B) the excess of—

''(i) $50,000, over

''(ii) the sum of—

''(I) the aggregate amount contributed to such accounts for all prior taxable years, and

''(II) the aggregate amount contributed to all qualified tuition programs (as defined in section 529) maintained by a State or any agency or instrumentality thereof on behalf of such beneficiary for such taxable year and all prior taxable years.

''(2) PRIVATE EDUCATION INVESTMENT ACCOUNT.—For purposes of paragraph (1), the term 'private education investment account' means—

''(A) a qualified tuition program (as defined in section 529) not maintained by a State or any agency or instrumentality thereof, and

''(B) an education investment account (as defined in section 530).

''(3) SPECIAL RULES.—For purposes of paragraph (1), the following contributions shall not be taken into account:

''(A) Any contribution which is distributed out of the education investment account in a distribution to which section 530(c)(3)(B) applies.

''(B) Any contribution to a qualified tuition program (as so defined) described in section 530(b)(2)(B) from any such account.

''(C) Any rollover contribution.''.

(g) TECHNICAL AMENDMENTS.—

(1) Paragraph (2) of section 26(b) is amended by redesignating subparagraphs (E) through (P) as subparagraphs (F) through (Q), respectively, and by inserting after subparagraph (D) the following new subparagraph:

''(E) section 529(f) (relating to additional tax on certain distributions from qualified tuition programs),''.

(2) The text of section 529 is amended by striking ''qualified State tuition program'' each place it appears and inserting ''qualified tuition program''.

(3) Subsection (b) of section 529 is amended by striking paragraph (3) and by redesignating paragraphs (4) through (7) as paragraphs (3) through (6), respectively.

(4)(A) The section heading of section 529 is amended to read as follows:

''SEC. 529. QUALIFIED TUITION PROGRAMS.''.

(B) The item relating to section 529 in the table of sections for part VIII of subchapter F of chapter 1 is amended by striking ''State''.

(5)(A) The heading for part VIII of subchapter F of chapter 1 is amended to read as follows:

''PART VIII—HIGHER EDUCATION SAVINGS ENTITIES''.

(B) The table of parts for subchapter F of chapter 1 is amended by striking the item relating to part VIII and inserting:

''Part VIII. Higher education savings entities.''.

(h) EFFECTIVE DATES.—

(1) IN GENERAL.—Except as otherwise provided in this subsection, the amendments made by this section shall take effect on January 1, 1998.

(2) EXPENSES TO INCLUDE ROOM AND BOARD, ETC.—The amendments made by subsection (b) and (c)(2) shall apply to distributions after December 31, 1997, with respect to expenses paid after such date (in taxable years ending after such date), for education furnished in academic periods beginning after such date.

(3) PENALTY FOR NONEDUCATION WITHDRAWALS.—The amendment made by subsection (d) shall apply to distributions after December 31, 1997.

(4) COORDINATION WITH EDUCATION SAVINGS BONDS.—The amendment made by subsection (e) shall apply to taxable years beginning after December 31, 1997.

(5) ESTATE AND GIFT TAX CHANGES.—

(A) GIFT TAX CHANGES.—Paragraphs (2) and (5) of section 529(c) of the Internal Revenue Code of 1986, as amended by this section, shall apply to transfers (including designations of new beneficiaries) made after the date of the enactment of this Act.

(B) ESTATE TAX CHANGES.—Paragraph (4) of such section 529(c) shall apply to estates of decedents dying after June 8, 1997.

SEC. 212. EDUCATION INVESTMENT ACCOUNTS.

(a) IN GENERAL.—Part VIII of subchapter F of chapter 1 (relating to qualified State tuition programs) is amended by adding at the end the following new section:

''SEC. 530. EDUCATION INVESTMENT ACCOUNTS.

''(a) GENERAL RULE.—An education investment account shall be exempt from taxation under this subtitle. Notwithstanding the preceding sentence, the education investment account shall be subject to the taxes imposed by section 511 (relating to imposition of tax on unrelated business income of charitable organizations).

''(b) DEFINITIONS AND SPECIAL RULES.—For purposes of this section—

''(1) EDUCATION INVESTMENT ACCOUNT.—The term 'education investment account' means a trust created or organized in the United States exclusively for the purpose of paying the qualified higher education expenses of the account holder, but only if the written governing instrument creating the trust meets the following requirements:

''(A) No contribution will be accepted—

''(i) unless it is in cash,

''(ii) after the date on which the account holder attains age 18, or

''(iii) in excess of $5,000 for the taxable year.

''(B) The trustee is a bank (as defined in section 408(n)) or another person who demonstrates to the satisfaction of the Secretary that the manner in which that person will administer the trust will be consistent with the requirements of this section.

''(C) No part of the trust assets will be invested in life insurance contracts.

''(D) The assets of the trust shall not be commingled with other property except in a common trust fund or common investment fund.

''(E) Any balance in the account will be distributed as required under section 529(b)(8)(B) (as if such account were a qualified tuition program).

For $50,000 limit on aggregate contributions to accounts, see section 4973(e).

''(2) QUALIFIED HIGHER EDUCATION EXPENSES.—

''(A) IN GENERAL.—The term 'qualified higher education expenses' has the same meaning given such term by section 529(e)(3).

''(B) QUALIFIED TUITION PROGRAMS.—Such term shall include amounts paid or incurred to purchase tuition credits or certificates, or to make contributions to an account, under a qualified tuition program (as defined in section 529(b)) for the benefit of the account holder.

''(3) ELIGIBLE EDUCATIONAL INSTITUTION.—The term 'eligible educational institution' has the meaning given such term by section 529(e)(5).

''(4) ACCOUNT HOLDER.—The term 'account holder' means the individual for whose benefit the education investment account is established.

''(c) TAX TREATMENT OF DISTRIBUTIONS.—

''(1) IN GENERAL.—Any amount paid or distributed shall be includible in gross income as required by section 529(c)(3) (determined as if such account were a qualified tuition program).

''(2) SPECIAL RULES FOR APPLYING ESTATE AND GIFT TAXES WITH RESPECT TO ACCOUNT.—Rules similar to the rules of paragraphs (2), (4), and (5) of section 529(c) shall apply for purposes of this section.

''(3) ADDITIONAL TAX FOR DISTRIBUTIONS NOT USED FOR EDUCATIONAL EXPENSES.—

''(A) IN GENERAL.—The tax imposed by section 529(f) shall apply to payments and distributions from an education investment account in the same manner as such tax applies to qualified tuition programs (as defined in section 529).

''(B) EXCESS CONTRIBUTIONS RETURNED BEFORE DUE DATE OF RETURN.—Subparagraph (A) shall not apply to the distribution to a contributor of any contribution paid during a taxable year to an education investment account to the extent that such contribution exceeds the limitation in section 4973(e) if such distribution (and the net income with respect to such excess contribution) meet requirements comparable to the requirements of section 529(f)(3).

''(4) ROLLOVER CONTRIBUTIONS—Paragraph (1) shall not apply to any amount paid or distributed from an education investment account to the extent that the amount received is paid into another education investment account for the benefit of the account holder or a member of the family (within the meaning of section 529(e)(2)) of the account holder not later than the 60th day after the date of such payment or distribution. The preceding sentence shall not apply to any payment or distribution if it applied to any prior payment or distribution during the 12-month period ending on the date of the payment or distribution.

''(5) CHANGE IN ACCOUNT HOLDER.—Any change in the account holder of an education investment account shall not be treated as a distribution for purposes of paragraph (1) if the new account holder is a member of the family (as so defined) of the old account holder.

''(6) SPECIAL RULES FOR DEATH AND DIVORCE.—Rules similar to the rules of paragraphs (7) and (8) of section 220(f) shall apply.

''(d) TAX TREATMENT OF ACCOUNTS.—Rules similar to the rules of paragraphs (2) and (4) of section 408(e) shall apply to any education investment account.

''(e) COMMUNITY PROPERTY LAWS.—This section shall be applied without regard to any community property laws.

''(f) CUSTODIAL ACCOUNTS.—For purposes of this section, a custodial account shall be treated as a trust if the assets of such account are held by a bank (as defined in section 408(n)) or another person who demonstrates, to the satisfaction of the Secretary, that the manner in which he will administer the account will be consistent with the requirements of this section, and if the custodial account would, except for the fact that it is not a trust, constitute an account described in subsection (b)(1). For purposes of this title, in the case of a custodial account treated as a trust by reason of the preceding sentence, the custodian of such account shall be treated as the trustee thereof.

''(g) REPORTS.—The trustee of an education investment account shall make such reports regarding such account to the Secretary and to the account holder with respect to contributions, distributions, and such other matters as the Secretary may require under regulations. The reports required by this subsection shall be filed at such time and in such manner and furnished to such individuals at such time and in such manner as may be required by those regulations.''.

(b) TAX ON PROHIBITED TRANSACTIONS.—

(1) IN GENERAL.—Paragraph (1) of section 4975(e) (relating to prohibited transactions) is amended by striking ''or'' at the end of subparagraph (D), by redesignating subparagraph (E) as subparagraph (F), and by inserting after subparagraph (D) the following new subparagraph:

''(E) an education investment account described in section 530, or''.

(2) SPECIAL RULE.—Subsection (c) of section 4975 is amended by adding at the end of subsection (c) the following new paragraph:

''(5) SPECIAL RULE FOR EDUCATION INVESTMENT ACCOUNTS.—An individual for whose benefit an education investment account is established and any contributor to such account shall be exempt from the tax imposed by this section with respect to any transaction concerning such account (which would otherwise be taxable under this section) if section 530(d) applies with respect to such transaction.''.

(c) FAILURE TO PROVIDE REPORTS ON EDUCATION INVESTMENT ACCOUNTS.—

(1) IN GENERAL.—Paragraph (2) of section 6693(a) (relating to failure to provide reports on individual retirement accounts or annuities) 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 adding at the end the following new subparagraph:

''(C) section 530(g) (relating to education investment accounts).''.

(2) CLERICAL AMENDMENT.—The section heading for section 6693 is amended by striking **''INDIVIDUAL RETIREMENT''** and insert **''CERTAIN TAX-FAVORED''**.

(d) TECHNICAL AMENDMENTS.—

(1) Subparagraph (F) of section 26(b)(2), as added by the preceding section, is amended by inserting before the comma ''and section 530(c)(3) (relating to additional tax on certain distributions from education investment accounts)''.

(2) Subparagraph (C) of section 135(c)(2), as added by the preceding section, is amended by inserting '', or to an education investment account (as defined in section 530) on behalf of an account holder (as defined in such section),'' after ''(as defined in such section)''.

(3) The table of sections for part VIII of subchapter F of chapter 1 is amended by adding at the end the following new item:

''Sec. 530. Education investment accounts.''.

(4) The item relating to section 6693 in the table of sections for part I of subchapter B of chapter 68 is amended by striking ''individual retirement'' and inserting ''certain tax-favored''.

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

Subtitle C—Other Education Initiatives

SEC. 221. EXTENSION OF EXCLUSION FOR EMPLOYER-PROVIDED EDUCATIONAL ASSISTANCE.

(a) IN GENERAL.—Subsection (d) of section 127 (relating to educational assistance programs) is amended to read as follows:

''(d) TERMINATION.—This section shall not apply to expenses paid with respect to courses of instruction beginning after December 31, 1997.''.

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

SEC. 222. INCREASE IN LIMITATION ON QUALIFIED 501(C)(3) BONDS OTHER THAN HOSPITAL BONDS.

(a) IN GENERAL.—The text of paragraph (1) of section 145(b) is amended by striking ''$150,000,000.'' and inserting ''the limitation determined in accordance with the following table:

In the case of calendar year:	The limitation is:
1998	$160,000,000
1999	170,000,000
2000	180,000,000
2001	190,000,000
2002 or thereafter	200,000,000.''.

(b) CONFORMING AMENDMENT.—The heading for subsection (b) of section 145 is amended by striking ''$150,000,000''.

(c) EFFECTIVE DATE.—The amendments made by this section shall take effect on January 1, 1998.

SEC. 223. CONTRIBUTIONS OF COMPUTER TECHNOLOGY AND EQUIPMENT FOR ELEMENTARY OR SECONDARY SCHOOL PURPOSES.

(a) CONTRIBUTIONS OF COMPUTER TECHNOLOGY AND EQUIPMENT FOR ELEMENTARY OR SECONDARY SCHOOL PURPOSES.—Subsection (e) of section 170 is amended by adding at the end the following new paragraph:

''(6) SPECIAL RULE FOR CONTRIBUTIONS OF COMPUTER TECHNOLOGY AND EQUIPMENT FOR ELEMENTARY OR SECONDARY SCHOOL PURPOSES.—

''(A) LIMIT ON REDUCTION.—In the case of a qualified elementary or secondary educational contribution, the reduction under paragraph (1)(A) shall be no greater than the amount determined under paragraph (3)(B).

''(B) QUALIFIED ELEMENTARY OR SECONDARY EDUCATIONAL CONTRIBUTION.—For purposes of this paragraph, the term 'qualified elementary or secondary educational contribution' means a charitable contribution by a corporation of any computer technology or equipment, but only if—

''(i) the contribution is to—

''(I) an educational organization described in subsection (b)(1)(A)(ii), or

''(II) an entity described in section 501(c)(3) and exempt from tax under section 501(a) (other than an entity described in subclause (I)) that is organized primarily for purposes of supporting elementary and secondary education,

''(ii) the contribution is made not later than 2 years after the date the taxpayer acquired the property (or in the case of property constructed by the taxpayer, the date the construction of the property is substantially completed),

''(iii) substantially all of the use of the property by the donee is for use within the United States for educational purposes in any of the grades K–12 that are related to the purpose or function of the organization or entity,

''(iv) the property is not transferred by the donee in exchange for money, other property, or services, except for shipping, installation and transfer costs,

''(v) the property will fit productively into the entity's education plan, and

''(vi) the entity's use and disposition of the property will be in accordance with the provisions of clauses (iii) and (iv).

''(C) CONTRIBUTION TO PRIVATE FOUNDATION.—A contribution by a corporation of any computer technology or equipment to a private foundation (as defined in section 509) shall be treated as a qualified elementary or secondary educational contribution for purposes of this paragraph if—

''(i) the contribution to the private foundation satisfies the requirements of clauses (ii) and (iv) of subparagraph (B), and

''(ii) within 30 days after such contribution, the private foundation—

''(I) contributes the property to an entity described in clause (i) of subparagraph (B) that satisfies the requirements of clauses (iii) through (vi) of subparagraph (B), and

''(II) notifies the donor of such contribution.

''(D) SPECIAL RULE RELATING TO CONSTRUCTION OF PROPERTY.—For the purposes of this paragraph, the rules of paragraph (4)(C) shall apply.

''(E) DEFINITIONS.—For the purposes of this paragraph—

''(i) COMPUTER TECHNOLOGY OR EQUIPMENT.—The term 'computer technology or equipment' means computer software (as defined by section 197(e)(3)(B)), computer or peripheral equipment (as defined by section 168(i)(2)(B)), and fiber optic cable related to computer use.

''(ii) CORPORATION.—The term 'corporation' has the meaning given to such term by paragraph (4)(D).''.

(b) EFFECTIVE DATE.—The amendment made by this section shall apply to taxable years beginning after the calendar year in which this Act is enacted.

SEC. 224. TREATMENT OF CANCELLATION OF CERTAIN STUDENT LOANS.

(a) CERTAIN DIRECT STUDENT LOANS THE REPAYMENT OF WHICH IS INCOME CONTINGENT.—Paragraph (1) of section 108(f) is amended by striking ''any student loan if'' and all that follows and inserting ''any student loan if—

''(A) such discharge was pursuant to a provision of such loan under which all or part of the indebtedness of the individual would be discharged if the individual worked for a certain period of time in certain professions for any of a broad class of employers, or

''(B) in the case of a loan made under part D of title IV of the Higher Education Act of 1965 which has a repayment schedule established under section 455(e)(4) of such Act (relating to income contingent repayments), such discharge is after the maximum repayment period under such loan (as prescribed under such part).''.

(b) CERTAIN LOANS BY EXEMPT ORGANIZATIONS.—

(1) IN GENERAL.—Paragraph (2) of section 108(f) (defining student loan) is amended by striking ''or'' at the end of subparagraph (B) and by striking subparagraph (D) and inserting the following:

''(D) any educational organization described in section 170(b)(1)(A)(ii) if such loan is made—

''(i) pursuant to an agreement with any entity described in subparagraph (A), (B), or (C) under which the funds from which the loan was made were provided to such educational organization, or

''(ii) pursuant to a program of such educational organization which is designed to encourage its students to serve in occupations with unmet needs or in areas with unmet needs and under which the services provided by the students (or former students) are for or under the direction of a governmental unit or an organization described in section 501(c)(3) and exempt from tax under section 501(a).

The term 'student loan' includes any loan made by an educational organization so described or by an organization exempt from tax under section 501(a) to refinance a loan meeting the requirements of the preceding sentence.''.

(2) EXCEPTION FOR DISCHARGES ON ACCOUNT OF SERVICES PERFORMED FOR CERTAIN LENDERS.—Subsection (f) of section 108 is amended by adding at the end the following new paragraph:

''(3) EXCEPTION FOR DISCHARGES ON ACCOUNT OF SERVICES PERFORMED FOR CERTAIN LENDERS.—Paragraph (1) shall not apply to the discharge of a loan made by an organization described in paragraph (2)(D) (or by an organization described in paragraph (2)(E) from funds provided by an organization described in paragraph (2)(D)) if the discharge is on account of services performed for either such organization.''.

(c) EFFECTIVE DATE.—The amendments made by this section shall apply to discharges of indebtedness after the date of the enactment of this Act.

TITLE III—SAVINGS AND INVESTMENT INCENTIVES

Subtitle A—Retirement Savings

SEC. 301. ESTABLISHMENT OF AMERICAN DREAM IRA.

(a) IN GENERAL.—Subpart A of part I of subchapter D of chapter 1 (relating to pension, profit-sharing, stock bonus plans, etc.) is amended by inserting after section 408 the following new section:

''SEC. 408A. AMERICAN DREAM IRA.

''(a) GENERAL RULE.—Except as provided in this section, an American Dream IRA shall be treated for purposes of this title in the same manner as an individual retirement plan.

''(b) AMERICAN DREAM IRA.—For purposes of this title, the term 'American Dream IRA' or 'AD IRA' means an individual retirement plan (as defined in section 7701(a)(37)) which is designated at the time of the establishment of the plan as an American Dream IRA. Such designation shall be made in such manner as the Secretary may prescribe.

''(c) TREATMENT OF CONTRIBUTIONS.—

''(1) NO DEDUCTION ALLOWED.—No deduction shall be allowed under section 219 for a contribution to an AD IRA.

''(2) CONTRIBUTION LIMIT.—

''(A) IN GENERAL.—The aggregate amount of contributions for any taxable year to all AD IRAs maintained for the benefit of an individual shall not exceed $2,000.

''(B) INFLATION ADJUSTMENT.—In the case of taxable years beginning in a calendar year after 1998, the $2,000 amount contained in subparagraph (A) shall be increased by an amount equal to—

''(i) such dollar amount, multiplied by

''(ii) the cost-of-living adjustment determined under section 1(f)(3) for such calendar year by substituting 'calendar year 1997' for 'calendar year 1992' in subparagraph (B) thereof.

If the amount as adjusted under the preceding sentence is not a multiple of $50, such amount shall be rounded to the next lowest multiple of $50.

''(3) CONTRIBUTIONS PERMITTED AFTER AGE 70½.—Contributions to an AD IRA may be made even after the individual for whom the account is maintained has attained age 70½.

''(4) MANDATORY DISTRIBUTION RULES NOT TO APPLY, ETC.—

''(A) IN GENERAL.—Except as provided in subparagraph (B), subsections (a)(6) and (b)(3) of section 408 (relating to required distributions) and section 4974 (relating to excise tax on certain accumulations in qualified retirement plans) shall not apply to any AD IRA.

''(B) POST-DEATH DISTRIBUTIONS.—Rules similar to the rules of section 401(a)(9) (other than subparagraph (A) thereof) shall apply for purposes of this section.

''(5) RULES RELATING TO ROLLOVER CONTRIBUTIONS.—

''(A) IN GENERAL.—No rollover contribution may be made to an AD IRA unless it is a qualified rollover contribution.

''(B) COORDINATION WITH LIMIT.—A qualified rollover contribution shall not be taken into account for purposes of paragraph (2).

''(6) TIME WHEN CONTRIBUTIONS MADE.—For purposes of this section, the rule of section 219(f)(3) shall apply.

''(d) DISTRIBUTION RULES.—For purposes of this title—

''(1) GENERAL RULES.—

''(A) EXCLUSIONS FROM GROSS INCOME.—Any qualified distribution from an AD IRA shall not be includible in gross income.

''(B) NONQUALIFIED DISTRIBUTIONS.—In applying section 72 to any distribution from an AD IRA which is not a qualified distribution, such distribution shall be treated as made from contributions to the AD IRA to the extent that such distribution, when added to all previous distributions from the AD IRA, does not exceed the aggregate amount of contributions to the AD IRA. For purposes of the preceding sentence, all AD IRAs maintained for the benefit of an individual shall be treated as 1 account.

''(C) EXCEPTION FROM PENALTY TAX.—Section 72(t) shall not apply to—

''(i) any qualified distribution from an AD IRA, and

''(ii) any qualified first-time homebuyer distribution (whether or not a qualified distribution) from an AD IRA.

''(2) QUALIFIED DISTRIBUTION.—For purposes of this subsection—

''(A) IN GENERAL.—The term 'qualified distribution' means any payment or distribution—

''(i) made on or after the date on which the individual attains age 59½,

''(ii) made to a beneficiary (or to the estate of the individual) on or after the death of the individual,

''(iii) attributable to the individual's being disabled (within the meaning of section 72(m)(7)), or

''(iv) which is a qualified first-time homebuyer distribution.

''(B) DISTRIBUTIONS WITHIN 5 YEARS.—No payment or distribution shall be treated as a qualified distribution if—

''(i) it is made within the 5-taxable year period beginning with the 1st taxable year for which the individual made a contribution to an AD IRA (or such individual's spouse made a contribution to an AD IRA) established for such individual, or

''(ii) in the case of a payment or distribution properly allocable (as determined in the manner prescribed by the Secretary) to a qualified rollover contribution (or income allocable thereto), it is made within the 5-taxable year period beginning with the taxable year in which the rollover contribution was made.

Clause (ii) shall not apply to a qualified rollover contribution from an AD IRA.

''(3) ROLLOVERS.—

''(A) IN GENERAL.—Paragraph (1) shall not apply to any distribution which is transferred in a qualified rollover contribution to an AD IRA.

''(B) INCOME INCLUSION FOR ROLLOVERS FROM NON-AD IRAS.—

''(i) IN GENERAL.—In the case of any distribution to which this subparagraph applies—

''(I) sections 72(t) and 408(d)(3) shall not apply (but section 4980A shall apply), and

''(II) any amount required to be included in gross income by reason of this paragraph shall be so included ratably over the 4-taxable year period beginning with the taxable year in which the distribution is made.

''(ii) DISTRIBUTIONS TO WHICH SUBPARAGRAPH APPLIES.—This subparagraph shall apply to a distribution before January 1, 1999, from an individual retirement plan (other than an AD IRA) maintained for the benefit of an individual to an AD IRA maintained for the benefit of such individual if such distribution would be a qualified rollover contribution were such individual retirement plan an AD IRA.

''(iii) CONVERSIONS.—The conversion of an individual retirement plan (other than an

AD IRA) to an AD IRA shall be treated for purposes of this subparagraph as a distribution from such plan to such AD IRA.

''(C) ADDITIONAL REPORTING REQUIREMENTS.—The Secretary shall require that trustees of AD IRAs, trustees of individual retirement plans, or both, whichever is appropriate, shall include such additional information in reports required under section 408(i) as is necessary to ensure that amounts required to be included in gross income under subparagraph (B) are so included.

''(4) QUALIFIED FIRST-TIME HOMEBUYER DISTRIBUTION.—For purposes of this section—

''(A) IN GENERAL.—The term 'qualified first-time homebuyer distribution' means any payment or distribution received by an individual to the extent such payment or distribution is used by the individual before the close of the 60th day after the day on which such payment or distribution is received to pay qualified acquisition costs with respect to a principal residence of a first-time homebuyer who is such individual, the spouse of such individual, or any child, grandchild, or ancestor of such individual or the individual's spouse.

''(B) LIFETIME DOLLAR LIMITATION.—The aggregate amount of payments or distributions received by an individual which may be treated as qualified first-time homebuyer distributions for any taxable year shall not exceed the excess (if any) of—

''(i) $10,000, over

''(ii) the aggregate amounts treated as qualified first-time homebuyer distributions with respect to such individual for all prior taxable years.

''(C) QUALIFIED ACQUISITION COSTS.—For purposes of this paragraph, the term 'qualified acquisition costs' means the costs of acquiring, constructing, or reconstructing a residence. Such term includes any usual or reasonable settlement, financing, or other closing costs.

''(D) FIRST-TIME HOMEBUYER; OTHER DEFINITIONS.—For purposes of this paragraph—

''(i) FIRST-TIME HOMEBUYER.—The term 'first-time homebuyer' means any individual if—

''(I) such individual (and if married, such individual's spouse) had no present ownership interest in a principal residence during the 2-year period ending on the date of acquisition of the principal residence to which this paragraph applies, and

''(II) subsection (h) or (k) of section 1034 (as in effect on the day before the date of the enactment of this section) did not suspend the running of any period of time specified in section 1034 (as so in effect) with respect to such individual on the day before the date the distribution is applied pursuant to subparagraph (A).

''(ii) PRINCIPAL RESIDENCE.—The term 'principal residence' has the same meaning as when used in section 121.

''(iii) DATE OF ACQUISITION.—The term 'date of acquisition' means the date—

''(I) on which a binding contract to acquire the principal residence to which subparagraph (A) applies is entered into, or

''(II) on which construction or reconstruction of such a principal residence is commenced.

''(E) SPECIAL RULE WHERE DELAY IN ACQUISITION.—If any distribution from any individual retirement plan fails to meet the requirements of subparagraph (A) solely by reason of a delay or cancellation of the purchase or construction of the residence, the amount of the distribution may be contributed to an individual retirement plan as provided in section 408(d)(3)(A)(i) (determined by substituting '120 days' for '60 days' in such section), except that—

''(i) section 408(d)(3)(B) shall not be applied to such contribution, and

''(ii) such amount shall not be taken into account in determining whether section 408(d)(3)(A)(i) applies to any other amount.

''(e) QUALIFIED ROLLOVER CONTRIBUTION.—For purposes of this section, the term 'qualified rollover contribution' means a rollover contribution to an AD IRA from another such account, but only if such rollover contribution meets the requirements of section 408(d)(3).''.

(b) REPEAL OF NONDEDUCTIBLE CONTRIBUTIONS.—

(1) Subsection (f) of section 219 is amended by striking paragraph (7).

(2) Paragraph (5) of section 408(d) is amended by striking the last sentence.

(3) Section 408(o) is amended by adding at the end the following new paragraph:

''(5) TERMINATION.—This subsection shall not apply to any designated nondeductible contribution for any taxable year beginning after December 31, 1997.''.

(4) Subsection (b) of section 4973 is amended by striking the last sentence.

(c) EXCESS DISTRIBUTIONS TAX NOT TO APPLY.—

(1) Subparagraph (A) of section 4980A(d)(3) is amended by inserting ''(other than AD IRAs, as defined in section 4980A(b))'' after ''individual retirement plans''.

(2) Subparagraph (B) of section 4980A(e)(1) is amended by inserting ''other than an AD IRA (as defined in section 408A(b))'' after ''retirement plan''.

(d) EXCESS CONTRIBUTIONS.—

(1) Section 4973 is amended by adding at the end the following new subsection:

''(f) EXCESS CONTRIBUTIONS TO AMERICAN DREAM IRAS.—For purposes of this section, in the case of American Dream IRAs, the term 'excess contributions' means the amount by which the amount contributed for the taxable year to such IRAs exceeds the limitation in section 408A(c)(2).''.

(2) Subsection (b) of section 4973 is amended by adding at the end the following new sentence: ''For purposes of this subsection, an American Dream IRA shall not be treated as an individual retirement plan.''.

(e) CLERICAL AMENDMENT.—The table of sections for subpart A of part I of subchapter D of chapter 1 is amended by inserting after the item relating to section 408 the following new item:

''Sec. 408A. American Dream IRA.''.

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

Subtitle B—Capital Gains

PART I—INDIVIDUAL CAPITAL GAINS

SEC. 311. 20 PERCENT MAXIMUM CAPITAL GAINS RATE FOR INDIVIDUALS.

(a) IN GENERAL.—Subsection (h) of section 1 (relating to maximum capital gains rate) is amended to read as follows:

''(h) MAXIMUM CAPITAL GAINS RATE.—

''(1) IN GENERAL.—If a taxpayer has a net capital gain for any taxable year, the tax imposed by this section for such taxable year shall not exceed the sum of—

''(A) the base tax amount,

''(B) 10 percent of so much of the taxpayer's adjusted net capital gain (or, if less, taxable income) as does not exceed the excess (if any) of—

''(i) the amount of taxable income which would (without regard to this paragraph) be taxed at a rate of 15 percent or less, over

''(ii) the taxable income reduced by the adjusted net capital gain, plus

''(C) 20 percent of the taxpayer's adjusted net capital gain (or, if less, taxable income) in excess of the amount on which a tax is determined under subparagraph (B).

''(2) NET CAPITAL GAIN TAKEN INTO ACCOUNT AS INVESTMENT INCOME.—For purposes of this subsection, the net capital gain for any taxable year shall be reduced (but not below zero) by the amount which the taxpayer takes into account as investment income under section 163(d)(4)(B)(iii).

''(3) BASE TAX AMOUNT.—For purposes of paragraph (1), the base tax amount is the lesser of—

''(A) a tax computed at the rates and in the same manner as if this subsection had not been enacted on taxable income reduced by the adjusted net capital gain, or

''(B) the sum of—

''(i) a tax computed at the rates and in the same manner as if this subsection had not been enacted on the greater of—

''(I) taxable income reduced by the net capital gain, or

''(II) the amount of taxable income taxed at a rate below 28 percent,

''(ii) a tax of 26 percent of the lesser of—

''(I) the section 1250 gain, or

''(II) the amount of taxable income in excess of the sum of the amount on which tax is determined under clause (i) plus the net capital gain determined without regard to section 1250 gain, plus

''(iii) a tax of 28 percent of the amount of taxable income in excess of the sum of—

''(I) the adjusted net capital gain, plus

''(II) the sum of the amounts on which tax is determined under clauses (i) and (ii).

''(4) ADJUSTED NET CAPITAL GAIN.—For purposes of this subsection, the term 'adjusted net capital gain' means net capital gain determined without regard to—

''(A) collectibles gain,

''(B) section 1202 gain, and

''(C) section 1250 gain.

''(5) COLLECTIBLES GAIN.—For purposes of paragraph (4)—

''(A) IN GENERAL.—The term 'collectibles gain' means gain from the sale or exchange of a collectible (as defined in section 408(m) without regard to paragraph (3) thereof) which is a capital asset held for more than 1 year but only to the extent such gain is taken into account in computing gross income.

''(B) COORDINATION WITH SECTION 1022.—Gain from the disposition of a collectible which is an indexed asset to which section 1022(a) applies shall be disregarded for purposes of this subsection. A taxpayer may elect to treat any collectible specified in such election as not being an indexed asset for purposes of section 1022. Any such election, and any specification therein, once made, shall be irrevocable.

''(C) PARTNERSHIPS, ETC.—For purposes of subparagraph (A), any gain from the sale of an interest in a partnership, S corporation, or trust which is attributable to unrealized appreciation in the value of collectibles shall be treated as gain from the sale or exchange of a collectible. Rules similar to the rules of section 751 shall apply for purposes of the preceding sentence.

''(6) SECTION 1202 GAIN.—For purposes of paragraph (4), the term 'section 1202 gain' means gain from the sale or exchange of any qualified small business stock (as defined in section 1202(c)) held more than 5 years which is taken into account in computing gross income.

''(7) SECTION 1250 GAIN.—For purposes of paragraph (4), the term 'section 1250 gain' means the excess (if any) of—

''(A) the amount which would be treated as ordinary income under section 1245 if all section 1250 property disposed of by the taxpayer were section 1245 property, over

''(B) the amount treated as ordinary income under section 1250.

In the case of a taxable year which includes May 7, 1997, section 1250 gain shall be determined by taking into account only the gain

properly taken into account for the portion of the taxable year after May 6, 1997.

''(8) PRE-EFFECTIVE DATE GAIN.—

''(A) IN GENERAL.—In the case of a taxable year which includes May 7, 1997, adjusted net capital gain shall be determined without regard to pre-May 7, 1997, gain.

''(B) PRE-MAY 7, 1997, GAIN.—The term 'pre-May 7, 1997, gain' means the amount which would be adjusted net capital gain for the taxable year if adjusted net capital gain were determined by taking into account only the gain or loss properly taken into account for the portion of the taxable year before May 7, 1997.

''(C) SPECIAL RULES FOR PASS-THRU ENTITIES.—In applying subparagraph (A) with respect to any pass-thru entity, the determination of when gains and loss are properly taken into account shall be made at the entity level.

''(D) PASS-THRU ENTITY DEFINED.—For purposes of subparagraph (C), the term 'pass-thru entity' means—

''(i) a regulated investment company,

''(ii) a real estate investment trust,

''(iii) an S corporation,

''(iv) a partnership,

''(v) an estate or trust, and

''(vi) a common trust fund.''.

(b) MINIMUM TAX.—

(1) IN GENERAL.—Subsection (b) of section 55 is amended by adding at the end the following new paragraph:

''(3) MAXIMUM RATE OF TAX ON NET CAPITAL GAIN OF NONCORPORATE TAXPAYERS.—The amount determined under the first sentence of paragraph (1)(A)(i) shall not exceed the sum of—

''(A) the lesser of—

''(i) the amount determined under such first sentence computed at the rates and in the same manner as if this paragraph had not been enacted on the taxable excess reduced by the adjusted net capital gain (as defined in section 1(h)(4)), or

''(ii) the sum of—

''(I) the amount determined under such first sentence computed at the rates and in the same manner as if this paragraph had not been enacted on the taxable excess reduced by the sum of the adjusted net capital gain (as so defined) and the section 1250 gain (as defined in section 1(h)(7)), plus

''(II) 26 percent of the lesser of the section 1250 gain (as so defined) or the taxable excess reduced by the adjusted net capital gain (as so defined),

''(B) a tax of 10 percent of so much of the taxpayer's adjusted net capital gain (or, if less, taxable excess) as does not exceed the amount on which a tax is determined under section 1(h)(1)(B), plus

''(C) a tax of 20 percent of the taxpayer's adjusted net capital gain (or, if less, taxable excess) in excess of the amount on which tax is determined under subparagraph (B).''.

(2) CONFORMING AMENDMENT.—Clause (ii) of section 55(b)(1)(A) is amended by striking ''clause (i)'' and inserting ''this subsection''.

(c) OTHER CONFORMING AMENDMENTS.—

(1) Subsection (d) of section 291 is amended by inserting at the end the following new sentence: ''Any capital gain dividend treated as having been paid out of such difference to a shareholder which is not a corporation retains its characters as section 1250 gain for purposes of applying section 1(h) to such shareholder.''.

(2) Paragraph (1) of section 1445(e) is amended by striking ''28 percent'' and inserting ''20 percent''.

(3) The second sentence of section 7518(g)(6)(A), and the second sentence of section 607(h)(6)(A) of the Merchant Marine Act, 1936, are each amended by striking ''28 percent'' and inserting ''20 percent''.

(d) EFFECTIVE DATES.—

(1) IN GENERAL.—Except as provided in paragraph (2), the amendments made by this section shall apply to taxable years ending after May 6, 1997.

(2) WITHHOLDING.—The amendment made by subsection (c)(2) shall apply only to amounts paid after the date of the enactment of this Act.

(3) APPLICATION OF ESTIMATED TAX RULES.—Clause (i) of section 6654(d)(1)(C) of the Internal Revenue Code of 1986 shall be applied by substituting ''109 percent'' for ''110 percent'' where the preceding taxable year referred to in such clause is a taxable year beginning in calendar year 1996.

(4) APPLICATION OF ESTIMATED TAX RULES FOR 1998.—Clause (i) of section 6654(d)(1)(C) of the Internal Revenue Code of 1986 shall be applied by substituting ''105 percent'' for ''110 percent'' where the preceding taxable year referred to in such clause is a taxable year beginning in calendar year 1997.

SEC. 312. INDEXING OF CERTAIN ASSETS ACQUIRED AFTER DECEMBER 31, 2000, FOR PURPOSES OF DETERMINING GAIN.

(a) IN GENERAL.—Part II of subchapter O of chapter 1 (relating to basis rules of general application) is amended by inserting after section 1021 the following new section:

''SEC. 1022. INDEXING OF CERTAIN ASSETS ACQUIRED AFTER DECEMBER 31, 2000, FOR PURPOSES OF DETERMINING GAIN.

''(a) GENERAL RULE.—

''(1) INDEXED BASIS SUBSTITUTED FOR ADJUSTED BASIS.—Solely for purposes of determining gain on the sale or other disposition by a taxpayer (other than a corporation) of an indexed asset which has been held for more than 3 years, the indexed basis of the asset shall be substituted for its adjusted basis.

''(2) EXCEPTION FOR DEPRECIATION, ETC.—The deductions for depreciation, depletion, and amortization shall be determined without regard to the application of paragraph (1) to the taxpayer or any other person.

''(3) EXCEPTION FOR PRINCIPAL RESIDENCES.—Paragraph (1) shall not apply to any disposition of the principal residence (within the meaning of section 121) of the taxpayer .

''(b) INDEXED ASSET.—

''(1) IN GENERAL.—For purposes of this section, the term 'indexed asset' means—

''(A) common stock in a C corporation (other than a foreign corporation), and

''(B) tangible property,

which is a capital asset or property used in the trade or business (as defined in section 1231(b)).

''(2) STOCK IN CERTAIN FOREIGN CORPORATIONS INCLUDED.—For purposes of this section—

''(A) IN GENERAL.—The term 'indexed asset' includes common stock in a foreign corporation which is regularly traded on an established securities market.

''(B) EXCEPTION.—Subparagraph (A) shall not apply to—

''(i) stock of a foreign investment company (within the meaning of section 1246(b)),

''(ii) stock in a passive foreign investment company (as defined in section 1296),

''(iii) stock in a foreign corporation held by a United States person who meets the requirements of section 1248(a)(2), and

''(iv) stock in a foreign personal holding company (as defined in section 552).

''(C) TREATMENT OF AMERICAN DEPOSITORY RECEIPTS.—An American depository receipt for common stock in a foreign corporation shall be treated as common stock in such corporation.

''(c) INDEXED BASIS.—For purposes of this section—

''(1) GENERAL RULE.—The indexed basis for any asset is—

''(A) the adjusted basis of the asset, increased by

''(B) the applicable inflation adjustment.

''(2) APPLICABLE INFLATION ADJUSTMENT.—The applicable inflation adjustment for any asset is an amount equal to—

''(A) the adjusted basis of the asset, multiplied by

''(B) the percentage (if any) by which—

''(i) the chain-type price index for GDP for the last calendar quarter ending before the asset is disposed of, exceeds

''(ii) the chain-type price index for GDP for the last calendar quarter ending before the asset was acquired by the taxpayer.

The percentage under subparagraph (B) shall be rounded to the nearest 1/10 of 1 percentage point.

''(3) CHAIN-TYPE PRICE INDEX FOR GDP.—The chain-type price index for GDP for any calendar quarter is such index for such quarter (as shown in the last revision thereof released by the Secretary of Commerce before the close of the following calendar quarter).

''(d) SUSPENSION OF HOLDING PERIOD WHERE DIMINISHED RISK OF LOSS; TREATMENT OF SHORT SALES.—

''(1) IN GENERAL.—If the taxpayer (or a related person) enters into any transaction which substantially reduces the risk of loss from holding any asset, such asset shall not be treated as an indexed asset for the period of such reduced risk.

''(2) SHORT SALES.—

''(A) IN GENERAL.—In the case of a short sale of an indexed asset with a short sale period in excess of 3 years, for purposes of this title, the amount realized shall be an amount equal to the amount realized (determined without regard to this paragraph) increased by the applicable inflation adjustment. In applying subsection (c)(2) for purposes of the preceding sentence, the date on which the property is sold short shall be treated as the date of acquisition and the closing date for the sale shall be treated as the date of disposition.

''(B) SHORT SALE PERIOD.—For purposes of subparagraph (A), the short sale period begins on the day that the property is sold and ends on the closing date for the sale.

''(e) TREATMENT OF REGULATED INVESTMENT COMPANIES AND REAL ESTATE INVESTMENT TRUSTS.—

''(1) ADJUSTMENTS AT ENTITY LEVEL.—

''(A) IN GENERAL.—Except as otherwise provided in this paragraph, the adjustment under subsection (a) shall be allowed to any qualified investment entity (including for purposes of determining the earnings and profits of such entity).

''(B) EXCEPTION FOR CORPORATE SHAREHOLDERS.—Under regulations—

''(i) in the case of a distribution by a qualified investment entity (directly or indirectly) to a corporation—

''(I) the determination of whether such distribution is a dividend shall be made without regard to this section, and

''(II) the amount treated as gain by reason of the receipt of any capital gain dividend shall be increased by the percentage by which the entity's net capital gain for the taxable year (determined without regard to this section) exceeds the entity's net capital gain for such year determined with regard to this section, and

''(ii) there shall be other appropriate adjustments (including deemed distributions) so as to ensure that the benefits of this section are not allowed (directly or indirectly) to corporate shareholders of qualified investment entities.

For purposes of the preceding sentence, any amount includible in gross income under section 852(b)(3)(D) shall be treated as a capital gain dividend and an S corporation shall not be treated as a corporation.

''(C) EXCEPTION FOR QUALIFICATION PURPOSES.—This section shall not apply for purposes of sections 851(b) and 856(c).

''(D) EXCEPTION FOR CERTAIN TAXES IMPOSED AT ENTITY LEVEL.—

''(i) TAX ON FAILURE TO DISTRIBUTE ENTIRE GAIN.—If any amount is subject to tax under section 852(b)(3)(A) for any taxable year, the amount on which tax is imposed under such section shall be increased by the percentage determined under subparagraph (B)(i)(II). A similar rule shall apply in the case of any amount subject to tax under paragraph (2) or (3) of section 857(b) to the extent attributable to the excess of the net capital gain over the deduction for dividends paid determined with reference to capital gain dividends only. The first sentence of this clause shall not apply to so much of the amount subject to tax under section 852(b)(3)(A) as is designated by the company under section 852(b)(3)(D).

''(ii) OTHER TAXES.—This section shall not apply for purposes of determining the amount of any tax imposed by paragraph (4), (5), or (6) of section 857(b).

''(2) ADJUSTMENTS TO INTERESTS HELD IN ENTITY.—

''(A) REGULATED INVESTMENT COMPANIES.—Stock in a regulated investment company (within the meaning of section 851) shall be an indexed asset for any calendar quarter in the same ratio as—

''(i) the average of the fair market values of the indexed assets held by such company at the close of each month during such quarter, bears to

''(ii) the average of the fair market values of all assets held by such company at the close of each such month.

''(B) REAL ESTATE INVESTMENT TRUSTS.—Stock in a real estate investment trust (within the meaning of section 856) shall be an indexed asset for any calendar quarter in the same ratio as—

''(i) the fair market value of the indexed assets held by such trust at the close of such quarter, bears to

''(ii) the fair market value of all assets held by such trust at the close of such quarter.

''(C) RATIO OF 80 PERCENT OR MORE.—If the ratio for any calendar quarter determined under subparagraph (A) or (B) would (but for this subparagraph) be 80 percent or more, such ratio for such quarter shall be 100 percent.

''(D) RATIO OF 20 PERCENT OR LESS.—If the ratio for any calendar quarter determined under subparagraph (A) or (B) would (but for this subparagraph) be 20 percent or less, such ratio for such quarter shall be zero.

''(E) LOOK-THRU OF PARTNERSHIPS.—For purposes of this paragraph, a qualified investment entity which holds a partnership interest shall be treated (in lieu of holding a partnership interest) as holding its proportionate share of the assets held by the partnership.

''(3) TREATMENT OF RETURN OF CAPITAL DISTRIBUTIONS.—Except as otherwise provided by the Secretary, a distribution with respect to stock in a qualified investment entity which is not a dividend and which results in a reduction in the adjusted basis of such stock shall be treated as allocable to stock acquired by the taxpayer in the order in which such stock was acquired.

''(4) QUALIFIED INVESTMENT ENTITY.—For purposes of this subsection, the term 'qualified investment entity' means—

''(A) a regulated investment company (within the meaning of section 851), and

''(B) a real estate investment trust (within the meaning of section 856).

''(f) OTHER PASS-THRU ENTITIES.—

''(1) PARTNERSHIPS.—

''(A) IN GENERAL.—In the case of a partnership, the adjustment made under subsection (a) at the partnership level shall be passed through to the partners.

''(B) SPECIAL RULE IN THE CASE OF SECTION 754 ELECTIONS.—In the case of a transfer of an interest in a partnership with respect to which the election provided in section 754 is in effect—

''(i) the adjustment under section 743(b)(1) shall, with respect to the transferor partner, be treated as a sale of the partnership assets for purposes of applying this section, and

''(ii) with respect to the transferee partner, the partnership's holding period for purposes of this section in such assets shall be treated as beginning on the date of such adjustment.

''(2) S CORPORATIONS.—In the case of an S corporation, the adjustment made under subsection (a) at the corporate level shall be passed through to the shareholders. This section shall not apply for purposes of determining the amount of any tax imposed by section 1374 or 1375.

''(3) COMMON TRUST FUNDS.—In the case of a common trust fund, the adjustment made under subsection (a) at the trust level shall be passed through to the participants.

''(4) INDEXING ADJUSTMENT DISREGARDED IN DETERMINING LOSS ON SALE OF INTEREST IN ENTITY.—Notwithstanding the preceding provisions of this subsection, for purposes of determining the amount of any loss on a sale or exchange of an interest in a partnership, S corporation, or common trust fund, the adjustment made under subsection (a) shall not be taken into account in determining the adjusted basis of such interest.

''(g) DISPOSITIONS BETWEEN RELATED PERSONS.—

''(1) IN GENERAL.—This section shall not apply to any sale or other disposition of property between related persons except to the extent that the basis of such property in the hands of the transferee is a substituted basis.

''(2) RELATED PERSONS DEFINED.—For purposes of this section, the term 'related persons' means—

''(A) persons bearing a relationship set forth in section 267(b), and

''(B) persons treated as single employer under subsection (b) or (c) of section 414.

''(h) TRANSFERS TO INCREASE INDEXING ADJUSTMENT.—If any person transfers cash, debt, or any other property to another person and the principal purpose of such transfer is to secure or increase an adjustment under subsection (a), the Secretary may disallow part or all of such adjustment or increase.

''(i) SPECIAL RULES.—For purposes of this section—

''(1) TREATMENT OF IMPROVEMENTS, ETC.—If there is an addition to the adjusted basis of any tangible property or of any stock in a corporation during the taxable year by reason of an improvement to such property or a contribution to capital of such corporation—

''(A) such addition shall never be taken into account under subsection (c)(1)(A) if the aggregate amount thereof during the taxable year with respect to such property or stock is less than $1,000, and

''(B) such addition shall be treated as a separate asset acquired at the close of such taxable year if the aggregate amount thereof during the taxable year with respect to such property or stock is $1,000 or more.

A rule similar to the rule of the preceding sentence shall apply to any other portion of an asset to the extent that separate treatment of such portion is appropriate to carry out the purposes of this section.

''(2) ASSETS WHICH ARE NOT INDEXED ASSETS THROUGHOUT HOLDING PERIOD.—The applicable inflation adjustment shall be appropriately reduced for periods during which the asset was not an indexed asset.

''(3) TREATMENT OF CERTAIN DISTRIBUTIONS.—A distribution with respect to stock in a corporation which is not a dividend shall be treated as a disposition.

''(4) ACQUISITION DATE WHERE THERE HAS BEEN PRIOR APPLICATION OF SUBSECTION (a)(1) WITH RESPECT TO THE TAXPAYER.—If there has been a prior application of subsection (a)(1) to an asset while such asset was held by the taxpayer, the date of acquisition of such asset by the taxpayer shall be treated as not earlier than the date of the most recent such prior application.

''(5) COLLAPSIBLE CORPORATIONS.—The application of section 341(a) (relating to collapsible corporations) shall be determined without regard to this section.

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

(b) CLERICAL AMENDMENT.—The table of sections for part II of subchapter O of chapter 1 is amended by inserting after the item relating to section 1021 the following new item:

''Sec. 1022. Indexing of certain assets acquired after December 31, 2000, for purposes of determining gain.''.

(c) EFFECTIVE DATES.—

(1) IN GENERAL.—The amendments made by this section shall apply to the disposition of any property the holding period of which begins after December 31, 2000.

(2) CERTAIN TRANSACTIONS BETWEEN RELATED PERSONS.—The amendments made by this section shall not apply to the disposition of any property acquired after December 31, 2000, from a related person (as defined in section 1022(g)(2) of the Internal Revenue Code of 1986, as added by this section) if—

(A) such property was so acquired for a price less than the property's fair market value, and

(B) the amendments made by this section did not apply to such property in the hands of such related person.

(d) ELECTION TO RECOGNIZE GAIN ON ASSETS HELD ON JANUARY 1, 2001.—For purposes of the Internal Revenue Code of 1986—

(1) IN GENERAL.—A taxpayer other than a corporation may elect to treat—

(A) any readily tradable stock (which is an indexed asset) held by such taxpayer on January 1, 2001, and not sold before the next business day after such date, as having been sold on such next business day for an amount equal to its closing market price on such next business day (and as having been reacquired on such next business day for an amount equal to such closing market price), and

(B) any other indexed asset held by the taxpayer on January 1, 2001, as having been sold on such date for an amount equal to its fair market value on such date (and as having been reacquired on such date for an amount equal to such fair market value).

(2) TREATMENT OF GAIN OR LOSS.—

(A) Any gain resulting from an election under paragraph (1) shall be treated as received or accrued on the date the asset is treated as sold under paragraph (1) and shall be recognized notwithstanding any provision of the Internal Revenue Code of 1986.

(B) Any loss resulting from an election under paragraph (1) shall not be allowed for any taxable year.

(3) ELECTION.—An election under paragraph (1) shall be made in such manner as the Secretary of the Treasury or his delegate may prescribe and shall specify the assets for

which such election is made. Such an election, once made with respect to any asset, shall be irrevocable.

(4) READILY TRADABLE STOCK.—For purposes of this subsection, the term ''readily tradable stock'' means any stock which, as of January 1, 2001, is readily tradable on an established securities market or otherwise.

SEC. 313. EXEMPTION FROM TAX FOR GAIN ON SALE OF PRINCIPAL RESIDENCE.

(a) IN GENERAL.—Section 121 (relating to one-time exclusion of gain from sale of principal residence by individual who has attained age 55) is amended to read as follows:

''SEC. 121. EXCLUSION OF GAIN FROM SALE OF PRINCIPAL RESIDENCE.

''(a) EXCLUSION.—Gross income shall not include gain from the sale or exchange of property if, during the 5-year period ending on the date of the sale or exchange, such property has been owned and used by the taxpayer as the taxpayer's principal residence for periods aggregating 2 years or more.

''(b) LIMITATIONS.—

''(1) DOLLAR LIMITATION.—The amount of gain excluded from gross income under subsection (a) with respect to any sale or exchange shall not exceed $250,000 ($500,000 in the case of a joint return where both spouses meet the use requirement of subsection (a)).

''(2) APPLICATION TO ONLY 1 SALE OR EXCHANGE EVERY 2 YEARS.—

''(A) IN GENERAL.—Subsection (a) shall not apply to any sale or exchange by the taxpayer if, during the 2-year period ending on the date of such sale or exchange, there was any other sale or exchange by the taxpayer or his spouse to which subsection (a) applied.

''(B) PREMARRIAGE SALES BY SPOUSE NOT TAKEN INTO ACCOUNT.—If, but for this subparagraph, subsection (a) would not apply to a sale or exchange by a married individual by reason of a sale or exchange by such individual's spouse before their marriage—

''(i) subparagraph (A) shall be applied without regard to the sale or exchange by such individual's spouse, but

''(ii) the amount of gain excluded from gross income under subsection (a) with respect to the sale or exchange by such individual shall not exceed $250,000.

''(C) PRE-MAY 7, 1997, SALES NOT TAKEN INTO ACCOUNT.—Subparagraph (A) shall be applied without regard to any sale or exchange before May 7, 1997.

''(c) EXCLUSION FOR TAXPAYERS FAILING TO MEET CERTAIN REQUIREMENTS.—

''(1) IN GENERAL.—In the case of a sale or exchange to which this subsection applies, the ownership and use requirements of subsection (a) shall not apply and subsection (b)(2) shall not apply; but the amount of gain excluded from gross income under subsection (a) with respect to such sale of exchange shall not exceed—

''(A) the amount which bears the same ratio to the amount which would be so excluded if such requirements had been met, as

''(B) the shorter of—

''(i) the aggregate periods, during the 5-year period ending on the date of such sale or exchange, such property has been owned and used by the taxpayer as the taxpayer's principal residence, or

''(ii) the period after the date of the most recent prior sale or exchange by the taxpayer or his spouse to which subsection (a) applied and before the date of such sale or exchange,

bears to 2 years.

''(2) SALES AND EXCHANGES TO WHICH SUBSECTION APPLIES.—This subsection shall apply to any sale or exchange if—

''(A) subsection (a) would not (but for this subsection) apply to such sale or exchange by reason of—

''(i) a failure to meet the ownership and use requirements of subsection (a), or

''(ii) subsection (b)(2), and

''(B) such sale or exchange is by reason of a change in place of employment, health, or, to the extent provided in regulations, other unforeseen circumstances.

''(d) SPECIAL RULES.—

''(1) JOINT RETURNS.—For purposes of this section, if a husband and wife make a joint return for the taxable year of the sale or exchange of the property, subsection (a) shall, subject to the provisions of subsection (b), apply if either spouse meets the ownership and use requirements of subsection (a) with respect to such property.

''(2) PROPERTY OF DECEASED SPOUSE.—For purposes of this section, in the case of an unmarried individual whose spouse is deceased on the date of the sale or exchange of property, the period such unmarried individual owned such property shall include the period such deceased spouse held such property before death.

''(3) PROPERTY OF DIVORCED SPOUSE.—For purposes of this section, in the case of an individual holding property transferred to such individual incident to divorce (within the meaning of section 1041(c))—

''(A) the period such individual owns such property shall include the period the former spouse owned the property, and

''(B) the dollar limitation applicable under paragraph (1) shall not be less than the amount such limitation would have been had the sale or exchange occurred on the date the divorce became final.

''(4) TENANT-STOCKHOLDER IN COOPERATIVE HOUSING CORPORATION.—For purposes of this section, if the taxpayer holds stock as a tenant-stockholder (as defined in section 216) in a cooperative housing corporation (as defined in such section), then—

''(A) the holding requirements of subsection (a) shall be applied to the holding of such stock, and

''(B) the use requirements of subsection (a) shall be applied to the house or apartment which the taxpayer was entitled to occupy as such stockholder.

''(5) INVOLUNTARY CONVERSIONS.—

''(A) IN GENERAL.—For purposes of this section, the destruction, theft, seizure, requisition, or condemnation of property shall be treated as the sale of such property.

''(B) APPLICATION OF SECTION 1033.—In applying section 1033 (relating to involuntary conversions), the amount realized from the sale or exchange of property shall be treated as being the amount determined without regard to this section, reduced by the amount of gain not included in gross income pursuant to this section.

''(C) PROPERTY ACQUIRED AFTER INVOLUNTARY CONVERSION.—If the basis of the property sold or exchanged is determined (in whole or in part) under section 1033(b) (relating to basis of property acquired through involuntary conversion), then the holding and use by the taxpayer of the converted property shall be treated as holding and use by the taxpayer of the property sold or exchanged.

''(6) RECOGNITION OF GAIN ATTRIBUTABLE TO DEPRECIATION.—Subsection (a) shall not apply to so much of the gain from the sale of any property as does not exceed the portion of the depreciation adjustments (as defined in section 1250(b)(3)) attributable to periods after May 6, 1997, in respect of such property.

''(7) DETERMINATION OF USE DURING PERIODS OF OUT-OF-RESIDENCE CARE.—In the case of a taxpayer who—

''(A) becomes physically or mentally incapable of self-care, and

''(B) owns property and uses such property as the taxpayer's principal residence during the 5-year period described in subsection (a) for periods aggregating at least 1 year,

then the taxpayer shall be treated as using such property as the taxpayer's principal residence during any time during such 5-year period in which the taxpayer owns the property and resides in any facility (including a nursing home) licensed by a State or political subdivision to care for an individual in the taxpayer's condition.

''(8) DETERMINATION OF MARITAL STATUS.—In the case of any sale or exchange, for purposes of this section—

''(A) the determination of whether an individual is married shall be made as of the date of the sale or exchange, and

''(B) an individual legally separated from his spouse under a decree of divorce or of separate maintenance shall not be considered as married.

''(9) SALES OF LIFE ESTATES AND REMAINDER INTERESTS.—For purposes of this section—

''(A) IN GENERAL.—This section shall not fail to apply to the sale or exchange of an interest in a principal residence by reason of such interest being a life estate or a remainder interest in such residence, but this section shall apply only to one such interest in such residence which is sold or exchanged separately.

''(B) EXCEPTION FOR SALES TO RELATED PARTIES.—Subparagraph (A) shall not apply to any sale to, or exchange with, any person who bears a relationship to the taxpayer which is described in section 267(b) or 707(b).

''(e) DENIAL OF EXCLUSION FOR EXPATRIATES.—This section shall not apply to any sale or exchange by an individual if the treatment provided by section 877(a)(1) applies to such individual.

''(f) ELECTION TO HAVE SECTION NOT APPLY.—This section shall not apply to any sale or exchange with respect to which the taxpayer elects not to have this section apply.

''(g) RESIDENCES ACQUIRED IN ROLLOVERS UNDER SECTION 1034.—For purposes of this section, in the case of property the acquisition of which by the taxpayer resulted under section 1034 (as in effect on the day before the date of the enactment of this sentence) in the nonrecognition of any part of the gain realized on the sale or exchange of another residence, in determining the period for which the taxpayer has owned and used such property as the taxpayer's principal residence, there shall be included the aggregate periods for which such other residence (and each prior residence taken into account under section 1223(7) in determining the holding period of such property) had been so owned and used.''.

(b) REPEAL OF NONRECOGNITION OF GAIN ON ROLLOVER OF PRINCIPAL RESIDENCE.—Section 1034 (relating to rollover of gain on sale of principal residence) is hereby repealed.

(c) CONFORMING AMENDMENTS.—

(1) The following provisions of the Internal Revenue Code of 1986 are each amended by striking ''section 1034'' and inserting ''section 121'': sections 25(e)(7), 56(e)(1)(A), 56(e)(3)(B)(i), 143(i)(1)(C)(i)(I), 163(h)(4)(A)(i)(I), 280A(d)(4)(A), 464(f)(3)(B)(i), 1033(h)(4), 1274(c)(3)(B), 6334(a)(13), and 7872(f)(11)(A).

(2) Paragraph (4) of section 32(c) is amended by striking ''(as defined in section 1034(h)(3))'' and by adding at the end the following new sentence: ''For purposes of the preceding sentence, the term 'extended active duty' means any period of active duty pursuant to a call or order to such duty for a period in excess of 90 days or for an indefinite period.''.

(3) Subparagraph (A) of 143(m)(6) is amended by inserting ''(as in effect on the day before the date of the enactment of the Taxpayer Relief Act of 1997)'' after ''1034(e)''.

(4) Subsection (e) of section 216 is amended by striking ''such exchange qualifies for nonrecognition of gain under section 1034(f)'' and inserting ''such dwelling unit is used as his principal residence (within the meaning of section 121)''.

(5) Section 512(a)(3)(D) is amended by inserting ''(as in effect on the day before the date of the enactment of the Taxpayer Relief Act of 1997)'' after ''1034''.

(6) Paragraph (7) of section 1016(a) is amended by inserting ''(as in effect on the day before the date of the enactment of the Taxpayer Relief Act of 1997)'' after ''1034'' and by inserting ''(as so in effect)'' after ''1034(e)''.

(7) Paragraph (3) of section 1033(k) is amended to read as follows:

''(3) For exclusion from gross income of gain from involuntary conversion of principal residence, see section 121.''.

(8) Subsection (e) of section 1038 is amended to read as follows:

''(e) PRINCIPAL RESIDENCES.—If—

''(1) subsection (a) applies to a reacquisition of real property with respect to the sale of which gain was not recognized under section 121 (relating to gain on sale of principal residence); and

''(2) within 1 year after the date of the reacquisition of such property by the seller, such property is resold by him,

then, under regulations prescribed by the Secretary, subsections (b), (c), and (d) of this section shall not apply to the reacquisition of such property and, for purposes of applying section 121, the resale of such property shall be treated as a part of the transaction constituting the original sale of such property.''.

(9) Paragraph (7) of section 1223 is amended by inserting ''(as in effect on the day before the date of the enactment of the Taxpayer Reief Act of 1997)'' after ''1034''.

(10) Paragraph (7) of section 1250(d) is amended to read as follows:

''(7) DISPOSITION OF PRINCIPAL RESIDENCE.—Subsection (a) shall not apply to a disposition of property to the extent used by the taxpayer as his principal residence (within the meaning of section 121, relating to gain on sale of principal residence).''.

(11) Subsection (c) of section 6012 is amended by striking ''(relating to one-time exclusion of gain from sale of principal residence by individual who has attained age 55)'' and inserting ''(relating to gain from sale of principal residence)''.

(12) Paragraph (2) of section 6212(c) is amended by striking subparagraph (C) and by redesignating the succeeding subparagraphs accordingly.

(13) Section 6504 is amended by striking paragraph (4) and by redesignating the succeeding paragraphs accordingly.

(14) The item relating to section 121 in the table of sections for part III of subchapter B of chapter 1 is amended to read as follows:

''Sec. 121. Exclusion of gain from sale of principal residence.''.

(15) The table of sections for part III of subchapter O of chapter 1 of such Code is amended by striking the item relating to section 1034.

(d) EFFECTIVE DATE.—

(1) IN GENERAL.—The amendments made by this section shall apply to sales and exchanges after May 6, 1997.

(2) SALES BEFORE DATE OF ENACTMENT.—At the election of the taxpayer, the amendments made by this section shall not apply to any sale or exchange before the date of the enactment of this Act.

(3) BINDING CONTRACTS.—At the election of the taxpayer, the amendments made by this section shall not apply to a sale or exchange after the date of the enactment of this Act, if—

(A) such sale or exchange is pursuant to a contract which was binding on such date, or

(B) without regard to such amendments, gain would not be recognized under section 1034 of the Internal Revenue Code of 1986 (as in effect on the day before the date of the enactment of this Act) on such sale or exchange by reason of a new residence acquired on or before such date or with respect to the acquisition of which by the taxpayer a binding contract was in effect on such date.

This paragraph shall not apply to any sale or exchange by an individual if the treatment provided by section 877(a)(1) of the Internal Revenue Code of 1986 applies to such individual.

PART II—CORPORATE CAPITAL GAINS

SEC. 321. REDUCTION OF ALTERNATIVE CAPITAL GAIN TAX FOR CORPORATIONS.

(a) IN GENERAL.—Section 1201 is amended to read as follows:

''SEC. 1201. ALTERNATIVE TAX FOR CORPORATIONS.

''(a) GENERAL RULE.—If for any taxable year a corporation has 8-year gain, then, in lieu of the tax imposed by sections 11, 511, and 831 (a) and (b) (whichever is applicable), there is hereby imposed a tax (if such tax is less than the tax imposed by such sections) which shall consist of the sum of—

''(1) a tax computed on the taxable income reduced by the amount of the 8-year gain, at the rates and in the manner as if this subsection had not been enacted, plus

''(2) a tax of the applicable percentage of the amount of the 8-year gain (or, if less, taxable income).

''(b) APPLICABLE PERCENTAGE.—For purposes of subsection (a)—

''(1) IN GENERAL.—The term 'applicable percentage' means—

''(A) 32 percent for the portion of any taxable year within 1998,

''(B) 31 percent for the portion of any taxable year within 1999, and

''(C) 30 percent for the portion of any taxable year after 1999.

''(2) FISCAL YEAR TAXPAYERS.—

''(A) TAXABLE YEARS BEGINNING IN 1997.—In applying this section to taxable years beginning in 1997, 8-year gain shall not exceed the 8-year gain determined by taking into account only gains and losses properly taken into account for the portion of the taxable year after December 31, 1997.

''(B) TAXABLE YEARS BEGINNING IN 1998 OR 1999.—In the case of a taxable year beginning in 1998 or 1999 which includes portions of 2 calendar years, the applicable percentage shall be applied separately to such portions by taking into account—

''(i) in the case of the first such portion, the lesser of—

''(I) the 8-year gain determined by taking into account only gains and losses properly taken into account for such portion, or

''(II) the 8-year gain determined for the entire taxable year, and

''(ii) in the case of the second such portion, the 8-year gain (and the taxable income) determined for the entire taxable year reduced by the amount on which tax is determined under subsection (a)(2) for the first such portion determined under clause (i).

''(C) SPECIAL RULE FOR PASS-THRU ENTITIES.—Section 1(h)(8)(C) shall apply for purposes of this paragraph.

''(c) 8-YEAR GAIN.—For purposes of this section, the term '8-year gain' means the lesser of—

''(1) the amount of long-term capital gain which would be computed for the taxable year if only gain from the sale or exchange of property held by the taxpayer for more than 8 years were taken into account, or

''(2) net capital gain.

The determination under the preceding sentence shall be made without regard to collectibles gain (as defined in section 1(h)(5)) or section 1250 gain (as defined in section 1(h)(7)).

''(d) CROSS REFERENCES.—

''For computation of the alternative tax—

''(1) in the case of life insurance companies, see section 801(a)(2),

''(2) in the case of regulated investment companies and their shareholders, see section 852(b)(3)(A) and (D), and

''(3) in the case of real estate investment trusts, see section 857(b)(3)(A).''.

(b) TECHNICAL AMENDMENTS.—

(1) Subsection (d) of section 291 is amended by striking ''subsection (a)(1) to such shareholder'' and inserting ''subsection (a)(1) and section 1201 to such shareholder''.

(2) Clause (iii) of section 852(b)(3)(D) is amended by striking ''65 percent'' and inserting ''the applicable percentage'' and by inserting at the end the following new sentence: ''For purposes of the preceding sentence, the term 'applicable percentage' means the percentage equal to the excess of 100 percent over the percentage applicable under section 1201(a).''.

(3)(A) Subparagraph (B) of section 852(b)(3) is amended to read as follows:

''(B) TREATMENT OF CAPITAL GAIN DIVIDENDS BY SHAREHOLDERS.—

''(i) IN GENERAL.—Except as provided in clause (ii), a capital gain dividend shall be treated by the shareholders as gain from the sale or exchange of a capital asset held for more than 1 year.

''(ii) COORDINATION WITH 8-YEAR HOLDING PERIOD FOR CORPORATE NET CAPITAL GAIN.—The portion of any capital gain dividend designated by the company as allocable to gain from the sale or exchange of property held by the company for more than 8 years shall be treated as gain from the sale or exchange of a capital asset held for more than 8 years. Rules similar to the rules of subparagraph (C) shall apply to any designation under the preceding sentence.''.

(B) Clause (i) of section 851(b)(3)(D) is amended by adding at the end thereof the following new sentence: ''Rules similar to the rules of subparagraph (B) shall apply in determining character of the amount to be so included by any such shareholder which is a corporation.''.

(4) Subparagraph (B) of section 857(b)(3) is amended to read as follows:

''(B) TREATMENT OF CAPITAL GAIN DIVIDENDS BY SHAREHOLDERS.—

''(i) IN GENERAL.—Except as provided in clause (ii), a capital gain dividend shall be treated by the shareholders or holders of beneficial interests as gain from the sale or exchange of a capital asset held for more than 1 year.

''(ii) COORDINATION WITH 8-YEAR HOLDING PERIOD FOR CORPORATE NET CAPITAL GAIN.—The portion of any capital gain dividend designated by the company as allocable to gain from the sale or exchange of property held by the company for more than 8 years shall be treated as gain from the sale or exchange of a capital asset held for more than 8 years. Rules similar to the rules of subparagraph (C) shall apply to any designation under the preceding sentence.''.

(5) Subsection (c) of section 584 is amended—

(A) by inserting ''but not more than 8 years'' after ''1 year'' each place it appears in paragraph (2),

(B) by striking ''and'' at the end of paragraph (2), and

(C) by redesignating paragraph (3) as paragraph (4) and inserting after paragraph (2) the following new paragraph:

''(3) as part of its gains and losses from sales or exchanges of capital assets held for more than 8 years, its proportionate share of the gains and losses of the common trust fund from sales or exchanges of capital assets held for more than 8 years, and''.

(6) Subparagraph (E) of section 904(b)(3) is amended by adding at the end the following new clause:

''(iv) REGULATIONS.—The Secretary shall prescribe regulations that adjust the limitation under subsection (a) to reflect the rate differential for 8-year gain (as defined in section 1201(c)) between the highest rate of tax specified in section 11(b) and the alternate rate of tax under section 1201(a) and the limitation on the deduction for capital losses under section 1211.''.

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

TITLE IV—ALTERNATIVE MINIMUM TAX REFORM

SEC. 401. ADJUSTMENT OF EXEMPTION AMOUNTS FOR TAXPAYERS OTHER THAN CORPORATIONS.

(a) IN GENERAL.—Subsection (d) of section 55 is amended by adding at the end the following new paragraph:

''(4) ADJUSTMENT OF EXEMPTION AMOUNTS FOR TAXPAYERS OTHER THAN CORPORATIONS.—

''(A) TAXABLE YEARS BEGINNING BEFORE JANUARY 1, 2008.—In the case of any taxable year beginning in a calendar year after 1998 and before 2008—

''(i) IN GENERAL.—The dollar amount applicable under paragraph (1)(A) for any odd-numbered calendar year—

''(I) shall be $1,000 greater than the dollar amount applicable under paragraph (1)(A) for the prior odd-numbered calendar year, and

''(II) shall apply to taxable years beginning in such odd-numbered calendar year and the succeeding calendar year.

''(B) TAXABLE YEARS BEGINNING AFTER DECEMBER 31, 2007.—In the case of any taxable year beginning in a calendar year after 2007, the dollar amount applicable under paragraph (1)(A) for taxable years beginning in 2007 shall be increased by an amount equal to the product of—

''(i) such dollar amount, and

''(ii) the cost-of-living adjustment determined under section 1(f)(3) for the calendar year in which the taxable year begins, determined by substituting 'calendar year 2006' for 'calendar year 1992' in subparagraph (B) thereof.

If any increase determined under the preceding sentence is not a multiple of $100, such increase shall be rounded to the next lowest multiple of $100.

''(C) OTHER AMOUNTS.—

''(i) The dollar amount applicable under paragraph (1)(B) for any taxable year shall be an amount equal to 75 percent of the dollar amount applicable under paragraph (1)(A) for such year.

''(ii) The dollar amount applicable under paragraph (1)(C) for any taxable year shall be an amount equal to 50 percent of the dollar amount applicable under paragraph (1)(A) for such year.''.

(b) CONFORMING AMENDMENT.—The last sentence of section 55(d)(3) is amended by striking ''$165,000 or (ii) $22,500'' and inserting ''the minimum amount of such income (as so determined) for which the exemption amount under paragraph (1)(C) is zero, or (ii) such exemption amount (determined without regard to this paragraph)''.

(c) EFFECTIVE DATE.—The amendments made by this section shall apply to taxable years beginning after December 31, 1998.

SEC. 402. EXEMPTION FROM ALTERNATIVE MINIMUM TAX FOR SMALL CORPORATIONS.

(a) IN GENERAL.—Section 55 (relating to alternative minimum tax imposed) is amended by adding at the end the following new subsection:

''(e) EXEMPTION FOR SMALL CORPORATIONS.—

''(1) IN GENERAL.—The tentative minimum tax of a corporation shall be zero for any taxable year if—

''(A) such corporation met the $5,000,000 gross receipts test of section 448(c) for any prior taxable year beginning after December 31, 1996, and

''(B) such corporation would meet such test for the taxable year and all prior taxable years beginning after December 31, 1997, if such test were applied by substituting '$7,500,000' for '$5,000,000'

''(2) PROSPECTIVE APPLICATION OF MINIMUM TAX IF SMALL CORPORATION CEASES TO BE SMALL.—In the case of a corporation whose tentative minimum tax is zero for any prior taxable year by reason of paragraph (1), the application of this part for taxable years beginning with the first taxable year such corporation ceases to be described in paragraph (1) shall be determined without regard to transactions entered into or other items arising in taxable years prior to such first taxable year.

''(3) LIMITATION ON USE OF CREDIT FOR PRIOR YEAR MINIMUM TAX LIABILITY.—In the case of a taxpayer whose tentative minimum tax for any taxable year is zero by reason of paragraph (1), the amount described in paragraph (2) of section 53(b) shall not be less than the greater of—

''(A) the tentative minimum tax for the taxable year, or

''(B) 25 percent of so much of the regular tax liability (reduced by the credit allowed by section 27) as exceeds $25,000.

Rules similar to the rules of section 38(c)(3)(B) shall apply for purposes of the preceding sentence.''.

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

SEC. 403. REPEAL OF ADJUSTMENT FOR DEPRECIATION.

(a) IN GENERAL.—Clause (i) of section 56(a)(1)(A) is amended by inserting ''and before January 1, 1999,'' after ''December 31, 1986,''.

(b) STUDY.—

(1) IN GENERAL.—Because it is the intent of Congress that the amendment made by subsection (a) not have the result of permitting any corporation with taxable income from current year operations to pay no Federal income tax, the Secretary of the Treasury or his delegate shall conduct a study to determine whether such amendment has that result and, if so, the policy implications of that result.

(2) REPORT.—The report of such study shall be submitted to the Committee on Ways and Means of the House of Representatives and the Committee on Finance of the Senate not later than January 1, 2001.

SEC. 404. MINIMUM TAX NOT TO APPLY TO FARMERS' INSTALLMENT SALES.

(a) IN GENERAL.—The last sentence of paragraph (6) of section 56(a) (relating to treatment of installment sales in computing alternative minimum taxable income) is amended to read as follows: ''This paragraph shall not apply to any disposition—

''(A) in the case of a taxpayer using the cash receipts and disbursements method of accounting, described in section 453(l)(2)(A) (relating to farm property), or

''(B) with respect to which an election is in effect under section 453(l)(2)(B) (relating to timeshares and residential lots).''.

(b) EFFECTIVE DATES.—

(1) IN GENERAL.—The amendment made by this section shall apply to dispositions in taxable years beginning after December 31, 1987.

(2) SPECIAL RULE FOR 1987.—In the case of taxable years beginning in 1987, the last sentence of section 56(a)(6) of the Internal Revenue Code of 1986 (as in effect for such taxable years) shall be applied by inserting ''or in the case of a taxpayer using the cash receipts and disbursements method of accounting, any disposition described in section 453C(e)(1)(B)(ii)'' after ''section 453C(e)(4)''.

TITLE V—ESTATE, GIFT, AND GENERATION-SKIPPING TAX PROVISIONS

Subtitle A—Estate and Gift Tax Provisions

SEC. 501. COST-OF-LIVING ADJUSTMENTS RELATING TO ESTATE AND GIFT TAX PROVISIONS.

(a) INCREASE IN UNIFIED ESTATE AND GIFT TAX CREDIT.—

(1) ESTATE TAX CREDIT.—

(A) IN GENERAL.—Subsection (a) of section 2010 (relating to unified credit against estate tax) is amended by striking ''$192,800'' and inserting ''the applicable credit amount''.

(B) APPLICABLE CREDIT AMOUNT.—Section 2010 is amended by redesignating subsection (c) as subsection (d) and by inserting after subsection (b) the following new subsection:

''(c) APPLICABLE CREDIT AMOUNT.—For purposes of this section—

''(1) IN GENERAL.—For purposes of this section, the applicable credit amount is the amount of the tentative tax which would be determined under the rate schedule set forth in section 2001(c) if the amount with respect to which such tentative tax is to be computed were the applicable exclusion amount determined in accordance with the following table:

''In the case of estates of decedents dying, and gifts made during:	The applicable exclusion amount is:
1998	$650,000
1999	$750,000
2000	$765,000
2001 through 2004	$775,000
2005	$800,000
2006	$825,000
2007 or thereafter	$1,000,000.

''(2) COST-OF-LIVING ADJUSTMENT.—In the case of any decedent dying, and gift made, in a calendar year after 2007, the $1,000,000 amount set forth in paragraph (1) shall be increased by an amount equal to—

''(A) $1,000,000, multiplied by

''(B) the cost-of-living adjustment determined under section 1(f)(3) for such calendar year by substituting 'calendar year 2006' for 'calendar year 1992' in subparagraph (B) thereof.

If any amount as adjusted under the preceding sentence is not a multiple of $10,000, such amount shall be rounded to the next lowest multiple of $10,000.''.

(C) ESTATE TAX RETURNS.—Paragraph (1) of section 6018(a) is amended by striking ''$600,000'' and inserting ''the applicable exclusion amount in effect under section 2010(c) for the calendar year which includes the date of death''.

(D) PHASEOUT OF GRADUATED RATES AND UNIFIED CREDIT.—Paragraph (2) of section 2001(c) is amended by striking ''$21,040,000'' and inserting ''the amount at which the average tax rate under this section is 55 percent''.

(E) ESTATES OF NONRESIDENTS NOT CITIZENS.—Subparagraph (A) of section 2102(c)(3) is amended by striking ''$192,800'' and inserting ''the applicable credit amount in effect under section 2010(c) for the calendar year which includes the date of death''.

(2) UNIFIED GIFT TAX CREDIT.—Paragraph (1) of section 2505(a) is amended by striking ''$192,800'' and inserting ''the applicable credit amount in effect under section 2010(c) for such calendar year''.

(b) ALTERNATE VALUATION OF CERTAIN FARM, ETC., REAL PROPERTY.—Subsection (a) of section 2032A is amended by adding at the end the following new paragraph:

''(3) INFLATION ADJUSTMENT.—In the case of estates of decedents dying in a calendar year after 1998, the $750,000 amount contained in paragraph (2) shall be increased by an amount equal to—

''(A) $750,000, multiplied by

''(B) the cost-of-living adjustment determined under section 1(f)(3) for such calendar year by substituting 'calendar year 1997' for 'calendar year 1992' in subparagraph (B) thereof.

If any amount as adjusted under the preceding sentence is not a multiple of $10,000, such amount shall be rounded to the next lowest multiple of $10,000.''.

(c) ANNUAL GIFT TAX EXCLUSION.—Subsection (b) of section 2503 is amended—

(1) by striking the subsection heading and inserting the following:

''(b) EXCLUSIONS FROM GIFTS.—

''(1) IN GENERAL.—'',

(2) by moving the text 2 ems to the right, and

(3) by adding at the end the following new paragraph:

''(2) INFLATION ADJUSTMENT.—In the case of gifts made in a calendar year after 1998, the $10,000 amount contained in paragraph (1) shall be increased by an amount equal to—

''(A) $10,000, multiplied by

''(B) the cost-of-living adjustment determined under section 1(f)(3) for such calendar year by substituting 'calendar year 1997' for 'calendar year 1992' in subparagraph (B) thereof.

If any amount as adjusted under the preceding sentence is not a multiple of $1,000, such amount shall be rounded to the next lowest multiple of $1,000.''.

(d) EXEMPTION FROM GENERATION-SKIPPING TAX.—Section 2631 (relating to GST exemption) is amended by adding at the end the following new subsection:

''(c) INFLATION ADJUSTMENT.—In the case of an individual who dies in any calendar year after 1998, the $1,000,000 amount contained in subsection (a) shall be increased by an amount equal to—

''(1) $1,000,000, multiplied by

''(2) the cost-of-living adjustment determined under section 1(f)(3) for such calendar year by substituting 'calendar year 1997' for 'calendar year 1992' in subparagraph (B) thereof.

If any amount as adjusted under the preceding sentence is not a multiple of $10,000, such amount shall be rounded to the next lowest multiple of $10,000.''.

(e) AMOUNT SUBJECT TO REDUCED RATE WHERE EXTENSION OF TIME FOR PAYMENT OF ESTATE TAX ON CLOSELY HELD BUSINESS.—Subsection (j) of section 6601 is amended by redesignating paragraph (3) as paragraph (4) and by inserting after paragraph (2) the following new paragraph:

''(3) INFLATION ADJUSTMENT.—In the case of estates of decedents dying in a calendar year after 1998, the $1,000,000 amount contained in paragraph (2)(A) shall be increased by an amount equal to—

''(A) $1,000,000, multiplied by

''(B) the cost-of-living adjustment determined under section 1(f)(3) for such calendar year by substituting 'calendar year 1997' for 'calendar year 1992' in subparagraph (B) thereof.

If any amount as adjusted under the preceding sentence is not a multiple of $10,000, such amount shall be rounded to the next lowest multiple of $10,000.''.

(f) EFFECTIVE DATE.—The amendments made by this section shall apply to the estates of decedents dying, and gifts made, after December 31, 1997.

SEC. 502. 20-YEAR INSTALLMENT PAYMENT WHERE ESTATE CONSISTS LARGELY OF INTEREST IN CLOSELY HELD BUSINESS.

(a) IN GENERAL.—Section 6166(a) (relating to extension of time for payment of estate tax where estate consists largely of interest in closely held business) is amended by striking ''10'' in paragraph (1) and the heading thereof and inserting ''20''.

(b) EFFECTIVE DATE.—The amendments made by this section shall apply to estates of decedents dying after December 31, 1997.

SEC. 503. NO INTEREST ON CERTAIN PORTION OF ESTATE TAX EXTENDED UNDER SECTION 6166, REDUCED INTEREST ON REMAINING PORTION, AND NO DEDUCTION FOR SUCH REDUCED INTEREST.

(a) NO INTEREST AND REDUCED INTEREST.—

(1) IN GENERAL.—Paragraphs (1) and (2) of section 6601(j) (relating to 4-percent rate on certain portion of estate tax extended under section 6166), as amended by section 501(e), are amended to read as follows:

''(1) IN GENERAL.—If the time for payment of an amount of tax imposed by chapter 11 is extended as provided in section 6166, then in lieu of the annual rate provided by subsection (a)—

''(A) no interest shall be paid on the no-interest portion of such amount, and

''(B) interest on so much of such amount as exceeds such no-interest portion shall be paid at a rate equal to 45 percent of the annual rate provided by subsection (a).

For purposes of this subsection, the amount of any deficiency which is prorated to installments payable under section 6166 shall be treated as an amount of tax payable in installments under such section.

''(2) NO-INTEREST PORTION.—For purposes of this section, the term 'no-interest portion' means the lesser of—

''(A)(i) the amount of the tentative tax which would be determined under the rate schedule set forth in section 2001(c) if the amount with respect to which such tentative tax is to be computed were the sum of $1,000,000 and the applicable exclusion amount in effect under section 2010(c), reduced by

''(ii) the applicable credit amount in effect under section 2010(c), or

''(B) the amount of the tax imposed by chapter 11 which is extended as provided in section 6166.''.

(2) CONFORMING AMENDMENTS.—

(A) Section 6601(j), as amended by section 501, is amended—

(i) by striking ''4-percent'' each place it appears in paragraph (3) and inserting ''no-interest'', and

(ii) by striking ''4-PERCENT RATE ON CERTAIN PORTION OF'' in the heading and inserting ''RATE ON''.

(B) Section 6166(b)(7)(A)(iii) is amended to read as follows:

''(iii) for purposes of applying section 6601(j) (relating to rate on estate tax extended under section 6166), the no-interest portion shall be zero.''.

(C) Section 6166(b)(8)(A)(iii) is amended to read as follows:

''(iii) NO-INTEREST PORTION NOT TO APPLY.—For purposes of applying section 6601(j) (relating to rate on estate tax extended under section 6166), the no-interest portion shall be zero.''.

(b) DISALLOWANCE OF INTEREST DEDUCTION.—

(1) ESTATE TAX.—Paragraph (1) of section 2053(c) is amended by adding at the end the following new subparagraph:

''(D) SECTION 6166 INTEREST.—No deduction shall be allowed under this section for any interest payable under section 6601 on any unpaid portion of the tax imposed by section 2001 for the period during which an extension of time for payment of such tax is in effect under section 6166.''.

(2) INCOME TAX.—Subparagraph (E) of section 163(h)(2) is amended by striking ''or 6166''.

(c) EFFECTIVE DATE.—The amendments made by this section shall apply to estates of decedents dying after December 31, 1997.

SEC. 504. EXTENSION OF TREATMENT OF CERTAIN RENTS UNDER SECTION 2032A TO LINEAL DESCENDANTS.

(a) GENERAL RULE.—Paragraph (7) of section 2032A(c) (relating to special rules for tax treatment of dispositions and failures to use for qualified use) is amended by adding at the end the following new subparagraph:

''(E) CERTAIN RENTS TREATED AS QUALIFIED USE.—For purposes of this subsection, a surviving spouse or lineal descendant of the decedent shall not be treated as failing to use qualified real property in a qualified use solely because such spouse or descendant rents such property to a member of the family of such spouse or descendant on a net cash basis. For purposes of the preceding sentence, a legally adopted child of an individual shall be treated as the child of such individual by blood.''.

(b) CONFORMING AMENDMENT.—Section 2032A(b)(5)(A) is amended by striking the last sentence.

(c) EFFECTIVE DATE.—The amendments made by this section shall apply with respect to leases entered into after December 31, 1976.

SEC. 505. CLARIFICATION OF JUDICIAL REVIEW OF ELIGIBILITY FOR EXTENSION OF TIME FOR PAYMENT OF ESTATE TAX.

(a) IN GENERAL.—Part IV of subchapter C of chapter 76 of the Internal Revenue Code of 1986 (relating to declaratory judgments) is amended by adding at the end the following new section:

''SEC. 7479. DECLARATORY JUDGMENTS RELATING TO ELIGIBILITY OF ESTATE WITH RESPECT TO INSTALLMENT PAYMENTS UNDER SECTION 6166.

''(a) CREATION OF REMEDY.—In a case of actual controversy involving a determination by the Secretary of (or a failure by the Secretary to make a determination with respect to)—

''(1) whether an election may be made under section 6166 (relating to extension of time for payment of estate tax where estate consists largely of interest in closely held business) with respect to an estate, or

''(2) whether the extension of time for payment of tax provided in section 6166(a) has ceased to apply with respect to an estate,

upon the filing of an appropriate pleading, the Tax Court may make a declaration with respect to whether such election may be made, whether such extension has ceased to apply, or the amount of such installment payments. Any such declaration shall have the force and effect of a decision of the Tax Court and shall be reviewable as such.

''(b) LIMITATIONS.—

''(1) PETITIONER.—A pleading may be filed under this section, with respect to any estate, only—

''(A) by the executor of such estate, or

''(B) by any person who has assumed an obligation to make payments under section 6166 with respect to such estate (but only if each other such person is joined as a party).

''(2) EXHAUSTION OF ADMINISTRATIVE REMEDIES.—The court shall not issue a declaratory judgment or decree under this section

in any proceeding unless it determines that the petitioner has exhausted all available administrative remedies within the Internal Revenue Service. A petitioner shall be deemed to have exhausted its administrative remedies with respect to a failure of the Secretary to make a determination at the expiration of 180 days after the date on which the request for such determination was made if the petitioner has taken, in a timely manner, all reasonable steps to secure such determination.

''(3) TIME FOR BRINGING ACTION.—If the Secretary sends by certified or registered mail notice of his determination as described in subsection (a) to the petitioner, no proceeding may be initiated under this section unless the pleading is filed before the 91st day after the date of such mailing.''.

(b) CLERICAL AMENDMENT.—The table of sections for part IV of subchapter C of chapter 76 of such Code is amended by adding at the end the following new item:

''Sec. 7479. Declaratory judgments relating to eligibility of estate with respect to installment payments under section 6166.''.

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

SEC. 506. GIFTS MAY NOT BE REVALUED FOR ESTATE TAX PURPOSES AFTER EXPIRATION OF STATUTE OF LIMITATIONS.

(a) IN GENERAL.—Section 2001 (relating to imposition and rate of estate tax) is amended by adding at the end the following new subsection:

''(f) VALUATION OF GIFTS.—If—

''(1) the time has expired within which a tax may be assessed under chapter 12 (or under corresponding provisions of prior laws) on the transfer of property by gift made during a preceding calendar period (as defined in section 2502(b)), and

''(2) the value of such gift is shown on the return for such preceding calendar period or is disclosed in such return, or in a statement attached to the return, in a manner adequate to apprise the Secretary of the nature of such gift,

the value of such gift shall, for purposes of computing the tax under this chapter, be the value of such gift as finally determined for purposes of chapter 12.''.

(b) MODIFICATION OF APPLICATION OF STATUTE OF LIMITATIONS.—Paragraph (9) of section 6501(c) is amended to read as follows:

''(9) GIFT TAX ON CERTAIN GIFTS NOT SHOWN ON RETURN.—If any gift of property the value of which (or any increase in taxable gifts required under section 2701(d) which) is required to be shown on a return of tax imposed by chapter 12 (without regard to section 2503(b)), and is not shown on such return, any tax imposed by chapter 12 on such gift may be assessed, or a proceeding in court for the collection of such tax may be begun without assessment, at any time. The preceding sentence shall not apply to any item which is disclosed in such return, or in a statement attached to the return, in a manner adequate to apprise the Secretary of the nature of such item. The value of any item which is so disclosed may not be redetermined by the Secretary after the expiration of the period under subsection (a).''.

(c) DECLARATORY JUDGMENT PROCEDURE FOR DETERMINING VALUE OF GIFT.—

(1) IN GENERAL.—Part IV of subchapter C of chapter 76 is amended by inserting after section 7476 the following new section:

''SEC. 7477. DECLARATORY JUDGMENTS RELATING TO VALUE OF CERTAIN GIFTS.

''(a) CREATION OF REMEDY.—In a case of an actual controversy involving a determination by the Secretary of the value of any gift shown on the return of tax imposed by chapter 12 or disclosed on such return or in any statement attached to such return, upon the filing of an appropriate pleading, the Tax Court may make a declaration of the value of such gift. Any such declaration shall have the force and effect of a decision of the Tax Court and shall be reviewable as such.

''(b) LIMITATIONS.—

''(1) PETITIONER.—A pleading may be filed under this section only by the donor.

''(2) EXHAUSTION OF ADMINISTRATIVE REMEDIES.—The court shall not issue a declaratory judgment or decree under this section in any proceeding unless it determines that the petitioner has exhausted all available administrative remedies within the Internal Revenue Service.

''(3) TIME FOR BRINGING ACTION.—If the Secretary sends by certified or registered mail notice of his determination as described in subsection (a) to the petitioner, no proceeding may be initiated under this section unless the pleading is filed before the 91st day after the date of such mailing.''.

(2) CLERICAL AMENDMENT.—The table of sections for such part IV is amended by inserting after the item relating to section 7476 the following new item:

''Sec. 7477. Declaratory judgments relating to value of certain gifts.''.

(d) CONFORMING AMENDMENT.—Subsection (c) of section 2504 is amended by striking '', and if a tax under this chapter or under corresponding provisions of prior laws has been assessed or paid for such preceding calendar period''.

(e) EFFECTIVE DATES.—

(1) IN GENERAL.—The amendments made by subsections (a) and (c) shall apply to gifts made after the date of the enactment of this Act.

(2) SUBSECTION (b)—The amendment made by subsection (b) shall apply to gifts made in calendar years ending after the date of the enactment of this Act.

SEC. 507. TERMINATION OF THROWBACK RULES FOR DOMESTIC TRUSTS.

(a) ACCUMULATION DISTRIBUTIONS.—

(1) IN GENERAL.—Section 665 is amended by adding at the end the following new subsection:

''(f) SPECIAL RULE FOR UNITED STATES TRUSTS.—For purposes of this subpart, in the case of a trust other than a foreign trust, any distribution in any taxable year beginning after the date of the enactment of this subsection shall be computed without regard to any undistributed net income.''.

(2) CONFORMING AMENDMENT.—Subsection (b) of section 665 is amended by inserting ''except as provided in subsection (f),'' after ''subpart,''.

(b) PROPERTY TRANSFERRED TO TRUSTS.—Subsection (e) of section 644 is amended by striking ''or'' at the end of paragraph (3), by striking the period at the end of paragraph (4) and inserting '', or '', and by adding at the end the following new paragraph:

''(5) in the case of a trust other than a foreign trust, any sale or exchange of property after the date of the enactment of this paragraph.''.

(c) EFFECTIVE DATES.—

(1) IN GENERAL.—Except as provided in paragraph (2), the amendments made by this section shall apply to distributions in taxable years beginning after the date of the enactment of this Act.

(2) TRANSFERRED PROPERTY.—The amendments made by subsection (b) shall apply to sales or exchanges after the date of the enactment of this Act.

SEC. 508. UNIFIED CREDIT OF DECEDENT INCREASED BY UNIFIED CREDIT OF SPOUSE USED ON SPLIT GIFT INCLUDED IN DECEDENT'S GROSS ESTATE.

(a) IN GENERAL.—Section 2010 (relating to unified credit against estate tax) is amended by adding at the end the following new subsection:

''(d) TREATMENT OF UNIFIED CREDIT USED BY SPOUSE ON SPLIT-GIFT INCLUDED IN DECEDENT'S GROSS ESTATE.—If—

''(1) the decedent was the donor of any gift one-half of which was considered under section 2513 as made by the decedent's spouse, and

''(2) the amount of such gift is includible in the gross estate of the decedent by reason of section 2035, 2036, 2037, or 2038,

the amount of the credit allowable by subsection (a) to the estate of the decedent shall be increased by the amount of the unified credit allowed against the tax imposed by section 2501 on the amount of such gift considered under section 2513 as made by such spouse.''.

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

SEC. 509. REFORMATION OF DEFECTIVE BEQUESTS, ETC., TO SPOUSE OF DECEDENT.

(a) IN GENERAL.—Subsection (b) of section 2056 (relating to bequests, etc., to surviving spouse) is amended by adding at the end the following new paragraph:

''(11) REFORMATIONS PERMITTED.—

''(A) IN GENERAL.—In the case of any interest in property with respect to which a deduction would be allowable under subsection (a) but for a provision of this subsection, if—

''(i) the surviving spouse is entitled to all of the income from the property for life,

''(ii) no person other than such spouse is entitled to any distribution of such property during such spouse's life, and

''(iii) there is a change of a governing instrument (by reformation, amendment, construction, or otherwise) as of the applicable date which results in the satisfaction of the requirements of such provision as of the date of the decedent's death,

the determination of whether such deduction is allowable shall be made as of the applicable date.

''(B) SPECIAL RULE WHERE TIMELY COMMENCEMENT OF REFORMATION.—Clauses (i) and (ii) of subparagraph (A) shall not apply to any interest if, not later than the date described in subparagraph (C)(i), a judicial proceeding is commenced to change such interest into an interest which satisfies the requirements of the provision by reason of which (but for this paragraph) a deduction would not be allowable under subsection (a) for such interest.

''(C) APPLICABLE DATE.—For purposes of subparagraph (A), the term 'applicable date' means—

''(i) the last date (including extensions) for filing the return of tax imposed by this chapter, or

''(ii) if a judicial proceeding is commenced to comply with such provision, the time when the changes pursuant to such proceeding are made.

''(D) SPECIAL RULE.—If the change referred to in subparagraph (A)(iii) is to qualify the passage of the interest under paragraph (7), subparagraph (A) shall apply only if the election under paragraph (7)(B) is made.

''(E) STATUTE OF LIMITATIONS.—If a judicial proceeding described in subparagraph (C)(ii) is commenced with respect to any interest, the period for assessing any deficiency of tax attributable to such interest shall not expire before the date 1 year after the date on

which the Secretary is notified that such provision has been complied with or that such proceeding has been terminated.''.

(b) COMPARABLE RULE FOR GIFT TAX.—Section 2523 (relating to gift to spouse) is amended by adding at the end the following new subsection:

''(j) REFORMATIONS PERMITTED.—Rules similar to the rules of section 2056(b)(11) shall apply for purposes of this section.''.

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

Subtitle B—Generation-Skipping Tax Provisions

SEC. 511. SEVERING OF TRUSTS HOLDING PROPERTY HAVING AN INCLUSION RATIO OF GREATER THAN ZERO.

(a) IN GENERAL.—Subsection (a) of section 2642 (relating to inclusion ratio) is amended by adding at the end the following new paragraph:

''(3) SEVERING OF TRUSTS HOLDING PROPERTY HAVING AN INCLUSION RATIO OF GREATER THAN ZERO.—

''(A) IN GENERAL.—If a trust holding property having an inclusion ratio of greater than zero is severed in a qualified severance, at the election of the trustee of such trust, the trusts resulting from such severance shall be treated as separate trusts for purposes of this chapter and 1 such trust shall have an inclusion ratio of 1 and the other such trust shall have an inclusion ratio of zero.

''(B) QUALIFIED SEVERANCE.—For purposes of subparagraph (A), the term 'qualified severance' means the creation of 2 trusts from a single trust if each property held by the single trust was divided between the 2 created trusts such that one trust received an interest in each such property equal to the applicable fraction of the single trust. Such term includes any other severance permitted under regulations prescribed by the Secretary.

''(C) ELECTION.—The election under this paragraph shall be made at the time prescribed by the Secretary. Such an election, once made, shall be irrevocable.''.

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

SEC. 512. EXPANSION OF EXCEPTION FROM GENERATION-SKIPPING TRANSFER TAX FOR TRANSFERS TO INDIVIDUALS WITH DECEASED PARENTS.

(a) IN GENERAL.—Section 2651 (relating to generation assignment) is amended by redesignating subsection (e) as subsection (f), and by inserting after subsection (d) the following new subsection:

''(e) SPECIAL RULE FOR PERSONS WITH A DECEASED PARENT.—

''(1) IN GENERAL.—For purposes of determining whether any transfer is a generation-skipping transfer, if—

''(A) an individual is a descendant of a parent of the transferor (or the transferor's spouse or former spouse), and

''(B) such individual's parent who is a lineal descendant of the parent of the transferor (or the transferor's spouse or former spouse) is dead at the time the transfer (from which an interest of such individual is established or derived) is subject to a tax imposed by chapter 11 or 12 upon the transferor (and if there shall be more than 1 such time, then at the earliest such time),

such individual shall be treated as if such individual were a member of the generation which is 1 generation below the lower of the transferor's generation or the generation assignment of the youngest living ancestor of such individual who is also a descendant of the parent of the transferor (or the transferor's spouse or former spouse), and the generation assignment of any descendant of such individual shall be adjusted accordingly.

''(2) LIMITED APPLICATION OF SUBSECTION TO COLLATERAL HEIRS.—This subsection shall not apply with respect to a transfer to any individual who is not a lineal descendant of the transferor (or the transferor's spouse or former spouse) if, at the time of the transfer, such transferor has any living lineal descendant.''.

(b) CONFORMING AMENDMENTS.—

(1) Section 2612(c) (defining direct skip) is amended by striking paragraph (2) and by redesignating paragraph (3) as paragraph (2).

(2) Section 2612(c)(2) (as so redesignated) is amended by striking ''section 2651(e)(2)'' and inserting ''section 2651(f)(2)''.

(c) EFFECTIVE DATE.—The amendments made by this section shall apply to terminations, distributions, and transfers occurring after December 31, 1997.

TITLE VI—EXTENSIONS

SEC. 601. RESEARCH TAX CREDIT.

(a) IN GENERAL.—Paragraph (1) of section 41(h) (relating to termination) is amended—

(1) by striking ''May 31, 1997'' and inserting ''December 31, 1998'', and

(2) by striking in the last sentence ''during the first 11 months of such taxable year.'' and inserting ''during the 30-month period beginning with the first month of such year. The 30 months referred to in the preceding sentence shall be reduced by the number of full months after June 1996 (and before the first month of such first taxable year) during which the taxpayer paid or incurred any amount which is taken into account in determining the credit under this section.''.

(b) TECHNICAL AMENDMENTS.—

(1) Subparagraph (B) of section 41(c)(4) is amended to read as follows:

''(B) ELECTION.—An election under this paragraph shall apply to the taxable year for which made and all succeeding taxable years unless revoked with the consent of the Secretary.''.

(2) Paragraph (1) of section 45C(b) is amended by striking ''May 31, 1997'' and inserting ''December 31, 1998''.

(c) EFFECTIVE DATE.—The amendments made by this section shall apply to amounts paid or incurred after May 31, 1997.

SEC. 602. CONTRIBUTIONS OF STOCK TO PRIVATE FOUNDATIONS.

(a) IN GENERAL.—Clause (ii) of section 170(e)(5)(D) (relating to termination) is amended by striking ''May 31, 1997'' and inserting ''December 31, 1998''.

(b) EFFECTIVE DATE.—The amendment made by subsection (a) shall apply to contributions made after May 31, 1997.

SEC. 603. WORK OPPORTUNITY TAX CREDIT.

(a) EXTENSION.—

(1) IN GENERAL.—Subparagraph (B) of section 51(c)(4) (relating to termination) is amended by striking ''September 30, 1997'' and inserting ''September 30, 1998''.

(2) EFFECTIVE DATE.—The amendment made by paragraph (1) shall apply to individuals who begin work for the employer after September 30, 1997.

(b) WORK OPPORTUNITY CREDIT ALLOWED AGAINST MINIMUM TAX.—

(1) IN GENERAL.—Subsection (c) of section 38 (relating to limitation based on amount of tax) is amended by redesignating paragraph (3) as paragraph (4) and by inserting after paragraph (2) the following new paragraph:

''(3) SPECIAL RULES FOR WORK OPPORTUNITY CREDIT.—

''(A) IN GENERAL.—In the case of the work opportunity credit—

''(i) this section and section 39 shall be applied separately with respect to the credit, and

''(ii) in applying paragraph (1) to the credit—

''(I) subparagraph (A) shall not apply, and

''(II) the limitation under paragraph (1) (as modified by subclause (I)) shall be reduced by the credit allowed under subsection (a) for the taxable year (other than the work opportunity credit).

''(B) WORK OPPORTUNITY CREDIT.—For purposes of this subsection, the term 'work opportunity credit' means the credit allowable under subsection (a) by reason of section 51(a).''.

(2) CONFORMING AMENDMENT.—Subclause (II) of section 38(c)(2)(A)(ii) is amended by inserting ''or the work opportunity credit'' after ''employment credit''.

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

(c) PERCENTAGE OF WAGES ALLOWED AS CREDIT.—

(1) IN GENERAL.—Subsection (a) of section 51 (relating to determination of amount) is amended by striking ''35 percent'' and inserting ''40 percent''.

(2) APPLICATION OF CREDIT FOR INDIVIDUALS PERFORMING FEWER THAN 400 HOURS OF SERVICES.—Paragraph (3) of section 51(i) is amended to read as follows:

''(3) INDIVIDUALS NOT MEETING MINIMUM EMPLOYMENT PERIODS.—

''(A) REDUCTION OF CREDIT FOR INDIVIDUALS PERFORMING FEWER THAN 400 HOURS OF SERVICES.—In the case of an individual who has completed at least 120 hours, but less than 400 hours, of services performed for the employer, subsection (a) shall be applied by substituting '25 percent' for '40 percent'.

''(B) DENIAL OF CREDIT FOR INDIVIDUALS PERFORMING FEWER THAN 120 HOURS OF SERVICES.—No wages shall be taken into account under subsection (a) with respect to any individual unless such individual has completed at least 120 hours of services performed for the employer.''.

(3) EFFECTIVE DATE.—The amendments made by this subsection shall apply to individuals who begin work for the employer after September 30, 1997.

(d) MODIFICATION OF ELIGIBILITY REQUIREMENT BASED ON PERIOD ON WELFARE.—

(1) IN GENERAL.—Subparagraph (A) of section 51(d)(2) (defining qualified IV–A recipient) is amended by striking all that follows ''a IV–A program'' and inserting ''for any 9 months during the 18-month period ending on the hiring date.''.

(2) CONFORMING AMENDMENT.—Subparagraph (A) of section 51(d)(3) is amended to read as follows:

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

(3) EFFECTIVE DATE.—The amendments made by this subsection shall apply to individuals who begin work for the employer after September 30, 1997.

SEC. 604. ORPHAN DRUG TAX CREDIT.

(a) IN GENERAL.—Section 45C (relating to clinical testing expenses for certain drugs for rare diseases or conditions) is amended by striking subsection (e).

(b) EFFECTIVE DATE.—The amendment made by subsection (a) shall apply to amounts paid or incurred after May 31, 1997.

SEC. 605. BUDGETARY TREATMENT OF EXPIRING PREFERENTIAL EXCISE TAX RATES WHICH ARE DEDICATED TO TRUST FUNDS.

(a) IN GENERAL.—Subparagraph (C) of section 257(b)(2) of the Balanced Budget and

Emergency Deficit Control Act of 1985 (relating to the baseline) is amended by inserting before the period ''; except that any expiring preferential rate (and any credit or refund related thereto) shall be assumed not to be extended''.

(b) ESTIMATE OF REVENUE GAIN FROM CORRECTING BASELINE.—For purposes of estimating revenues under budget reconciliation, the impact of the amendment made by subsection (a) on the calculation of the baseline shall be determined in the same manner as if such amendment were an amendment to the Internal Revenue Code of 1986.

(c) BUDGET ACT POINT OF ORDER.—For purposes of section 311(a) of the Congressional Budget Act of 1974, the appropriate level of revenues shall be determined on the assumption that any expiring preferential rate (and any credit or refund related thereto) of any excise tax dedicated to a trust fund shall expire according to current law.

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

TITLE VII—INCENTIVES FOR REVITALIZATION OF THE DISTRICT OF COLUMBIA

SEC. 701. TAX INCENTIVES FOR REVITALIZATION OF THE DISTRICT OF COLUMBIA.

(a) IN GENERAL.—Chapter 1 is amended by adding at the end the following new subchapter:

''Subchapter W—District of Columbia Enterprise Zone

''Sec. 1400. Establishment of DC Zone.
''Sec. 1400A. Tax-exempt economic development bonds.
''Sec. 1400B. Credit for equity investments in and loans to District of Columbia businesses.
''Sec. 1400C. Zero percent capital gains rate.
''Sec. 1400D. Credit to provide equivalent of 10 percent rate bracket in lieu of 15 percent bracket.

''SEC. 1400. ESTABLISHMENT OF DC ZONE.

''(a) IN GENERAL.—The applicable DC area is hereby designated as the District of Columbia Enterprise Zone. For purposes of this title (except as otherwise provided in this subchapter), the District of Columbia Enterprise Zone shall be treated as an empowerment zone designated under subchapter U.

''(b) APPLICABLE DC AREA.—For purposes of subsection (a), the term 'applicable DC area' means the area consisting of—

''(1) the census tracts located in the District of Columbia which are part of an enterprise community designated under subchapter U before the date of the enactment of this subchapter, and

''(2) all other census tracts—

''(A) which are located in the District of Columbia, and

''(B) for which the poverty rate is not less than 35 percent.

''(c) DISTRICT OF COLUMBIA ENTERPRISE ZONE.—For purposes of this subchapter, the terms 'District of Columbia Enterprise Zone' and 'DC Zone' mean the District of Columbia Enterprise Zone designated by subsection (a).

''(d) SPECIAL RULE FOR APPLICATION OF EMPLOYMENT CREDIT.—In the case of the DC Zone, section 1396 (relating to empowerment zone employment credit) shall be applied by substituting ''20'' for ''15'' in the table contained in section 1396(b). The preceding sentence shall apply only with respect to qualified zone employees, as defined in section 1396(d), determined by treating no area other than the DC Zone as an empowerment zone or enterprise community.

''(e) TIME FOR WHICH DESIGNATION APPLICABLE.—

''(1) IN GENERAL.—The designation made by subsection (a) shall apply for the period beginning on January 1, 1998, and ending on December 31, 2002.

''(2) COORDINATION WITH DC ENTERPRISE COMMUNITY DESIGNATED UNDER SUBCHAPTER U.—The designation as an enterprise community, under subchapter U, of the census tracts referred to in subsection (b)(1) shall terminate on December 31, 2002.

''SEC. 1400A. TAX-EXEMPT ECONOMIC DEVELOPMENT BONDS.

''(a) IN GENERAL.—In the case of the District of Columbia Enterprise Zone—

''(1) subsection (a) of section 1394 (relating to tax-exempt facility bonds for empowerment zones and enterprise communities) applies only with respect to bonds issued by the Economic Development Corporation, and

''(2) subparagraph (A) of section 1394(c)(1) (relating to limitation on amount of bonds) shall be applied by substituting '$15,000,000' for '$3,000,000'.

''(b) ECONOMIC DEVELOPMENT CORPORATION.—For purposes of this section, the term 'Economic Development Corporation' means an entity which is created by Federal law in 1997 as part of the District of Columbia government.

''(c) PERIOD OF APPLICABILITY.—This section shall apply to bonds issued during the period beginning on January 1, 1998, and ending on December 31, 2002.

''SEC. 1400B. CREDIT FOR EQUITY INVESTMENTS IN AND LOANS TO DISTRICT OF COLUMBIA BUSINESSES.

''(a) GENERAL RULE.—For purposes of section 38, the DC Zone investment credit determined under this section for any taxable year is—

''(1) the qualified lender credit for such year, and

''(2) the qualified equity investment credit for such year.

''(b) QUALIFIED LENDER CREDIT.—For purposes of this section—

''(1) IN GENERAL.—The qualified lender credit for any taxable year is the amount of credit specified for such year by the Economic Development Corporation with respect to qualified District loans made by the taxpayer.

''(2) LIMITATION.—In no event may the qualified lender credit with respect to any loan exceed 25 percent of the cost of the property purchased with the proceeds of the loan.

''(3) QUALIFIED DISTRICT LOAN.—For purposes of paragraph (1), the term 'qualified district loan' means any loan for the purchase (as defined in section 179(d)(2)) of property to which section 168 applies (or would apply but for section 179) (or land which is functionally related and subordinate to such property) and substantially all of the use of which is in the District of Columbia and is in the active conduct of a trade or business in the District of Columbia. A rule similar to the rule of section 1397C(a)(2) shall apply for purposes of the preceding sentence.

''(c) QUALIFIED EQUITY INVESTMENT CREDIT.—

''(1) IN GENERAL.—For purposes of this section, the qualified equity investment credit determined under this section for any taxable year is an amount equal to the percentage specified by the Economic Development Corporation (but not greater than 25 percent) of the aggregate amount paid in cash by the taxpayer during the taxable year for the purchase of District business investments.

''(2) DISTRICT BUSINESS INVESTMENT.—For purposes of this subsection, the term 'District business investment' means—

''(A) any District business stock, and

''(B) any District partnership interest.

''(3) DISTRICT BUSINESS STOCK.—For purposes of this subsection—

''(A) IN GENERAL.—Except as provided in subparagraph (B), the term 'District business stock' means any stock in a domestic corporation if—

''(i) such stock is acquired by the taxpayer at its original issue (directly or through an underwriter) solely in exchange for cash, and

''(ii) as of the time such stock was issued, such corporation was engaged in a trade or business in the District of Columbia (or, in the case of a new corporation, such corporation was being organized for purposes of engaging in such a trade or business).

''(B) REDEMPTIONS.—A rule similar to the rule of section 1202(c)(3) shall apply for purposes of this paragraph.

''(4) QUALIFIED DISTRICT PARTNERSHIP INTEREST.—For purposes of this subsection, the term 'qualified District partnership interest' means any interest in a partnership if—

''(A) such interest is acquired by the taxpayer from the partnership solely in exchange for cash, and

''(B) as of the time such interest was acquired, such partnership was engaging in a trade or business in the District of Columbia (or, in the case of a new partnership, such partnership was being organized for purposes of engaging in such a trade or business).

A rule similar to the rule of paragraph (3)(B) shall apply for purposes of this paragraph.

''(5) RECAPTURE OF CREDIT UPON CERTAIN DISPOSITIONS OF DISTRICT BUSINESS INVESTMENTS.—

''(A) IN GENERAL.—If a taxpayer disposes of any District business investment (or any other property the basis of which is determined in whole or in part by reference to the adjusted basis of such investment) before the end of the 5-year period beginning on the date such investment was acquired by the taxpayer, the taxpayer's tax imposed by this chapter for the taxable year in which such distribution occurs shall be increased by the aggregate decrease in the credits allowed under section 38 for all prior taxable years which would have resulted solely from reducing to zero any credit determined under this section with respect to such investment.

''(B) EXCEPTIONS.—Subparagraph (A) shall not apply to any gift, transfer, or transaction described in paragraph (1), (2), or (3) of section 1245(b).

''(C) SPECIAL RULE.—Any increase in tax under subparagraph (A) shall not be treated as a tax imposed by this chapter for purposes of—

''(i) determining the amount of any credit allowable under this chapter, and

''(ii) determining the amount of the tax imposed by section 55.

''(6) BASIS REDUCTION.—For purposes of this title, the basis of any District business investment shall be reduced by the amount of the credit determined under this section with respect to such investment.

''(d) LIMITATION ON AMOUNT OF CREDIT.—

''(1) IN GENERAL.—The amount of the DC Zone investment credit determined under this section with respect to any taxpayer for any taxable year shall not exceed the credit amount allocated to such taxpayer for such taxable year by the Economic Development Corporation.

''(2) OVERALL LIMITATION.—The aggregate credit amount which may be allocated by the Economic Development Corporation under this section shall not exceed $75,000,000.

''(3) CRITERIA FOR ALLOCATING CREDIT AMOUNTS.—The allocation of credit amounts under this section shall be made in accordance with criteria established by the Economic Development Corporation. In establishing such criteria, such Corporation shall take into account—

''(A) the degree to which the business receiving the loan or investment will provide

job opportunities for low and moderate income residents of the DC Zone, and

''(B) whether such business is within the DC Zone.

''(e) ECONOMIC DEVELOPMENT CORPORATION.—For purposes of this section, the term 'Economic Development Corporation' has the meaning given such term by section 1400A(b).

''(f) REGULATIONS.—The Secretary shall prescribe such regulations as may be appropriate to carry out this section.

''(g) APPLICATION OF SECTION.—This section shall apply to any credit amount allocated for taxable years beginning after December 31, 1997, and before January 1, 2003.

''SEC. 1400C. ZERO PERCENT CAPITAL GAINS RATE.

''(a) EXCLUSION.—Gross income shall not include qualified capital gain from the sale or exchange of any DC Zone asset held for more than 5 years.

''(b) DC ZONE ASSET.—For purposes of this section—

''(1) IN GENERAL.—The term 'DC Zone asset' means—

''(A) any DC Zone business stock,

''(B) any DC Zone partnership interest, and

''(C) any DC Zone business property.

''(2) DC ZONE BUSINESS STOCK.—

''(A) IN GENERAL.—The term 'DC Zone business stock' means any stock in a domestic corporation which is originally issued after December 31, 1997, if—

''(i) such stock is acquired by the taxpayer, before January 1, 2003, at its original issue (directly or through an underwriter) solely in exchange for cash,

''(ii) as of the time such stock was issued, such corporation was a DC Zone business (or, in the case of a new corporation, such corporation was being organized for purposes of being a DC Zone business), and

''(iii) during substantially all of the taxpayer's holding period for such stock, such corporation qualified as a DC Zone business.

''(B) REDEMPTIONS.—A rule similar to the rule of section 1202(c)(3) shall apply for purposes of this paragraph.

''(3) DC ZONE PARTNERSHIP INTEREST.—The term 'DC Zone partnership interest' means any capital or profits interest in a domestic partnership which is originally issued after December 31, 1997, if—

''(A) such interest is acquired by the taxpayer, before January 1, 2003, from the partnership solely in exchange for cash,

''(B) as of the time such interest was acquired, such partnership was a DC Zone business (or, in the case of a new partnership, such partnership was being organized for purposes of being a DC Zone business), and

''(C) during substantially all of the taxpayer's holding period for such interest, such partnership qualified as a DC Zone business. A rule similar to the rule of paragraph (2)(B) shall apply for purposes of this paragraph.

''(4) DC ZONE BUSINESS PROPERTY.—

''(A) IN GENERAL.—The term 'DC Zone business property' means tangible property if—

''(i) such property was acquired by the taxpayer by purchase (as defined in section 179(d)(2)) after December 31, 1997, and before January 1, 2003,

''(ii) the original use of such property in the DC Zone commences with the taxpayer, and

''(iii) during substantially all of the taxpayer's holding period for such property, substantially all of the use of such property was in a DC Zone business of the taxpayer.

''(B) SPECIAL RULE FOR BUILDINGS WHICH ARE SUBSTANTIALLY IMPROVED.—

''(i) IN GENERAL.—The requirements of clauses (i) and (ii) of subparagraph (A) shall be treated as met with respect to—

''(I) property which is substantially improved by the taxpayer before January 1, 2003, and

''(II) any land on which such property is located.

''(ii) SUBSTANTIAL IMPROVEMENT.—For purposes of clause (i), property shall be treated as substantially improved by the taxpayer only if, during any 24-month period beginning after December 31, 1997, additions to basis with respect to such property in the hands of the taxpayer exceed the greater of—

''(I) an amount equal to the adjusted basis of such property at the beginning of such 24-month period in the hands of the taxpayer, or

''(II) $5,000.

''(6) TREATMENT OF SUBSEQUENT PURCHASERS, ETC.—The term 'DC Zone asset' includes any property which would be a DC Zone asset but for paragraph (2)(A)(i), (3)(A), or (4)(A)(ii) in the hands of the taxpayer if such property was a DC Zone asset in the hands of a prior holder.

''(7) 5-YEAR SAFE HARBOR.—If any property ceases to be a DC Zone asset by reason of paragraph (2)(A)(iii), (3)(C), or (4)(A)(iii) after the 5-year period beginning on the date the taxpayer acquired such property, such property shall continue to be treated as meeting the requirements of such paragraph; except that the amount of gain to which subsection (a) applies on any sale or exchange of such property shall not exceed the amount which would be qualified capital gain had such property been sold on the date of such cessation.

''(c) DC ZONE BUSINESS.—For purposes of this section, the term 'DC Zone business' means any entity which is an enterprise zone business (as defined in section 1397B), determined by treating no area other than the DC Zone as an empowerment zone or enterprise community.

''(d) OTHER DEFINITIONS AND SPECIAL RULES.—For purposes of this section—

''(1) QUALIFIED CAPITAL GAIN.—Except as otherwise provided in this subsection, the term 'qualified capital gain' means any gain recognized on the sale or exchange of—

''(A) a capital asset, or

''(B) property used in the trade or business (as defined in section 1231(b)).

''(2) GAIN BEFORE 1998 OR AFTER 2007 NOT QUALIFIED.—The term 'qualified capital gain' shall not include any gain attributable to periods before January 1, 1998, or after December 31, 2007.

''(3) CERTAIN GAIN ON REAL PROPERTY NOT QUALIFIED.—The term 'qualified capital gain' shall not include any gain which would be treated as ordinary income under section 1250 if section 1250 applied to all depreciation rather than the additional depreciation.

''(4) INTANGIBLES AND LAND NOT INTEGRAL PART OF DC ZONE BUSINESS.—The term 'qualified capital gain' shall not include any gain which is attributable to real property, or an intangible asset, which is not an integral part of a DC Zone business.

''(5) RELATED PARTY TRANSACTIONS.—The term 'qualified capital gain' shall not include any gain attributable, directly or indirectly, in whole or in part, to a transaction with a related person. For purposes of this paragraph, persons are related to each other if such persons are described in section 267(b) or 707(b)(1).

''(e) CERTAIN OTHER RULES TO APPLY.—Rules similar to the rules of subsections (g), (h), (i)(2), and (j) of section 1202 shall apply for purposes of this section.

''(f) SALES AND EXCHANGES OF INTERESTS IN PARTNERSHIPS AND S CORPORATIONS WHICH ARE DC ZONE BUSINESSES.—In the case of the sale or exchange of an interest in a partnership, or of stock in an S corporation, which was a DC Zone business during substantially all of the period the taxpayer held such interest or stock, the amount of qualified capital gain shall be determined without regard to—

''(1) any gain which is attributable to real property, or an intangible asset, which is not an integral part of a DC Zone business, and

''(2) any gain attributable to periods before January 1, 1998, or after December 31, 2007.

''SEC. 1400D. CREDIT TO PROVIDE EQUIVALENT OF 10 PERCENT RATE BRACKET IN LIEU OF 15 PERCENT BRACKET.

''(a) IN GENERAL.—In the case of a DC Zone individual, there shall be allowed as a credit against the tax imposed by this chapter for the taxable year an amount equal to 5 percent of so much of the taxpayer's taxable income for the year as does not exceed the highest amount of such income which is subject to the 15 percent rate under section 1.

''(b) DC ZONE INDIVIDUAL.—For purposes of this section, the term 'DC Zone individual' means an individual who has a principal place of abode in the District of Columbia Enterprise Zone for not less than 183 days of the taxable year.

''(c) CREDIT NOT TO APPLY TO ESTATE OR TRUST.—This section shall not apply to an estate or trust.

''(d) COORDINATION WITH OTHER CREDITS.—For purposes of this chapter, the credit under this section shall be treated as a credit under subpart A of part IV of subchapter A.

''(e) TERMINATION.—This section shall not apply to any taxable year beginning after December 31, 2007.''.

(b) CREDITS MADE PART OF GENERAL BUSINESS CREDIT.—

(1) Subsection (b) of section 38 is amended by striking ''plus'' at the end of paragraph (11), by striking the period at the end of paragraph (12) and inserting '', plus'', and by adding at the end the following new paragraph:

''(13) the DC Zone investment credit determined under section 1400B(a).''.

(2) Subsection (d) of section 39 is amended by adding at the end the following new paragraph:

''(8) NO CARRYBACK OF DC ZONE CREDITS BEFORE EFFECTIVE DATE.—No portion of the unused business credit for any taxable year which is attributable to the credit under section 1400B, or to the credits under subchapter U by reason of section 1400, may be carried back to a taxable year ending before the date of the enactment of sections 1400B and 1400.''.

(3) Subsection (c) of section 196 is amended by striking ''and'' at the end of paragraph (6), by striking the period at the end of paragraph (7) and inserting '', and'', and by adding at the end the following new paragraph:

''(8) the DC Zone investment credit determined under section 1400B(a).''.

(c) CLERICAL AMENDMENT.—The table of subchapters for chapter 1 is amended by adding at the end the following new item:

''Subchapter W. District of Columbia Enterprise Zone.''.

(d) EFFECTIVE DATE.—This section shall take effect on the date of the enactment of this Act.

SEC. 702. INCENTIVES CONDITIONED ON OTHER DC REFORM.

The amendments made by section 701 shall not take effect unless an entity known as the Economic Development Corporation is created by Federal law in 1997 as part of the District of Columbia government.

TITLE VIII—WELFARE-TO-WORK INCENTIVES

SEC. 801. INCENTIVES FOR EMPLOYING LONG-TERM FAMILY ASSISTANCE RECIPIENTS.

(a) IN GENERAL.—Subpart F of part IV of subchapter A of chapter 1 is amended by inserting after section 51 the following new section:

"SEC. 51A. TEMPORARY INCENTIVES FOR EMPLOYING LONG-TERM FAMILY ASSISTANCE RECIPIENTS.

''(a) DETERMINATION OF AMOUNT.—For purposes of section 38, the amount of the welfare-to-work credit determined under this section for the taxable year shall be equal to—

''(1) 35 percent of the qualified first-year wages for such year, and

''(2) 50 percent of the qualified second-year wages for such year.

''(b) QUALIFIED WAGES DEFINED.—For purposes of this section—

''(1) IN GENERAL.—The term 'qualified wages' means the wages paid or incurred by the employer during the taxable year to individuals who are long-term family assistance recipients.

''(2) QUALIFIED FIRST-YEAR WAGES.—The term 'qualified first-year wages' means, with respect to any individual, qualified wages attributable to service rendered during the 1-year period beginning with the day the individual begins work for the employer.

''(3) QUALIFIED SECOND-YEAR WAGES.—The term 'qualified second-year wages' means, with respect to any individual, qualified wages attributable to service rendered during the 1-year period beginning on the day after the last day of the 1-year period with respect to such individual determined under paragraph (2).

''(4) ONLY FIRST $10,000 OF WAGES PER YEAR TAKEN INTO ACCOUNT.—The amount of the qualified first-year wages, and the amount of qualified second-year wages, which may be taken into account with respect to any individual shall not exceed $10,000 per year.

''(5) WAGES.—

''(A) IN GENERAL.—The term 'wages' has the meaning given such term by section 51(c), without regard to paragraph (4) thereof.

''(B) CERTAIN AMOUNTS TREATED AS WAGES.—The term 'wages' includes amounts paid or incurred by the employer which are excludable from such recipient's gross income under—

''(i) section 105 (relating to amounts received under accident and health plans),

''(ii) section 106 (relating to contributions by employer to accident and health plans),

''(iii) section 127 (relating to educational assistance programs) or would be so excludable but for section 127(d), but only to the extent paid or incurred to a person not related to the employer, or

''(iv) section 129 (relating to dependent care assistance programs).

The amount treated as wages by clause (i) or (ii) for any period shall be based on the reasonable cost of coverage for the period, but shall not exceed the applicable premium for the period under section 4980B(f)(4).

''(C) SPECIAL RULES FOR AGRICULTURAL AND RAILWAY LABOR.—If such recipient is an employee to whom subparagraph (A) or (B) of section 51(h)(1) applies, rules similar to the rules of such subparagraphs shall apply except that—

''(i) such subparagraph (A) shall be applied by substituting '$10,000' for '$6,000', and

''(ii) such subparagraph (B) shall be applied by substituting '$833.33' for '$500'.

''(c) LONG-TERM FAMILY ASSISTANCE RECIPIENTS.—For purposes of this section—

''(1) IN GENERAL.—The term 'long-term family assistance recipient' means any individual who is certified by the designated local agency (as defined in section 51(d)(10))—

''(A) as being a member of a family receiving assistance under a IV-A program (as defined in section 51(d)(2)(B)) for at least the 18-month period ending on the hiring date.

''(B)(i) as being a member of a family receiving such assistance for 18 months beginning after the date of the enactment of this section, and

''(ii) as having a hiring date which is not more than 2 years after the end of the earliest such 18-month period, or

''(C)(i) as being a member of a family which ceased to be eligible after the date of the enactment of this section for such assistance by reason of any limitation imposed by Federal or State law on the maximum period such assistance is payable to a family, and

''(ii) as having a hiring date which is not more than 2 years after the date of such cessation.

''(2) HIRING DATE.—The term 'hiring date' has the meaning given such term by section 51(d).

''(d) CERTAIN RULES TO APPLY.—

''(1) IN GENERAL.—Rules similar to the rules of section 52, and subsections (d)(11), (f), (g), (i) (as in effect on the day before the date of the enactment of the Taxpayer Reief Act of 1997), (j), and (k) of section 51, shall apply for purposes of this section.

''(2) CREDIT TO BE PART OF GENERAL BUSINESS CREDIT, ETC.—References to section 51 in section 38(b), 280C(a), and 1396(c)(3) shall be treated as including references to this section.

''(e) COORDINATION WITH WORK OPPORTUNITY CREDIT.—If a credit is allowed under this section to an employer with respect to an individual for any taxable year, then for purposes of applying section 51 to such employer, such individual shall not be treated as a member of a targeted group for such taxable year.

''(f) TERMINATION.—This section shall not apply to individuals who begin work for the employer after April 30, 1999.''.

(b) CLERICAL AMENDMENT.—The table of sections for subpart F of part IV of subchapter A of chapter 1 is amended by inserting after the item relating to section 51 the following new item:

''Sec. 51A. Temporary incentives for employing long-term family assistance recipients.''.

(c) EFFECTIVE DATE.—The amendments made by this section shall apply to individuals who begin work for the employer after December 31, 1997.

TITLE IX—MISCELLANEOUS PROVISIONS

Subtitle A—Provisions Relating to Excise Taxes

SEC. 901. REPEAL OF TAX ON DIESEL FUEL USED IN RECREATIONAL BOATS.

(a) IN GENERAL.—Subparagraph (B) of section 6421(e)(2) (defining off-highway business use) is amended by striking clauses (iii) and (iv).

(b) CONFORMING AMENDMENTS.—

(1) Subparagraph (A) of section 4041(a)(1) is amended—

(A) by striking '', a diesel-powered train, or a diesel-powered boat'' each place it appears and inserting ''or a diesel-powered train'', and

(B) by striking ''vehicle, train, or boat'' and inserting ''vehicle or train''.

(2) Paragraph (1) of section 4041(a) is amended by striking subparagraph (D).

(3) Paragraph (2) of section 9503(f) is amended by striking subparagraph (C) and by redesignating subparagraphs (D) and (E) as subparagraphs (C) and (D), respectively.

(c) EFFECTIVE DATE.—The amendments made by this section shall take effect on January 1, 1998.

SEC. 902. CONTINUED APPLICATION OF TAX ON IMPORTED RECYCLED HALON-1211.

(a) IN GENERAL.—Paragraph (1) of section 4682(d) is amended by striking ''recycled halon'' and inserting ''recycled Halon-1301 or recycled Halon-2402''.

(b) EFFECTIVE DATE.—The amendment made by subsection (a) shall take effect on the date of the enactment of this Act.

SEC. 903. UNIFORM RATE OF TAX ON VACCINES.

(a) IN GENERAL.—Subsection (b) of section 4131 is amended to read as follows:

''(b) AMOUNT OF TAX.—

''(1) IN GENERAL.—The amount of the tax imposed by subsection (a) shall be 84 cents per dose of any taxable vaccine.

''(2) COMBINATIONS OF VACCINES.—If any taxable vaccine is described in more than 1 subparagraph of section 4132(a)(1), the amount of the tax imposed by subsection (a) on such vaccine shall be the sum of the amounts for the vaccines which are so included.''.

(b) TAXABLE VACCINES.—Paragraph (1) of section 4132(a) is amended to read as follows:

''(1) TAXABLE VACCINE.—The term 'taxable vaccine' means any of the following vaccines which are manufactured or produced in the United States or entered into the United States for consumption, use, or warehousing:

''(A) Any vaccine containing diphtheria toxoid.

''(B) Any vaccine containing tetanus toxoid.

''(C) Any vaccine containing pertussis bacteria, extracted or partial cell bacteria, or specific pertussis antigens.

''(D) Any vaccine against measles.

''(E) Any vaccine against mumps.

''(F) Any vaccine against rubella.

''(G) Any vaccine containing polio virus.

''(H) Any HIB vaccine.

''(I) Any vaccine against hepatitis B.

''(J) Any vaccine against chicken pox.''.

(c) CONFORMING AMENDMENT.—Subsection (a) of section 4132 is amended by striking paragraphs (2), (3), and (4) and by redesignating paragraphs (5) through (8) as paragraphs (2) through (5), respectively.

(d) EFFECTIVE DATE.—The amendments made by this section shall take effect on October 1, 1997.

SEC. 904. OPERATORS OF MULTIPLE GASOLINE RETAIL OUTLETS TREATED AS WHOLESALE DISTRIBUTOR FOR REFUND PURPOSES.

(a) IN GENERAL.—Subparagraph (B) of section 6416(a)(4) (defining whole distributor) is amended by adding at the end the following new sentence: ''Such term includes any person who makes retail sales of gasoline at 10 or more retail motor fuel outlets.''.

(b) EFFECTIVE DATE.—The amendment made by subsection (a) shall take effect on the date of the enactment of this Act.

SEC. 905. EXEMPTION OF ELECTRIC AND OTHER CLEAN-FUEL MOTOR VEHICLES FROM LUXURY AUTOMOBILE CLASSIFICATION.

(a) IN GENERAL.—Subsection (a) of section 4001 (relating to imposition of tax) is amended to read as follows:

''(a) IMPOSITION OF TAX.—

''(1) IN GENERAL.—There is hereby imposed on the 1st retail sale of any passenger vehicle a tax equal to 10 percent of the price for which so sold to the extent such price exceeds the applicable amount.

''(2) APPLICABLE AMOUNT.—

''(A) IN GENERAL.—Except as provided in subparagraphs (B) and (C), the applicable amount is $30,000.

''(B) QUALIFIED CLEAN-FUEL VEHICLE PROPERTY.—In the case of a passenger vehicle which is propelled by a fuel which is not a clean-burning fuel to which is installed qualified clean-fuel vehicle property (as defined in section 179A(c)(1)(A)) for purposes of permitting such vehicle to be propelled by a clean-burning fuel, the applicable amount is equal to the sum of—

''(i) $30,000, plus

''(ii) the increase in the price for which the passenger vehicle was sold (within the meaning of section 4002) due to the installation of such property.

''(C) PURPOSE BUILT PASSENGER VEHICLE.—

''(i) IN GENERAL.—In the case of a purpose built passenger vehicle, the applicable amount is equal to 150 percent of $30,000.

''(ii) PURPOSE BUILT PASSENGER VEHICLE.—For purposes of clause (i), the term 'purpose built passenger vehicle' means a passenger vehicle produced by an original equipment manufacturer and designed so that the vehicle may be propelled primarily by electricity.''.

(b) CONFORMING AMENDMENTS.—

(1) 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 subparagraphs (A), (B)(i), and (C)(i) of subsection (a)(2) 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) Subsection (f) of section 4001 (relating to phasedown) is amended by striking ''subsection (a)'' and inserting ''subsection (a)(1)''.

(3) Subparagraph (B) of section 4003(a)(2) is amended to read as follows:

''(B) the appropriate applicable amount as determined under section 4001(a)(2).''.

(c) EFFECTIVE DATE.—The amendments made by this section shall apply to sales and installations occurring on or after the date of the enactment of this Act.

Subtitle B—Provisions Relating to Pensions and Fringe Benefits

SEC. 911. SECTION 401(K) PLANS FOR CERTAIN IRRIGATION AND DRAINAGE ENTITIES.

(a) IN GENERAL.—Subparagraph (B) of section 401(k)(7) (relating to rural cooperative plan) is amended—

(1) by striking ''and'' at the end of clause (iii), by redesignating clause (iv) as clause (v), and by inserting after clause (iii) the following new clause:

''(iv) any organization which—

''(I) is a mutual irrigation or ditch company described in section 501(c)(12) (without regard to the 85 percent requirement thereof), or

''(II) is a district organized under the laws of a State as a municipal corporation for the purpose of irrigation, water conservation, or drainage, and'', and

(2) in clause (v), as so redesignated, by striking ''or (iii)'' and inserting '', (iii), or (iv)''.

(b) EFFECTIVE DATE.—The amendments made by subsection (a) shall apply to years beginning after December 31, 1997.

SEC. 912. EXTENSION OF MORATORIUM ON APPLICATION OF CERTAIN NONDISCRIMINATION RULES TO STATE AND LOCAL GOVERNMENTS.

(a) GENERAL NONDISCRIMINATION AND PARTICIPATION RULES.—

(1) NONDISCRIMINATION REQUIREMENTS.—Section 401(a)(5) (relating to qualified pension, profit-sharing, and stock bonus plans) is amended by adding at the end the following:

''(G) GOVERNMENTAL PLANS.—Paragraphs (3) and (4) shall not apply to a governmental plan (within the meaning of section 414(d)).''.

(2) ADDITIONAL PARTICIPATION REQUIREMENTS.—Section 401(a)(26)(H) (relating to additional participation requirements) is amended to read as follows:

''(H) EXCEPTION FOR GOVERNMENTAL PLANS.—This paragraph shall not apply to a governmental plan (within the meaning of section 414(d)).''.

(3) MINIMUM PARTICIPATION STANDARDS.—Section 410(c)(2) (relating to application of participation standards to certain plans) is amended to read as follows:

''(2) A plan described in paragraph (1) shall be treated as meeting the requirements of this section for purposes of section 401(a), except that in the case of a plan described in subparagraph (B), (C), or (D) of paragraph (1), this paragraph shall only apply if such plan meets the requirements of section 401(a)(3) (as in effect on September 1, 1974).''.

(b) PARTICIPATION STANDARDS FOR QUALIFIED CASH OR DEFERRED ARRANGEMENTS.—Section 401(k)(3) (relating to application of participation and discrimination standards) is amended by adding at the end the following:

''(G)(i) The requirements of subparagraph (A)(i) and (C) shall not apply to a governmental plan (within the meaning of section 414(d)).

''(ii) The requirements of subsection (m)(2) (without regard to subsection (a)(4)) shall apply to any matching contribution of a governmental plan (as so defined).''.

(c) NONDISCRIMINATION RULES FOR SECTION 403(b) PLANS.—Section 403(b)(12) (relating to nondiscrimination requirements) is amended by adding at the end the following:

''(C) GOVERNMENTAL PLANS.—For purposes of paragraph (1)(D), the requirements of subparagraph (A)(i) shall not apply to a governmental plan (within the meaning of section 414(d)).''.

(d) EFFECTIVE DATE.—

(1) IN GENERAL.—The amendments made by this section apply to taxable years beginning on or after the date of enactment of this Act.

(2) TREATMENT FOR YEARS BEGINNING BEFORE DATE OF ENACTMENT.—A governmental plan (within the meaning of section 414(d) of the Internal Revenue Code of 1986) shall be treated as satisfying the requirements of sections 401(a)(3), 401(a)(4), 401(a)(26), 401(k), 401(m), 403 (b)(1)(D) and (b)(12), and 410 of such Code for all taxable years beginning before the date of enactment of this Act.

SEC. 913. TREATMENT OF CERTAIN DISABILITY BENEFITS RECEIVED BY FORMER POLICE OFFICERS OR FIREFIGHTERS.

(a) GENERAL RULE.—For purposes of determining whether any amount to which this section applies is excludable from gross income under section 104(a)(1) of the Internal Revenue Code of 1986, the following conditions shall be treated as personal injuries or sickness in the course of employment:

(1) Heart disease.

(2) Hypertension.

(b) AMOUNTS TO WHICH SECTION APPLIES.—This section shall apply to any amount—

(1) which is payable—

(A) to an individual (or to the survivors of an individual) who was a full-time employee of any police department or fire department which is organized and operated by a State, by any political subdivision thereof, or by any agency or instrumentality of a State or political subdivision thereof, and

(B) under a State law (as amended on May 19, 1992) which irrebuttably presumed that heart disease and hypertension are work-related illnesses but only for employees separating from service before July 1, 1992; and

(2) which was received in calendar year 1989, 1990, or 1991.

(c) WAIVER OF STATUTE OF LIMITATIONS.—If, on the date of the enactment of this Act (or at any time within the 1-year period beginning on such date of enactment) credit or refund of any overpayment of tax resulting from the provisions of this section is barred by any law or rule of law, credit or refund of such overpayment shall, nevertheless, be allowed or made if claim therefore is filed before the date 1 year after such date of enactment.

SEC. 914. PORTABILITY OF PERMISSIVE SERVICE CREDIT UNDER GOVERNMENTAL PENSION PLANS.

(a) IN GENERAL.—Section 415(b)(2) (relating to the limitation for defined benefit plans) is amended by adding at the end the following new subparagraph:

''(J) PURCHASE OF PERMISSIVE SERVICE CREDIT.—

''(i) BENEFITS TREATED AS DERIVED FROM EMPLOYER CONTRIBUTIONS.—For purposes of this section, the term 'annual benefit' shall include the accrued benefit derived from contributions to a governmental plan (within the meaning of section 414(d)) to purchase permissive service credit.

''(ii) DEFINITION OF PERMISSIVE SERVICE CREDIT.—For purposes of this subparagraph, the term 'permissive service credit' means credit—

''(I) for a period of service recognized by a governmental plan for purposes of calculating an employee's accrued benefit under such plan,

''(II) which such employee has not received (or has forfeited), and

''(III) which such employee may receive only by making a contribution, as determined under the governmental plan, which does not exceed the amount (actuarially determined under the terms of such governmental plan) necessary to fund the accrued benefit attributable to such period of service.

''(iii) NO EFFECT ON EMPLOYER 'PICK-UP' CONTRIBUTIONS.—Nothing in this subparagraph shall be construed as preventing the application of section 414(h) to contributions to purchase permissive service credit.''.

(b) CONFORMING AMENDMENT.—Section 415(c)(2) is amended by adding at the end the following new sentence: ''The term 'annual addition' shall not include contributions to purchase permissive service credit (within the meaning of subsection (b)(2)(J)).''.

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

SEC. 915. GRATUITOUS TRANSFERS FOR THE BENEFIT OF EMPLOYEES.

(a) IN GENERAL.—Subparagraph (C) of section 664(d)(1) and subparagraph (C) of section 664(d)(2) are each amended by striking the period at the end thereof and inserting ''or, to the extent the remainder interest is in qualified employer securities (as defined in paragraph (3)(C)), is to be transferred to an employee stock ownership plan (as defined in section 4975(e)(7)) in a qualified gratuitous transfer (as defined by subsection (g)).''.

(b) QUALIFIED GRATUITOUS TRANSFER DEFINED.—Section 664 is amended by adding at the end the following new subsection:

''(g) QUALIFIED GRATUITOUS TRANSFER OF QUALIFIED EMPLOYER SECURITIES.—

''(1) IN GENERAL.—For purposes of this section, the term 'qualified gratuitous transfer' means a transfer of qualified employer securities to an employee stock ownership plan (as defined in section 4975(e)(7)) but only to the extent that—

''(A) the securities transferred previously passed from a decedent dying before January 1, 1999, to a trust described in paragraph (1) or (2) of subsection (d),

''(B) no deduction under section 404 is allowable with respect to such transfer,

''(C) such plan contains the provisions required by paragraph (3),

''(D) such plan treats such securities as being attributable to employer contributions but without regard to the limitations otherwise applicable to such contributions under section 404, and

''(E) the employer whose employees are covered by the plan described in this paragraph files with the Secretary a verified written statement consenting to the application of sections 4978 and 4979A with respect to such employer.

''(2) EXCEPTION.—The term 'qualified gratuitous transfer' shall not include a transfer of qualified employer securities to an employee stock ownership plan unless—

''(A) such plan was in existence on August 1, 1996,

''(B) at the time of the transfer, the decedent and members of the decedent's family (within the meaning of section 267(c)(4)) own (directly or through the application of section 318(a)) no more than 10 percent of the value of the stock of the corporation referred to in paragraph (4), and

''(C) immediately after the transfer, such plan owns (after the application of section 318(a)(4)) at least 60 percent of the value of the outstanding stock of the corporation.

''(3) PLAN REQUIREMENTS.—A plan contains the provisions required by this paragraph if such plan provides that—

''(A) the qualified employer securities so transferred are allocated to plan participants in a manner consistent with section 401(a)(4),

''(B) plan participants are entitled to direct the plan as to the manner in which such securities which are entitled to vote and are allocated to the account of such participant are to be voted,

''(C) an independent trustee votes the securities so transferred which are not allocated to plan participants,

''(D) each participant who is entitled to a distribution from the plan has the rights described in subparagraphs (A) and (B) of section 409(h)(1),

''(E) such securities are held in a suspense account under the plan to be allocated each year, up to the limitations under section 415(c), after first allocating all other annual additions for the limitation year, up to the limitations under sections 415 (c) and (e), and

''(F) on termination of the plan, all securities so transferred which are not allocated to plan participants as of such termination are to be transferred to, or for the use of, an organization described in section 170(c).

For purposes of the preceding sentence, the term 'independent trustee' means any trustee who is not a member of the family (within the meaning of section 267(c)(4)) of the decedent or a 5-percent shareholder. A plan shall not fail to be treated as meeting the requirements of section 401(a) by reason of meeting the requirements of this subsection.

''(4) QUALIFIED EMPLOYER SECURITIES.—For purposes of this section, the term 'qualified employer securities' means employer securities (as defined in section 409(l)) which are issued by a domestic corporation—

''(A) which has no outstanding stock which is readily tradable on an established securities market, and

''(B) which has only 1 class of stock.

''(5) TREATMENT OF SECURITIES ALLOCATED BY EMPLOYEE STOCK OWNERSHIP PLAN TO PERSONS RELATED TO DECEDENT OR 5-PERCENT SHAREHOLDERS.—

''(A) IN GENERAL.—If any portion of the assets of the plan attributable to securities acquired by the plan in a qualified gratuitous transfer are allocated to the account of—

''(i) any person who is related to the decedent (within the meaning of section 267(b)), or

''(ii) any person who, at the time of such allocation or at any time during the 1-year period ending on the date of the acquisition of qualified employer securities by the plan, is a 5-percent shareholder of the employer maintaining the plan,

the plan shall be treated as having distributed (at the time of such allocation) to such person or shareholder the amount so allocated.

''(B) 5-PERCENT SHAREHOLDER.—For purposes of subparagraph (A), the term '5-percent shareholder' means any person who owns (directly or through the application of section 318(a)) more than 5 percent of the outstanding stock of the corporation which issued such qualified employer securities or of any corporation which is a member of the same controlled group of corporations (within the meaning of section 409(l)(4)) as such corporation. For purposes of the preceding sentence, section 318(a) shall be applied without regard to the exception in paragraph (2)(B)(i) thereof.

''(C) CROSS REFERENCE.—

''For excise tax on allocations described in subparagraph (A), see section 4979A.

''(6) TAX ON FAILURE TO TRANSFER UNALLOCATED SECURITIES TO CHARITY ON TERMINATION OF PLAN.—If the requirements of paragraph (3)(F) are not met with respect to any securities, there is hereby imposed a tax on the employer maintaining the plan in an amount equal to the sum of—

''(A) the amount of the increase in the tax which would be imposed by chapter 11 if such securities were not transferred as described in paragraph (1), and

''(B) interest on such amount at the underpayment rate under section 6621 (and compounded daily) from the due date for filing the return of the tax imposed by chapter 11.''.

(c) CONFORMING AMENDMENTS.—

(1) Section 401(a)(1) is amended by inserting ''or by a charitable remainder trust pursuant to a qualified gratuitous transfer (as defined in section 664(g)(1)),'' after ''stock bonus plans),''.

(2) Section 404(a)(9) is amended by inserting after subparagraph (B) the following new subparagraph:

''(C) A qualified gratuitous transfer (as defined in section 664(g)(1)) shall have no effect on the amount or amounts otherwise deductible under paragraph (3) or (7) or under this paragraph.''.

(3) Section 415(c)(6) is amended by adding at the end thereof the following new sentence:

''The amount of any qualified gratuitous transfer (as defined in section 664(g)(1)) allocated to a participant for any limitation year shall not exceed the limitations imposed by this section, but such amount shall not be taken into account in determining whether any other amount exceeds the limitations imposed by this section.''.

(4) Section 415(e) is amended—

(A) by redesignating paragraph (6) as paragraph (7), and

(B) by inserting after paragraph (5) the following new paragraph:

''(6) SPECIAL RULE FOR QUALIFIED GRATUITOUS TRANSFERS.—Any qualified gratuitous transfer of qualified employer securities (as defined by section 664(g)) shall not be taken into account in calculating, and shall not be subject to, the limitations provided in this subsection.''.

(5) Subparagraph (B) of section 664(d)(1) and subparagraph (B) of section 664(d)(2) are each amended by inserting ''and other than qualified gratuitous transfers described in subparagraph (C)'' after ''subparagraph (A)''.

(6) Paragraph (4) of section 674(b) is amended by inserting before the period ''or to an employee stock ownership plan (as defined in section 4975(e)(7)) in a qualified gratuitous transfer (as defined in section 664(g)(1))''.

(7) Section 2055(a) is amended—

(i) by striking ''or'' at the end of paragraph (3),

(ii) by striking the period at the end of paragraph (4) and inserting ''; or'', and

(iii) by inserting after paragraph (4) the following new paragraph:

''(5) to an employee stock ownership plan if such transfer qualifies as a qualified gratuitous transfer of qualified employer securities within the meaning of section 664(g).''.

(8) Paragraph (8) of section 2056(b) is amended to read as follows:

''(8) SPECIAL RULE FOR CHARITABLE REMAINDER TRUSTS.—

''(A) IN GENERAL.—If the surviving spouse of the decedent is the only beneficiary of a qualified charitable remainder trust who is not a charitable beneficiary nor an ESOP beneficiary, paragraph (1) shall not apply to any interest in such trust which passes or has passed from the decedent to such surviving spouse.

''(B) DEFINITIONS.—For purposes of subparagraph (A)—

''(i) CHARITABLE BENEFICIARY.—The term 'charitable beneficiary' means any beneficiary which is an organization described in section 170(c).

''(ii) ESOP BENEFICIARY.—The term 'ESOP beneficiary' means any beneficiary which is an employee stock ownership plan (as defined in section 4975(e)(7)) that holds a remainder interest in qualified employer securities (as defined in section 664(g)(4)) to be transferred to such plan in a qualified gratuitous transfer (as defined in section 664(g)(1)).

''(iii) QUALIFIED CHARITABLE REMAINDER TRUST.—The term 'qualified charitable remainder trust' means a charitable remainder annuity trust or a charitable remainder unitrust (described in section 664).''.

(9) Section 4947(b) is amended by inserting after paragraph (3) the following new paragraph:

''(4) SECTION 507.—The provisions of section 507(a) shall not apply to a trust which is described in subsection (a)(2) by reason of a distribution of qualified employer securities (as defined in section 664(g)(4)) to an employee stock ownership plan (as defined in section 4975(e)(7)) in a qualified gratuitous transfer (as defined by section 664(g)).''.

(10) The last sentence of section 4975(e)(7) is amended by inserting ''and section 664(g)'' after ''section 409(n)''

(11) Subsection (a) of section 4978 is amended—

(A) by inserting ''or acquired any qualified employer securities in a qualified gratuitous transfer to which section 664(g) applied'' after ''section 1042 applied'', and

(B) by inserting before the period at the end of subparagraph (B) ''60 percent of the total value of all employer securities as of such disposition in the case of any qualified employer securities in a qualified gratuitous transfer to which section 664(g) applied)''.

(12) Paragraph (2) of section 4978(b) is amended—

(A) by inserting ''or acquired in the qualified gratuitous transfer to which section 664(g) applied'' after ''section 1042 applied'', and

(B) by inserting ''or to which section 664(g) applied'' after ''section 1042 applied'' in subparagraph (C) thereof.

(13) Subsection (c) of section 4978 is amended by striking ''written statement'' and all that follows and inserting ''written statement described in section 664(g)(1)(E) or in section 1042(b)(3) (as the case may be).''.

(14) Paragraph (2) of section 4978(e) is amended by striking the period and inserting ''; except that such section shall be applied without regard to subparagraph (B) thereof for purposes of applying this section and section 4979A with respect to securities acquired in a qualified gratuitous transfer (as defined in section 664(g)(1)).''.

(15) Subsection (a) of section 4979A is amended to read as follows:

''(a) IMPOSITION OF TAX.—If—

''(1) there is a prohibited allocation of qualified securities by any employee stock ownership plan or eligible worker-owned cooperative, or

''(2) there is an allocation described in section 664(g)(5)(A),

there is hereby imposed a tax on such allocation equal to 50 percent of the amount involved.''.

(16) Subsection (c) of section 4979A is amended to read as follows:

''(c) LIABILITY FOR TAX.—The tax imposed by this section shall be paid by—

''(1) the employer sponsoring such plan, or

''(2) the eligible worker-owned cooperative, which made the written statement described in section 664(g)(1)(E) or in section 1042(b)(3)(B) (as the case may be).''.

(17) Section 4979A is amended by redesignating subsection (d) as subsection (e) and by inserting after subsection (c) the following new subsection:

''(d) SPECIAL STATUTE OF LIMITATIONS FOR TAX ATTRIBUTABLE TO CERTAIN ALLOCATIONS.—The statutory period for the assessment of any tax imposed by this section on an allocation described in subsection (a)(2) of qualified employer securities shall not expire before the date which is 3 years from the later of—

''(1) the 1st allocation of such securities in connection with a qualified gratuitous transfer (as defined in section 664(g)(1)), or

''(2) the date on which the Secretary is notified of the allocation described in subsection (a)(2).''.

(d) EFFECTIVE DATE.—The amendments made by this section shall apply to transfers made by trusts to, or for the use of, an employee stock ownership plan after the date of the enactment of this Act.

SEC. 916. TREATMENT OF CERTAIN TRANSPORTATION ON NON-COMMERCIALLY OPERATED AIRCRAFT AS A FRINGE BENEFIT EXCLUDABLE FROM GROSS INCOME.

(a) IN GENERAL.—Subsection (b) of section 132 (relating to no-additional-cost service defined) is amended to read as follows:

''(b) NO-ADDITIONAL-COST SERVICE DEFINED.—For purposes of this section, the term 'no-additional-cost service' means any service provided by an employer to an employee for use by such employee if—

''(1) such service—

''(A) is offered for sale to customers in the ordinary course of the line of business of the employer in which the employee is performing services, or

''(B) consists of transportation on an aircraft, if—

''(i) transportation on such aircraft is not offered for sale to customers,

''(ii) such transportation for use by such employee is provided on a flight made in the ordinary course of the trade or business of an employer which owns or leases such aircraft for use in such trade or business, and

''(iii) the flight on which the transportation is provided would have been made whether or not such employee was transported on the flight, and

''(2) the employer incurs no substantial additional cost (including forgone revenue) in providing such service to the employee (determined without regard to any amount paid by the employee for such service).''.

(b) EFFECTIVE DATE.—The amendment made by subsection (a) shall apply to services provided after December 31, 1997.

SEC. 917. MINIMUM PENSION ACCRUED BENEFIT DISTRIBUTABLE WITHOUT CONSENT INCREASED TO $5,000.

(a) IN GENERAL.—Subparagraph (A) of section 411(a)(11) (relating to restrictions on certain mandatory distributions) is amended by striking ''$3,500'' and inserting ''the applicable limit''.

(b) APPLICABLE LIMIT.—Paragraph (11) of section 411(a) is amended by adding at the end the following new subparagraph:

''(D) APPLICABLE LIMIT.—

''(i) IN GENERAL.—For purposes of subparagraph (A), the applicable limit is $5,000.

''(ii) INFLATION ADJUSTMENT.—In the case of plan years beginning in a calendar year after 1998, the dollar amount contained in clause (i) shall be increased by an amount equal to—

''(I) such dollar amount, multiplied by

''(II) the cost-of-living adjustment determined under section 1(f)(3) for such calendar year by substituting 'calendar year 1997' for 'calendar year 1992' in subparagraph (B) thereof.

If any amount as adjusted under the preceding sentence is not a multiple of $50, such amount shall be rounded to the next lowest multiple of $50.''.

(c) CONFORMING AMENDMENTS.—

(1) Section 411(a)(7)(B), paragraphs (1) and (2) of section 417(e), and section 457(e)(9) are each amended by striking ''$3,500'' each place in appears (other than the headings) and inserting ''the applicable limit under section 411(a)(11)(D)''.

(2) The headings for paragraphs (1) and (2) of section 417(e) and subparagraph (A) of section 457(e)(9) are each amended by striking ''$3,500'' and inserting ''APPLICABLE LIMIT''.

(d) EFFECTIVE DATE.—The amendments made by this section shall apply to plan years beginning after the date of the enactment of this Act.

SEC. 918. CLARIFICATION OF CERTAIN RULES RELATING TO EMPLOYEE STOCK OWNERSHIP PLANS OF S CORPORATIONS.

(a) CERTAIN CASH DISTRIBUTIONS PERMITTED.—

(1) Paragraph (2) of section 409(h) is amended by adding at the end the following new subparagraph:

''(B) PLAN MAINTAINED BY S CORPORATION.—In the case of a plan established and maintained by an S corporation which otherwise meets the requirements of this subsection or section 4975(e)(7), such plan shall not be treated as failing to meet the requirements of this subsection or section 401(a) merely because it does not permit a participant to exercise the right described in paragraph (1)(A) if such plan provides that the participant entitled to a distribution has a right to receive the distribution in cash.''.

(2) Paragraph (2) of section 409(h) is amended—

(A) by striking ''a plan which'' in the first sentence and inserting the following:

''(A) IN GENERAL.—A plan which'', and

(B) by moving the text before subparagraph (B) 2 ems to the right.

(b) SHAREHOLDER-EMPLOYEES NOT TREATED AS OWNER-EMPLOYEES UNDER TAX ON PROHIBITED TRANSACTIONS.—The last sentence of section 4975(d) is amended by striking all that follows ''preceding sentence,'' through ''Revision Act of 1982,''.

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

Subtitle C—Revisions Relating to Disasters

SEC. 921. AUTHORITY TO POSTPONE CERTAIN TAX-RELATED DEADLINES BY REASON OF PRESIDENTIALLY DECLARED DISASTER.

(a) IN GENERAL.—Chapter 77 is amended by inserting after section 7508 the following new section:

''SEC. 7508A. AUTHORITY TO POSTPONE CERTAIN TAX-RELATED DEADLINES BY REASON OF PRESIDENTIALLY DECLARED DISASTER.

''(a) IN GENERAL.—In the case of a taxpayer determined by the Secretary to be affected by a Presidentially declared disaster (as defined by section 1033(h)(3)), the Secretary may prescribe regulations under which a period of up to 90 days may be disregarded in determining, under the internal revenue laws, in respect of any tax liability (including any penalty, additional amount, or addition to the tax) of such taxpayer—

''(1) whether any of the acts by the taxpayer described in paragraph (1) of section 7508(a) were performed within the time prescribed therefor, and

''(2) the amount of any credit or refund.

''(b) INTEREST ON OVERPAYMENTS AND UNDERPAYMENTS.—Subsection (a) shall not apply for the purpose of determining interest on any overpayment or underpayment.''.

(b) CLERICAL AMENDMENT.—The table of sections for chapter 77 is amended by inserting after the item relating to section 7508 the following new item:

''Sec. 7508A. Authority to postpone certain tax-related deadlines by reason of presidentially declared disaster.''.

(c) EFFECTIVE DATE.—The amendments made by this section shall apply with respect to any period for performing an act that has not expired before the date of the enactment of this Act.

SEC. 922. USE OF CERTAIN APPRAISALS TO ESTABLISH AMOUNT OF DISASTER LOSS.

(a) IN GENERAL.—Subsection (i) of section 165 is amended by adding at the end the following new paragraph:

''(4) USE OF DISASTER LOAN APPRAISALS TO ESTABLISH AMOUNT OF LOSS.—Nothing in this title shall be construed to prohibit the Secretary from prescribing regulations or other guidance under which an appraisal for the purpose of obtaining a loan of Federal funds or a loan guarantee from the Federal Government as a result of a Presidentially declared disaster (as defined by section 1033(h)(3)) may be used to establish the amount of any loss described in paragraph (1) or (2).''.

(b) EFFECTIVE DATE.—The amendment made by subsection (a) shall take effect on the date of the enactment of this Act.

SEC. 923. TREATMENT OF LIVESTOCK SOLD ON ACCOUNT OF WEATHER-RELATED CONDITIONS.

(a) DEFERRAL OF INCOME INCLUSION.—Subsection (e) of section 451 (relating to special rules for proceeds from livestock sold on account of drought) is amended—

(1) by striking ''drought conditions, and that these drought conditions'' in paragraph (1) and inserting ''drought, flood, or other weather-related conditions, and that such conditions''; and

(2) by inserting '', FLOOD, OR OTHER WEATHER-RELATED CONDITIONS'' after ''DROUGHT'' in the subsection heading.

(b) INVOLUNTARY CONVERSIONS.—Subsection (e) of section 1033 (relating to livestock sold on account of drought) is amended—

(1) by inserting '', flood, or other weather-related conditions'' before the period at the end thereof; and

(2) by inserting '', FLOOD, OR OTHER WEATHER-RELATED CONDITIONS'' after ''DROUGHT'' in the subsection heading.

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

SEC. 924. MORTGAGE FINANCING FOR RESIDENCES LOCATED IN DISASTER AREAS.

Subsection (k) of section 143 (relating to mortgage revenue bonds; qualified mortgage bond and qualified veteran's mortgage bond) is amended by adding at the end the following new paragraph:

''(11) SPECIAL RULES FOR RESIDENCES LOCATED IN DISASTER AREAS.—In the case of a

residence located in an area determined by the President to warrant assistance from the Federal Government under the Disaster Relief and Emergency Assistance Act (as in effect on the date of the enactment of the Taxpayer Relief Act of 1997), this section shall be applied with the following modifications to financing provided with respect to such residence within 1 year after the date of the disaster declaration:

''(A) Subsection (d) (relating to 3-year requirement) shall not apply.

''(B) Subsections (e) and (f) (relating to purchase price requirement and income requirement) shall be applied as if such residence were a targeted area residence.

The preceding sentence shall apply only with respect to bonds issued after December 31, 1996, and before January 1, 2000.''.

Subtitle D—Provisions Relating to Employment Taxes

SEC. 931. CLARIFICATION OF EMPLOYMENT TAX STATUS OF INDIVIDUALS DISTRIBUTING BAKERY PRODUCTS.

(a) INTERNAL REVENUE CODE.—Subparagraph (A) of section 3121(d)(3) is amended by striking ''bakery products,''.

(b) SOCIAL SECURITY ACT.—Subparagraph (A) of section 210(j)(3) of the Social Security Act is amended by striking ''bakery products,''.

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

SEC. 932. CLARIFICATION OF STANDARD TO BE USED IN DETERMINING EMPLOYMENT TAX STATUS OF SECURITIES BROKERS.

(a) IN GENERAL.—In determining for purposes of the Internal Revenue Code of 1986 whether a registered representative of a securities broker-dealer is an employee (as defined in section 3121(d) of the Internal Revenue Code of 1986), no weight shall be given to instructions from the service recipient which are imposed only in compliance with investor protection standards imposed by the Federal Government, any State government, or a governing body pursuant to a delegation by a Federal or State agency.

(b) EFFECTIVE DATE.—Subsection (a) shall apply to services performed after December 31, 1997.

SEC. 933. CLARIFICATION OF EXEMPTION FROM SELF-EMPLOYMENT TAX FOR CERTAIN TERMINATION PAYMENTS RECEIVED BY FORMER INSURANCE SALESMEN.

(a) INTERNAL REVENUE CODE.—Section 1402 (relating to definitions) is amended by adding at the end the following new subsection:

''(k) CODIFICATION OF TREATMENT OF CERTAIN TERMINATION PAYMENTS RECEIVED BY FORMER INSURANCE SALESMEN.—Nothing in subsection (a) shall be construed as including in the net earnings from self-employment of an individual any amount received during the taxable year from an insurance company on account of services performed by such individual as an insurance salesman for such company if—

''(1) such amount is received after termination of such individual's agreement to perform such services for such company,

''(2) such individual performs no services for such company after such termination and before the close of such taxable year,

''(3) such individual enters into a covenant not to compete against such company which applies to at least the 1-year period beginning on the date of such termination, and

''(4) the amount of such payment—

''(A) depends solely on policies sold by such individual during the last year of such agreement and the extent to which such policies remain in force for some period after such termination, and

''(B) does not depend to any extent on length of service or overall earnings from services performed for such company.''.

(b) SOCIAL SECURITY ACT.—Section 211 of the Social Security Act is amended by adding at the end the following new subsection:

''Codification of Treatment of Certain Termination Payments Received by Former Insurance Salesmen

''(j) Nothing in subsection (a) shall be construed as including in the net earnings from self-employment of an individual any amount received during the taxable year from an insurance company on account of services performed by such individual as an insurance salesman for such company if—

''(1) such amount is received after termination of such individual's agreement to perform such services for such company,

''(2) such individual performs no services for such company after such termination and before the close of such taxable year,

''(3) such individual enters into a covenant not to compete against such company which applies to at least the 1-year period beginning on the date of such termination, and

''(4) the amount of such payment—

''(A) depends solely on policies sold by such individual during the last year of such agreement and the extent to which such policies remain in force for some period after such termination, and

''(B) does not depend to any extent on length of service or overall earnings from services performed for such company.''.

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

SEC. 934. STANDARDS FOR DETERMINING WHETHER INDIVIDUALS ARE NOT EMPLOYEES.

(a) IN GENERAL.—Chapter 25 (general provisions relating to employment taxes) is amended by adding after section 3510 the following new section:

''SEC. 3511. STANDARDS FOR DETERMINING WHETHER INDIVIDUALS ARE NOT EMPLOYEES.

''(a) GENERAL RULE.—For purposes of this title, and notwithstanding any provision of this title to the contrary, if the requirements of subsections (b), (c), and (d) are met with respect to any service performed by any individual, then with respect to such service—

''(1) the service provider shall not be treated as an employee,

''(2) the service recipient shall not be treated as an employer, and

''(3) the payor shall not be treated as an employer.

''(b) SERVICE PROVIDER REQUIREMENTS WITH REGARD TO SERVICE RECIPIENT.—For the purposes of subsection (a), the requirements of this subsection are met if the service provider, in connection with performing the service—

''(1) has a significant investment in assets and/or training,

''(2) incurs significant unreimbursed expenses,

''(3) agrees to perform the service for a particular amount of time or to complete a specific result and is liable for damages for early termination without cause,

''(4) is paid primarily on a commissioned basis, or

''(5) purchases products for resale.

''(c) ADDITIONAL SERVICE PROVIDER REQUIREMENTS WITH REGARD TO OTHERS.—For the purposes of subsection (a), the requirements of this subsection are met if—

''(1) the service provider—

''(A) has a principal place of business,

''(B) does not primarily provide the service in the service recipient's place of business, or

''(C) pays a fair market rent for use of the service recipient's place of business; or

''(2) the service provider—

''(A) is not required to perform service exclusively for the service recipient, and

''(B) in the year involved, or in the preceding or subsequent year—

''(i) has performed a significant amount of service for other persons,

''(ii) has offered to perform service for other persons through—

''(I) advertising,

''(II) individual written or oral solicitations,

''(III) listing with registries, agencies, brokers, and other persons in the business of providing referrals to other service recipients, or

''(IV) other similar activities, or

''(iii) provides service under a business name which is registered with (or for which a license has been obtained from) a State, a political subdivision of a State, or any agency or instrumentality of 1 or more States or political subdivisions.

''(d) WRITTEN DOCUMENT REQUIREMENTS.—For purposes of subsection (a), the requirements of this subsection are met if the services performed by the individual are performed pursuant to a written contract between such individual and the person for whom the services are performed, or the payor, and such contract provides that the individual will not be treated as an employee with respect to such services for purposes of this subtitle or subtitle A.

''(e) SPECIAL RULES.—For purposes of this section—

''(1) If for any taxable year any service recipient or payor fails to meet the applicable reporting requirements of sections 6041(a), 6041A(a), or 6051 with respect to a service provider, then, unless such failure is due to reasonable cause and not willful neglect, this section shall not apply in determining whether such service provider shall not be treated as an employee of such service recipient or payor for such year.

''(2) If the service provider is performing services through an entity owned in whole or in part by such service provider, then the references to 'service provider' in subsections (b) through (d) may include such entity, provided that the written contract referred to in paragraph (1) of subsection (d) may be with either the service provider or such entity and need not be with both.

''(f) DEFINITIONS.—For the purposes of this section—

''(1) SERVICE PROVIDER.—The term 'service provider' means any individual who performs service for another person.

''(2) SERVICE RECIPIENT.—Except as provided in paragraph (5), the term 'service recipient' means the person for whom the service provider performs such service.

''(3) PAYOR.—Except as provided in paragraph (5), the term 'payor' means the person who pays the service provider for the performance of such service in the event that the service recipients do not pay the service provider.

''(4) IN CONNECTION WITH PERFORMING THE SERVICE.—The term 'in connection with performing the service' means in connection or related to—

''(A) the actual service performed by the service provider for the service recipients or for other persons for whom the service provider has performed similar service, or

''(B) the operation of the service provider's trade or business.

''(5) EXCEPTIONS.—The terms 'service recipient' and 'payor' do not include any entity which is owned in whole or in part by the service provider.''.

(b) CLERICAL AMENDMENT.—The table of sections for chapter 25 is amended by adding at the end the following new item:

''Sec. 3511. Standards for determining whether individuals are not employees.''.

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

Subtitle E—Provisions Relating to Small Businesses

SEC. 941. WAIVER OF PENALTY THROUGH 1998 ON SMALL BUSINESSES FAILING TO MAKE ELECTRONIC FUND TRANSFERS OF TAXES.

No penalty shall be imposed under the Internal Revenue Code of 1986 solely by reason of a failure by a person to use the electronic fund transfer system established under section 6302(h) of such Code if—

(1) such person is a member of a class of taxpayers first required to use such system on or after July 1, 1997, and

(2) such failure occurs before January 1, 1999.

SEC. 942. CLARIFICATION OF TREATMENT OF HOME OFFICE USE FOR ADMINISTRATIVE AND MANAGEMENT ACTIVITIES.

(a) IN GENERAL.—Paragraph (1) of section 280A(c) is amended by adding at the end the following new sentence: ''For purposes of subparagraph (A), the term 'principal place of business' includes a place of business which is used by the taxpayer for the administrative or management activities of any trade or business of the taxpayer if there is no other fixed location of such trade or business where the taxpayer conducts substantial administrative or management activities of such trade or business.''.

(b) EFFECTIVE DATE.—The amendment made by subsection (a) shall apply to taxable years beginning after December 31, 1997.

Subtitle F—Other Provisions

SEC. 951. USE OF ESTIMATES OF SHRINKAGE FOR INVENTORY ACCOUNTING.

(a) IN GENERAL.—Section 471 (relating to general rule for inventories) is amended by redesignating subsection (b) as subsection (c) and by inserting after subsection (a) the following new subsection:

''(b) ESTIMATES OF INVENTORY SHRINKAGE PERMITTED.—A method of determining inventories shall not be deemed not to clearly reflect income solely because it utilizes estimates of inventory shrinkage that are confirmed by a physical count only after the last day of the taxable year if—

''(1) the taxpayer normally does a physical count of inventories at each location on a regular and consistent basis, and

''(2) the taxpayer makes proper adjustments to such inventories and to its estimating methods to the extent such estimates are greater than or less than the actual shrinkage.''.

(b) EFFECTIVE DATE.—

(1) IN GENERAL.—The amendment made by this section shall apply to taxable years ending after the date of the enactment of this Act.

(2) COORDINATION WITH SECTION 481.—In the case of any taxpayer permitted by this section to change its method of accounting to a permissible method for any taxable year—

(A) such changes shall be treated as initiated by the taxpayer,

(B) such changes shall be treated as made with the consent of the Secretary, and

(C) the period for taking into account the adjustments under section 481 by reason of such change shall be 4 years.

SEC. 952. ASSIGNMENT OF WORKMEN'S COMPENSATION LIABILITY ELIGIBLE FOR EXCLUSION RELATING TO PERSONAL INJURY LIABILITY ASSIGNMENTS.

(a) IN GENERAL.—Subsection (c) of section 130 (relating to certain personal injury liability assignments) is amended—

(1) by inserting '', or as compensation under any workmen's compensation act,'' after ''(whether by suit or agreement)'' in the material preceding paragraph (1),

(2) by inserting ''or the workmen's compensation claim,'' after ''agreement,'' in paragraph (1), and

(3) by striking ''section 104(a)(2)'' in paragraph (2)(D) and inserting ''paragraph (1) or (2) of section 104(a)''.

(b) EFFECTIVE DATE.—The amendments made by subsection (a) shall apply to claims under workmen's compensation acts filed after the date of the enactment of this Act.

SEC. 953. TAX-EXEMPT STATUS FOR CERTAIN STATE WORKER'S COMPENSATION ACT COMPANIES.

(a) IN GENERAL.—Section 501(c)(27) (relating to membership organizations under workmen's compensation acts) is amended by adding at the end the following:

''(B) Any organization (including a mutual insurance company) if—

''(i) such organization is created by State law and is organized and operated under State law exclusively to—

''(I) provide workmen's compensation insurance which is required by State law or with respect to which State law provides significant disincentives if such insurance is not purchased by an employer, and

''(II) provide related coverage which is incidental to workmen's compensation insurance,

''(ii) such organization must provide workmen's compensation insurance to any employer in the State (for employees in the State or temporarily assigned out-of-State) which seeks such insurance and meets other reasonable requirements relating thereto,

''(iii)(I) the State makes a financial commitment with respect to such organization either by extending the full faith and credit of the State to debt of such organization or by providing the initial operating capital of such organization and (II) in the case of periods after the date of enactment of this subparagraph, the assets of such organization revert to the State upon dissolution, and

''(iv) the majority of the board of directors or oversight body of such organization are appointed by the chief executive officer or other executive branch official of the State, by the State legislature, or by both.''.

(b) CONFORMING AMENDMENTS.—Section 501(c)(27) of such Code is amended by inserting ''(A)'' after ''(27)'', by redesignating subparagraphs (A), (B), and (C) as clauses (i), (ii), and (iii), respectively, and by redesignating clauses (i) and (ii) of subparagraphs (B) and (C) (before redesignation) as subclauses (I) and (II), respectively.

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

SEC. 954. ELECTION TO CONTINUE EXCEPTION FROM TREATMENT OF PUBLICLY TRADED PARTNERSHIPS AS CORPORATIONS.

(a) IN GENERAL.—Section 7704 is amended by adding at the end thereof the following new subsection:

''(g) EXCEPTION FOR EXISTING PUBLICLY TRADED PARTNERSHIPS.—

''(1) IN GENERAL.—Subsection (a) shall not apply to an existing publicly traded partnership which elects the application of this subsection and consents to the application of the tax imposed by paragraph (3).

''(2) EXISTING PUBLICLY TRADED PARTNERSHIP.—For purposes of this section, the term 'existing publicly traded partnership' means any publicly traded partnership to which subsection (a) does not apply as of the date of the enactment of this paragraph (other than by reason of subsection (c)(1)).

''(3) ADDITIONAL TAX ON ELECTING PUBLICLY TRADED PARTNERSHIPS.—

''(A) IMPOSITION OF TAX.—There is hereby imposed for each taxable year on the income of every electing publicly traded partnership a tax equal to 15 percent of the gross income for such taxable year from the active conduct of trades and businesses by the partnership.

''(B) ELECTING PUBLICLY TRADED PARTNERSHIP.—For purposes of this paragraph, the term 'electing publicly traded partnership' means any partnership for which the consent under paragraph (1) is in effect.

''(C) ADJUSTMENTS IN THE CASE OF TIERED PARTNERSHIPS.—For purposes of this paragraph, if the income of the partnership includes its distributive share of income from another partnership for any taxable year, the gross income referred to in subparagraph (A) shall include the gross income of such other partnership from the active conduct of trades and businesses of such other partnership (in lieu of such distributive share). A similar rule shall apply in the case of lower-tiered partnerships.

''(D) TREATMENT OF TAX.—For purposes of this title, the tax imposed by this paragraph shall be treated as imposed by chapter 1 other than for purposes of determining the amount of any credit allowable under chapter 1.

''(4) ELECTION.—An election and consent under this subsection shall apply to the taxable year for which made and all subsequent taxable years unless revoked by the partnership. Such revocation may be made without the consent of the Secretary, but, once so revoked, may not be reinstated.''.

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

SEC. 955. EXCLUSION FROM UNRELATED BUSINESS TAXABLE INCOME FOR CERTAIN SPONSORSHIP PAYMENTS.

(a) IN GENERAL.—Section 513 (relating to unrelated trade or business income) is amended by adding at the end the following new subsection:

''(i) TREATMENT OF CERTAIN SPONSORSHIP PAYMENTS.—

''(1) IN GENERAL.—The term 'unrelated trade or business' does not include the activity of soliciting and receiving qualified sponsorship payments.

''(2) QUALIFIED SPONSORSHIP PAYMENTS.—For purposes of this subsection—

''(A) IN GENERAL.—The term 'qualified sponsorship payment' means any payment made by any person engaged in a trade or business with respect to which there is no arrangement or expectation that such person will receive any substantial return benefit other than the use or acknowledgement of the name or logo (or product lines) of such person's trade or business in connection with the activities of the organization that receives such payment. Such a use or acknowledgement does not include advertising such person's products or services (including messages containing qualitative or comparative language, price information or other indications of savings or value, an endorsement, or an inducement to purchase, sell, or use such products or services).

''(B) LIMITATIONS.—

''(i) CONTINGENT PAYMENTS.—The term 'qualified sponsorship payment' does not include any payment if the amount of such payment is contingent upon the level of attendance at one or more events, broadcast ratings, or other factors indicating the degree of public exposure to one or more events.

''(ii) ACKNOWLEDGEMENTS OR ADVERTISING IN PERIODICALS.—The term 'qualified sponsorship payment' does not include any payment which entitles the payor to an acknowledgement or advertising in regularly scheduled and printed material published by

or on behalf of the payee organization that is not related to and primarily distributed in connection with a specific event conducted by the payee organization.

''(3) ALLOCATION OF PORTIONS OF SINGLE PAYMENT.—For purposes of this subsection, to the extent that a portion of a payment would (if made as a separate payment) be a qualified sponsorship payment, such portion of such payment and the other portion of such payment shall be treated as separate payments.''.

(b) EFFECTIVE DATE.—The amendment made by this section shall apply to payments solicited or received after December 31, 1997.

SEC. 956. ASSOCIATIONS OF HOLDERS OF TIMESHARE INTERESTS TO BE TAXED LIKE OTHER HOMEOWNERS ASSOCIATIONS.

(a) TIMESHARE ASSOCIATIONS INCLUDED AS HOMEOWNER ASSOCIATIONS.—

(1) IN GENERAL.—Paragraph (1) of section 528(c) (defining homeowners association) is amended—

(A) by striking ''or a residential real estate management association'' and inserting '', a residential real estate management association, or a timeshare association'' in the material preceding subparagraph (A),

(B) by striking ''or'' at the end of clause (i) of subparagraph (B), by striking the period at the end of clause (ii) of subparagraph (B) and inserting '', or'', and by adding at the end of subparagraph (B) the following new clause:

''(iii) owners of timeshare rights to use, or timeshare ownership interests in, association property in the case of a timeshare association,'', and

(C) by inserting ''and, in the case of a timeshare association, for activities provided to or on behalf of members of the association'' before the comma at the end of subparagraph (C).

(2) TIMESHARE ASSOCIATION DEFINED.—Subsection (c) of section 528 is amended by redesignating paragraph (4) as paragraph (5) and by inserting after paragraph (3) the following new paragraph:

''(4) TIMESHARE ASSOCIATION.—The term 'timeshare association' means any organization (other than a condominium management association) meeting the requirement of subparagraph (A) of paragraph (1) if any member thereof holds a timeshare right to use, or a timeshare ownership interest in, real property constituting association property.''.

(b) EXEMPT FUNCTION INCOME.—Paragraph (3) of section 528(d) is amended by striking ''or'' at the end of subparagraph (A), by striking the period at the end of subparagraph (B) and inserting '', or'', and by adding at the end the following new subparagraph:

''(C) owners of timeshare rights to use, or timeshare ownership interests in, real property in the case of a timeshare association.''.

(c) RATE OF TAX.—Subsection (b) of section 528 (relating to certain homeowners associations) is amended by inserting before the period ''(32 percent of such income in the case of a timeshare association)''.

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

SEC. 957. ADDITIONAL ADVANCE REFUNDING OF CERTAIN VIRGIN ISLAND BONDS.

Subclause (I) of section 149(d)(3)(A)(i) of the Internal Revenue Code of 1986 shall not apply to the second advance refunding of any issue of the Virgin Islands which was first advance refunded before June 9, 1997, if the debt provisions of the refunding bonds are changed to repeal the priority first lien requirement of the refunded bonds.

SEC. 958. NONRECOGNITION OF GAIN ON SALE OF STOCK TO CERTAIN FARMERS' COOPERATIVES.

(a) IN GENERAL.—Section 1042 (relating to sales of stock to employee stock ownership plans or certain cooperatives) is amended by adding at the end the following new subsection:

''(g) APPLICATION OF SECTION TO SALES OF STOCK IN AGRICULTURAL REFINERS AND PROCESSORS TO ELIGIBLE FARM COOPERATIVES.—

''(1) IN GENERAL.—This section shall apply to the sale of stock of a qualified refiner or processor to an eligible farmers' cooperative.

''(2) QUALIFIED REFINER OR PROCESSOR.—For purposes of this subsection, the term 'qualified refiner or processor' means a domestic corporation—

''(A) substantially all of the activities of which consist of the active conduct of the trade or business of refining or processing agricultural or horticultural products, and

''(B) which purchases more than one-half of such products to be refined or processed from—

''(i) farmers who make up the eligible farmers' cooperative which is purchasing stock in the corporation in a transaction to which this subsection is to apply, and

''(ii) such cooperative.

''(3) ELIGIBLE FARMERS' COOPERATIVE.—For purposes of this section, the term 'eligible farmers' cooperative' means an organization to which part I of subchapter T applies which is engaged in the marketing of agricultural or horticultural products.

''(4) SPECIAL RULES.—In applying this section to a sale to which paragraph (1) applies—

''(A) the eligible farmers' cooperative shall be treated in the same manner as a cooperative described in subsection (b)(1)(B),

''(B) subsection (b)(2) shall be applied by substituting '100 percent' for '30 percent' each place it appears,

''(C) the determination as to whether any stock in the domestic corporation is a qualified security shall be made without regard to whether the stock is an employer security or to subsection (c)(1)(A), and

''(D) paragraphs (2)(D) and (7) of subsection (c) shall not apply.''.

(b) EFFECTIVE DATE.—The amendment made by this section shall apply to sales after December 31, 1997.

SEC. 959. EXCEPTION FROM REPORTING OF REAL ESTATE TRANSACTIONS FOR SALES AND EXCHANGES OF CERTAIN PRINCIPAL RESIDENCES.

(a) IN GENERAL.—Subsection (e) of section 6045 (relating to return required in the case of real estate transactions) is amended by adding at the end the following new paragraph:

''(5) EXCEPTION FOR SALES OR EXCHANGES OF CERTAIN PRINCIPAL RESIDENCES.—

''(A) IN GENERAL.—Paragraph (1) shall not apply to any sale or exchange of a residence for $250,000 or less if the person referred to in paragraph (2)(A) receives written assurance in a form acceptable to the Secretary from the seller that—

''(i) such residence is the principal residence (within the meaning of section 121) of the seller,

''(ii) there is no federally subsidized mortgage financing assistance with respect to the mortgage on such residence, and

''(iii) the seller meets the requirements of section 121(a) with respect to such sale or exchange.

If such assurance includes an assurance that the seller is married, the preceding sentence shall be applied by substituting '$500,000' for '$250,000'.

''(B) SELLER.—For purposes of this paragraph, the term 'seller' includes the person relinquishing the residence in an exchange.''.

(b) EFFECTIVE DATE.—The amendment made by subsection (a) shall apply to sales and exchanges after the date of the enactment of this Act.

SEC. 960. INCREASED DEDUCTIBILITY OF BUSINESS MEAL EXPENSES FOR INDIVIDUALS SUBJECT TO FEDERAL HOURS OF SERVICE.

(a) IN GENERAL.—Section 274(n) (relating to only 50 percent of meal and entertainment expenses allowed as deduction) is amended by adding at the end the following new paragraph:

''(3) SPECIAL RULE FOR INDIVIDUALS SUBJECT TO FEDERAL HOURS OF SERVICE.—

''(A) IN GENERAL.—In the case of any expenses for food or beverages consumed while away from home (within the meaning of section 162(a)(2)) by an individual during, or incident to, the period of duty subject to the hours of service limitations of the Department of Transportation, paragraph (1) shall be applied by substituting 'the applicable percentage' for '50 percent'.

''(B) APPLICABLE PERCENTAGE.—For purposes of this paragraph, the term 'applicable percentage' means the percentage determined under the following table:

''For taxable years beginning in calendar year—	The applicable percentage is—
1998 or 1999	55
2000 or 2001	60
2002 or 2003	65
2004 or 2005	70
2006 or 2007	75
2008 or thereafter	80.''.

(b) EFFECTIVE DATE.—The amendment made by subsection (a) shall apply to taxable years beginning after December 31, 1997.

SEC. 961. QUALIFIED LESSEE CONSTRUCTION ALLOWANCES FOR SHORT-TERM LEASES.

(a) IN GENERAL.—Part III of subchapter B of chapter 1 is amended by inserting after section 109 the following new section:

''SEC. 110. QUALIFIED LESSEE CONSTRUCTION ALLOWANCES FOR SHORT-TERM LEASES.

''(a) IN GENERAL.—Gross income of a lessee does not include any amount received in cash (or treated as a rent reduction) by a lessee from a lessor—

''(1) under a short-term lease of retail space, and

''(2) for the purpose of such lessee's constructing or improving qualified long-term real property for use in such lessee's trade or business at such retail space,

but only to the extent that such amount does not exceed the amount expended by the lessee for such construction or improvement.

''(b) CONSISTENT TREATMENT BY LESSOR.—Qualified long-term real property constructed or improved in connection with any amount excluded from a lessee's income by reason of subsection (a) shall be treated as nonresidential real property by the lessor.

''(c) DEFINITIONS.—For purposes of this section—

''(1) QUALIFIED LONG-TERM REAL PROPERTY.—The term 'qualified long-term real property' means nonresidential real property which is part of, or otherwise present at, the retail space referred to in subsection (a) and which reverts to the lessor at the termination of the lease.

''(2) SHORT-TERM LEASE.—The term 'short-term lease' means a lease (or other agreement for occupancy or use) of retail space for 15 years or less (as determined under the rules of section 168(i)(3)).

''(3) RETAIL SPACE.—The term 'retail space' means real property leased, occupied, or otherwise used by a lessee in its trade or business of selling tangible personal property or services to the general public.

''(d) INFORMATION REQUIRED TO BE FURNISHED TO SECRETARY.—Under regulations, the lessee and lessor described in subsection (a) shall, at such times and in such manner as may be provided in such regulations, furnish to the Secretary—

''(1) information concerning the amounts received (or treated as a rent reduction) and expended as described in subsection (a), and

''(2) any other information which the Secretary deems necessary to carry out the provisions of this section.''.

(b) TREATMENT AS INFORMATION RETURN.—Subparagraph (A) of section 6724(d)(1)(A) is amended by striking ''or'' at the end of clause (vii), by adding ''or'' at the end of clause (viii), and by adding at the end the following new clause:

''(ix) section 110(d) (relating to qualified lessee construction allowances for short-term leases),''.

(c) CROSS REFERENCE.—Paragraph (8) of section 168(i) (relating to treatment of leasehold improvements) is amended by adding at the end the following new subparagraph:

''(C) CROSS REFERENCE.—

''For treatment of qualified long-term real property constructed or improved in connection with cash or rent reduction from lessor to lessee, see section 110(b).''.

(d) CLERICAL AMENDMENT.—The table of sections for part III of subchapter B of chapter 1 is amended by inserting after the item relating to section 109 the following new item:

''Sec. 110. Qualified lessee construction allowances for short-term leases.''.

(e) EFFECTIVE DATE.—The amendments made by this section shall apply to leases entered into after the date of the enactment of this Act.

SEC. 962. TAX TREATMENT OF CONSOLIDATIONS OF LIFE INSURANCE DEPARTMENTS OF MUTUAL SAVINGS BANKS.

(a) GENERAL RULE.—Section 594 (relating to alternative tax for mutual savings banks conducting life insurance business) is amended by adding at the end thereof the following new subsection:

''(c) TREATMENT OF CONSOLIDATIONS.—If 2 or more life insurance departments to which subsection (a) applied are consolidated into a single life insurance company pursuant to a requirement of State law—

''(1) such consolidation shall be treated as a reorganization described in section 368(a)(1)(E), and

''(2) any payments required to be made to policyholders in connection with such consolidation shall be treated as policyholder dividends deductible under section 808 but only if—

''(A) such payments are only with respect to policies in effect immediately before such consolidation,

''(B) such payments are only with respect to policies which are participating before and after such consolidation,

''(C) such payments shall cease with respect to any policy if such policy lapses after such consolidation,

''(D) the policyholders before such consolidation had no divisible right to the surplus of any such department and had no right to vote, and

''(E) the approval of such policyholders was not required for such consolidation.''.

(b) EFFECTIVE DATE.—The amendment made by subsection (a) shall take effect on December 31, 1991.

SEC. 963. OFFSET OF PAST-DUE, LEGALLY ENFORCEABLE STATE TAX OBLIGATIONS AGAINST OVERPAYMENTS.

(a) IN GENERAL.—Section 6402 is amended by redesignating subsections (e) through (i) as subsections (f) through (j), respectively, and by inserting after subsection (d) the following new subsection:

''(e) COLLECTION OF PAST-DUE, LEGALLY ENFORCEABLE STATE TAX OBLIGATIONS.—

''(1) IN GENERAL.—Upon receiving notice from any State that a named person owes a past-due, legally enforceable State tax obligation to such State, the Secretary shall, under such conditions as may be prescribed by the Secretary—

''(A) reduce the amount of any overpayment payable to such person by the amount of such State tax obligation;

''(B) pay the amount by which such overpayment is reduced under subparagraph (A) to such State and notify such State of such person's name, taxpayer identification number, address, and the amount collected; and

''(C) notify the person making such overpayment that the overpayment has been reduced by an amount necessary to satisfy a past-due, legally enforceable State tax obligation.

If an offset is made pursuant to a joint return, the notice under subparagraph (B) shall include the names, taxpayer identification numbers, and addresses of each person filing such return.

''(2) OFFSET PERMITTED ONLY AGAINST RESIDENTS OF STATE SEEKING OFFSET.—Paragraph (1) shall apply to an overpayment by any person for a taxable year only if the address shown on the return for such taxable year is an address within the State seeking the offset.

''(3) PRIORITIES FOR OFFSET.—Any overpayment by a person shall be reduced pursuant to this subsection—

''(A) after such overpayment is reduced pursuant to—

''(i) subsection (a) with respect to any liability for any internal revenue tax on the part of the person who made the overpayment,

''(ii) subsection (c) with respect to past-due support, and

''(iii) subsection (d) with respect to any past-due, legally enforceable debt owed to a Federal agency, and

''(B) before such overpayment is credited to the future liability for any Federal internal revenue tax of such person pursuant to subsection (b).

If the Secretary receives notice from 1 or more agencies of the State of more than 1 debt subject to paragraph (1) that is owed by such person to such an agency, any overpayment by such person shall be applied against such debts in the order in which such debts accrued.

''(4) NOTICE; CONSIDERATION OF EVIDENCE.—No State may take action under this subsection until such State—

''(A) notifies the person owing the past-due State tax liability that the State proposes to take action pursuant to this section,

''(B) gives such person at least 60 days to present evidence that all or part of such liability is not past-due or not legally enforceable,

''(C) considers any evidence presented by such person and determines that an amount of such debt is past-due and legally enforceable, and

''(D) satisfies such other conditions as the Secretary may prescribe to ensure that the determination made under subparagraph (C) is valid and that the State has made reasonable efforts to obtain payment of such State tax obligation.

''(5) PAST-DUE, LEGALLY ENFORCEABLE STATE TAX OBLIGATION.—For purposes of this subsection, the term 'past-due, legally enforceable State tax obligation' means a debt—

''(A)(i) which resulted from—

''(I) a judgment rendered by a court of competent jurisdiction which has determined an amount of State tax to be due, or

''(II) a determination after an administrative hearing which has determined an amount of State tax to be due, and

''(ii) which is no longer subject to judicial review, or

''(B) which resulted from a State tax which has been assessed but not collected, the time for redetermination of which has expired, and which has not been delinquent for more than 10 years.

For purposes of this paragraph, the term 'State tax' includes any local tax administered by the chief tax administration agency of the State.

''(6) REGULATIONS.—The Secretary shall issue regulations prescribing the time and manner in which States must submit notices of past-due, legally enforceable State tax obligations and the necessary information that must be contained in or accompany such notices. The regulations shall specify the types of State taxes and the minimum amount of debt to which the reduction procedure established by paragraph (1) may be applied. The regulations may require States to pay a fee to reimburse the Secretary for the cost of applying such procedure. Any fee paid to the Secretary pursuant to the preceding sentence shall be used to reimburse appropriations which bore all or part of the cost of applying such procedure.

''(7) ERRONEOUS PAYMENT TO STATE.—Any State receiving notice from the Secretary that an erroneous payment has been made to such State under paragraph (1) shall pay promptly to the Secretary, in accordance with such regulations as the Secretary may prescribe, an amount equal to the amount of such erroneous payment (without regard to whether any other amounts payable to such State under such paragraph have been paid to such State).''.

(b) DISCLOSURE OF CERTAIN INFORMATION TO STATES REQUESTING REFUND OFFSETS FOR PAST-DUE, LEGALLY ENFORCEABLE STATE TAX OBLIGATIONS.—

(1) Paragraph (10) of section 6103(l) is amended by striking ''(c) or (d)'' each place it appears and inserting ''(c), (d), or (e)''.

(2) The paragraph heading for such paragraph (10) is amended by striking ''SECTION 6402(c) OR 6402(d)'' and inserting ''SUBSECTION (c), (d), OR (e) OF SECTION 6402''.

(c) CONFORMING AMENDMENTS.—

(1) Subsection (a) of section 6402 is amended by striking ''(c) and (d)'' and inserting ''(c), (d), and (e)''.

(2) Paragraph (2) of section 6402(d) is amended by striking ''and before such overpayment'' and inserting ''and before such overpayment is reduced pursuant to subsection (e) and before such overpayment''.

(3) Subsection (f) of section 6402, as redesignated by subsection (a), is amended—

(A) by striking ''(c) or (d)'' and inserting ''(c), (d), or (e)'', and

(B) by striking ''Federal agency'' and inserting ''Federal agency or State''.

(4) Subsection (h) of section 6402, as redesignated by subsection (a), is amended by striking ''subsection (c)'' and inserting ''subsection (c) or (e)''.

(d) AMENDMENTS APPLIED AFTER TECHNICAL CORRECTIONS TO PERSONAL RESPONSIBILITY AND WORK OPPORTUNITY RECONCILIATION ACT OF 1996.—

(1) Section 110(l) of the Personal Responsibility and Work Opportunity Reconciliation Act of 1996 is amended by striking paragraphs (4), (5), and (7) (and the amendments made by such paragraphs), and the Internal Revenue Code of 1986 shall be applied as if such paragraphs (and amendments) had never been enacted.

(2) For purposes of applying the amendments made by this section other than this subsection, the provisions of this subsection shall be treated as having been enacted immediately before the other provisions of this section.

(e) EFFECTIVE DATE.—The amendments made by this section (other than subsection (d)) shall apply to refunds payable under section 6402 of the Internal Revenue Code of 1986 after December 31, 1998.

SEC. 964. EXEMPTION OF THE INCREMENTAL COST OF A CLEAN FUEL VEHICLE FROM THE LIMITS ON DEPRECIATION FOR VEHICLES.

(a) IN GENERAL.—Section 280F(a)(1) (relating to limiting depreciation on luxury automobiles) is amended by adding at the end the following new subparagraph:

''(C) SPECIAL RULE FOR CERTAIN CLEAN-FUEL PASSENGER AUTOMOBILES.—

''(i) MODIFIED AUTOMOBILES.—In the case of a passenger automobile which is propelled by a fuel which is not a clean-burning fuel to which is installed qualified clean-fuel vehicle property (as defined in section 179A(c)(1)(A)) for purposes of permitting such vehicle to be propelled by a clean burning fuel (as defined in section 179A(e)(1)), subparagraph (A) shall not apply to the cost of the installed qualified clean burning vehicle property as depreciated pursuant to section 168 by applying the rules under subsections (b)(1), (d)(1), and (e)(3)(B) thereof.

''(ii) PURPOSE BUILT PASSENGER VEHICLES.—In the case of a purpose built passenger vehicle (as defined in section 4001(a)(2)(C)(ii)), each of the annual limitations specified in subparagraph (A) shall be tripled.''.

(b) EFFECTIVE DATE.—The amendments made by this section shall apply to property placed in service on or after the date of enactment of this Act and before January 1, 2005.

SEC. 965. TAX BENEFITS FOR LAW ENFORCEMENT OFFICERS KILLED IN THE LINE OF DUTY.

(a) IN GENERAL.—Part III of subchapter B of chapter 1 (relating to items specifically excluded from gross income) is amended by redesignating section 138 as section 139 and by inserting after section 137 the following new section:

''SEC. 138. SURVIVOR BENEFITS ATTRIBUTABLE TO SERVICE BY A LAW ENFORCEMENT OFFICER WHO IS KILLED IN THE LINE OF DUTY.

''(a) IN GENERAL.—Gross income shall not include any amount paid as a survivor annuity on account of the death of a law enforcement officer killed in the line of duty—

''(1) if such annuity is provided under a governmental plan which meets the requirements of section 401(a) to the spouse (or a former spouse) of the law enforcement officer or to a child of such officer, and

''(2) to the extent such annuity is attributable to such officer's service as a law enforcement officer.

''(b) EXCEPTIONS.—

''(1) IN GENERAL.—Subsection (a) shall not apply with respect to the death of any law enforcement officer if—

''(A) the death was caused by the intentional misconduct of the officer or by such officer's intention to bring about such officer's death,

''(B) the officer was voluntarily intoxicated (as defined in section 1204 of the Omnibus Crime Control and Safe Streets Act of 1968) at the time of death, or

''(C) the officer was performing such officer's duties in a grossly negligent manner at the time of death.

''(2) EXCEPTION FOR BENEFITS PAID TO CERTAIN INDIVIDUALS.—Subsection (a) shall not apply to any payment to an individual whose actions were a substantial contributing factor to the death of the officer.

''(c) LAW ENFORCEMENT OFFICER.—For purposes of this section, the term 'law enforcement officer' means an individual serving a public agency (as defined in section 1204 of the Omnibus Crime Control and Safe Streets Act of 1968) in an official capacity, with or without compensation, as a law enforcement officer (as defined in such section).''.

(b) CLERICAL AMENDMENT.—The table of sections for part III of subchapter B of chapter 1 is amended by striking the last item and inserting the following new items:

''Sec. 138. Survivor benefits attributable to service by a law enforcement officer who is killed in the line of duty.

''Sec. 139. Cross references to other Acts.''.

(c) EFFECTIVE DATE.—The amendments made by this subsection shall apply to amounts received in taxable years beginning after December 31, 1996, with respect to individuals dying after such date.

SEC. 966. TEMPORARY SUSPENSION OF TAXABLE INCOME LIMIT ON PERCENTAGE DEPLETION FOR MARGINAL PRODUCTION.

In the case of taxable years beginning after December 31, 1997, and before January 1, 2000, paragraph (1) of section 613A(d) of the Internal Revenue Code of 1986 shall not apply to so much of the allowance for depletion computed under section 613A(c) of such Code as is attributable to paragraph (6) thereof.

Subtitle G—Extension of Duty-Free Treatment Under Generalized System of Preferences; Tariff Treatment of Certain Equipment and Repair of Vessels

SEC. 971. GENERALIZED SYSTEM OF PREFERENCES.

(a) EXTENSION OF DUTY-FREE TREATMENT UNDER SYSTEM.—Section 505 of the Trade Act of 1974 (19 U.S.C. 2465) is amended by striking ''May 31, 1997'' and inserting ''May 31, 1999''.

(b) RETROACTIVE APPLICATION FOR CERTAIN LIQUIDATIONS AND RELIQUIDATIONS.—

(1) IN GENERAL.—Notwithstanding section 514 of the Tariff Act of 1930 or any other provision of law and subject to paragraph (2), the entry—

(A) of any article to which duty-free treatment under title V of the Trade Act of 1974 would have applied if the entry had been made on May 31, 1997, and

(B) that was made after May 31, 1997, and before the date of the enactment of this Act,

shall be liquidated or reliquidated as free of duty, and the Secretary of the Treasury shall refund any duty paid with respect to such entry. As used in this subsection, the term ''entry'' includes a withdrawal from warehouse for consumption.

(2) REQUESTS.—Liquidation or reliquidation may be made under paragraph (1) with respect to an entry only if a request therefor is filed with the Customs Service, within 180 days after the date of the enactment of this Act, that contains sufficient information to enable the Customs Service—

(A) to locate the entry; or

(B) to reconstruct the entry if it cannot be located.

SEC. 972. EQUIPMENT AND REPAIR OF VESSELS.

(a) TARIFF TREATMENT.—Section 466 of the Tariff Act of 1930 (19 U.S.C. 1466), is amended by adding at the end the following new subsection:

''(i)(1) The duty imposed by subsection (a) shall not apply with respect to activities occurring in a Shipbuilding Agreement Party, with respect to—

''(A) self-propelled seagoing vessels of 100 gross tons or more that are used for transportation of goods or persons or for performance of a specialized service (including, but not limited to, ice breakers and dredges), and

''(B) tugs of 365 kilowatts or more.

A vessel shall be considered 'self-propelled seagoing' if its permanent propulsion and steering provide it all the characteristics of self-navigability in the high seas.

''(2) As used in this subsection—

''(A) the term 'Shipbuilding Agreement Party' means a state or separate customs territory that is a signatory to the Shipbuilding Agreement; and

''(B) the term 'Shipbuilding Agreement' means The Agreement Respecting Normal Competitive Conditions in the Commercial Shipbuilding and Repair Industry, resulting from negotiations under the auspices of the Organization for Economic Cooperation and Development, and entered into on December 21, 1994.''.

(b) APPLICABILITY.—The amendment made by subsection (a) applies only with respect to activities occurring in a Shipbuilding Agreement Party (as defined in section 466(i) of the Tariff Act of 1930) during the 1-year period beginning on the date of the enactment of this Act.

Subtitle H—United States-Caribbean Basin Trade Partnership Act

SEC. 981. SHORT TITLE.

This subtitle may be cited as the ''United States-Caribbean Basin Trade Partnership Act''.

SEC. 982. FINDINGS AND POLICY.

(a) FINDINGS.—The Congress makes the following findings:

(1) The United States apparel industry is a major component of the United States manufacturing sector of the United States, employing nearly 825,000 people who are located in every State in the country. The United States apparel industry consumes 42 percent of the fabric produced by United States textile mills, which employ more than 650,000 people.

(2) In 1973 the United States apparel industry supplied 88 percent of the garments consumed by Americans, and in 1995 that share fell to less than 50 percent.

(3) Countries in the Western Hemisphere offer the greatest opportunities for increased exports of United States textile and apparel products.

(4) Given the greater propensity of countries located in the Western Hemisphere to use United States components and to purchase United States products compared to other countries, increased trade and economic activity between the United States and countries in the Western Hemisphere will create new jobs in the United States as a result of expanding export opportunities.

(5) The Caribbean Basin Economic Recovery Act represents a permanent commitment by the United States to encourage the development of strong democratic governments and revitalized economies in neighboring countries in the Caribbean Basin.

(6) The economic security of the countries in the Caribbean Basin is potentially threatened by the diversion of investment to Mexico as a result of the North American Free Trade Agreement.

(7) Offering NAFTA equivalent benefits to Caribbean Basin beneficiary countries, pending their eventual accession to the NAFTA or a free trade agreement comparable to the NAFTA, will promote the growth of free enterprise and economic opportunity in the region, and thereby enhance the national security interests of the United States.

(b) POLICY.—It is the policy of the United States—

(1) to assure that the domestic textile and apparel industry remains competitive in the global marketplace by encouraging the formation and expansion of ''partnerships'' between the textile and apparel industry of the

United States and the textile and apparel industry of various countries located in the Western Hemisphere; and

(2) to offer to the products of Caribbean Basin partnership countries tariffs and quota treatment equivalent to that accorded to products of NAFTA countries, and to seek the accession of these partnership countries to the NAFTA or a free trade agreement comparable to the NAFTA at the earliest possible date, with the goal of achieving full participation in the NAFTA or in a free trade agreement comparable to the NAFTA by all partnership countries by not later than January 1, 2005.

SEC. 983. DEFINITIONS.

As used in this Act:

(1) PARTNERSHIP COUNTRY.—The term ''partnership country'' means a beneficiary country as defined in section 212(a)(1)(A) of the Caribbean Basin Economic Recovery Act (19 U.S.C. 2702(a)(1)(A)).

(2) NAFTA.—The term ''NAFTA'' means the North American Free Trade Agreement entered into between the United States, Mexico, and Canada on December 17, 1992.

(3) TRADE REPRESENTATIVE.—The term ''Trade Representative'' means the United States Trade Representative.

(4) WTO AND WTO MEMBER.—The terms ''WTO'' and ''WTO member'' have the meanings given those terms in section 2 of the Uruguay Round Agreements Act (19 U.S.C. 3501).

SEC. 984. TEMPORARY PROVISIONS TO PROVIDE NAFTA PARITY TO PARTNERSHIP COUNTRIES.

(a) TEMPORARY PROVISIONS.—Section 213(b) of the Caribbean Basin Economic Recovery Act (19 U.S.C. 2703(b)) is amended to read as follows:

''(b) IMPORT-SENSITIVE ARTICLES.—

''(1) IN GENERAL.—Subject to paragraphs (2) through (5), the duty-free treatment provided under this title does not apply to—

''(A) textile and apparel articles which are subject to textile agreements;

''(B) footwear not designated at the time of the effective date of this title as eligible articles for the purpose of the generalized system of preferences under title V of the Trade Act of 1974;

''(C) tuna, prepared or preserved in any manner, in airtight containers;

''(D) petroleum, or any product derived from petroleum, provided for in headings 2709 and 2710 of the HTS;

''(E) watches and watch parts (including cases, bracelets and straps), of whatever type including, but not limited to, mechanical, quartz digital, or quartz analog, if such watches or watch parts contain any material which is the product of any country with respect to which HTS column 2 rates of duty apply; or

''(F) articles to which reduced rates of duty apply under subsection (h).

''(2) NAFTA TRANSITION PERIOD TREATMENT OF CERTAIN TEXTILE AND APPAREL ARTICLES.—

''(A) EQUIVALENT TARIFF AND QUOTA TREATMENT.—During the transition period—

''(i) the tariff treatment accorded at any time to any textile or apparel article that originates in the territory of a partnership country shall be identical to the tariff treatment that is accorded at such time under section 2 of the Annex to an article described in the same 8-digit subheading of the HTS that is an originating good of Mexico and is imported into the United States;

''(ii) duty-free treatment under this title shall apply to any textile or apparel article that is imported into the United States from a partnership country and that—

''(I) is assembled in a partnership country, from fabrics wholly formed and cut in the United States from yarns formed in the United States, and is entered—

''(aa) under subheading 9802.00.80 of the HTS; or

''(bb) under chapter 61 or 62 of the HTS if, after such assembly, the article would have qualified for treatment under subheading 9802.00.80 of the HTS, but for the fact the article was subjected to bleaching, dyeing, stone-washing, enzyme-washing, acid-washing, perma-pressing, or similar processes or embroidery; or

''(II) is knit-to-shape in a partnership country from yarns wholly formed in the United States;

''(III) is made from fabric knit in a partnership country from yarns wholly formed in the United States;

''(IV) is cut and assembled in a partnership country from yarns wholly formed in the United States; or

''(V) is identified under subparagraph (C) as a handloomed, handmade, or folklore article of such country and is certified as such by the competent authority of such country; and

''(iii) no quantitative restriction under any bilateral textile agreement may be applied to the importation into the United States of any textile or apparel article that—

''(I) originates in the territory of a partnership country, or

''(II) qualifies for duty-free treatment under subclause (I), (II), (III), (IV), or (V) of clause (ii).

''(B) NAFTA TRANSITION PERIOD TREATMENT OF NONORIGINATING TEXTILE AND APPAREL ARTICLES.—

''(i) PREFERENTIAL TARIFF TREATMENT.—Subject to clause (ii), the President may place in effect at any time during the transition period with respect to any textile or apparel article that—

''(I) is a product of a partnership country, but

''(II) does not qualify as a good that originates in the territory of a partnership country,

tariff treatment that is identical to the in-preference-level tariff treatment accorded at such time under Appendix 6.B of the Annex to an article described in the same 8-digit subheading of the HTS that is a product of Mexico and is imported into the United States. For purposes of this clause, the 'in-preference-level tariff treatment' accorded to an article that is a product of Mexico is the rate of duty applied to that article when imported in quantities less than or equal to the quantities specified in Schedule 6.B.1, 6.B.2., or 6.B.3. of the Annex for imports of that article from Mexico into the United States.

''(ii) LIMITATIONS ON CERTAIN ARTICLES.—(I) Tariff treatment under clause (i) may be extended, during any calendar year, to not more than 45,000,000 square meter equivalents of cotton or man-made fiber apparel, to not more than 1,500,000 square meter equivalents of wool apparel, and to not more than 25,000,000 square meter equivalents of goods entered under subheading 9802.00.80 of the HTS.

''(II) Except as provided in subclause (III), the amounts set forth in subclause (I) shall be allocated among the 7 partnership countries with the largest volume of exports to the United States of textile and apparel goods in calendar year 1996, based upon a pro rata share of the volume of textile and apparel goods of each of those 7 countries that entered the United States under subheading 9802.00.80 of the HTS during the first 12 months of the 14-month period ending on the date of the enactment of the United States-Caribbean Basin Trade Partnership Act.

''(III) Five percent of the amounts set forth in subclause (I) shall be allocated among the partnership countries, other than those to which subclause (II) applies, based upon a pro rata share of the exports to the United States of textile and apparel goods of each of those countries during the first 12 months of the 14-month period ending on the date of the enactment of the United States-Caribbean Basin Trade Partnership Act.

''(iii) PRIOR CONSULTATION.—The President may implement the preferential tariff treatment described in clause (i) only after consultation with representatives of the United States textile and apparel industry and other interested parties regarding—

''(I) the specific articles to which such treatment will be extended,

''(II) the annual quantities of such articles that may be imported at the preferential duty rates described in clause (i), and

''(III) the allocation of such annual quantities among beneficiary countries.

''(C) HANDLOOMED, HANDMADE, AND FOLKLORE ARTICLES.—For purposes of subparagraph (A), the Trade Representative shall consult with representatives of the partnership country for the purpose of identifying particular textile and apparel goods that are mutually agreed upon as being handloomed, handmade, or folklore goods of a kind described in section 2.3 (a), (b), or (c) or Appendix 3.1.B.11 of the Annex.

''(D) BILATERAL EMERGENCY ACTIONS.—(i) The President may take—

''(I) bilateral emergency tariff actions of a kind described in section 4 of the Annex with respect to any textile or apparel article imported from a partnership country if the application of tariff treatment under subparagraph (A) to such article results in conditions that would be cause for the taking of such actions under such section 4 with respect to an article described in the same 8-digit subheading of the HTS that is imported from Mexico; or

''(II) bilateral emergency quantitative restriction actions of a kind described in section 5 of the Annex with respect to imports of any textile or apparel article described in subparagraph (B)(i) (I) and (II) if the importation of such article into the United States results in conditions that would be cause for the taking of such actions under such section 5 with respect to a like article that is a product of Mexico.

''(ii) The requirement in paragraph (5) of section 4 of the Annex (relating to providing compensation) shall not be deemed to apply to a bilateral emergency action taken under this subparagraph.

''(iii) For purposes of applying bilateral emergency action under this subparagraph—

''(I) the term 'transition period' in sections 4 and 5 of the Annex shall be deemed to be the period defined in paragraph (5)(D); and

''(II) any requirements to consult specified in section 4 or 5 of the Annex are deemed to be satisfied if the President requests consultations with the partnership country in question and the country does not agree to consult within the time period specified in such section.

''(3) NAFTA TRANSITION PERIOD TREATMENT OF CERTAIN OTHER ARTICLES ORIGINATING IN BENEFICIARY COUNTRIES.—

''(A) EQUIVALENT TARIFF TREATMENT.—

''(i) IN GENERAL.—Subject to clause (ii), the tariff treatment accorded at any time during the transition period to any article referred to in any of subparagraphs (B) through (F) of paragraph (1) that originates in the territory of a partnership country shall be identical to the tariff treatment that is accorded at such time under Annex 302.2 of the NAFTA to an article described in the same 8-digit subheading of the HTS that is an originating good of Mexico and is imported into the United States.

''(ii) EXCEPTION.—Clause (i) does not apply to any article accorded duty-free treatment

under U.S. Note 2(b) to subchapter II of chapter 98 of the HTS.

''(B) RELATIONSHIP TO SUBSECTION (h) DUTY REDUCTIONS.—If at any time during the transition period the rate of duty that would (but for action taken under subparagraph (A)(i) in regard to such period) apply with respect to any article under subsection (h) is a rate of duty that is lower than the rate of duty resulting from such action, then such lower rate of duty shall be applied for the purposes of implementing such action.

''(4) CUSTOMS PROCEDURES.—

''(A) IN GENERAL.—

''(i) The obligations under chapter 5 of the NAFTA regarding customs procedures, as such obligations apply to the exporting country, shall apply to importations under paragraphs (2) and (3) of articles from partnership countries.

''(ii) The Secretary of the Treasury shall prescribe regulations that require, as a condition of entry, that any importer of record that claims preferential treatment under paragraph (2) or (3) must comply with requirements similar in all material respects to the requirements of article 502.1 of the NAFTA. The certificate of origin that otherwise would be required under this subparagraph shall not be required in the case of an article imported under paragraph (2) or (3) if such certificate of origin would not be required under article 503 of the NAFTA for a similar importation from Mexico.

''(B) PENALTIES FOR ENGAGING IN TRANSSHIPMENT OR OTHER CUSTOMS FRAUD.—If an exporter is determined under the laws of the United States to have engaged in illegal transshipment of textile or apparel products from a partnership country, then the President shall deny all benefits under this title to such exporter, and any successors of such exporter, for a period of 2 years.

''(C) STUDY BY USTR ON COOPERATION OF OTHER COUNTRIES CONCERNING CIRCUMVENTION.—The Trade Representative, in consultation with the United States Commissioner of Customs, shall conduct a study analyzing the extent to which each partnership country—

''(i) has cooperated fully with the United States, consistent with its domestic laws and procedures, in instances of circumvention or alleged circumvention of existing quotas on imports of textile and apparel goods, to establish necessary relevant facts in the places of import, export, and, where applicable, transshipment, including investigation of circumvention practices, exchanges of documents, correspondence, reports, and other relevant information, to the extent such information is available;

''(ii) has taken appropriate measures, consistent with its domestic laws and procedures, against exporters and importers involved in instances of false declaration concerning fiber content, quantities, description, classification, or origin of textile and apparel goods; and

''(iii) has penalized the individuals and entities involved in any such circumvention, consistent with its domestic laws and procedures, and has worked closely to seek the cooperation of any third country to prevent such circumvention from taking place in that third country.

The Trade Representative shall submit to the Congress, not later than October 1, 1998, a report on the study conducted under this subparagraph.

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

''(A) The term 'the Annex' means Annex 300–B of the NAFTA.

''(B) The term 'NAFTA' means the North American Free Trade Agreement entered into between the United States, Mexico, and Canada on December 17, 1992.

''(C) The term 'partnership country' means a beneficiary country.

''(D) The term 'textile or apparel article' means any article referred to in paragraph (1)(A) that is a good listed in Appendix 1.1 of the Annex.

''(E) The term 'transition period' means, with respect to a partnership country, the period that begins on January 1, 1998, and ends on the earlier of—

''(i) December 31, 1998; or

''(ii) the date on which—

''(I) the United States first applies the NAFTA to the partnership country upon its accession to the NAFTA, or

''(II) there enters into force with respect to the United States and the partnership country a free trade agreement comparable to the NAFTA that makes substantial progress in achieving the negotiating objectives set forth in section 108(b)(5) of the North American Free Trade Agreement Implementation Act (19 U.S.C. 3317(b)(5)).

''(F) An article shall be deemed as originating in the territory of a partnership country if the article meets the rules of origin for a good set forth in chapter 4 of the NAFTA, and, in the case of an article described in Appendix 6.A of the Annex, the requirements stated in such Appendix 6.A for such article to be treated as if it were an originating good. In applying such chapter 4 or Appendix 6.A with respect to a partnership country for purposes of this subsection—

''(i) no countries other than the United States and partnership countries may be treated as being Parties to the NAFTA,

''(ii) references to trade between the United States and Mexico shall be deemed to refer to trade between the United States and partnership countries, and

''(iii) references to a Party shall be deemed to refer to the United States or a partnership country, and references to the Parties shall be deemed to refer to any combination of partnership countries or the United States.''.

(b) DETERMINATION REGARDING RETENTION OF DESIGNATION.—Section 212(e)(1) of the Caribbean Basin Economic Recovery Act (19 U.S.C. 2702(e)) is amended—

(1) by inserting ''(A)'' after ''(1)'';

(2) by redesignating subparagraphs (A) and (B) as clauses (i) and (ii), respectively;

(3) by adding at the end the following:

''(B)(i) Based on the President's review and analysis described in subsection (f), the President may determine if the preferential treatment under section 213(b)(2) and (3) should be withdrawn, suspended, or limited with respect to any article of a partnership country. Such determination shall be included in the report required by subsection (f).

''(ii) Withdrawal, suspension, or limitation of the preferential treatment under section 213(b)(2) and (3) with respect to a partnership country shall be taken only after the requirements of subsection (a)(2) and paragraph (2) of this subsection have been met.''.

(c) REPORTING REQUIREMENTS.—Section 212(f) of the Caribbean Basin Economic Recovery Act (19 U.S.C. 2702(f)) is amended to read as follows:

''(f) REPORTING REQUIREMENTS.—Not later than 1 year after the date of the enactment of the United States-Caribbean Basin Trade Partnership Act and at the close of each 3-year period thereafter, the President shall submit to the Congress a complete report regarding the operation of this title, including—

''(1) with respect to subsections (b) and (c) of this section, the results of a general review of beneficiary countries based on the considerations described in such subsections;

''(2) with respect to subsection (c)(4), the degree to which a country follows accepted rules of international trade provided for under the General Agreement on Tariffs and Trade and the World Trade Organization;

''(3) with respect to subsection (c)(9), the extent to which beneficiary countries are providing or taking steps to provide protection of intellectual property rights comparable to the protection provided to the United States in bilateral intellectual property rights agreements;

''(4) with respect to subsection (b)(2) and subsection (c)(5), the extent that beneficiary countries are providing or taking steps to provide protection of investment and investors comparable to the protection provided to the United States in bilateral investment treaties;

''(5) with respect to subsection (c)(3), the extent that beneficiary countries are providing the United States with equitable and reasonable market access in the product sectors for which benefits are provided under this title;

''(6) with respect to subsection (c)(11), the extent that beneficiary countries are cooperating with the United States in administering the provisions of section 213(b); and

''(7) with respect to subsection (c)(8), the extent that beneficiary countries are meeting the internationally recognized worker rights criteria under such subsection.

In the first report under this subsection, the President shall include a review of the implementation of section 213(b), and his analysis of whether the benefits under paragraphs (2) and (3) of such section further the objectives of this title and whether such benefits should be continued.''.

(d) CONFORMING AMENDMENT.—Section 213(a)(1) of the Caribbean Basin Economic Recovery Act is amended by inserting ''and except as provided in section 213(b)(2) and (3),'' after ''Tax Reform Act of 1986,''.

SEC. 985. EFFECT OF NAFTA ON SUGAR IMPORTS FROM BENEFICIARY COUNTRIES.

The President shall monitor the effects, if any, that the implementation of the NAFTA has on the access of beneficiary countries under the Caribbean Basin Economic Recovery Act to the United States market for sugars, syrups, and molasses. If the President considers that the implementation of the NAFTA is affecting, or will likely affect, in an adverse manner the access of such countries to the United States market, the President shall promptly—

(1) take such actions, after consulting with interested parties and with the appropriate committees of the House of Representatives and the Senate, or

(2) propose to the Congress such legislative actions,

as may be necessary or appropriate to ameliorate such adverse effect.

SEC. 986. DUTY-FREE TREATMENT FOR CERTAIN BEVERAGES MADE WITH CARIBBEAN RUM.

Section 213(a) of the Caribbean Basin Economic Recovery Act (19 U.S.C. 2703(a)) is amended—

(1) in paragraph (5), by striking ''chapter'' and inserting ''title''; and

(2) by adding at the end the following new paragraph:

''(6) Notwithstanding paragraph (1), the duty-free treatment provided under this title shall apply to liqueurs and spirituous beverages produced in the territory of Canada from rum if—

''(A) such rum is the growth, product, or manufacture of a beneficiary country or of the Virgin Islands of the United States;

''(B) such rum is imported directly from a beneficiary country or the Virgin Islands of the United States into the territory of Canada, and such liqueurs and spirituous beverages are imported directly from the territory of Canada into the customs territory of the United States;

''(C) when imported into the customs territory of the United States, such liqueurs and spirituous beverages are classified in subheading 2208.90 or 2208.40 of the HTS; and

''(D) such rum accounts for at least 90 percent by volume of the alcoholic content of such liqueurs and spiritous beverages.''.

SEC. 987. MEETINGS OF TRADE MINISTERS AND USTR.

(a) SCHEDULE OF MEETINGS.—The President shall take the necessary steps to convene a meeting with the trade ministers of the partnership countries in order to establish a schedule of regular meetings, to commence as soon as is practicable, of the trade ministers and the Trade Representative, for the purpose set forth in subsection (b).

(b) PURPOSE.—The purpose of the meetings scheduled under subsection (a) is to reach agreement between the United States and partnership countries on the likely timing and procedures for initiating negotiations for partnership to accede to the NAFTA, or to enter into mutually advantageous free trade agreements with the United States that contain provisions comparable to those in the NAFTA and would make substantial progress in achieving the negotiating objectives set forth in section 108(b)(5) of the North American Free Trade Agreement Implementation Act (19 U.S.C. 3317(b)(5)).

SEC. 988. REPORT ON ECONOMIC DEVELOPMENT AND MARKET ORIENTED REFORMS IN THE CARIBBEAN.

(a) IN GENERAL.—The Trade Representative shall make an assessment of the economic development efforts and market oriented reforms in each partnership country and the ability of each such country, on the basis of such efforts and reforms, to undertake the obligations of the NAFTA. The Trade Representative shall, not later than July 1, 1998, submit to the President and to the Committee on Finance of the Senate and the Committee on Ways and Means of the House of Representatives a report on that assessment.

(b) ACCESSION TO NAFTA.—

(1) ABILITY OF COUNTRIES TO IMPLEMENT NAFTA.—The Trade Representative shall include in the report under subsection (a) a discussion of possible timetables and procedures pursuant to which partnership countries can complete the economic reforms necessary to enable them to negotiate accession to the NAFTA. The Trade Representative shall also include an assessment of the potential phase-in periods that may be necessary for those partnership countries with less developed economies to implement the obligations of the NAFTA.

(2) FACTORS IN ASSESSING ABILITY TO IMPLEMENT NAFTA.—In assessing the ability of each partnership country to undertake the obligations of the NAFTA, the Trade Representative should consider, among other factors—

(A) whether the country has joined the WTO;

(B) the extent to which the country provides equitable access to the markets of that country;

(C) the degree to which the country uses export subsidies or imposes export performance requirements or local content requirements;

(D) macroeconomic reforms in the country such as the abolition of price controls on traded goods and fiscal discipline;

(E) progress the country has made in the protection of intellectual property rights;

(F) progress the country has made in the elimination of barriers to trade in services;

(G) whether the country provides national treatment to foreign direct investment;

(H) the level of tariffs bound by the country under the WTO (if the country is a WTO member);

(I) the extent to which the country has taken other trade liberalization measures; and

(J) the extent which the country works to accommodate market access objectives of the United States.

(c) PARITY REVIEW IN THE EVENT A NEW COUNTRY ACCEDES TO NAFTA.—If—

(1) a country or group of countries accedes to the NAFTA, or

(2) the United States negotiates a comparable free trade agreement with another country or group of countries,

the Trade Representative shall provide to the committees referred to in subsection (a) a separate report on the economic impact of the new trade relationship on partnership countries. The report shall include any measures the Trade Representative proposes to minimize the potential for the diversion of investment from partnership countries to the new NAFTA member or free trade agreement partner.

TITLE X—REVENUES

Subtitle A—Financial Products

SEC. 1001. CONSTRUCTIVE SALES TREATMENT FOR APPRECIATED FINANCIAL POSITIONS.

(a) IN GENERAL.—Part IV of subchapter P of chapter 1 is amended by adding at the end the following new section:

''SEC. 1259. CONSTRUCTIVE SALES TREATMENT FOR APPRECIATED FINANCIAL POSITIONS.

''(a) IN GENERAL.—If there is a constructive sale of an appreciated financial position—

''(1) the taxpayer shall recognize gain as if such position were sold, assigned, or otherwise terminated at its fair market value on the date of such constructive sale (and any gain shall be taken into account for the taxable year which includes such date), and

''(2) for purposes of applying this title for periods after the constructive sale—

''(A) proper adjustment shall be made in the amount of any gain or loss subsequently realized with respect to such position for any gain taken into account by reason of paragraph (1), and

''(B) the holding period of such position shall be determined as if such position were originally acquired on the date of such constructive sale.

''(b) APPRECIATED FINANCIAL POSITION.—For purposes of this section—

''(1) IN GENERAL.—Except as provided in paragraph (2), the term 'appreciated financial position' means any position with respect to any stock, debt instrument, or partnership interest if there would be gain were such position sold, assigned, or otherwise terminated at its fair market value.

''(2) EXCEPTIONS.—The term 'appreciated financial position' shall not include—

''(A) any position with respect to straight debt (as defined in section 1361(c)(5)(B) without regard to clause (iii) thereof), and

''(B) any position which is marked to market under any provision of this title or the regulations thereunder.

''(3) POSITION.—The term 'position' means an interest, including a futures or forward contract, short sale, or option.

''(c) CONSTRUCTIVE SALE.—For purposes of this section—

''(1) IN GENERAL.—A taxpayer shall be treated as having made a constructive sale of an appreciated financial position if the taxpayer (or a related person)—

''(A) enters into a short sale of the same or substantially identical property,

''(B) enters into an offsetting notional principal contract with respect to the same or substantially identical property,

''(C) enters into a futures or forward contract to deliver the same or substantially identical property,

''(D) in the case of an appreciated financial position that is a short sale or a contract described in subparagraph (B) or (C) with respect to any property, acquires the same or substantially identical property, or

''(E) to the extent prescribed by the Secretary in regulations, enters into 1 or more other transactions (or acquires 1 or more positions) that have substantially the same effect as a transaction described in any of the preceding subparagraphs.

''(2) EXCEPTION FOR SALES OF NONPUBLICLY TRADED PROPERTY.—The term 'constructive sale' shall not include any contract for sale of any stock, debt instrument, or partnership interest which is not a marketable security (as defined in section 453(f)) if the contract settles within 1 year after the date such contract is entered into.

''(3) EXCEPTION FOR CERTAIN CLOSED TRANSACTIONS.—In applying this section, there shall be disregarded any transaction (which would otherwise be treated as a constructive sale) during the taxable year if—

''(A) such transaction is closed before the end of the 30th day after the close of such taxable year, and

''(B) in the case of a transaction which is closed during the 90-day period ending on such 30th day—

''(i) the taxpayer holds the appreciated financial position throughout the 60-day period beginning on the date such transaction is closed, and

''(ii) at no time during such 60-day period is the taxpayer's risk of loss with respect to such position reduced by reason of a circumstance which would be described in section 246(c)(4) if references to stock included references to such position.

''(4) RELATED PERSON.—A person is related to another person with respect to a transaction if—

''(A) the relationship is described in section 267 or 707(b), and

''(B) such transaction is entered into with a view toward avoiding the purposes of this section.

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

''(1) FORWARD CONTRACT.—The term 'forward contract' means a contract to deliver a substantially fixed amount of property for a substantially fixed price.

''(2) OFFSETTING NOTIONAL PRINCIPAL CONTRACT.—The term 'offsetting notional principal contract' means, with respect to any property, an agreement which includes—

''(A) a requirement to pay (or provide credit for) all or substantially all of the investment yield (including appreciation) on such property for a specified period, and

''(B) a right to be reimbursed for (or receive credit for) all or substantially all of any decline in the value of such property.

''(e) SPECIAL RULES.—

''(1) TREATMENT OF SUBSEQUENT SALE OF POSITION WHICH WAS DEEMED SOLD.—If—

''(A) there is a constructive sale of any appreciated financial position,

''(B) such position is subsequently disposed of, and

''(C) at the time of such disposition, the transaction resulting in the constructive sale of such position is open with respect to the taxpayer or any related person,

solely for purposes of determining whether the taxpayer has entered into a constructive sale of any other appreciated financial position held by the taxpayer, the taxpayer shall be treated as entering into such transaction immediately after such disposition. For purposes of the preceding sentence, an assignment or other termination shall be treated as a disposition.

''(2) CERTAIN TRUST INSTRUMENTS TREATED AS STOCK.—For purposes of this section, an interest in a trust which is actively traded (within the meaning of section 1092(d)(1)) shall be treated as stock.

''(3) MULTIPLE POSITIONS IN PROPERTY.—If a taxpayer holds multiple positions in property, the determination of whether a specific transaction is a constructive sale and, if so, which appreciated financial position is deemed sold shall be made in the same manner as actual sales.

''(f) REGULATIONS.—The Secretary shall prescribe such regulations as may be necessary or appropriate to carry out the purposes of this section.''.

(b) ELECTION OF MARK TO MARKET FOR SECURITIES TRADERS AND FOR TRADERS AND DEALERS IN COMMODITIES.—Subsection (d) of section 475 (relating to mark to market accounting method for dealers in securities) is amended by adding at the end the following new paragraph:

''(4) ELECTION OF MARK TO MARKET FOR SECURITIES TRADERS AND FOR TRADERS AND DEALERS IN COMMODITIES.—

''(A) IN GENERAL.—In the case of a person—

''(i) who is engaged in a trade or business to which this paragraph applies, and

''(ii) who elects to be treated as a dealer in securities for purposes of this section with respect to such trade or business,

subsections (a), (b)(3), (c)(3), and (e) and the preceding provisions of this subsection (or, in the case of a dealer in commodities, this section) shall apply to all commodities and securities held by such person in any trade or business with respect to which such election is in effect in the same manner as if such person were a dealer in securities and all references to securities included references to commodities.

''(B) APPLICATION OF PARAGRAPH.—This paragraph shall apply to any active trade or business—

''(i) as a trader in securities, or

''(ii) as a trader or dealer in commodities.

''(C) EXCEPTION FOR CERTAIN HOLDINGS OF TRADERS.—In the case of a trader in securities or commodities, subsection (a) shall not apply to any security or commodity (to which subsection (a) would otherwise apply solely by reason of this paragraph) if such security or commodity is clearly identified in the trader's records (before the close of the day applicable under subsection (b)(2)) as being held other than in a trade or business to which the election under subparagraph (A) is in effect. A security or commodity so identified shall be treated as described in subsection (b)(1).

''(D) COMMODITY.—For purposes of this paragraph, the term 'commodities' includes only commodities of a kind customarily dealt in on an organized commodity exchange.

''(E) ELECTION.—An election under this paragraph may be made separately for each trade or business and without the consent of the Secretary. Such an election, once made, shall apply to the taxable year for which made and all subsequent taxable years unless revoked with the consent of the Secretary.''.

(c) CLERICAL AMENDMENT.—The table of sections for part IV of subchapter P of chapter 1 is amended by adding at the end the following new item:

''Sec. 1259. Constructive sales treatment for appreciated financial positions.''.

(d) EFFECTIVE DATES.—

(1) IN GENERAL.—Except as otherwise provided in this subsection, the amendments made by this section shall apply to any constructive sale after June 8, 1997.

(2) EXCEPTION FOR SALES OF POSITIONS, ETC. HELD BEFORE JUNE 9, 1997.—A constructive sale before June 9, 1997, and the property to which the position involved in the transaction relates, shall not be taken into account in determining whether any other constructive sale after June 8, 1997, has occurred if, within before the close of the 30-day period beginning on the date of the enactment of this Act, such position and property are clearly identified in the taxpayer's records as offsetting. The preceding sentence shall cease to apply as of the date the taxpayer ceases to hold such position or property.

(3) SPECIAL RULE.—In the case of a decedent dying after June 8, 1997, if—

(A) there was a constructive sale on or before such date of any appreciated financial position,

(B) the transaction resulting in such constructive sale of such position remains open (with respect to the decedent or any related person) for not less than 2 years after the date of such transaction (whether such period is before or after such date), and

(C) such transaction is not closed within the 30-day period beginning on the date of the enactment of this Act,

then, for purposes of such Code, such position (and any property related thereto, as determined under the principles of section 1259(d)(1) of such Code (as so added)) shall be treated as property constituting rights to receive an item of income in respect of a decedent under section 691 of such Code.

(4) ELECTION OF SECURITIES TRADERS, AND FOR TRADERS AND DEALERS IN COMMODITIES, TO BE TREATED AS DEALERS IN SECURITIES.—

(A) IN GENERAL.—The amendment made by subsection (b) shall apply to taxable years ending after the date of the enactment of this Act.

(B) 4-YEAR SPREAD OF ADJUSTMENTS.—In the case of a taxpayer who elects under section 475(d)(4) of the Internal Revenue Code of 1986 (as added by this section) to change its method of accounting for its first taxable year ending after the date of the enactment of this Act, the net amount of the adjustments required to be taken into account by the taxpayer under section 481 of the Internal Revenue Code of 1986 shall be taken into account ratably over the 4-taxable year period beginning with such first taxable year.

SEC. 1002. LIMITATION ON EXCEPTION FOR INVESTMENT COMPANIES UNDER SECTION 351.

(a) IN GENERAL.—Paragraph (1) of section 351(e) (relating to exceptions) is amended by adding at the end the following: ''For purposes of the preceding sentence, the determination of whether a company is an investment company shall be made—

''(A) by taking into account all stock and securities held by the company, whether or not readily marketable, and

''(B) by treating all of the following as securities:

''(i) Money.

''(ii) Any financial instrument (as defined in section 731(c)(2)(C)).

''(iii) Any foreign currency.

''(iv) Any interest in a real estate investment trust, a common trust fund, a regulated investment company, or a publicly traded partnership (as defined in section 7704(b)).

''(v) Any interest described in clause (iv), (v), or (vi) of section 731(c)(2)(B) (or which would be so described without regard to any reference to active trading or marketability).

''(vi) Any other asset specified in regulations prescribed by the Secretary.''.

(b) EFFECTIVE DATE.—

(1) IN GENERAL.—The amendment made by subsection (a) shall apply to transfers after June 8, 1997, in taxable years ending after such date.

(2) BINDING CONTRACTS.—The amendment made by subsection (a) shall not apply to any transfer pursuant to a written binding contract in effect on June 8, 1997, that provides for the transfer of a fixed amount of property, and at all times thereafter before such transfer.

SEC. 1003. MODIFICATION OF RULES FOR ALLOCATING INTEREST EXPENSE TO TAX-EXEMPT INTEREST.

(a) PRO RATA ALLOCATION RULES APPLICABLE TO CORPORATIONS.—

(1) IN GENERAL.—Paragraph (1) of section 265(b) is amended by striking ''In the case of a financial institution'' and inserting ''In the case of a corporation''.

(2) ONLY OBLIGATIONS ACQUIRED AFTER JUNE 8, 1997, TAKEN INTO ACCOUNT.—Subparagraph (A) of section 265(b)(2) is amended by striking ''August 7, 1986'' and inserting ''June 8, 1997 (August 7, 1986, in the case of a financial institution)''.

(3) SMALL ISSUER EXCEPTION NOT TO APPLY.—Subparagraph (A) of section 265(b)(3) is amended by striking ''Any qualified'' and inserting ''In the case of a financial institution, any qualified''.

(4) EXCEPTION FOR CERTAIN BONDS ACQUIRED ON SALE OF GOODS OR SERVICES.—Subparagraph (B) of section 265(b)(4) is amended by adding at the end the following new sentence: ''In the case of a taxpayer other than a financial institution, such term shall not include a nonsalable obligation acquired by such taxpayer in the ordinary course of business as payment for goods or services provided by such taxpayer to any State or local government.''.

(5) LOOK-THRU RULES FOR PARTNERSHIPS.—Paragraph (6) of section 265(b) is amended by adding at the end the following new subparagraph:

''(C) LOOK-THRU RULES FOR PARTNERSHIPS.—In the case of a corporation which is a partner in a partnership, such corporation shall be treated for purposes of this subsection as holding directly its allocable share of the assets of the partnership.''.

(6) APPLICATION OF PRO RATA DISALLOWANCE ON AFFILIATED GROUP BASIS.—Subsection (b) of section 265 is amended by adding at the end the following new paragraph:

''(7) APPLICATION OF DISALLOWANCE ON AFFILIATED GROUP BASIS.—

''(A) IN GENERAL.—For purposes of this subsection, all members of an affiliated group filing a consolidated return under section 1501 shall be treated as 1 taxpayer.

''(B) TREATMENT OF INSURANCE COMPANIES.—This subsection shall not apply to an insurance company, and subparagraph (A) shall be applied without regard to any member of an affiliated group which is an insurance company.''.

(6) DE MINIMIS EXCEPTION FOR NONFINANCIAL INSTITUTIONS.—Subsection (b) of section 265 is amended by adding at the end the following new paragraph:

''(8) DE MINIMIS EXCEPTION FOR NONFINANCIAL INSTITUTIONS.—In the case of a corporation, paragraph (1) shall not apply for any taxable year if the amount described in paragraph (2)(A) with respect to such corporation does not exceed the lesser of—

''(A) 2 percent of the amount described in paragraph (2)(B), or

''(B) $1,000,000.

The preceding sentence shall not apply to a financial institution or to a dealer in tax-exempt obligations.''.

(7) CLERICAL AMENDMENT.—The subsection heading for section 265(b) is amended by striking ''FINANCIAL INSTITUTIONS'' and inserting ''CORPORATIONS''.

(b) APPLICATION OF SECTION 265(a)(2) WITH RESPECT TO CONTROLLED GROUPS.—Paragraph (2) of section 265(a) is amended after ''obligations'' by inserting ''held by the taxpayer (or any corporation which is a member of a controlled group (as defined in section 267(f)(1)) which includes the taxpayer)''.

(c) EFFECTIVE DATE.—The amendments made by this section shall apply to taxable

years beginning after the date of the enactment of this Act.

SEC. 1004. GAINS AND LOSSES FROM CERTAIN TERMINATIONS WITH RESPECT TO PROPERTY.

(a) APPLICATION OF CAPITAL TREATMENT TO PROPERTY OTHER THAN PERSONAL PROPERTY.—

(1) IN GENERAL.—Paragraph (1) of section 1234A (relating to gains and losses from certain terminations) is amended by striking ''personal property (as defined in section 1092(d)(1))'' and inserting ''property''.

(2) EFFECTIVE DATE.—The amendment made by paragraph (1) shall apply to terminations more than 30 days after the date of the enactment of this Act.

(b) APPLICATION OF CAPITAL TREATMENT, ETC. TO OBLIGATIONS ISSUED BY NATURAL PERSONS.—

(1) IN GENERAL.—Section 1271(b) is amended to read as follows:

''(b) EXCEPTION FOR CERTAIN OBLIGATIONS.—

''(1) IN GENERAL.—This section shall not apply to—

''(A) any obligation issued by a natural person before June 9, 1997, and

''(B) any obligation issued before July 2, 1982, by an issuer which is not a corporation and is not a government or political subdivision thereof.

''(2) TERMINATION.—Paragraph (1) shall not apply to any obligation purchased (within the meaning of section 179(d)(2)) after June 8, 1997.''.

(2) EFFECTIVE DATE.—The amendment made by paragraph (1) shall take effect on the date of enactment of this Act.

SEC. 1005. DETERMINATION OF ORIGINAL ISSUE DISCOUNT WHERE POOLED DEBT OBLIGATIONS SUBJECT TO ACCELERATION.

(a) IN GENERAL.—Subparagraph (C) of section 1272(a)(6) (relating to debt instruments to which the paragraph applies) is amended by striking ''or'' at the end of clause (i), by striking the period at the end of clause (ii) and inserting '', or'', and by inserting after clause (i) the following:

''(iii) any pool of debt instruments the yield on which may be reduced by reason of prepayments (or to the extent provided in regulations, by reason of other events).

To the extent provided in regulations prescribed by the Secretary, in the case of a small business engaged in the trade or business of selling tangible personal property at retail, clause (iii) shall not apply to debt instruments incurred in the ordinary course of such trade or business while held by such business.''.

(b) EFFECTIVE DATES.—

(1) IN GENERAL.—The amendment made by this section shall apply to taxable years beginning after the date of the enactment of this Act.

(2) CHANGE IN METHOD OF ACCOUNTING.—In the case of any taxpayer required by this section to change its method of accounting for its first taxable year beginning after the date of the enactment of this Act—

(A) such change shall be treated as initiated by the taxpayer,

(B) such change shall be treated as made with the consent of the Secretary, and

(C) the net amount of the adjustments required to be taken into account by the taxpayer under section 481 of the Internal Revenue Code of 1986 shall be taken into account ratably over the 4-taxable year period beginning with such first taxable year.

SEC. 1006. DENIAL OF INTEREST DEDUCTIONS ON CERTAIN DEBT INSTRUMENTS.

(a) IN GENERAL.—Section 163 (relating to deduction for interest) is amended by redesignating subsection (k) as subsection (l) and by inserting after subsection (j) the following new subsection:

''(k) DISALLOWANCE OF DEDUCTION ON CERTAIN DEBT INSTRUMENTS OF CORPORATIONS.—

''(1) IN GENERAL.—No deduction shall be allowed under this chapter for any interest paid or accrued on a disqualified debt instrument.

''(2) DISQUALIFIED DEBT INSTRUMENT.—For purposes of this subsection, the term 'disqualified debt instrument' means any indebtedness of a corporation which is payable in equity of the issuer or a related party.

''(3) SPECIAL RULES FOR AMOUNTS PAYABLE IN EQUITY.—For purposes of paragraph (2), indebtedness shall be treated as payable in equity of the issuer or a related party only if—

''(A) a substantial amount of the principal or interest is required to be paid or converted, or at the option of the issuer or a related party is payable in, or convertible into, such equity,

''(B) a substantial amount of the principal or interest is required to be determined, or at the option of the issuer or a related party is determined, by reference to the value of such equity, or

''(C) the indebtedness is part of an arrangement which is reasonably expected to result in a transaction described in subparagraph (A) or (B).

For purposes of subparagraphs (A) and (B), principal or interest shall be treated as required to be so paid, converted, or determined if it may be required at the option of the holder or a related party and there is a substantial certainty the option will be exercised.

''(4) RELATED PARTY.—For purposes of this subsection, a person is a related party with respect to another person if such person bears a relationship to such other person described in section 267(b) or 707(b).

''(5) REGULATIONS.—The Secretary shall prescribe such regulations as may be necessary or appropriate to carry out the purposes of this subsection, including regulations preventing avoidance of this subsection through the use of an issuer other than a corporation.''.

(b) EFFECTIVE DATE.—

(1) IN GENERAL.—The amendment made by this section shall apply to disqualified debt instruments issued after June 8, 1997.

(2) TRANSITION RULE.—The amendment made by this section shall not apply to any instrument issued after June 8, 1997, if such instrument is—

(A) issued pursuant to a written agreement which was binding on such date and at all times thereafter,

(B) described in a ruling request submitted to the Internal Revenue Service on or before such date, or

(C) described on or before such date in a public announcement or in a filing with the Securities and Exchange Commission required solely by reason of the distribution.

Subtitle B—Corporate Organizations and Reorganizations

SEC. 1011. TAX TREATMENT OF CERTAIN EXTRAORDINARY DIVIDENDS.

(a) TREATMENT OF EXTRAORDINARY DIVIDENDS IN EXCESS OF BASIS.—Paragraph (2) of section 1059(a) (relating to corporate shareholder's recognition of gain attributable to nontaxed portion of extraordinary dividends) is amended to read as follows:

''(2) AMOUNTS IN EXCESS OF BASIS.—If the nontaxed portion of such dividends exceeds such basis, such excess shall be treated as gain from the sale or exchange of such stock for the taxable year in which the extraordinary dividend is received.''.

(b) TREATMENT OF REDEMPTIONS WHERE OPTIONS INVOLVED.—Paragraph (1) of section 1059(e) (relating to treatment of partial liquidations and non-pro rata redemptions) is amended to read as follows:

''(1) TREATMENT OF PARTIAL LIQUIDATIONS AND CERTAIN REDEMPTIONS.—Except as otherwise provided in regulations—

''(A) REDEMPTIONS.—In the case of any redemption of stock—

''(i) which is part of a partial liquidation (within the meaning of section 302(e)) of the redeeming corporation,

''(ii) which is not pro rata as to all shareholders, or

''(iii) which would not have been treated (in whole or in part) as a dividend if any options had not been taken into account under section 318(a)(4),

any amount treated as a dividend with respect to such redemption shall be treated as an extraordinary dividend to which paragraphs (1) and (2) of subsection (a) apply without regard to the period the taxpayer held such stock. In the case of a redemption described in clause (iii), only the basis in the stock redeemed shall be taken into account under subsection (a).

''(B) REORGANIZATIONS, ETC.—An exchange described in section 356 which is treated as a dividend shall be treated as a redemption of stock for purposes of applying subparagraph (A).''.

(c) TIME FOR REDUCTION.—Paragraph (1) of section 1059(d) is amended to read as follows:

''(1) TIME FOR REDUCTION.—Any reduction in basis under subsection (a)(1) shall be treated as occurring at the beginning of the ex-dividend date of the extraordinary dividend to which the reduction relates.''.

(d) EFFECTIVE DATES.—

(1) IN GENERAL.—The amendments made by this section shall apply to distributions after May 3, 1995.

(2) TRANSITION RULE.—The amendments made by this section shall not apply to any distribution made pursuant to the terms of—

(A) a written binding contract in effect on May 3, 1995, and at all times thereafter before such distribution, or

(B) a tender offer outstanding on May 3, 1995.

(3) CERTAIN DIVIDENDS NOT PURSUANT TO CERTAIN REDEMPTIONS.—In determining whether the amendment made by subsection (a) applies to any extraordinary dividend other than a dividend treated as an extraordinary dividend under section 1059(e)(1) of the Internal Revenue Code of 1986 (as amended by this Act), paragraphs (1) and (2) shall be applied by substituting ''September 13, 1995'' for ''May 3, 1995''.

SEC. 1012. APPLICATION OF SECTION 355 TO DISTRIBUTIONS FOLLOWED BY ACQUISITIONS AND TO INTRAGROUP TRANSACTIONS.

(a) DISTRIBUTIONS FOLLOWED BY ACQUISITIONS.—Section 355 (relating to distribution of stock and securities of a controlled corporation) is amended by adding at the end the following new subsection:

''(e) RECOGNITION OF GAIN WHERE CERTAIN DISTRIBUTIONS OF STOCK OR SECURITIES ARE FOLLOWED BY ACQUISITION.—

''(1) GENERAL RULE.—If there is a distribution to which this subsection applies, the following rules shall apply:

''(A) ACQUISITION OF CONTROLLED CORPORATION.—If there is an acquisition described in paragraph (2)(A)(ii) with respect to any controlled corporation, any stock or securities in the controlled corporation shall not be treated as qualified property for purposes of subsection (c)(2) of this section or section 361(c)(2).

''(B) ACQUISITION OF DISTRIBUTING CORPORATION.—If there is an acquisition described in paragraph (2)(A)(ii) with respect to the distributing corporation, the controlled corporation shall recognize gain in an amount equal to the amount of net gain which would

be recognized if all the assets of the distributing corporation (immediately after the distribution) were sold (at such time) for fair market value. Any gain recognized under the preceding sentence shall be treated as long-term capital gain and shall be taken into account for the taxable year which includes the day after the date of such distribution.

''(2) DISTRIBUTIONS TO WHICH SUBSECTION APPLIES.—

''(A) IN GENERAL.—This subsection shall apply to any distribution—

''(i) to which this section (or so much of section 356 as relates to this section) applies, and

''(ii) which is part of a plan (or series of related transactions) pursuant to which 1 or more persons acquire directly or indirectly stock representing a 50-percent or greater interest in the distributing corporation or any controlled corporation.

''(B) PLAN PRESUMED TO EXIST IN CERTAIN CASES.—If 1 or more persons acquire directly or indirectly stock representing a 50-percent or greater interest in the distributing corporation or any controlled corporation during the 4-year period beginning on the date which is 2 years before the date of the distribution, such acquisition shall be treated as pursuant to a plan described in subparagraph (A)(ii) unless it is established that the distribution and the acquisition are not pursuant to a plan or series of related transactions.

''(C) COORDINATION WITH SUBSECTION (d).—This subsection shall not apply to any distribution to which subsection (d) applies.

''(3) SPECIAL RULES RELATING TO ACQUISITIONS.—

''(A) CERTAIN ACQUISITIONS NOT TAKEN INTO ACCOUNT.—Except as provided in regulations, the following acquisitions shall not be treated as described in paragraph (2)(A)(ii):

''(i) The acquisition of stock in any controlled corporation by the distributing corporation.

''(ii) The acquisition by a person of stock in any controlled corporation by reason of holding stock in the distributing corporation.

''(iii) The acquisition by a person of stock in any successor corporation of the distributing corporation or any controlled corporation by reason of holding stock in such distributing or controlled corporation.

''(iv) The acquisition of stock in a corporation if shareholders owning directly or indirectly a 50-percent or greater interest in the distributing corporation or any controlled corporation before such acquisition own indirectly a 50-percent or greater interest in such distributing or controlled corporation after such acquisition.

This subparagraph shall not apply to any acquisition if the stock held before the acquisition was acquired pursuant to a plan described in subparagraph (A)(ii).

''(B) ASSET ACQUISITIONS.—Except as provided in regulations, for purposes of this subsection, if the assets of the distributing corporation or any controlled corporation are acquired by a successor corporation in a transaction described in subparagraph (A), (C), or (D) of section 368(a)(1) or any other transaction specified in regulations by the Secretary, the shareholders (immediately before the acquisition) of the corporation acquiring such assets shall be treated as acquiring stock in the corporation from which the assets were acquired.

''(4) DEFINITION AND SPECIAL RULES.—For purposes of this subsection—

''(A) 50-PERCENT OR GREATER INTEREST.—The term '50-percent or greater interest' has the meaning given such term by subsection (d)(4).

''(B) DISTRIBUTIONS IN TITLE 11 OR SIMILAR CASE.—Paragraph (1) shall not apply to any distribution made in a title 11 or similar case (as defined in section 368(a)(3)).

''(C) AGGREGATION AND ATTRIBUTION RULES.—

''(i) AGGREGATION.—The rules of paragraph (7)(A) of subsection (d) shall apply.

''(ii) ATTRIBUTION.—Section 355(d)(8)(A) shall apply in determining whether a person holds stock or securities in any corporation.

''(D) SUCCESSORS AND PREDECESSORS.—For purposes of this subsection, any reference to a controlled corporation or a distributing corporation shall include a reference to any predecessor or successor of such corporation.

''(E) STATUTE OF LIMITATIONS.—If there is an acquisition to which paragraph (1) (A) or (B) applies—

''(i) the statutory period for the assessment of any deficiency attributable to any part of the gain recognized under this subsection by reason of such acquisition shall not expire before the expiration of 3 years from the date the Secretary is notified by the taxpayer (in such manner as the Secretary may by regulations prescribe) that such acquisition occurred, and

''(ii) such deficiency may be assessed before the expiration of such 3-year period notwithstanding the provisions of any other law or rule of law which would otherwise prevent such assessment.

''(5) REGULATIONS.—The Secretary shall prescribe such regulations as may be necessary to carry out the purposes of this subsection, including regulations—

''(A) providing for the application of this subsection where there is more than 1 controlled corporation,

''(B) treating 2 or more distributions as 1 distribution where necessary to prevent the avoidance of such purposes, and

''(C) providing for the application of rules similar to the rules of subsection (d)(6) where appropriate for purposes of paragraph (2)(B).''.

(b) SECTION 355 NOT TO APPLY TO CERTAIN INTRAGROUP TRANSACTIONS.—Section 355, as amended by subsection (a), is amended by adding at the end the following new subsection:

''(f) SECTION NOT TO APPLY TO CERTAIN INTRAGROUP TRANSACTIONS.—Except as provided in regulations, this section shall not apply to the distribution of stock from 1 member of an affiliated group filing a consolidated return to another member of such group, and the Secretary shall provide proper adjustments for the treatment of such distribution, including (if necessary) adjustments to—

''(1) the adjusted basis of any stock which—

''(A) is in a corporation which is a member of such group, and

''(B) is held by another member of such group, and

''(2) the earnings and profits of any member of such group.''.

(c) DETERMINATION OF CONTROL IN CERTAIN DIVISIVE TRANSACTIONS.—

(1) SECTION 351 TRANSACTIONS.—Section 351(c) (relating to special rule) is amended to read as follows:

''(c) SPECIAL RULES WHERE DISTRIBUTION TO SHAREHOLDERS.—

''(1) IN GENERAL.—In determining control for purposes of this section—

''(A) the fact that any corporate transferor distributes part or all of the stock in the corporation which it receives in the exchange to its shareholders shall not be taken into account, and

''(B) if the requirements of section 355 are met with respect to such distribution, the shareholders shall be treated as in control of such corporation immediately after the exchange if the shareholders hold at least a 50-percent interest in such corporation immediately after the distribution.

''(2) 50-PERCENT INTEREST.—For purposes of this subsection, the term '50-percent interest' means stock possessing 50 percent of the total combined voting power of all classes of stock entitled to vote and 50 percent of the total value of shares of all classes of stock.''.

(2) D REORGANIZATIONS.—Section 368(a)(2)(H) (relating to special rule for determining whether certain transactions are qualified under paragraph (1)(D)) is amended to read as follows:

''(H) SPECIAL RULES FOR DETERMINING WHETHER CERTAIN TRANSACTIONS ARE QUALIFIED UNDER PARAGRAPH (1)(D).—For purposes of determining whether a transaction qualifies under paragraph (1)(D)—

''(i) in the case of a transaction with respect to which the requirements of subparagraphs (A) and (B) of section 354(b)(1) are met, the term 'control' has the meaning given such term by section 304(c), and

''(ii) in the case of a transaction with respect to which the requirements of section 355 are met, the shareholders described in paragraph (1)(D) shall be treated as having control of the corporation to which the assets are transferred if such shareholders hold a 50-percent or greater interest (as defined in section 351(c)(2)) in such corporation immediately after the transfer.''.

(d) EFFECTIVE DATES.—

(1) SECTION 355 RULES.—The amendments made by subsections (a) and (b) shall apply to distributions after April 16, 1997.

(2) DIVISIVE TRANSACTIONS.—The amendments made by subsection (c) shall apply to transfers after the date of the enactment of this Act.

(3) TRANSITION RULE.—The amendments made by this section shall not apply to any distribution after April 16, 1997, if such distribution is—

(A) made pursuant to a written agreement which was binding on such date and at all times thereafter,

(B) described in a ruling request submitted to the Internal Revenue Service on or before such date, or

(C) described on or before such date in a public announcement or in a filing with the Securities and Exchange Commission required solely by reason of the distribution.

This paragraph shall not apply to any written agreement, ruling request, or public announcement or filing unless it identifies the unrelated acquirer of the distributing corporation or of any controlled corporation, whichever is applicable.

SEC. 1013. TAX TREATMENT OF REDEMPTIONS INVOLVING RELATED CORPORATIONS.

(a) STOCK PURCHASES BY RELATED CORPORATIONS.—The last sentence of section 304(a)(1) (relating to acquisition by related corporation other than subsidiary) is amended to read as follows: ''To the extent that such distribution is treated as a distribution to which section 301 applies, the transferor and the acquiring corporation shall be treated in the same manner as if the transferor had transferred the stock so acquired to the acquiring corporation in exchange for stock of the acquiring corporation in a transaction to which section 351(a) applies, and then the acquiring corporation had redeemed the stock it was treated as issuing in such transaction.''.

(b) COORDINATION WITH SECTION 1059.—Clause (iii) of section 1059(e)(1)(A), as amended by this title, is amended to read as follows:

''(iii) which would not have been treated (in whole or in part) as a dividend if—

''(I) any options had not been taken into account under section 318(a)(4), or

''(II) section 304(a) had not applied,''.

(c) SPECIAL RULE FOR ACQUISITIONS BY FOREIGN CORPORATIONS.—Section 304(b) (relating to special rules for application of subsection (a)) is amended by adding at the end the following new paragraph:

''(5) ACQUISITIONS BY FOREIGN CORPORATIONS.—

''(A) IN GENERAL.—In the case of any acquisition to which subsection (a) applies in which the acquiring corporation is a foreign corporation, the only earnings and profits taken into account under paragraph (2)(A) shall be those earnings and profits—

''(i) which are attributable (under regulations prescribed by the Secretary) to stock of the acquiring corporation owned (within the meaning of section 958(a)) by a corporation or individual which is—

''(I) a United States shareholder (within the meaning of section 951(b)) of the acquiring corporation, and

''(II) the transferor or a person who bears a relationship to the transferor described in section 267(b) or 707(b), and

''(ii) which were accumulated during the period or periods such stock was owned by such person while the acquiring corporation was a controlled foreign corporation.

''(B) APPLICATION OF SECTION 1248.—For purposes of subparagraph (A), the rules of section 1248(d) shall apply except to the extent otherwise provided by the Secretary.

''(C) REGULATIONS.—The Secretary shall prescribe such regulations as are appropriate to carry out the purposes of this paragraph.''.

(d) EFFECTIVE DATE.—

(1) IN GENERAL.—The amendments made by this section shall apply to distributions and acquisitions after June 8, 1997.

(2) TRANSITION RULE.—The amendments made by this section shall not apply to any distribution or acquisition after June 8, 1997, if such distribution or acquisition is—

(A) made pursuant to a written agreement which was binding on such date and at all times thereafter,

(B) described in a ruling request submitted to the Internal Revenue Service on or before such date, or

(C) described in a public announcement or filing with the Securities and Exchange Commission on or before such date.

SEC. 1014. MODIFICATION OF HOLDING PERIOD APPLICABLE TO DIVIDENDS RECEIVED DEDUCTION.

(a) IN GENERAL.—Subparagraph (A) of section 246(c)(1) is amended to read as follows:

''(A) which is held by the taxpayer for 45 days or less during the 90-day period beginning on the date which is 45 days before the date on which such share becomes ex-dividend with respect to such dividend, or''.

(b) CONFORMING AMENDMENTS.—

(1) Paragraph (2) of section 246(c) is amended to read as follows:

''(2) 90-DAY RULE IN THE CASE OF CERTAIN PREFERENCE DIVIDENDS.—In the case of stock having preference in dividends, if the taxpayer receives dividends with respect to such stock which are attributable to a period or periods aggregating in excess of 366 days, paragraph (1)(A) shall be applied—

''(A) by substituting '90 days' for '45 days' each place it appears, and

''(B) by substituting '180-day period' for '90-day period'.''.

(2) Paragraph (3) of section 246(c) is amended by adding ''and'' at the end of subparagraph (A), by striking subparagraph (B), and by redesignating subparagraph (C) as subparagraph (B).

(c) EFFECTIVE DATE.—The amendments made by this section shall apply to dividends received or accrued after the 30th day after the date of the enactment of this Act.

Subtitle C—Other Corporate Provisions

SEC. 1021. REGISTRATION AND OTHER PROVISIONS RELATING TO CONFIDENTIAL CORPORATE TAX SHELTERS.

(a) IN GENERAL.—Section 6111 (relating to registration of tax shelters) is amended by redesignating subsections (d) and (e) as subsections (e) and (f), respectively, and by inserting after subsection (c) the following new subsection:

''(d) CERTAIN CONFIDENTIAL ARRANGEMENTS TREATED AS TAX SHELTERS.—

''(1) IN GENERAL.—For purposes of this section, the term 'tax shelter' includes any entity, plan, arrangement, or transaction—

''(A) a significant purpose of the structure of which is the avoidance or evasion of Federal income tax for a direct or indirect participant which is a corporation,

''(B) which is offered to any potential participant under conditions of confidentiality, and

''(C) for which the tax shelter promoters may receive fees in excess of $100,000 in the aggregate.

''(2) CONDITIONS OF CONFIDENTIALITY.—For purposes of paragraph (1)(B), an offer is under conditions of confidentiality if—

''(A) the potential participant to whom the offer is made (or any other person acting on behalf of such participant) has an understanding or agreement with or for the benefit of any promoter of the tax shelter that such participant (or such other person) will limit disclosure of the tax shelter or any significant tax features of the tax shelter, or

''(B) any promoter of the tax shelter—

''(i) claims, knows, or has reason to know,

''(ii) knows or has reason to know that any other person (other than the potential participant) claims, or

''(iii) causes another person to claim,

that the tax shelter (or any aspect thereof) is proprietary to any person other than the potential participant or is otherwise protected from disclosure to or use by others.

For purposes of this subsection, the term 'promoter' means any person or any related person (within the meaning of section 267 or 707) who participates in the organization, management, or sale of the tax shelter.

''(3) PERSONS OTHER THAN PROMOTER REQUIRED TO REGISTER IN CERTAIN CASES.—

''(A) IN GENERAL.—If—

''(i) the requirements of subsection (a) are not met with respect to any tax shelter (as defined in paragraph (1)) by any tax shelter promoter, and

''(ii) no tax shelter promoter is a United States person,

then each United States person who discussed participation in such shelter shall register such shelter under subsection (a).

''(B) EXCEPTION.—Subparagraph (A) shall not apply to a United States person who discussed participation in a tax shelter if—

''(i) such person notified the promoter in writing (not later than the close of the 90th day after the day on which such discussions began) that such person would not participate in such shelter, and

''(ii) such person does not participate in such shelter.

''(4) OFFER TO PARTICIPATE TREATED AS OFFER FOR SALE.—For purposes of subsections (a) and (b), an offer to participate in a tax shelter (as defined in paragraph (1)) shall be treated as an offer for sale.''.

(b) PENALTY.—Subsection (a) of section 6707 (relating to failure to furnish information regarding tax shelters) is amended by adding at the end the following new paragraph:

''(3) CONFIDENTIAL ARRANGEMENTS.—

''(A) IN GENERAL.—In the case of a tax shelter (as defined in section 6111(d)), the penalty imposed under paragraph (1) shall be an amount equal to the greater of—

''(i) 50 percent of the fees paid to all promoters of the tax shelter with respect to offerings made before the date such shelter is registered under section 6111, or

''(ii) $10,000.

Clause (i) shall be applied by substituting '75 percent' for '50 percent' in the case of an intentional failure or act described in paragraph (1).

''(B) SPECIAL RULE FOR PARTICIPANTS REQUIRED TO REGISTER SHELTER.—In the case of a person required to register such a tax shelter by reason of section 6111(d)(3)—

''(i) such person shall be required to pay the penalty under paragraph (1) only if such person actually participated in such shelter,

''(ii) the amount of such penalty shall be determined by taking into account under subparagraph (A)(i) only the fees paid by such person, and

''(iii) such penalty shall be in addition to the penalty imposed on any other person for failing to register such shelter.''.

(c) MODIFICATIONS TO SUBSTANTIAL UNDERSTATEMENT PENALTY.—

(1) RESTRICTION ON REASONABLE BASIS FOR CORPORATE UNDERSTATEMENT OF INCOME TAX.—Subparagraph (B) of section 6662(d)(2) is amended by adding at the end the following new flush sentence:

''For purposes of clause (ii)(II), in no event shall a corporation be treated as having a reasonable basis for its tax treatment of an item attributable to a multiple-party financing transaction if such treatment does not clearly reflect the income of the corporation.''.

(2) MODIFICATION TO DEFINITION OF TAX SHELTER.—Clause (iii) of section 6662(d)(2)(C) is amended by striking ''the principal purpose'' and inserting ''a significant purpose''.

(d) CONFORMING AMENDMENTS.—

(1) Paragraph (2) of section 6707(a) is amended by striking ''The penalty'' and inserting ''Except as provided in paragraph (3), the penalty''.

(2) Subparagraph (A) of section 6707(a)(1) is amended by striking ''paragraph (2)'' and inserting ''paragraph (2) or (3), as the case may be''.

(e) EFFECTIVE DATE.—

(1) IN GENERAL.—Except as provided in paragraph (2), the amendments made by this section shall apply to any tax shelter (as defined in section 6111(d) of the Internal Revenue Code of 1986, as amended by this section) interests in which are offered to potential participants after the Secretary of the Treasury prescribes guidance with respect to meeting requirements added by such amendments.

(2) MODIFICATIONS TO SUBSTANTIAL UNDERSTATEMENT PENALTY.—The amendments made by subsection (c) shall apply to items with respect to transactions entered into after the date of the enactment of this Act.

SEC. 1022. CERTAIN PREFERRED STOCK TREATED AS BOOT.

(a) SECTION 351.—Section 351 (relating to transfer to corporation controlled by transferor) is amended by redesignating subsection (g) as subsection (h) and by inserting after subsection (f) the following new subsection:

''(g) NONQUALIFIED PREFERRED STOCK NOT TREATED AS STOCK.—

''(1) IN GENERAL.—For purposes of subsections (a) and (b), the term 'stock' shall not include nonqualified preferred stock.

''(2) NONQUALIFIED PREFERRED STOCK.—For purposes of paragraph (1)—

''(A) IN GENERAL.—The term 'nonqualified preferred stock' means preferred stock if—

''(i) the holder of such stock has the right to require the issuer or a related person to redeem or purchase the stock,

''(ii) the issuer or a related person is required to redeem or purchase such stock,

''(iii) the issuer or a related person has the right to redeem or purchase the stock and, as of the issue date, it is more likely than not that such right will be exercised, or

''(iv) the dividend rate on such stock varies in whole or in part (directly or indirectly) with reference to interest rates, commodity prices, or other similar indices.

''(B) LIMITATIONS.—Clauses (i), (ii), and (iii) of subparagraph (A) shall apply only if the right or obligation referred to therein may be exercised within the 20-year period beginning on the issue date of such stock and such right or obligation is not subject to a contingency which, as of the issue date, makes remote the likelihood of the redemption or purchase.

''(C) EXCEPTIONS FOR CERTAIN RIGHTS OR OBLIGATIONS.—

''(i) IN GENERAL.—A right or obligation shall not be treated as described in clause (i), (ii), or (iii) of subparagraph (A) if—

''(I) it may be exercised only upon the death, disability, or mental incompetency of the holder, or

''(II) in the case of a right or obligation to redeem or purchase stock transferred in connection with the performance of services for the issuer or a related person (and which represents reasonable compensation), it may be exercised only upon the holder's separation from service from the issuer or a related person.

''(ii) EXCEPTION.—Clause (i)(I) shall not apply if the stock relinquished in the exchange, or the stock acquired in the exchange is in—

''(I) a corporation if any class of stock in such corporation or a related party is readily tradable on an established securities market or otherwise, or

''(II) any other corporation if such exchange is part of a transaction or series of transactions in which such corporation is to become a corporation described in subclause (I).

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

''(A) PREFERRED STOCK.—The term 'preferred stock' means stock which is limited and preferred as to dividends and does not participate (including through a conversion privilege) in corporate growth to any significant extent.

''(B) RELATED PERSON.—A person shall be treated as related to another person if they bear a relationship to such other person described in section 267(b) or 707(b).

''(4) REGULATIONS.—The Secretary may prescribe such regulations as may be necessary or appropriate to carry out the purposes of this subsection and sections 354(a)(2)(C), 355(a)(3)(D), and 356(e). The Secretary may also prescribe regulations, consistent with the treatment under this subsection and such sections, for the treatment of nonqualified preferred stock under other provisions of this title.''.

(b) SECTION 354.—Paragraph (2) of section 354(a) (relating to exchanges of stock and securities in certain reorganizations) is amended by adding at the end the following new subparagraph:

''(C) NONQUALIFIED PREFERRED STOCK.—

''(i) IN GENERAL.—Nonqualified preferred stock (as defined in section 351(g)(2)) received in exchange for stock other than nonqualified preferred stock (as so defined) shall not be treated as stock or securities.

''(ii) RECAPITALIZATIONS OF FAMILY-OWNED CORPORATIONS.—

''(I) IN GENERAL.—Clause (i) shall not apply in the case of a recapitalization under section 368(a)(1)(E) of a family-owned corporation.

''(II) FAMILY-OWNED CORPORATION.—For purposes of this clause, except as provided in regulations, the term 'family-owned corporation' means any corporation which is described in clause (i) of section 447(d)(2)(C) throughout the 8-year period beginning on the date which is 5 years before the date of the recapitalization. For purposes of the preceding sentence, stock shall not be treated as owned by a family member during any period described in section 355(d)(6)(B).''.

(c) SECTION 355.—Paragraph (3) of section 355(a) is amended by adding at the end the following new subparagraph:

''(D) NONQUALIFIED PREFERRED STOCK.—Nonqualified preferred stock (as defined in section 351(g)(2)) received in a distribution with respect to stock other than nonqualified preferred stock (as so defined) shall not be treated as stock or securities.''.

(d) SECTION 356.—Section 356 is amended by redesignating subsections (e) and (f) as subsections (f) and (g), respectively, and by inserting after subsection (d) the following new subsection:

''(e) NONQUALIFIED PREFERRED STOCK TREATED AS OTHER PROPERTY.—For purposes of this section—

''(1) IN GENERAL.—Except as provided in paragraph (2), the term 'other property' includes nonqualified preferred stock (as defined in section 351(g)(2)).

''(2) EXCEPTION.—The term 'other property' does not include nonqualified preferred stock (as so defined) to the extent that, under section 354 or 355, such preferred stock would be permitted to be received without the recognition of gain.''.

(e) CONFORMING AMENDMENTS.—

(1) Subparagraph (B) of section 354(a)(2) and subparagraph (C) of section 355(a)(3)(C) are each amended by inserting ''(including nonqualified preferred stock, as defined in section 351(g)(2))'' after ''stock''.

(2) Subparagraph (A) of section 354(a)(3) and subparagraph (A) of section 355(a)(4) are each amended by inserting ''nonqualified preferred stock and'' after ''including''.

(3) Section 1036 is amended by redesignating subsection (b) as subsection (c) and by inserting after subsection (a) the following new subsection:

''(b) NONQUALIFIED PREFERRED STOCK NOT TREATED AS STOCK.—For purposes of this section, nonqualified preferred stock (as defined in section 351(g)(2)) shall be treated as property other than stock.''.

(f) EFFECTIVE DATE.—

(1) IN GENERAL.—The amendments made by this section shall apply to transactions after June 8, 1997.

(2) TRANSITION RULE.—The amendments made by this section shall not apply to any transaction after June 8, 1997, if such transaction is—

(A) made pursuant to a written agreement which was binding on such date and at all times thereafter,

(B) described in a ruling request submitted to the Internal Revenue Service on or before such date, or

(C) described on or before such date in a public announcement or in a filing with the Securities and Exchange Commission required solely by reason of the distribution.

Subtitle D—Administrative Provisions

SEC. 1031. REPORTING OF CERTAIN PAYMENTS MADE TO ATTORNEYS.

(a) IN GENERAL.—Section 6045 (relating to returns of brokers) is amended by adding at the end the following new subsection:

''(f) RETURN REQUIRED IN THE CASE OF PAYMENTS TO ATTORNEYS.—

''(1) IN GENERAL.—Any person engaged in a trade or business and making a payment (in the course of such trade or business) to which this subsection applies shall file a return under subsection (a) and a statement under subsection (b) with respect to such payment.

''(2) APPLICATION OF SUBSECTION.—

''(A) IN GENERAL.—This subsection shall apply to any payment to an attorney in connection with legal services (whether or not such services are performed for the payor).

''(B) EXCEPTION.—This subsection shall not apply to the portion of any payment which is required to be reported under section 6041(a) (or would be so required but for the dollar limitation contained therein) or section 6051.''.

(b) REPORTING OF ATTORNEYS' FEES PAYABLE TO CORPORATIONS.—The regulations providing an exception under section 6041 of the Internal Revenue Code of 1986 for payments made to corporations shall not apply to payments of attorneys' fees.

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

SEC. 1032. DECREASE OF THRESHOLD FOR REPORTING PAYMENTS TO CORPORATIONS PERFORMING SERVICES FOR FEDERAL AGENCIES.

(a) IN GENERAL.—Subsection (d) of section 6041A (relating to returns regarding payments of remuneration for services and direct sales) is amended by adding at the end the following new paragraph:

''(3) PAYMENTS TO CORPORATIONS BY FEDERAL EXECUTIVE AGENCIES.—

''(A) IN GENERAL.—Notwithstanding any regulation prescribed by the Secretary before the date of the enactment of this paragraph, subsection (a) shall apply to remuneration paid to a corporation by any Federal executive agency (as defined in section 6050M(b)).

''(B) EXCEPTION.—Subparagraph (A) shall not apply to—

''(i) services under contracts described in section 6050M(e)(3) with respect to which the requirements of section 6050M(e)(2) are met, and

''(ii) such other services as the Secretary may specify in regulations prescribed after the date of the enactment of this paragraph.''.

(b) EFFECTIVE DATE.—The amendment made by this section shall apply to returns the due date for which (determined without regard to any extension) is more than 90 days after the date of the enactment of this Act.

SEC. 1033. DISCLOSURE OF RETURN INFORMATION FOR ADMINISTRATION OF CERTAIN VETERANS PROGRAMS.

(a) GENERAL RULE.—Subparagraph (D) of section 6103(l)(7) (relating to disclosure of return information to Federal, State, and local agencies administering certain programs) is amended by striking ''Clause (viii) shall not apply after September 30, 1998.''.

(b) EFFECTIVE DATE.—The amendment made by subsection (a) shall take effect on the date of the enactment of this Act.

SEC. 1034. CONTINUOUS LEVY ON CERTAIN PAYMENTS.

(a) IN GENERAL.—Section 6331 (relating to levy and distraint) is amended—

(1) by redesignating subsection (h) as subsection (i), and

(2) by inserting after subsection (g) the following new subsection:

''(h) CONTINUING LEVY ON CERTAIN PAYMENTS.—

''(1) IN GENERAL.—The effect of a levy on specified payments to or received by a taxpayer shall be continuous from the date such levy is first made until such levy is released. Notwithstanding section 6334, such continuous levy shall attach to up to 15 percent of any specified payment due to the taxpayer.

''(2) SPECIFIED PAYMENT.—For the purposes of paragraph (1), the term 'specified payment' means—

''(A) any Federal payment other than a payment for which eligibility is based on the income or assets (or both) of a payee,

''(B) any payment described in paragraph (4), (7), (9), or (11) of section 6334(a), and

''(C) any annuity or pension payment under the Railroad Retirement Act or benefit under the Railroad Unemployment Insurance Act described in subsection (a)(6) of this section.''.

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

SEC. 1035. MODIFICATION OF LEVY EXEMPTION.

(a) IN GENERAL.—Section 6334 (relating to property exempt from levy) is amended by redesignating subsection (f) as subsection (g) and by inserting after subsection (e) the following new subsection:

''(f) LEVY ALLOWED ON CERTAIN SPECIFIED PAYMENTS.—Any payment described in subparagraph (B) or (C) of section 6331(h)(2) shall not be exempt from levy if the Secretary approves the levy thereon under section 6331(h).''.

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

SEC. 1036. CONFIDENTIALITY AND DISCLOSURE OF RETURNS AND RETURN INFORMATION.

(a) IN GENERAL.—Subsection (k) of section 6103 is amended by adding at the end the following new paragraph:

''(8) LEVIES ON CERTAIN GOVERNMENT PAYMENTS.—

''(A) DISCLOSURE OF RETURN INFORMATION IN LEVIES ON FINANCIAL MANAGEMENT SERVICE.—In serving a notice of levy, or release of such levy, with respect to any applicable government payment, the Secretary may disclose to officers and employees of the Financial Management Service—

''(i) return information, including taxpayer identity information,

''(ii) the amount of any unpaid liability under this title (including penalties and interest), and

''(iii) the type of tax and tax period to which such unpaid liability relates.

''(B) RESTRICTION ON USE OF DISCLOSED INFORMATION.—Return information disclosed under subparagraph (A) may be used by officers and employees of the Financial Management Service only for the purpose of, and to the extent necessary in, transferring levied funds in satisfaction of the levy, maintaining appropriate agency records in regard to such levy or the release thereof, notifying the taxpayer and the agency certifying such payment that the levy has been honored, or in the defense of any litigation ensuing from the honor of such levy.

''(C) APPLICABLE GOVERNMENT PAYMENT.—For purposes of this paragraph, the term 'applicable government payment' means—

''(i) any Federal payment (other than a payment for which eligibility is based on the income or assets (or both) of a payee) certified to the Financial Management Service for disbursement, and

''(ii) any other payment which is certified to the Financial Management Service for disbursement and which the Secretary designates by published notice.''.

(b) CONFORMING AMENDMENTS.—

(1) Section 6301(p) is amended—

(A) in paragraph (3)(A), by striking ''(2), or (6)'' and inserting ''(2), (6), or (8), and

(B) in paragraph (4), by inserting ''(k)(8),'' after ''(j) (1) or (2),'' each place it appears.

(2) Section 552a(a)(8)(B) of title 5, United States Code, is amended by striking ''or'' at the end of clause (v), by adding ''or'' at the end of clause (vi), and by adding at the end the following new clause:

''(vii) matches performed incident to a levy described in section 6103(k)(8) of the Internal Revenue Code of 1986;''.

(c) EFFECTIVE DATE.—The amendments made by this section shall apply to levies issued after the date of the enactment of this Act.

SEC. 1037. RETURNS OF BENEFICIARIES OF ESTATES AND TRUSTS REQUIRED TO FILE RETURNS CONSISTENT WITH ESTATE OR TRUST RETURN OR TO NOTIFY SECRETARY OF INCONSISTENCY.

(a) DOMESTIC ESTATES AND TRUSTS.—Section 6034A (relating to information to beneficiaries of estates and trusts) is amended by adding at the end the following new subsection:

''(c) BENEFICIARY'S RETURN MUST BE CONSISTENT WITH ESTATE OR TRUST RETURN OR SECRETARY NOTIFIED OF INCONSISTENCY.—

''(1) IN GENERAL.—A beneficiary of any estate or trust to which subsection (a) applies shall, on such beneficiary's return, treat any reported item in a manner which is consistent with the treatment of such item on the applicable entity's return.

''(2) NOTIFICATION OF INCONSISTENT TREATMENT.—

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

''(i)(I) the applicable entity has filed a return but the beneficiary's treatment on such beneficiary's return is (or may be) inconsistent with the treatment of the item on the applicable entity's return, or

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

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

paragraph (1) shall not apply to such item.

''(B) BENEFICIARY RECEIVING INCORRECT INFORMATION.—A beneficiary shall be treated as having complied with clause (ii) of subparagraph (A) with respect to a reported item if the beneficiary—

''(i) demonstrates to the satisfaction of the Secretary that the treatment of the reported item on the beneficiary's return is consistent with the treatment of the item on the statement furnished under subsection (a) to the beneficiary by the applicable entity, 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 beneficiary does not comply with subparagraph (A)(ii) of paragraph (2),

any adjustment required to make the treatment of the items by such beneficiary consistent with the treatment of the items on the applicable entity's 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) DEFINITIONS.—For purposes of this subsection—

''(A) REPORTED ITEM.—The term 'reported item' means any item for which information is required to be furnished under subsection (a).

''(B) APPLICABLE ENTITY.—The term 'applicable entity' means the estate or trust of which the taxpayer is the beneficiary.

''(5) ADDITION TO TAX FOR FAILURE TO COMPLY WITH SECTION.—For addition to tax in the case of a beneficiary's negligence in connection with, or disregard of, the requirements of this section, see part II of subchapter A of chapter 68.''.

(b) FOREIGN TRUSTS.—Subsection (d) of section 6048 (relating to information with respect to certain foreign trusts) is amended by adding at the end the following new paragraph:

''(5) UNITED STATES PERSON'S RETURN MUST BE CONSISTENT WITH TRUST RETURN OR SECRETARY NOTIFIED OF INCONSISTENCY.—Rules similar to the rules of section 6034A(c) shall apply to items reported by a trust under subsection (b)(1)(B) and to United States persons referred to in such subsection.''.

(c) EFFECTIVE DATE.—The amendments made by this section shall apply to returns of beneficiaries and owners filed after the date of the enactment of this Act.

Subtitle E—Excise Tax Provisions

SEC. 1041. EXTENSION AND MODIFICATION OF AIRPORT AND AIRWAY TRUST FUND TAXES.

(a) FUEL TAXES.—

(1) AVIATION FUEL.—Clause (ii) of section 4091(b)(3)(A) is amended by striking ''September 30, 1997'' and inserting ''September 30, 2007''.

(2) AVIATION GASOLINE.—Subparagraph (B) of section 4081(d)(2) is amended by striking ''September 30, 1997'' and inserting ''September 30, 2007''.

(3) NONCOMMERCIAL AVIATION.—Subparagraph (B) of section 4041(c)(3) is amended by striking ''September 30, 1997'' and inserting ''September 30, 2007''.

(b) TICKET TAXES.—

(1) PERSONS.—Clause (ii) of section 4261(g)(1)(A) is amended by striking ''September 30, 1997'' and inserting ''September 30, 2007''.

(2) PROPERTY.—Clause (ii) of section 4271(d)(1)(A) is amended by striking ''September 30, 1997'' and inserting ''September 30, 2007''.

(c) MODIFICATIONS TO TAX ON TRANSPORTATION OF PERSONS BY AIR.—

(1) IN GENERAL.—Section 4261 (relating to imposition of tax) is amended by striking subsections (a), (b), and (c) and inserting the following new subsections:

''(a) IN GENERAL.—There is hereby imposed on the amount paid for taxable transportation of any person a tax equal to 7.5 percent of the amount so paid.

''(b) DOMESTIC SEGMENTS OF TAXABLE TRANSPORTATION.—

''(1) IN GENERAL.—There is hereby imposed on the amount paid for each domestic segment of taxable transportation by air a tax in the amount determined in accordance with the following table for the calendar year in which the segment begins:

In the case of segments beginning during:	The tax is:
1997 or 1998	$2.00
1999	$2.25
2000	$2.50
2001	$2.75
2002 or thereafter	$3.00.

''(2) DOMESTIC SEGMENT.—For purposes of this section, the term 'domestic segment' means any segment which is taxable transportation described in section 4262(a)(1).

''(3) CHANGES IN SEGMENTS BY REASON OF REROUTING.—If—

''(A) a ticket is purchased for transportation between 2 locations on specified flights, and

''(B) at the initiation of the air carrier after such purchase, there is a change in the route taken which changes the number of domestic segments, but there is no change in the amount charged for such transportation, the tax imposed by paragraph (1) shall be determined without regard to such change in route.

''(c) USE OF INTERNATIONAL TRAVEL FACILITIES.—

''(1) IN GENERAL.—There is hereby imposed a tax of $15.50 on any amount paid (whether within or without the United States) for any transportation of any person by air, if such transportation begins or ends in the United States.

''(2) EXCEPTION FOR TRANSPORTATION ENTIRELY TAXABLE UNDER SUBSECTION (a).—This subsection shall not apply to any transportation all of which is taxable under subsection (a) (determined without regard to sections 4281 and 4282).

''(3) SPECIAL RULE FOR ALASKA AND HAWAII.—In any case in which the tax imposed by paragraph (1) applies to a domestic segment, such tax shall apply only on departure.''.

(2) SPECIAL RULES.—Section 4261 is amended by redesignating subsections (e), (f), and (g), as subsections (f), (g), and (h), respectively, and by inserting after subsection (d) the following new subsection:

''(e) SPECIAL RULES.—

''(1) AMOUNTS PAID OUTSIDE THE UNITED STATES.—In the case of amounts paid outside the United States for taxable transportation, the taxes imposed by subsections (a) and (b) shall apply only to segments of such transportation which begin and end in the United States.

''(2) AMOUNTS PAID FOR RIGHT TO AWARD FREE OR REDUCED RATE AIR TRANSPORTATION.—Any amount paid (and the value of any other benefit provided) to an air carrier (or any related person) for the right to provide mileage awards for (or other reductions in the cost of) any transportation of persons by air shall be treated for purposes of subsection (a) as an amount paid for taxable transportation, and such amount shall be taxable under subsection (a) without regard to any other provision of this subchapter. The Secretary shall prescribe rules which reallocate items of income, deduction, credit, exclusion, or other allowance to the extent necessary to prevent the avoidance of tax imposed by reason of this paragraph.

''(3) INFLATION ADJUSTMENT OF DOLLAR RATES OF TAX.—

''(A) IN GENERAL.—In the case of taxable events in a calendar year after the last nonindexed year, the dollar amount contained in subsection (b) and the dollar amount contained in subsection (c) shall each be increased by an amount equal to—

''(i) such dollar amount, multiplied by

''(ii) the cost-of-living adjustment determined under section 1(f)(3) for such calendar year by substituting the year before the last nonindexed year for 'calendar year 1992' in subparagraph (B) thereof.

If any increase determined under the preceding sentence is not a multiple of 10 cents, such increase shall be rounded to the nearest multiple of 10 cents.

''(B) LAST NONINDEXED YEAR.—For purposes of subparagraph (A), the last nonindexed year is—

''(i) 2002 in the case of a dollar amount contained in subsection (b), and

''(ii) 1998 in the case of a dollar amount contained in subsection (c).

''(C) TAXABLE EVENT.—For purposes of subparagraph (A), in the case of the tax imposed subsection (b), the beginning of the domestic segment shall be treated as the taxable event.''.

(3) SECONDARY LIABILITY OF CARRIER FOR UNPAID TAX.—Subsection (c) of section 4263 is amended by striking ''subchapter—'' and all that follows and inserting '', such tax shall be paid by the carrier providing the initial segment of such transportation which begins or ends in the United States.''.

(d) MODIFICATION OF RULES ON AIRLINE FARE ADVERTISING.—Subsection (b) of section 7275 (relating to advertising) is amended by striking ''shall—'' and all that follows and inserting ''shall—

''(1) separately state—

''(A) the amount to be paid for such transportation, and

''(B) the amount of the taxes imposed by subsections (a), (b), and (c) of section 4261 at a location proximate to (and in a type size not less than half the type size of) the statement of the amount described in subparagraph (A), and

''(2) describe such taxes substantially as: 'user taxes to pay for airport construction and airway safety and operations'.''.

(e) INCREASED AIRPORT AND AIRWAY TRUST FUND DEPOSITS.—

(1) Paragraph (1) of section 9502(b) is amended—

(A) by striking ''(to the extent that the rate of the tax on such gasoline exceeds 4.3 cents per gallon)'' in subparagraph (C), and

(B) by striking ''to the extent attributable to the Airport and Airway Trust Fund financing rate'' in subparagraph (C).

(2) Section 9502 is amended by striking subsection (f).

(f) EFFECTIVE DATES.—

(1) FUEL TAXES.—The amendments made by subsection (a) shall apply take effect on October 1, 1997.

(2) TICKET TAXES.—

(A) IN GENERAL.—Except as otherwise provided in this paragraph, the amendments made by subsections (b) and (c) shall apply to transportation beginning on or after October 1, 1997.

(B) TREATMENT OF AMOUNTS PAID FOR TICKETS PURCHASED BEFORE DATE OF ENACTMENT.—The amendments made by subsection (c) shall not apply to amounts paid for a ticket purchased before the date of the enactment of this Act for a specified flight beginning on or after October 1, 1997.

(C) AMOUNTS PAID FOR RIGHT TO AWARD MILEAGE AWARDS.—

(i) IN GENERAL.—Paragraph (2) of section 4261(e) of the Internal Revenue Code of 1986 (as added by the amendment made by subsection (c)) shall apply to amounts paid after September 30, 1997.

(ii) PAYMENTS WITHIN CONTROLLED GROUP.—For purposes of clause (i), any amount paid after June 11, 1997, and before October 1, 1997, by 1 member of a controlled group for a right which is described in such section 4261(e)(2) and is furnished by another member of such group after September 30, 1997, shall be treated as paid after September 30, 1997. For purposes of the preceding sentence, all persons treated as a single employer under subsection (a) or (b) of section 52 of such Code shall be treated as members of a controlled group.

(3) ADVERTISING.—The amendment made by subsection (d) shall take effect on October 1, 1997.

(4) INCREASED DEPOSITS INTO AIRPORT AND AIRWAY TRUST FUND.—The amendments made by subsection (e) shall apply with respect to taxes received in the Treasury on and after October 1, 1997.

(g) DELAYED DEPOSITS OF AIRLINE TICKET TAX REVENUES.—Notwithstanding section 6302 of the Internal Revenue Code of 1986, in the case of deposits of taxes imposed by section 4261 of the Internal Revenue Code of 1986, the due date for any such deposit which would (but for this subsection) be required to be made—

(1) after August 14, 1997, and before October 1, 1997, shall be October 10, 1997, or

(2) after June 30, 1998, and before October 1, 1998, shall be October 13, 1998.

SEC. 1042. KEROSENE TAXED AS DIESEL FUEL.

(a) IN GENERAL.—Subsection (a) of section 4083 (defining taxable fuel) 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 adding at the end the following new subparagraph:

''(C) kerosene.''.

(b) RATE OF TAX.—Clause (iii) of section 4081(a)(2)(A) is amended by inserting ''or kerosene'' after ''diesel fuel''.

(c) EXEMPTIONS FROM TAX; REFUNDS TO VENDORS.—

(1) IN GENERAL.—Section 4082 (relating to exemptions for diesel fuel) is amended by striking ''diesel fuel'' each place it appears in subsections (a) and (c) and inserting ''diesel fuel and kerosene''.

(2) CERTAIN KEROSENE EXEMPT FROM DYEING REQUIREMENT.—Section 4082 is amended by redesignating subsections (c) and (d) as subsections (d) and (e), respectively, and by inserting after subsection (b) the following new subsection:

''(c) EXCEPTIONS TO DYEING REQUIREMENTS.—

''(1) AVIATION-GRADE KEROSENE.—Subsection (a)(2) shall not apply to a removal, entry, or sale of aviation-grade kerosene (as determined under regulations prescribed by the Secretary) if the person receiving the kerosene is registered under section 4101 with respect to the tax imposed by section 4091.

''(2) USE FOR NON-FUEL FEEDSTOCK PURPOSES.—Subsection (a)(2) shall not apply to kerosene—

''(A) received by pipeline or barge for use by the person receiving the kerosene in the manufacture or production of any substance (other than gasoline, diesel fuel, or special fuels referred to in section 4041), or

''(B) to the extent provided in regulations, removed or entered—

''(i) for such a use by the person removing or entering the kerosene, or

''(ii) for resale by such person for such a use by the purchaser,

but only if the person receiving, removing, or entering the kerosene and such purchaser (if any) are registered under section 4101 with respect to the tax imposed by section 4081.''.

(3) REFUNDS.—

(A) Subsection (l) of section 6427 is amended by inserting ''or kerosene'' after ''diesel fuel'' each place it appears in paragraphs (1), (2), and (5) (including the heading for paragraph (5)).

(B) Paragraph (5) of section 6427(l) is amended by redesignating subparagraph (B) as subparagraph (C) and by inserting after subparagraph (A) the following new subparagraph:

''(B) SALES OF KEROSENE NOT FOR USE IN MOTOR FUEL.—Paragraph (1)(A) shall not apply to kerosene sold by a vendor—

''(i) for any use if such sale is from a pump which (as determined under regulations prescribed by the Secretary) is not suitable for use in fueling any diesel-powered highway vehicle or train, or

''(ii) to the extent provided by the Secretary, for blending with heating oil to be used during periods of extreme or unseasonable cold.''.

(C) Subparagraph (C) of section 6427(l)(5), as redesignated by subparagraph (B) of this paragraph, is amended by striking ''subparagraph (A)'' and inserting ''subparagraph (A) or (B)''.

(D) The heading for subsection (l) of section 6427 is amended by inserting '', KEROSENE,'' after ''DIESEL FUEL''.

(d) CONFORMING AMENDMENTS.—

(1) Paragraph (2) of section 4041(a) is amended by striking ''kerosene, gas oil, or fuel oil'' and inserting ''gas oil, fuel oil''.

(2) Paragraph (1) of section 4041(c) is amended by striking ''any liquid'' and inserting ''kerosene and any other liquid''.

(3)(A) The heading for section 4082 is amended by inserting ''**AND KEROSENE**'' after ''**DIESEL FUEL**''.

(B) The table of sections for subpart A of part III of subchapter A of chapter 32 is amended by inserting ''and kerosene'' after ''diesel fuel'' in the item relating to section 4082.

(4) Subsection (b) of section 4083 is amended by striking ''gasoline, diesel fuel,'' and inserting ''taxable fuels''.

(5) Subsection (a) of section 4093 is amended by striking ''any liquid'' and inserting ''kerosene and any other liquid''.

(6) The material following subparagraph (F) of section 6416(b)(2) is amended by inserting ''or kerosene'' after ''diesel fuel''.

(7) Paragraphs (1) and (3) of section 6427(f), and the heading for section 6427(f), are each amended by inserting ''kerosene,'' after ''diesel fuel,''.

(8) Paragraph (2) of section 6427(f) is amended by striking ''or diesel fuel'' each place it appears and inserting '', diesel fuel, or kerosene''.

(9) Subparagraph (A) of section 6427(i)(3) is amended by striking ''or diesel fuel'' and inserting '', diesel fuel, or kerosene''.

(10) The heading for paragraph (4) of section 6427(i) is amended to read as follows:

''(4) SPECIAL RULE FOR REFUNDS UNDER SUBSECTION (l).—''

(11) Paragraph (1) of section 6715(c) is amended by inserting ''or kerosene'' after ''diesel fuel''.

(12)(A) The text of section 7232 is amended by striking ''gasoline, lubricating oil, diesel fuel'' and inserting ''any taxable fuel (as defined in section 4083)''.

(B) The section heading for section 7232 is amended to read as follows:

''SEC. 7232. FAILURE TO REGISTER UNDER SECTION 4101, FALSE REPRESENTATIONS OF REGISTRATION STATUS, ETC.''.

(C) The table of sections for part II of subchapter A of chapter 75 is amended by striking the item relating to section 7232 and inserting the following:

''Sec. 7232. Failure to register under section 4101, false representations of registration status, etc.''.

(13) Sections 9503(b)(1)(E) and 9508(b)(2) are each amended by striking ''and diesel fuel'' and inserting '', diesel fuel, and kerosene''.

(14) Subparagraph (B) of section 9503(b)(5) is amended by striking ''or diesel fuel'' and inserting '', diesel fuel, or kerosene''.

(15) Paragraphs (1)(B) and (2) of section 9503(f) are each amended by inserting ''or kerosene'' after ''diesel fuel'' each place it appears.

(e) EFFECTIVE DATE.—The amendments made by this section shall take effect on July 1, 1998.

(f) FLOOR STOCK TAXES.—

(1) IMPOSITION OF TAX.—In the case of kerosene which is held on July 1, 1998, by any person, there is hereby imposed a floor stocks tax of 24.3 cents per gallon.

(2) LIABILITY FOR TAX AND METHOD OF PAYMENT.—

(A) LIABILITY FOR TAX.—A person holding kerosene on July 1, 1998, to which the tax imposed by paragraph (1) applies shall be liable for such tax.

(B) METHOD OF PAYMENT.—The tax imposed by paragraph (1) shall be paid in such manner as the Secretary shall prescribe.

(C) TIME FOR PAYMENT.—The tax imposed by paragraph (1) shall be paid on or before August 31, 1998.

(3) DEFINITIONS.—For purposes of this subsection—

(A) HELD BY A PERSON.—Kerosene shall be considered as ''held by a person'' if title thereto has passed to such person (whether or not delivery to the person has been made).

(B) SECRETARY.—The term ''Secretary'' means the Secretary of the Treasury or his delegate.

(4) EXCEPTION FOR EXEMPT USES.—The tax imposed by paragraph (1) shall not apply to kerosene held by any person exclusively for any use to the extent a credit or refund of the tax imposed by section 4081 of the Internal Revenue Code of 1986 is allowable for such use.

(5) EXCEPTION FOR FUEL HELD IN VEHICLE TANK.—No tax shall be imposed by paragraph (1) on kerosene held in the tank of a motor vehicle or motorboat.

(6) EXCEPTION FOR CERTAIN AMOUNTS OF FUEL.—

(A) IN GENERAL.—No tax shall be imposed by paragraph (1) on kerosene held on July 1, 1998, by any person if the aggregate amount of kerosene held by such person on such date does not exceed 2,000 gallons. The preceding sentence shall apply only if such person submits to the Secretary (at the time and in the manner required by the Secretary) such information as the Secretary shall require for purposes of this paragraph.

(B) EXEMPT FUEL.—For purposes of subparagraph (A), there shall not be taken into account fuel held by any person which is exempt from the tax imposed by paragraph (1) by reason of paragraph (4) or (5).

(C) CONTROLLED GROUPS.—For purposes of this paragraph—

(i) CORPORATIONS.—

(I) IN GENERAL.—All persons treated as a controlled group shall be treated as 1 person.

(II) CONTROLLED GROUP.—The term ''controlled group'' has the meaning given to such term by subsection (a) of section 1563 of such Code; except that for such purposes the phrase ''more than 50 percent'' shall be substituted for the phrase ''at least 80 percent'' each place it appears in such subsection.

(ii) NONINCORPORATED PERSONS UNDER COMMON CONTROL.—Under regulations prescribed by the Secretary, principles similar to the principles of clause (i) shall apply to a group of persons under common control where 1 or more of such persons is not a corporation.

(7) COORDINATION WITH SECTION 4081.—No tax shall be imposed by paragraph (1) on kerosene to the extent that tax has been (or will be) imposed on such kerosene under section 4081 or 4091 of such Code.

(8) OTHER LAWS APPLICABLE.—All provisions of law, including penalties, applicable with respect to the taxes imposed by section 4081 of such Code shall, insofar as applicable and not inconsistent with the provisions of this subsection, apply with respect to the floor stock taxes imposed by paragraph (1) to the same extent as if such taxes were imposed by such section 4081.

SEC. 1043. RESTORATION OF LEAKING UNDERGROUND STORAGE TANK TRUST FUND TAXES.

Paragraph (3) of section 4081(d) is amended by striking ''shall not apply after December 31, 1995'' and inserting ''shall apply after the date of the enactment of the Taxpayer Relief Act of 1997 and before October 1, 2002''.

SEC. 1044. APPLICATION OF COMMUNICATIONS TAX TO LONG-DISTANCE PREPAID TELEPHONE CARDS.

(a) IN GENERAL.—Subsection (b) of section 4251 is amended—

(1) by adding at the end the following new paragraph:

''(3) LONG-DISTANCE PREPAID TELEPHONE CARDS AND SIMILAR ARRANGEMENTS.—Any amount paid (and the value of any other benefit provided) to a provider of communications services (or any related person) for the right to award, sell, or otherwise make available telephone service (or reductions in the cost of such service) other than local telephone service through prepaid telephone cards or any similar arrangement shall be treated as an amount paid for communications services. The Secretary shall prescribe rules which reallocate items of income, deduction, credit, exclusion, or other allowance to the extent necessary to prevent the avoidance of tax imposed by reason of this paragraph.'', and

(2) by inserting ''AND SPECIAL RULE'' after ''DEFINITIONS'' in the heading.

(b) EFFECTIVE DATE.—

(1) IN GENERAL.—The amendments made by this section shall apply to amounts paid on or after the date of the enactment of this Act.

(2) PAYMENTS WITHIN CONTROLLED GROUP.—For purposes of paragraph (1), any amount paid after June 11, 1997, and before the date of the enactment of this Act by 1 member of a controlled group for a right which is described in section 4251(b)(3) of the Internal Revenue Code of 1986 (as added by this section) and is furnished by another member of such group shall be treated as paid on the date of the enactment of this Act. For purposes of the preceding sentence, all persons treated as a single employer under subsection (a) or (b) of section 52 of such Code shall be treated as members of a controlled group.

Subtitle F—Provisions Relating to Tax-Exempt Entities

SEC. 1051. EXPANSION OF LOOK-THRU RULE FOR INTEREST, ANNUITIES, ROYALTIES, AND RENTS DERIVED BY SUBSIDIARIES OF TAX-EXEMPT ORGANIZATIONS.

(a) IN GENERAL.—Paragraph (13) of section 512(b) is amended to read as follows:

''(13) SPECIAL RULES FOR CERTAIN AMOUNTS RECEIVED FROM CONTROLLED ENTITIES.—

''(A) IN GENERAL.—If an organization (in this paragraph referred to as the 'controlling organization') receives (directly or indirectly) a specified payment from another entity which it controls (in this paragraph referred to as the 'controlled entity'), notwithstanding paragraphs (1), (2), and (3), the controlling organization shall include such payment as an item of gross income derived from an unrelated trade or business to the extent such payment reduces the net unrelated income of the controlled entity (or increases any net unrelated loss of the controlled entity). There shall be allowed all deductions of the controlling organization directly connected with amounts treated as derived from an unrelated trade or business under the preceding sentence.

''(B) NET UNRELATED INCOME OR LOSS.—For purposes of this paragraph—

''(i) NET UNRELATED INCOME.—The term 'net unrelated income' means—

''(I) in the case of a controlled entity which is not exempt from tax under section 501(a), the portion of such entity's taxable income which would be unrelated business taxable income if such entity were exempt from tax under section 501(a) and had the same exempt purposes (as defined in section 513A(a)(5)(A)) as the controlling organization, or

''(II) in the case of a controlled entity which is exempt from tax under section 501(a), the amount of the unrelated business taxable income of the controlled entity.

''(ii) NET UNRELATED LOSS.—the term 'net unrelated loss' means the net operating loss adjusted under rules similar to the rules of clause (i).

''(C) SPECIFIED PAYMENT.—For purposes of this paragraph, the term 'specified payment' means any interest, annuity, royalty, or rent.

''(D) DEFINITION OF CONTROL.—For purposes of this paragraph—

''(i) CONTROL.—The term 'control' means—

''(I) in the case of a corporation, ownership (by vote or value) of more than 50 percent of the stock in such corporation,

''(II) in the case of a partnership, ownership of more than 50 percent of the profits interests or capital interests in such partnership, or

''(III) in any other case, ownership of more than 50 percent of the beneficial interests in the entity.

''(ii) CONSTRUCTIVE OWNERSHIP.—Section 318 (relating to constructive ownership of stock) shall apply for purposes of determining ownership of stock in a corporation. Similar principles shall apply for purposes of determining ownership of interests in any other entity.

''(E) RELATED PERSONS.—The Secretary shall prescribe such rules as may be necessary or appropriate to prevent avoidance of the purposes of this paragraph through the use of related persons.''.

(b) EFFECTIVE DATE.—

(1) IN GENERAL.—Except as provided in paragraph (2), the amendments made by this section shall apply to taxable years beginning after the date of the enactment of this Act.

(2) CONTROL TEST.—In the case of taxable years beginning before January 1, 1999, an organization shall be treated as controlling another organization for purposes of section 512(b)(13) of the Internal Revenue Code of 1986 (as amended by this section) only if it controls such organization within the meaning of such section, determined by substituting ''80 percent'' for ''50 percent'' each place it appears in subparagraph (D) thereof.

SEC. 1052. LIMITATION ON INCREASE IN BASIS OF PROPERTY RESULTING FROM SALE BY TAX-EXEMPT ENTITY TO A RELATED PERSON.

(a) IN GENERAL.—Part IV of subchapter O of chapter 1 (relating to special rules for gain or loss on disposition of property) is amended by redesignating section 1061 as section 1062 and by inserting after section 1060 the following new section:

''SEC. 1061. BASIS LIMITATION FOR SALE OR EXCHANGE OF PROPERTY BY TAX-EXEMPT ENTITY TO RELATED PERSON.

''(a) GENERAL RULE.—In the case of a sale or exchange of property directly or indirectly between a tax-exempt entity and a related person, the basis of the related person in the property acquired shall not exceed the adjusted basis of such property (immediately before the exchange) in the hands of the tax-exempt entity, increased by the amount of gain recognized to the tax-exempt entity on the transfer which is subject to tax under section 511.

''(b) DEFINITIONS.—For purposes of this section—

''(1) TAX-EXEMPT ENTITY.—The term 'tax-exempt entity' means any entity which is exempt from the tax imposed by this chapter.

''(2) RELATED PERSON.—The term 'related person' means any person bearing a relationship to the tax-exempt entity which is described in section 267(b) or 707(b)(1). For purposes of applying section 267(b)(2) under the preceding sentence, such an entity shall be treated as if it were an individual.''.

(b) CLERICAL AMENDMENT.—The table of sections for part IV of subchapter O of chapter 1 is amended by striking the last item and inserting the following:

''Sec. 1061. Basis limitation for sale or exchange of property by tax-exempt entity to related person.

''Sec. 1062. Cross references.''.

(c) EFFECTIVE DATE.—

(1) IN GENERAL.—The amendments made by this section shall apply to sales and exchanges after June 8, 1997.

(2) BINDING CONTRACTS.—The amendments made by this section shall not apply to any sale or exchange pursuant to a written contract which was binding on June 8, 1997, and at all times thereafter before the sale or exchange.

SEC. 1053. MODIFICATIONS TO EXCEPTION FROM REPORTING, ETC. OF LOBBYING ACTIVITIES.

(a) IN GENERAL.—Paragraph (3) of section 6033(e) (relating to exception where dues generally nondeductible) is amended to read as follows:

''(3) EXCEPTION WHERE DUES GENERALLY NONDEDUCTIBLE.—

''(A) IN GENERAL.—Paragraph (1)(A) shall not apply to an organization if more than 90 percent of the amount of the aggregate annual dues (or similar payments) paid to such organization are paid—

''(i) by individuals or families whose annual dues (or similar amounts) are less than $100, or

''(ii) by organizations which are exempt from tax.

For purposes of the preceding sentence, all organizations sharing a name, charter, historic affiliation, or similar characteristics and coordinating their lobbying activities shall be treated as 1 organization.

''(B) INFLATION ADJUSTMENT.—In the case of dues for annual periods beginning in any calendar year after 1998, the dollar amount contained in subparagraph (A)(i) shall be increased by an amount equal to—

''(i) such dollar amount, multiplied by

''(ii) the cost-of-living adjustment determined under section 1(f)(3) for such calendar year by substituting 'calendar year 1997' for 'calendar year 1992' in subparagraph (B) thereof.

If any increase determined under the preceding sentence is not a multiple of $5, such increase shall be rounded to the nearest multiple of $5.

(b) EFFECTIVE DATE.—The amendment made by subsection (a) shall apply to taxable years beginning after December 31, 1997.

SEC. 1054. TERMINATION OF CERTAIN EXCEPTIONS FROM RULES RELATING TO EXEMPT ORGANIZATIONS WHICH PROVIDE COMMERCIAL-TYPE INSURANCE.

(a) IN GENERAL.—Subparagraphs (A) and (B) of section 1012(c)(4) of the Tax Reform Act of 1986 shall not apply to any taxable year beginning after December 31, 1997.

(b) SPECIAL RULES.—In the case of an organization to which section 501(m) of the Internal Revenue Code of 1986 applies solely by reason of the amendment made by subsection (a)—

(1) no adjustment shall be made under section 481 (or any other provision) of such Code on account of a change in its method of accounting for its first taxable year beginning after December 31, 1997, and

(2) for purposes of determining gain or loss, the adjusted basis of any asset held on the 1st day of such taxable year shall be treated as equal to its fair market value as of such day.

(c) RESERVE WEAKENING AFTER JUNE 8, 1997.—Any reserve weakening after June 8, 1997, by an organization described in subsection (b) shall be treated as occurring in such organizations 1st taxable year beginning after December 31, 1997.

(d) REGULATIONS.—The Secretary of the Treasury or his delegate may prescribe rules for providing proper adjustments for organizations described in subsection (b) with respect to short taxable years which begin during 1998 by reason of section 843 of the Internal Revenue Code of 1986.

Subtitle G—Other Revenue Provisions

SEC. 1061. TERMINATION OF SUSPENSE ACCOUNTS FOR FAMILY CORPORATIONS REQUIRED TO USE ACCRUAL METHOD OF ACCOUNTING.

(a) IN GENERAL.—Subsection (i) of section 447 (relating to method of accounting for corporations engaged in farming) is amended by adding at the end the following new paragraph:

''(7) TERMINATION.—

''(A) IN GENERAL.—No suspense account may be established under this subsection by any corporation required by this section to change its method of accounting for any taxable year ending after June 8, 1997.

''(B) PHASEOUT OF EXISTING SUSPENSE ACCOUNTS.—

''(i) IN GENERAL.—Each suspense account under this subsection shall be reduced (but not below zero) for each taxable year beginning after June 8, 1997, by an amount equal to the lesser of—

''(I) the applicable portion of such account, or

''(II) 50 percent of the taxable income of the corporation for the taxable year, or, if the corporation has no taxable income for such year, the amount of any net operating loss (as defined in section 172(c)) for such taxable year.

For purposes of the preceding sentence, the amount of taxable income and net operating loss shall be determined without regard to this paragraph.

''(ii) COORDINATION WITH OTHER REDUCTIONS.—The amount of the applicable portion for any taxable year shall be reduced (but not below zero) by the amount of any reduction required for such taxable year under any other provision of this subsection.

''(iv) INCLUSION IN INCOME.—Any reduction in a suspense account under this paragraph shall be included in gross income for the taxable year of the reduction.

''(C) APPLICABLE PORTION.—For purposes of subparagraph (B), the term 'applicable portion' means, for any taxable year, the amount which would ratably reduce the amount in the account (after taking into account prior reductions) to zero over the period consisting of such taxable year and the remaining taxable years in such first 20 taxable years.

''(D) AMOUNTS AFTER 20TH YEAR.—Any amount in the account as of the close of the 20th year referred to in subparagraph (C) shall be treated as the applicable portion for each succeeding year thereafter to the extent not reduced under this paragraph for any prior taxable year after such 20th year.''.

(b) EFFECTIVE DATE.—The amendments made by this section shall apply to taxable years ending after June 8, 1997.

SEC. 1062. MODIFICATION OF TAXABLE YEARS TO WHICH NET OPERATING LOSSES MAY BE CARRIED.

(a) IN GENERAL.—Subparagraph (A) of section 172(b)(1) (relating to years to which loss may be carried) is amended—

(1) by striking ''3'' in clause (i) and inserting ''2'', and

(2) by striking ''15'' in clause (ii) and inserting ''20''.

(b) RETENTION OF 3-YEAR CARRYBACK FOR CASUALTY LOSSES OF INDIVIDUALS.—Paragraph (1) of section 172(b) is amended by adding at the end the following new subparagraph:

''(F) CASUALTY LOSSES OF INDIVIDUALS.—Subparagraph (A)(i) shall be applied by substituting '3 years' for '2 years' with respect to the portion of the net operating loss of an individual for the taxable year which is attributable to losses of property arising from fire, storm, shipwreck, or other casualty, or from theft.''.

(c) EFFECTIVE DATE.—The amendments made by this section shall apply to net operating losses for taxable years beginning after the date of the enactment of this Act.

SEC. 1063. EXPANSION OF DENIAL OF DEDUCTION FOR CERTAIN AMOUNTS PAID IN CONNECTION WITH INSURANCE.

(a) DENIAL OF DEDUCTION FOR PREMIUMS.—Paragraph (1) of section 264(a) is amended to read as follows:

''(1) Premiums on any life insurance policy, or endowment or annuity contract, if the taxpayer is directly or indirectly a beneficiary under the policy or contract.''.

(b) INTEREST ON POLICY LOANS.—Paragraph (4) of section 264(a) is amended by striking ''individual, who'' and all that follows and inserting ''individual.''.

(c) PRO RATA ALLOCATION OF INTEREST EXPENSE TO POLICY CASH VALUES.—Section 264 is amended by adding at the end the following new subsection:

''(e) PRO RATA ALLOCATION OF INTEREST EXPENSE TO POLICY CASH VALUES.—

''(1) IN GENERAL.—No deduction shall be allowed for that portion of the taxpayer's interest expense which is allocable to unborrowed policy cash values.

''(2) ALLOCATION.—For purposes of paragraph (1), the portion of the taxpayer's interest expense which is allocable to unborrowed policy cash values is an amount which bears the same ratio to such interest expense as—

''(A) the taxpayer's average unborrowed policy cash values of life insurance policies, and annuity and endowment contracts, issued after June 8, 1997, bears to

''(B) the average adjusted bases (within the meaning of section 1016) for all assets of the taxpayer.

''(3) UNBORROWED POLICY CASH VALUES.—The term 'unborrowed policy cash value' means, with respect to any life insurance policy or annuity or endowment contract, the excess of—

''(A) the cash surrender value of such policy or contract determined without regard to any surrender charge, over

''(B) the amount of any loan in respect of such policy or contract.

''(4) EXCEPTION FOR CERTAIN POLICIES AND CONTRACTS COVERING OFFICERS, DIRECTORS, AND EMPLOYEES.—Paragraph (1) shall not apply to any policy or contract owned by an entity engaged in a trade or business which covers any individual who is an officer, director, or employee of such trade or business at the time first covered by the policy or contract, and such policies and contracts shall not be taken into account under paragraph (2).

''(5) EXCEPTION FOR POLICIES AND CONTRACTS HELD BY NATURAL PERSONS; TREATMENT OF PARTNERSHIPS AND S CORPORATIONS.—

''(A) POLICIES AND CONTRACTS HELD BY NATURAL PERSONS.—

''(i) IN GENERAL.—This subsection shall not apply to any policy or contract held by a natural person.

''(ii) EXCEPTION WHERE BUSINESS IS BENEFICIARY.—If a trade or business is directly or indirectly the beneficiary under any policy or contract, to the extent of the unborrowed cash value of such policy or contract, such policy or contract shall be treated as held by such trade or business and not by a natural person.

''(iii) SPECIAL RULES.—

''(I) CERTAIN TRADES OR BUSINESSES NOT TAKEN INTO ACCOUNT.—Clause (ii) shall not apply to any trade or business carried on as a sole proprietorship and to any trade or business performing services as an employee.

''(II) LIMITATION ON UNBORROWED CASH VALUE.—The amount of the unborrowed cash value of any policy or contract which is taken into account by reason of clause (ii) shall not exceed the benefit to which the trade or business is entitled under the policy or contract.

''(iv) REPORTING.—The Secretary shall require such reporting from policyholders and issuers as is necessary to carry out clause (ii). Any report required under the preceding sentence shall be treated as a statement referred to in section 6724(d)(1).

''(B) TREATMENT OF PARTNERSHIPS AND S CORPORATIONS.—In the case of a partnership or S corporation, this subsection shall be applied at the partnership and corporate levels.

''(6) SPECIAL RULES.—

''(A) COORDINATION WITH SUBSECTION (a) AND SECTION 265.—If interest on any indebtedness is disallowed under subsection (a) or section 265—

''(i) such disallowed interest shall not be taken into account for purposes of applying this subsection, and

''(ii) for purposes of applying paragraph (2)(B), the adjusted bases otherwise taken into account shall be reduced (but not below zero) by the amount of such indebtedness.

''(B) COORDINATION WITH SECTION 263A.—This subsection shall be applied before the application of section 263A (relating to capitalization of certain expenses where taxpayer produces property).''.

''(7) INTEREST EXPENSE.—The term 'interest expense' means the aggregate amount allowable to the taxpayer as a deduction for interest (within the meaning of section 265(b)(4)) for the taxable year (determined without regard to this subsection, section 265(b), and section 291).

''(8) AGGREGATION RULES.—

''(A) IN GENERAL.—All members of a controlled group (within the meaning of subsection (d)(5)(B)) shall be treated as 1 taxpayer for purposes of this subsection.

''(B) TREATMENT OF INSURANCE COMPANIES.—This subsection shall not apply to an insurance company, and subparagraph (A) shall be applied without regard to any insurance company.''.

(b) TREATMENT OF INSURANCE COMPANIES.—

(1) Clause (ii) of section 805(a)(4)(C) is amended by inserting '', or out of the increase for the taxable year in policy cash values (within the meaning of section 264(e)(3)(A)) of life insurance policies and annuity and endowment contracts to which section 264(e) applies'' after ''tax-exempt interest''.

(2) Clause (iii) of section 805(a)(4)(D) is amended by striking ''and'' and inserting '', the increase for the taxable year in policy cash values (within the meaning of section 264(e)(3)(A)) of life insurance policies and annuity and endowment contracts to which section 264(e) applies, and''.

(3) Subparagraph (B) of section 807(a)(2) is amended by striking ''interest,'' and inserting ''interest and the amount of the policyholder's share of the increase for the taxable year in policy cash values (within the meaning of section 264(e)(3)(A)) of life insurance policies and annuity and endowment contracts to which section 264(e) applies,''.

(4) Subparagraph (B) of section 807(b)(1) is amended by striking ''interest,'' and inserting ''interest and the amount of the policyholder's share of the increase for the taxable year in policy cash values (within the meaning of section 264(e)(3)(A)) of life insurance policies and annuity and endowment contracts to which section 264(e) applies,''.

(5) Paragraph (1) of section 812(d) 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 at the end the following new subparagraph:

''(D) the increase for any taxable year in the policy cash values (within the meaning of section 264(e)(3)(A)) of life insurance policies and annuity and endowment contracts to which section 264(e) applies.''.

(6) Subparagraph (B) of section 832(b)(5) is amended by striking ''and'' at the end of clause (i), by striking the period at the end of clause (ii) and inserting '', and'', and by adding at the end the following new clause:

''(iii) the increase for the taxable year in policy cash values (within the meaning of section 264(e)(3)(A)) of life insurance policies and annuity and endowment contracts to which section 264(e) applies.''.

(c) CONFORMING AMENDMENT.—Subparagraph (A) of section 265(b)(4) is amended by inserting '', section 264,'' before ''and section 291''.

(d) EFFECTIVE DATE.—The amendments made by this section shall apply to contracts issued after June 8, 1997, in taxable years ending after such date. For purposes of the preceding sentence, any material increase in the death benefit or other material change in the contract shall be treated as a new contract but the addition of covered lives shall be treated as a new contract only with respect to such additional covered lives. For purposes of this subsection, an increase in the death benefit under a policy or contract issued in connection with a lapse described in section 501(d)(2) of the Health Insurance Portability and Accountability Act of 1996 shall not be treated as a new contract.

SEC. 1064. ALLOCATION OF BASIS AMONG PROPERTIES DISTRIBUTED BY PARTNERSHIP.

(a) IN GENERAL.—Subsection (c) of section 732 is amended to read as follows:

''(c) ALLOCATION OF BASIS.—

''(1) IN GENERAL.—The basis of distributed properties to which subsection (a)(2) or (b) is applicable shall be allocated—

''(A)(i) first to any unrealized receivables (as defined in section 751(c)) and inventory items (as defined in section 751(d)(2)) in an amount equal to the adjusted basis of each such property to the partnership, and

''(ii) if the basis to be allocated is less than the sum of the adjusted bases of such properties to the partnership, then, to the extent any decrease is required in order to have the adjusted bases of such properties equal the basis to be allocated, in the manner provided in paragraph (3), and

''(B) to the extent of any basis not allocated under subparagraph (A), to other distributed properties—

''(i) first by assigning to each such other property such other property's adjusted basis to the partnership, and

''(ii) then, to the extent any increase or decrease in basis is required in order to have the adjusted bases of such other distributed properties equal such remaining basis, in the manner provided in paragraph (2) or (3), whichever is appropriate.

''(2) METHOD OF ALLOCATING INCREASE.—Any increase required under paragraph (1)(B) shall be allocated among the properties—

''(A) first to properties with unrealized appreciation in proportion to their respective amounts of unrealized appreciation before such increase (but only to the extent of each property's unrealized appreciation), and

''(B) then, to the extent such increase is not allocated under subparagraph (A), in proportion to their respective fair market values.

''(3) METHOD OF ALLOCATING DECREASE.—Any decrease required under paragraph (1)(A) or (1)(B) shall be allocated—

''(A) first to properties with unrealized depreciation in proportion to their respective amounts of unrealized depreciation before such decrease (but only to the extent of each property's unrealized depreciation), and

''(B) then, to the extent such decrease is not allocated under subparagraph (A), in proportion to their respective adjusted bases (as adjusted under subparagraph (A)).''.

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

SEC. 1065. REPEAL OF REQUIREMENT THAT INVENTORY BE SUBSTANTIALLY APPRECIATED.

(a) IN GENERAL.—Paragraph (2) of section 751(a) is amended to read as follows:

''(2) inventory items of the partnership,''.

(b) CONFORMING AMENDMENTS.—

(1) Subsection (d) of section 751 is amended to read as follows:

''(d) INVENTORY ITEMS.—For purposes of this subchapter, the term 'inventory items' means—

''(1) property of the partnership of the kind described in section 1221(1),

''(2) any other property of the partnership which, on sale or exchange by the partnership, would be considered property other than a capital asset and other than property described in section 1231,

''(3) any other property of the partnership which, if sold or exchanged by the partnership, would result in a gain taxable under subsection (a) of section 1246 (relating to gain on foreign investment company stock), and

''(4) any other property held by the partnership which, if held by the selling or distributee partner, would be considered property of the type described in paragraph (1), (2), or (3).''.

(2) Sections 724(d)(2), 731(a)(2)(B), 731(c)(6), 732(c)(1)(A) (as amended by the preceding section), 735(a)(2), and 735(c)(1) are each amended by striking ''section 751(d)(2)'' and inserting ''section 751(d)''.

(c) EFFECTIVE DATE.—The amendments made by this section shall apply to sales, exchanges, and distributions after the date of the enactment of this Act.

SEC. 1066. EXTENSION OF TIME FOR TAXING PRECONTRIBUTION GAIN.

(a) IN GENERAL.—Sections 704(c)(1)(B) and 737(b)(1) are each amended by striking ''5 years'' and inserting ''10 years''.

(b) EFFECTIVE DATE.—The amendment made by subsection (a) shall apply to property contributed to a partnership after June 8, 1997.

SEC. 1067. RESTRICTIONS ON AVAILABILITY OF EARNED INCOME CREDIT FOR TAXPAYERS WHO IMPROPERLY CLAIMED CREDIT IN PRIOR YEAR.

(a) IN GENERAL.—Section 32 is amended by redesignating subsections (k) and (l) as subsections (l) and (m), respectively, and by inserting after subsection (j) the following new subsection:

''(k) RESTRICTIONS ON TAXPAYERS WHO IMPROPERLY CLAIMED CREDIT IN PRIOR YEAR.—

''(1) TAXPAYERS MAKING PRIOR FRAUDULENT OR RECKLESS CLAIMS.—

''(A) IN GENERAL.—No credit shall be allowed under this section for any taxable year in the disallowance period.

''(B) DISALLOWANCE PERIOD.—For purposes of paragraph (1), the disallowance period is—

''(i) the period of 10 taxable years after the most recent taxable year for which there was a final determination that the taxpayer's claim of credit under this section was due to fraud, and

''(ii) the period of 2 taxable years after the most recent taxable year for which there was a final determination that the taxpayer's claim of credit under this section was due to reckless or intentional disregard of rules and regulations (but not due to fraud).

''(2) TAXPAYERS MAKING IMPROPER PRIOR CLAIMS.—In the case of a taxpayer who is denied credit under this section for any taxable year as a result of the deficiency procedures under subchapter B of chapter 63, no credit shall be allowed under this section for any subsequent taxable year unless the taxpayer provides such information as the Secretary may require to demonstrate eligibility for such credit.''.

(b) DUE DILIGENCE REQUIREMENT ON INCOME TAX RETURN PREPARERS.—Section 6695 is amended by adding at the end the following new subsection:

''(g) FAILURE TO BE DILIGENT IN DETERMINING ELIGIBILITY FOR EARNED INCOME CREDIT.—Any person who is an income tax preparer with respect to any return or claim for refund who fails to comply with due diligence requirements imposed by the Secretary by regulations with respect to determining eligibility for, or the amount of, the credit allowable by section 32 shall pay a penalty of $100 for each such failure.''.

(c) EXTENSION PROCEDURES APPLICABLE TO MATHEMATICAL OR CLERICAL ERRORS.—Paragraph (2) of section 6213(g) (relating to the definition of mathematical or clerical errors) is amended by striking ''and'' at the end of subparagraph (H), by striking the period at the end of subparagraph (I) and inserting '', and'', and by inserting after subparagraph (I) the following new subparagraph:

''(J) an omission of information required by section 32(k)(2) (relating to taxpayers making improper prior claims of earned income credit).''.

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

SEC. 1068. LIMITATION ON PROPERTY FOR WHICH INCOME FORECAST METHOD MAY BE USED.

(a) LIMITATION.—Subsection (g) of section 167 is amended by adding at the end the following new paragraph:

''(6) LIMITATION ON PROPERTY FOR WHICH INCOME FORECAST METHOD MAY BE USED.—The depreciation deduction allowable under this section may be determined under the income forecast method or any similar method only with respect to—

''(A) property described in paragraph (3) or (4) of section 168(f),

''(B) copyrights,

''(C) books,

''(D) patents, and

''(E) other property specified in regulations.

Such methods may not be used with respect to any amortizable section 197 intangible (as defined in section 197(c)).''.

(b) DEPRECIATION PERIOD FOR RENT-TO-OWN PROPERTY.—

(1) IN GENERAL.—Subparagraph (A) of section 168(e)(3) (relating to 3-year property) is amended by striking ''and'' at the end of clause (i), by striking the period at the end of clause (ii) and inserting '', and'', and by adding at the end the following new clause:

''(iii) any qualified rent-to-own property.''.

(2) 4-YEAR CLASS LIFE.—The table contained in section 168(g)(3)(B) is amended by inserting before the first item the following new item:

''(A)(iii) ..... 4 ''.

(3) DEFINITION OF QUALIFIED RENT-TO-OWN PROPERTY.—Subsection (i) of section 168 is amended by adding at the end the following new paragraph:

''(14) QUALIFIED RENT-TO-OWN PROPERTY.—

''(A) IN GENERAL.—The term 'qualified rent-to-own property' means property held by a rent-to-own dealer for purposes of being subject to a rent-to-own contract.

''(B) RENT-TO-OWN DEALER.—The term 'rent-to-own dealer' means a person that, in the ordinary course of business, regularly enters into rent-to-own contracts with customers for the use of consumer property, if a substantial portion of those contracts terminate and the property is returned to such person before the receipt of all payments required to transfer ownership of the property from such person to the customer.

''(C) CONSUMER PROPERTY.—The term 'consumer property' means tangible personal property of a type generally used within the home. Such term shall not include cellular telephones and any computer or peripheral equipment (as defined in section 168(i)).

''(D) RENT-TO-OWN CONTRACT.—The term 'rent-to-own contract' means any lease for the use of consumer property between a rent-to-own dealer and a customer who is an individual which—

''(i) is titled 'Rent-to-Own Agreement' or 'Lease Agreement with Ownership Option,' or uses other similar language,

''(ii) provides for level, regular periodic payments (for a payment period which is a week or month),

''(iii) provides that legal title to such property remains with the rent-to-own dealer until the customer makes all the payments described in clause (ii) or early purchase payments required under the contract to acquire legal title to the item of property,

''(iv) provides a beginning date and a maximum period of time for which the contract may be in effect that does not exceed 156 weeks or 36 months from such beginning date (including renewals or options to extend),

''(v) provides for level payments within the 156-week or 36-month period that, in the aggregate, generally exceed the normal retail price of the consumer property plus interest,

''(vi) provides for payments under the contract that, in the aggregate, do not exceed $10,000 per item of consumer property,

''(vii) provides that the customer does not have any legal obligation to make all the payments referred to in clause (ii) set forth under the contract, and that at the end of each payment period the customer may either continue to use the consumer property by making the payment for the next payment period or return such property to the rent-to-own dealer in good working order, in which case the customer does not incur any further obligations under the contract and is not entitled to a return of any payments previously made under the contract, and

''(viii) provides that the customer has no right to sell, sublease, mortgage, pawn, pledge, encumber, or otherwise dispose of the consumer property until all the payments stated in the contract have been made.''.

(c) EFFECTIVE DATE.—The amendment made by this section shall apply to property placed in service after the date of the enactment of this Act.

SEC. 1069. REPEAL OF SPECIAL RULE FOR RENTAL USE OF VACATION HOMES, ETC., FOR LESS THAN 15 DAYS.

(a) IN GENERAL.—Section 280A (relating to disallowance of certain expenses in connection with business use of home, rental of vacation homes, etc.) is amended by striking subsection (g).

(b) NO BASIS REDUCTION UNLESS DEPRECIATION CLAIMED.—Section 1016 is amended by redesignating subsection (e) as subsection (f) and by inserting after subsection (d) the following new subsection:

''(e) SPECIAL RULE WHERE RENTAL USE OF VACATION HOME, ETC., FOR LESS THAN 15 DAYS.—If a dwelling unit is used during the taxable year by the taxpayer as a residence and such dwelling unit is actually rented for less than 15 days during the taxable year, the reduction under subsection (a)(2) by reason of such rental use in any taxable year beginning after December 31, 1997, shall not exceed the depreciation deduction allowed for such rental use.''.

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

SEC. 1070. EXPANSION OF REQUIREMENT THAT INVOLUNTARILY CONVERTED PROPERTY BE REPLACED WITH PROPERTY ACQUIRED FROM AN UNRELATED PERSON.

(a) IN GENERAL.—Subsection (i) of section 1033 is amended to read as follows:

''(i) REPLACEMENT PROPERTY MUST BE ACQUIRED FROM UNRELATED PERSON IN CERTAIN CASES.—

''(1) IN GENERAL.—If the property which is involuntarily converted is held by a taxpayer to which this subsection applies, subsection (a) shall not apply if the replacement property or stock is acquired from a related person. The preceding sentence shall not apply to the extent that the related person acquired the replacement property or stock from an unrelated person during the period applicable under subsection (a)(2)(B).

''(2) TAXPAYERS TO WHICH SUBSECTION APPLIES.—This subsection shall apply to—

''(A) a C corporation,

''(B) a partnership in which 1 or more C corporations own, directly or indirectly (determined in accordance with section 707(b)(3)), more than 50 percent of the capital interest, or profits interest, in such partnership at the time of the involuntary conversion, and

''(C) any other taxpayer if, with respect to property which is involuntarily converted during the taxable year, the aggregate of the amount of realized gain on such property on which there is realized gain exceeds $100,000. In the case of a partnership, subparagraph (C) shall apply with respect to the partnership and with respect to each partner. A similar rule shall apply in the case of an S corporation and its shareholders.

''(3) RELATED PERSON.—For purposes of this subsection, a person is related to another person if the person bears a relationship to the other person described in section 267(b) or 707(b)(1).''.

(b) EFFECTIVE DATE.—The amendment made by this section shall apply to involuntary conversions occurring after June 8, 1997.

SEC. 1071. TREATMENT OF EXCEPTION FROM INSTALLMENT SALES RULES FOR SALES OF PROPERTY BY A MANUFACTURER TO A DEALER.

(a) IN GENERAL.—Paragraph (2) of section 811(c) of the Tax Reform Act of 1986 is hereby repealed.

(b) EFFECTIVE DATE.—

(1) IN GENERAL.—The amendment made by this section shall apply to taxable years beginning after the date of the enactment of this Act.

(2) COORDINATION WITH SECTION 481.—In the case of any taxpayer required by this section to change its method of accounting for any taxable year—

(A) such changes shall be treated as initiated by the taxpayer,

(B) such changes shall be treated as made with the consent of the Secretary, and

(C) the net amount of the adjustments required to be taken into account under section 481(a) of the Internal Revenue Code of 1986 shall be taken into account ratably over the 4 taxable year period beginning with the first taxable year beginning after the date of the enactment of this Act.

TITLE XI—SIMPLIFICATION AND OTHER FOREIGN-RELATED PROVISIONS

Subtitle A—General Provisions

SEC. 1101. TREATMENT OF COMPUTER SOFTWARE AS FSC EXPORT PROPERTY.

(a) IN GENERAL.—Subparagraph (B) of section 927(a)(2) (relating to property excluded from eligibility as FSC export property) is amended by inserting '', and other than computer software (whether or not patented)'' before '', for commercial or home use''.

(b) EFFECTIVE DATE.—The amendment made by subsection (a) shall apply to gross receipts attributable to periods after December 31, 1997, in taxable years ending after such date.

(c) PHASEIN OF TREATMENT.—For purposes of the Internal Revenue Code of 1986—

(1) 1998.—In the case of gross receipts attributable to calendar year 1998, the amendment made by subsection (a) shall apply to only ⅓ of such gross receipts.

(2) 1999.—In the case of gross receipts attributable to calendar year 1999, the amendment made by subsection (a) shall apply to only ⅔ of such gross receipts.

SEC. 1102. ADJUSTMENT OF DOLLAR LIMITATION ON SECTION 911 EXCLUSION.

(a) GENERAL RULE.—Paragraph (2) of section 911(b) is amended by—

(1) by striking ''of $70,000'' in subparagraph (A) and inserting ''equal to the exclusion amount for the calendar year in which such taxable year begins'', and

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

''(D) EXCLUSION AMOUNT.—

''(i) IN GENERAL.—The exclusion amount for any calendar year is the exclusion amount determined in accordance with the following table (as adjusted by clause (ii)):

''For calendar year—	The exclusion amount is—
1998	$72,000
1999	74,000
2000	76,000
2001	78,000
2002 and thereafter	80,000.

''(ii) INFLATION ADJUSTMENT.—In the case of any taxable year beginning in a calendar year after 2007, the $80,000 amount in clause (i) shall be increased by an amount equal to the product of—

''(I) such dollar amount, and

''(II) the cost-of-living adjustment determined under section 1(f)(3) for the calendar year in which the taxable year begins, determined by substituting '2006' for '1992' in subparagraph (B) thereof.

If any increase determined under the preceding sentence is not a multiple of $100, such increase shall be rounded to the next lowest multiple of $100.''.

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

SEC. 1103. CERTAIN INDIVIDUALS EXEMPT FROM FOREIGN TAX CREDIT LIMITATION.

(a) GENERAL RULE.—Section 904 (relating to limitations on foreign tax credit) is amended by redesignating subsection (j) as subsection (k) and by inserting after subsection (i) the following new subsection:

''(j) CERTAIN INDIVIDUALS EXEMPT.—

''(1) IN GENERAL.—In the case of an individual to whom this subsection applies for any taxable year—

''(A) the limitation of subsection (a) shall not apply,

''(B) no taxes paid or accrued by the individual during such taxable year may be deemed paid or accrued under subsection (c) in any other taxable year, and

''(C) no taxes paid or accrued by the individual during any other taxable year may be deemed paid or accrued under subsection (c) in such taxable year.

''(2) INDIVIDUALS TO WHOM SUBSECTION APPLIES.—This subsection shall apply to an individual for any taxable year if—

''(A) the entire amount of such individual's gross income for the taxable year from sources without the United States consists of qualified passive income,

''(B) the amount of the creditable foreign taxes paid or accrued by the individual during the taxable year does not exceed $300 ($600 in the case of a joint return), and

''(C) such individual elects to have this subsection apply for the taxable year.

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

''(A) QUALIFIED PASSIVE INCOME.—The term 'qualified passive income' means any item of gross income if—

''(i) such item of income is passive income (as defined in subsection (d)(2)(A) without regard to clause (iii) thereof), and

''(ii) such item of income is shown on a payee statement furnished to the individual.

''(B) CREDITABLE FOREIGN TAXES.—The term 'creditable foreign taxes' means any taxes for which a credit is allowable under section 901; except that such term shall not include any tax unless such tax is shown on a payee statement furnished to such individual.

''(C) PAYEE STATEMENT.—The term 'payee statement' has the meaning given to such term by section 6724(d)(2).

''(D) ESTATES AND TRUSTS NOT ELIGIBLE.—This subsection shall not apply to any estate or trust.''.

(b) EFFECTIVE DATE.—The amendment made by subsection (a) shall apply to taxable years beginning after December 31, 1997.

SEC. 1104. EXCHANGE RATE USED IN TRANSLATING FOREIGN TAXES.

(a) ACCRUED TAXES TRANSLATED BY USING AVERAGE RATE FOR YEAR TO WHICH TAXES RELATE.—

(1) IN GENERAL.—Subsection (a) of section 986 (relating to translation of foreign taxes) is amended to read as follows:

''(a) FOREIGN INCOME TAXES.—

''(1) TRANSLATION OF ACCRUED TAXES.—

''(A) IN GENERAL.—For purposes of determining the amount of the foreign tax credit, in the case of a taxpayer who takes foreign income taxes into account when accrued, the amount of any foreign income taxes (and any adjustment thereto) shall be translated into dollars by using the average exchange rate for the taxable year to which such taxes relate.

''(B) EXCEPTION FOR CERTAIN TAXES.—Subparagraph (A) shall not apply to any foreign income taxes—

''(i) paid after the date 2 years after the close of the taxable year to which such taxes relate, or

''(ii) paid before the beginning of the taxable year to which such taxes relate.

''(C) EXCEPTION FOR INFLATIONARY CURRENCIES.—Subparagraph (A) shall not apply to any foreign income taxes the liability for which is denominated in any inflationary currency (as determined under regulations).

''(D) CROSS REFERENCE.—

''For adjustments where tax is not paid within 2 years, see section 905(c).

''(2) TRANSLATION OF TAXES TO WHICH PARAGRAPH (1) DOES NOT APPLY.—For purposes of determining the amount of the foreign tax credit, in the case of any foreign income taxes to which subparagraph (A) of paragraph (1) does not apply—

''(A) such taxes shall be translated into dollars using the exchange rates as of the time such taxes were paid to the foreign country or possession of the United States, and

''(B) any adjustment to the amount of such taxes shall be translated into dollars using—

''(i) except as provided in clause (ii), the exchange rate as of the time when such adjustment is paid to the foreign country or possession, or

''(ii) in the case of any refund or credit of foreign income taxes, using the exchange rate as of the time of the original payment of such foreign income taxes.

''(3) FOREIGN INCOME TAXES.—For purposes of this subsection, the term 'foreign income taxes' means any income, war profits, or excess profits taxes paid or accrued to any foreign country or to any possession of the United States.''.

(2) ADJUSTMENT WHEN NOT PAID WITHIN 2 YEARS AFTER YEAR TO WHICH TAXES RELATE.—Subsection (c) of section 905 is amended to read as follows:

''(c) ADJUSTMENTS TO ACCRUED TAXES.—

''(1) IN GENERAL.—If—

''(A) accrued taxes when paid differ from the amounts claimed as credits by the taxpayer,

''(B) accrued taxes are not paid before the date 2 years after the close of the taxable year to which such taxes relate, or

''(C) any tax paid is refunded in whole or in part,

the taxpayer shall notify the Secretary, who shall redetermine the amount of the tax for the year or years affected. The Secretary may prescribe adjustments to tax pools under sections 902 and 960 in lieu of the redetermination under the preceding sentence.

''(2) SPECIAL RULE FOR TAXES NOT PAID WITHIN 2 YEARS.—

''(A) IN GENERAL.—Except as provided in subparagraph (B), in making the redetermination under paragraph (1), no credit shall be allowed for accrued taxes not paid before the date referred to in subparagraph (B) of paragraph (1).

''(B) TAXES SUBSEQUENTLY PAID.—Any such taxes if subsequently paid shall be taken into account for the taxable year to which such taxes relate (and translated as provided in section 986(a)(2)(A)).

''(3) ADJUSTMENTS.—The amount of tax (if any) due on any redetermination under paragraph (1) shall be paid by the taxpayer on notice and demand by the Secretary, and the amount of tax overpaid (if any) shall be credited or refunded to the taxpayer in accordance with subchapter B of chapter 66 (section 6511 et seq.).

''(4) BOND REQUIREMENTS.—In the case of any tax accrued but not paid, the Secretary, as a condition precedent to the allowance of the credit provided in this subpart, may require the taxpayer to give a bond, with sureties satisfactory to and approved by the Secretary, in such sum as the Secretary may require, conditioned on the payment by the taxpayer of any amount of tax found due on any such redetermination. Any such bond shall contain such further conditions as the Secretary may require.

''(5) OTHER SPECIAL RULES.—In any redetermination under paragraph (1) by the Secretary of the amount of tax due from the taxpayer for the year or years affected by a refund, the amount of the taxes refunded for which credit has been allowed under this section shall be reduced by the amount of any tax described in section 901 imposed by the foreign country or possession of the United States with respect to such refund; but no credit under this subpart, or deduction under section 164, shall be allowed for any taxable year with respect to any such tax imposed on the refund. No interest shall be assessed or collected on any amount of tax due on any redetermination by the Secretary, resulting from a refund to the taxpayer, for any period before the receipt of such refund, except to the extent interest was paid by the foreign country or possession of the United States on such refund for such period.''.

(b) AUTHORITY TO USE AVERAGE RATES.—

(1) IN GENERAL.—Subsection (a) of section 986 (as amended by subsection (a)) is amended by redesignating paragraph (3) as paragraph (4) and inserting after paragraph (2) the following new paragraph:

''(3) AUTHORITY TO PERMIT USE OF AVERAGE RATES.—To the extent prescribed in regulations, the average exchange rate for the period (specified in such regulations) during which the taxes or adjustment is paid may be used instead of the exchange rate as of the time of such payment.''.

(2) DETERMINATION OF AVERAGE RATES.—Subsection (c) of section 989 is amended by striking ''and'' at the end of paragraph (4), by striking the period at the end of paragraph (5) and inserting '', and'', and by adding at the end thereof the following new paragraph:

''(6) setting forth procedures for determining the average exchange rate for any period.''.

(3) CONFORMING AMENDMENTS.—Subsection (b) of section 989 is amended by striking ''weighted'' each place it appears.

(c) EFFECTIVE DATES.—

(1) IN GENERAL.—The amendments made by subsections (a)(1) and (b) shall apply to taxes paid or accrued in taxable years beginning after December 31, 1997.

(2) SUBSECTION (a)(2).—The amendment made by subsection (a)(2) shall apply to taxes which relate to taxable years beginning after December 31, 1997.

SEC. 1105. ELECTION TO USE SIMPLIFIED SECTION 904 LIMITATION FOR ALTERNATIVE MINIMUM TAX.

(a) GENERAL RULE.—Subsection (a) of section 59 (relating to alternative minimum tax foreign tax credit) is amended by adding at the end thereof the following new paragraph:

''(3) ELECTION TO USE SIMPLIFIED SECTION 904 LIMITATION.—

''(A) IN GENERAL.—In determining the alternative minimum tax foreign tax credit for any taxable year to which an election under this paragraph applies—

''(i) subparagraph (B) of paragraph (1) shall not apply, and

''(ii) the limitation of section 904 shall be based on the proportion which—

''(I) the taxpayer's taxable income (as determined for purposes of the regular tax) from sources without the United States (but not in excess of the taxpayer's entire alternative minimum taxable income), bears to

''(II) the taxpayer's entire alternative minimum taxable income for the taxable year.

''(B) ELECTION.—

''(i) IN GENERAL.—An election under this paragraph may be made only for the taxpayer's first taxable year which begins after December 31, 1997, and for which the taxpayer claims an alternative minimum tax foreign tax credit.

''(ii) ELECTION REVOCABLE ONLY WITH CONSENT.—An election under this paragraph, once made, shall apply to the taxable year for which made and all subsequent taxable years unless revoked with the consent of the Secretary.''.

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

SEC. 1106. TREATMENT OF PERSONAL TRANSACTIONS BY INDIVIDUALS UNDER FOREIGN CURRENCY RULES.

(a) GENERAL RULE.—Subsection (e) of section 988 (relating to application to individuals) is amended to read as follows:

''(e) APPLICATION TO INDIVIDUALS.—

''(1) IN GENERAL.—The preceding provisions of this section shall not apply to any section 988 transaction entered into by an individual which is a personal transaction.

''(2) EXCLUSION FOR CERTAIN PERSONAL TRANSACTIONS.—If—

''(A) nonfunctional currency is disposed of by an individual in any transaction, and

''(B) such transaction is a personal transaction,

no gain shall be recognized for purposes of this subtitle by reason of changes in exchange rates after such currency was acquired by such individual and before such disposition. The preceding sentence shall not apply if the gain which would otherwise be recognized on the transaction exceeds $200.

''(3) PERSONAL TRANSACTIONS.—For purposes of this subsection, the term 'personal transaction' means any transaction entered into by an individual, except that such term shall not include any transaction to the extent that expenses properly allocable to such transaction meet the requirements of section 162 or 212 (other than that part of section 212 dealing with expenses incurred in connection with taxes).''.

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

SEC. 1107. ALL NONCONTROLLED SECTION 902 CORPORATIONS WHICH ARE NOT PASSIVE FOREIGN INVESTMENT COMPANIES IN ONE FOREIGN TAX LIMITATION BASKET.

(a) IN GENERAL.—Subparagraph (E) of section 904(d)(2) (relating to noncontrolled section 902 corporations) is amended by adding at the end the following new clause:

''(iv) ALL NON-PFIC'S TREATED AS ONE.—All noncontrolled section 902 corporations which are not passive foreign investment companies (as defined in section 1297) shall be treated as one noncontrolled section 902 corporation for purposes of paragraph (1). The Secretary may prescribe regulations regarding the treatment of distributions out of earnings and profits for periods prior to the taxpayer's acquisition of such stock.''.

(b) EFFECTIVE DATE.—The amendment made by subsection (a) shall apply to taxable years beginning after December 31, 2001.

Subtitle B—Treatment of Controlled Foreign Corporations

SEC. 1111. GAIN ON CERTAIN STOCK SALES BY CONTROLLED FOREIGN CORPORATIONS TREATED AS DIVIDENDS.

(a) GENERAL RULE.—Section 964 (relating to miscellaneous provisions) is amended by adding at the end thereof the following new subsection:

''(e) GAIN ON CERTAIN STOCK SALES BY CONTROLLED FOREIGN CORPORATIONS TREATED AS DIVIDENDS.—

''(1) IN GENERAL.—If a controlled foreign corporation sells or exchanges stock in any other foreign corporation, gain recognized on such sale or exchange shall be included in the gross income of such controlled foreign corporation as a dividend to the same extent that it would have been so included under section 1248(a) if such controlled foreign corporation were a United States person. For purposes of determining the amount which would have been so includible, the determination of whether such other foreign corporation was a controlled foreign corporation shall be made without regard to the preceding sentence.

''(2) SAME COUNTRY EXCEPTION NOT APPLICABLE.—Clause (i) of section 954(c)(3)(A) shall not apply to any amount treated as a dividend by reason of paragraph (1).

''(3) CLARIFICATION OF DEEMED SALES.—For purposes of this subsection, a controlled foreign corporation shall be treated as having sold or exchanged any stock if, under any provision of this subtitle, such controlled foreign corporation is treated as having gain from the sale or exchange of such stock.''.

(b) AMENDMENT OF SECTION 904(d).—Clause (i) of section 904(d)(2)(E) is amended by striking ''and except as provided in regulations, the taxpayer was a United States shareholder in such corporation''.

(c) EFFECTIVE DATES.—

(1) The amendment made by subsection (a) shall apply to gain recognized on transactions occurring after the date of the enactment of this Act.

(2) The amendment made by subsection (b) shall apply to distributions after the date of the enactment of this Act.

SEC. 1112. MISCELLANEOUS MODIFICATIONS TO SUBPART F.

(a) SECTION 1248 GAIN TAKEN INTO ACCOUNT IN DETERMINING PRO RATA SHARE.—

(1) IN GENERAL.—Paragraph (2) of section 951(a) (defining pro rata share of subpart F

income) is amended by adding at the end thereof the following new sentence: ''For purposes of subparagraph (B), any gain included in the gross income of any person as a dividend under section 1248 shall be treated as a distribution received by such person with respect to the stock involved.''.

(2) EFFECTIVE DATE.—The amendment made by paragraph (1) shall apply to dispositions after the date of the enactment of this Act.

(b) BASIS ADJUSTMENTS IN STOCK HELD BY FOREIGN CORPORATION.—

(1) IN GENERAL.—Section 961 (relating to adjustments to basis of stock in controlled foreign corporations and of other property) is amended by adding at the end thereof the following new subsection:

''(c) BASIS ADJUSTMENTS IN STOCK HELD BY FOREIGN CORPORATION.—Under regulations prescribed by the Secretary, if a United States shareholder is treated under section 958(a)(2) as owning any stock in a controlled foreign corporation which is actually owned by another controlled foreign corporation, adjustments similar to the adjustments provided by subsections (a) and (b) shall be made to the basis of such stock in the hands of such other controlled foreign corporation, but only for the purposes of determining the amount included under section 951 in the gross income of such United States shareholder (or any other United States shareholder who acquires from any person any portion of the interest of such United States shareholder by reason of which such shareholder was treated as owning such stock, but only to the extent of such portion, and subject to such proof of identity of such interest as the Secretary may prescribe by regulations).''.

(2) EFFECTIVE DATE.—The amendment made by paragraph (1) shall apply for purposes of determining inclusions for taxable years of United States shareholders beginning after December 31, 1997.

(c) CLARIFICATION OF TREATMENT OF BRANCH TAX EXEMPTIONS OR REDUCTIONS.—

(1) IN GENERAL.—Subsection (b) of section 952 is amended by adding at the end thereof the following new sentence: ''For purposes of this subsection, any exemption (or reduction) with respect to the tax imposed by section 884 shall not be taken into account.''.

(2) EFFECTIVE DATE.—The amendment made by paragraph (1) shall apply to taxable years beginning after December 31, 1986.

SEC. 1113. INDIRECT FOREIGN TAX CREDIT ALLOWED FOR CERTAIN LOWER TIER COMPANIES.

(a) SECTION 902 CREDIT.—

(1) IN GENERAL.—Subsection (b) of section 902 (relating to deemed taxes increased in case of certain 2nd and 3rd tier foreign corporations) is amended to read as follows:

''(b) DEEMED TAXES INCREASED IN CASE OF CERTAIN LOWER TIER CORPORATIONS.—

''(1) IN GENERAL.—If—

''(A) any foreign corporation is a member of a qualified group, and

''(B) such foreign corporation owns 10 percent or more of the voting stock of another member of such group from which it receives dividends in any taxable year,

such foreign corporation shall be deemed to have paid the same proportion of such other member's post-1986 foreign income taxes as would be determined under subsection (a) if such foreign corporation were a domestic corporation.

''(2) QUALIFIED GROUP.—For purposes of paragraph (1), the term 'qualified group' means—

''(A) the foreign corporation described in subsection (a), and

''(B) any other foreign corporation if—

''(i) the domestic corporation owns at least 5 percent of the voting stock of such other foreign corporation indirectly through a chain of foreign corporations connected through stock ownership of at least 10 percent of their voting stock,

''(ii) the foreign corporation described in subsection (a) is the first tier corporation in such chain, and

''(iii) such other corporation is not below the sixth tier in such chain.

The term 'qualified group' shall not include any foreign corporation below the third tier in the chain referred to in clause (i) unless such foreign corporation is a controlled foreign corporation (as defined in section 957) and the domestic corporation is a United States shareholder (as defined in section 951(b)) in such foreign corporation. Paragraph (1) shall apply to those taxes paid by a member of the qualified group below the third tier only with respect to periods during which it was a controlled foreign corporation.''.

(2) CONFORMING AMENDMENTS.—

(A) Subparagraph (B) of section 902(c)(3) is amended by adding ''or'' at the end of clause (i) and by striking clauses (ii) and (iii) and inserting the following new clause:

''(ii) the requirements of subsection (b)(2) are met with respect to such foreign corporation.''.

(B) Subparagraph (B) of section 902(c)(4) is amended by striking ''3rd foreign corporation'' and inserting ''sixth tier foreign corporation''.

(C) The heading for paragraph (3) of section 902(c) is amended by striking ''WHERE DOMESTIC CORPORATION ACQUIRES 10 PERCENT OF FOREIGN CORPORATION'' and inserting ''WHERE FOREIGN CORPORATION FIRST QUALIFIES''.

(D) Paragraph (3) of section 902(c) is amended by striking ''ownership'' each place it appears.

(b) SECTION 960 CREDIT.—Paragraph (1) of section 960(a) (relating to special rules for foreign tax credits) is amended to read as follows:

''(1) DEEMED PAID CREDIT.—For purposes of subpart A of this part, if there is included under section 951(a) in the gross income of a domestic corporation any amount attributable to earnings and profits of a foreign corporation which is a member of a qualified group (as defined in section 902(b)) with respect to the domestic corporation, then, except to the extent provided in regulations, section 902 shall be applied as if the amount so included were a dividend paid by such foreign corporation (determined by applying section 902(c) in accordance with section 904(d)(3)(B)).''.

(c) EFFECTIVE DATE.—

(1) IN GENERAL.—The amendments made by this section shall apply to taxes of foreign corporations for taxable years of such corporations beginning after the date of enactment of this Act.

(2) SPECIAL RULE.—In the case of any chain of foreign corporations described in clauses (i) and (ii) of section 902(b)(2)(B) of the Internal Revenue Code of 1986 (as amended by this section), no liquidation, reorganization, or similar transaction in a taxable year beginning after the date of the enactment of this Act shall have the effect of permitting taxes to be taken into account under section 902 of the Internal Revenue Code of 1986 which could not have been taken into account under such section but for such transaction.

Subtitle C—Treatment of Passive Foreign Investment Companies

SEC. 1121. UNITED STATES SHAREHOLDERS OF CONTROLLED FOREIGN CORPORATIONS NOT SUBJECT TO PFIC INCLUSION.

Section 1296 is amended by adding at the end the following new subsection:

''(e) EXCEPTION FOR UNITED STATES SHAREHOLDERS OF CONTROLLED FOREIGN CORPORATIONS.—

''(1) IN GENERAL.—For purposes of this part, a corporation shall not be treated with respect to a shareholder as a passive foreign investment company during the qualified portion of such shareholder's holding period with respect to stock in such corporation.

''(2) QUALIFIED PORTION.—For purposes of this subsection, the term 'qualified portion' means the portion of the shareholder's holding period—

''(A) which is after December 31, 1997, and

''(B) during which the shareholder is a United States shareholder (as defined in section 951(b)) of the corporation and the corporation is a controlled foreign corporation.

''(3) NEW HOLDING PERIOD IF QUALIFIED PORTION ENDS.—

''(A) IN GENERAL.—Except as provided in subparagraph (B), if the qualified portion of a shareholder's holding period with respect to any stock ends after December 31, 1997, solely for purposes of this part, the shareholder's holding period with respect to such stock shall be treated as beginning as of the first day following such period.

''(B) EXCEPTION.—Subparagraph (A) shall not apply if such stock was, with respect to such shareholder, stock in a passive foreign investment company at any time before the qualified portion of the shareholder's holding period with respect to such stock and no election under section 1298(b)(1) is made.''.

SEC. 1122. ELECTION OF MARK TO MARKET FOR MARKETABLE STOCK IN PASSIVE FOREIGN INVESTMENT COMPANY.

(a) IN GENERAL.—Part VI of subchapter P of chapter 1 is amended by redesignating subpart C as subpart D, by redesignating sections 1296 and 1297 as sections 1297 and 1298, respectively, and by inserting after subpart B the following new subpart:

''Subpart C—Election of Mark to Market For Marketable Stock

''Sec. 1296. Election of mark to market for marketable stock.

''SEC. 1296. ELECTION OF MARK TO MARKET FOR MARKETABLE STOCK.

''(a) GENERAL RULE.—In the case of marketable stock in a passive foreign investment company which is owned (or treated under subsection (g) as owned) by a United States person at the close of any taxable year of such person, at the election of such person—

''(1) If the fair market value of such stock as of the close of such taxable year exceeds its adjusted basis, such United States person shall include in gross income for such taxable year an amount equal to the amount of such excess.

''(2) If the adjusted basis of such stock exceeds the fair market value of such stock as of the close of such taxable year, such United States person shall be allowed a deduction for such taxable year equal to the lesser of—

''(A) the amount of such excess, or

''(B) the unreversed inclusions with respect to such stock.

''(b) BASIS ADJUSTMENTS.—

''(1) IN GENERAL.—The adjusted basis of stock in a passive foreign investment company—

''(A) shall be increased by the amount included in the gross income of the United States person under subsection (a)(1) with respect to such stock, and

''(B) shall be decreased by the amount allowed as a deduction to the United States person under subsection (a)(2) with respect to such stock.

''(2) SPECIAL RULE FOR STOCK CONSTRUCTIVELY OWNED.—In the case of stock in a passive foreign investment company which the United States person is treated as owning under subsection (g)—

''(A) the adjustments under paragraph (1) shall apply to such stock in the hands of the person actually holding such stock but only for purposes of determining the subsequent treatment under this chapter of the United States person with respect to such stock, and

''(B) similar adjustments shall be made to the adjusted basis of the property by reason of which the United States person is treated as owning such stock.

''(c) CHARACTER AND SOURCE RULES.—

''(1) ORDINARY TREATMENT.—

''(A) GAIN.—Any amount included in gross income under subsection (a)(1), and any gain on the sale or other disposition of marketable stock in a passive foreign investment company (with respect to which an election under this section is in effect), shall be treated as ordinary income.

''(B) LOSS.—Any—

''(i) amount allowed as a deduction under subsection (a)(2), and

''(ii) loss on the sale or other disposition of marketable stock in a passive foreign investment company (with respect to which an election under this section is in effect) to the extent that the amount of such loss does not exceed the unreversed inclusions with respect to such stock,

shall be treated as an ordinary loss. The amount so treated shall be treated as a deduction allowable in computing adjusted gross income.

''(2) SOURCE.—The source of any amount included in gross income under subsection (a)(1) (or allowed as a deduction under subsection (a)(2)) shall be determined in the same manner as if such amount were gain or loss (as the case may be) from the sale of stock in the passive foreign investment company.

''(d) UNREVERSED INCLUSIONS.—For purposes of this section, the term 'unreversed inclusions' means, with respect to any stock in a passive foreign investment company, the excess (if any) of—

''(1) the amount included in gross income of the taxpayer under subsection (a)(1) with respect to such stock for prior taxable years, over

''(2) the amount allowed as a deduction under subsection (a)(2) with respect to such stock for prior taxable years.

The amount referred to in paragraph (1) shall include any amount which would have been included in gross income under subsection (a)(1) with respect to such stock for any prior taxable year but for section 1291.

''(e) MARKETABLE STOCK.—For purposes of this section—

''(1) IN GENERAL.—The term 'marketable stock' means—

''(A) any stock which is regularly traded on—

''(i) a national securities exchange which is registered with the Securities and Exchange Commission or the national market system established pursuant to section 11A of the Securities and Exchange Act of 1934, or

''(ii) any exchange or other market which the Secretary determines has rules adequate to carry out the purposes of this part,

''(B) to the extent provided in regulations, stock in any foreign corporation which is comparable to a regulated investment company and which offers for sale or has outstanding any stock of which it is the issuer and which is redeemable at its net asset value, and

''(C) to the extent provided in regulations, any option on stock described in subparagraph (A) or (B).

''(2) SPECIAL RULE FOR REGULATED INVESTMENT COMPANIES.—In the case of any regulated investment company which is offering for sale or has outstanding any stock of which it is the issuer and which is redeemable at its net asset value, all stock in a passive foreign investment company which it owns directly or indirectly shall be treated as marketable stock for purposes of this section. Except as provided in regulations, similar treatment as marketable stock shall apply in the case of any other regulated investment company which publishes net asset valuations at least annually.

''(f) TREATMENT OF CONTROLLED FOREIGN CORPORATIONS WHICH ARE SHAREHOLDERS IN PASSIVE FOREIGN INVESTMENT COMPANIES.—In the case of a foreign corporation which is a controlled foreign corporation and which owns (or is treated under subsection (g) as owning) stock in a passive foreign investment company—

''(1) this section (other than subsection (c)(2)) shall apply to such foreign corporation in the same manner as if such corporation were a United States person, and

''(2) for purposes of subpart F of part III of subchapter N—

''(A) any amount included in gross income under subsection (a)(1) shall be treated as foreign personal holding company income described in section 954(c)(1)(A), and

''(B) any amount allowed as a deduction under subsection (a)(2) shall be treated as a deduction allocable to foreign personal holding company income so described.

''(g) STOCK OWNED THROUGH CERTAIN FOREIGN ENTITIES.—Except as provided in regulations—

''(1) IN GENERAL.—For purposes of this section, stock owned, directly or indirectly, by or for a foreign partnership or foreign trust or foreign estate shall be considered as being owned proportionately by its partners or beneficiaries. Stock considered to be owned by a person by reason of the application of the preceding sentence shall, for purposes of applying such sentence, be treated as actually owned by such person.

''(2) TREATMENT OF CERTAIN DISPOSITIONS.—In any case in which a United States person is treated as owning stock in a passive foreign investment company by reason of paragraph (1)—

''(A) any disposition by the United States person or by any other person which results in the United States person being treated as no longer owning such stock, and

''(B) any disposition by the person owning such stock,

shall be treated as a disposition by the United States person of the stock in the passive foreign investment company.

''(h) COORDINATION WITH SECTION 851(b).—For purposes of paragraphs (2) and (3) of section 851(b), any amount included in gross income under subsection (a) shall be treated as a dividend.

''(i) STOCK ACQUIRED FROM A DECEDENT.—In the case of stock of a passive foreign investment company which is acquired by bequest, devise, or inheritance (or by the decedent's estate) and with respect to which an election under this section was in effect as of the date of the decedent's death, notwithstanding section 1014, the basis of such stock in the hands of the person so acquiring it shall be the adjusted basis of such stock in the hands of the decedent immediately before his death (or, if lesser, the basis which would have been determined under section 1014 without regard to this subsection).

''(j) COORDINATION WITH SECTION 1291 FOR FIRST YEAR OF ELECTION.—

''(1) TAXPAYERS OTHER THAN REGULATED INVESTMENT COMPANIES.—

''(A) IN GENERAL.—If the taxpayer elects the application of this section with respect to any marketable stock in a corporation after the beginning of the taxpayer's holding period in such stock, and if the requirements of subparagraph (B) are not satisfied, section 1291 shall apply to—

''(i) any distributions with respect to, or disposition of, such stock in the first taxable year of the taxpayer for which such election is made, and

''(ii) any amount which, but for section 1291, would have been included in gross income under subsection (a) with respect to such stock for such taxable year in the same manner as if such amount were gain on the disposition of such stock.

''(B) REQUIREMENTS.—The requirements of this subparagraph are met if, with respect to each of such corporation's taxable years for which such corporation was a passive foreign investment company and which begin after December 31, 1986, and included any portion of the taxpayer's holding period in such stock, such corporation was treated as a qualified electing fund under this part with respect to the taxpayer.

''(2) SPECIAL RULES FOR REGULATED INVESTMENT COMPANIES.—

''(A) IN GENERAL.—If a regulated investment company elects the application of this section with respect to any marketable stock in a corporation after the beginning of the taxpayer's holding period in such stock, then, with respect to such company's first taxable year for which such company elects the application of this section with respect to such stock—

''(i) section 1291 shall not apply to such stock with respect to any distribution or disposition during, or amount included in gross income under this section for, such first taxable year, but

''(ii) such regulated investment company's tax under this chapter for such first taxable year shall be increased by the aggregate amount of interest which would have been determined under section 1291(c)(3) if section 1291 were applied without regard to this subparagraph.

Clause (ii) shall not apply if for the preceding taxable year the company elected to mark to market the stock held by such company as of the last day of such preceding taxable year.

''(B) DISALLOWANCE OF DEDUCTION.—No deduction shall be allowed to any regulated investment company for the increase in tax under subparagraph (A)(ii).

''(k) ELECTION.—This section shall apply to marketable stock in a passive foreign investment company which is held by a United States person only if such person elects to apply this section with respect to such stock. Such an election shall apply to the taxable year for which made and all subsequent taxable years unless—

''(1) such stock ceases to be marketable stock, or

''(2) the Secretary consents to the revocation of such election.

''(l) TRANSITION RULE FOR INDIVIDUALS BECOMING SUBJECT TO UNITED STATES TAX.—If any individual becomes a United States person in a taxable year beginning after December 31, 1997, solely for purposes of this section, the adjusted basis (before adjustments under subsection (b)) of any marketable stock in a passive foreign investment company owned by such individual on the first day of such taxable year shall be treated as being the greater of its fair market value on such first day or its adjusted basis on such first day.''.

(b) COORDINATION WITH INTEREST CHARGE, ETC.—

(1) Paragraph (1) of section 1291(d) is amended by adding at the end the following new flush sentence:

''Except as provided in section 1296(j), this section also shall not apply if an election under section 1296(k) is in effect for the taxpayer's taxable year.''.

(2) The subsection heading for subsection (d) of section 1291 is amended by striking ''SUBPART B'' and inserting ''SUBPARTS B AND C''.

(3) Subparagraph (A) of section 1291(a)(3) is amended to read as follows:

''(A) HOLDING PERIOD.—The taxpayer's holding period shall be determined under section 1223; except that—

''(i) for purposes of applying this section to an excess distribution, such holding period shall be treated as ending on the date of such distribution, and

''(ii) if section 1296 applied to such stock with respect to the taxpayer for any prior taxable year, such holding period shall be treated as beginning on the first day of the first taxable year beginning after the last taxable year for which section 1296 so applied.''.

(c) TREATMENT OF MARK-TO-MARKET GAIN UNDER SECTION 4982.—

(1) Subsection (e) of section 4982 is amended by adding at the end thereof the following new paragraph:

''(6) TREATMENT OF GAIN RECOGNIZED UNDER SECTION 1296.—For purposes of determining a regulated investment company's ordinary income—

''(A) notwithstanding paragraph (1)(C), section 1296 shall be applied as if such company's taxable year ended on October 31, and

''(B) any ordinary gain or loss from an actual disposition of stock in a passive foreign investment company during the portion of the calendar year after October 31 shall be taken into account in determining such regulated investment company's ordinary income for the following calendar year.

In the case of a company making an election under paragraph (4), the preceding sentence shall be applied by substituting the last day of the company's taxable year for October 31.''.

(2) Subsection (b) of section 852 is amended by adding at the end thereof the following new paragraph:

''(10) SPECIAL RULE FOR CERTAIN LOSSES ON STOCK IN PASSIVE FOREIGN INVESTMENT COMPANY.—To the extent provided in regulations, the taxable income of a regulated investment company (other than a company to which an election under section 4982(e)(4) applies) shall be computed without regard to any net reduction in the value of any stock of a passive foreign investment company with respect to which an election under section 1296(k) is in effect occurring after October 31 of the taxable year, and any such reduction shall be treated as occurring on the first day of the following taxable year.''.

(3) Subsection (c) of section 852 is amended by inserting after ''October 31 of such year'' the following: '', without regard to any net reduction in the value of any stock of a passive foreign investment company with respect to which an election under section 1296(k) is in effect occurring after October 31 of such year,''.

(d) CONFORMING AMENDMENTS.—

(1) Sections 532(b)(4) and 542(c)(10) are each amended by striking ''section 1296'' and inserting ''section 1297''.

(2) Subsection (f) of section 551 is amended by striking ''section 1297(b)(5)'' and inserting ''section 1298(b)(5)''.

(3) Subsections (a)(1) and (d) of section 1293 are each amended by striking ''section 1297(a)'' and inserting ''section 1298(a)''.

(4) Paragraph (3) of section 1297(b), as redesignated by subsection (a), is hereby repealed.

(5) The table of sections for subpart D of part VI of subchapter P of chapter 1, as redesignated by subsection (a), is amended to read as follows:

''Sec. 1297. Passive foreign investment company.

''Sec. 1298. Special rules.''.

(6) The table of subparts for part VI of subchapter P of chapter 1 is amended by striking the last item and inserting the following new items:

''Subpart C. Election of mark to market for marketable stock.

''Subpart D. General provisions.''.

(e) CLARIFICATION OF GAIN RECOGNITION ELECTION.—The last sentence of section 1298(b)(1), as so redesignated, is amended by inserting ''(determined without regard to the preceding sentence)'' after ''investment company''.

SEC. 1123. EFFECTIVE DATE.

The amendments made by this subtitle shall apply to—

(1) taxable years of United States persons beginning after December 31, 1997, and

(2) taxable years of foreign corporations ending with or within such taxable years of United States persons.

Subtitle D—Repeal of Excise Tax on Transfers to Foreign Entities

SEC. 1131. REPEAL OF EXCISE TAX ON TRANSFERS TO FOREIGN ENTITIES; RECOGNITION OF GAIN ON CERTAIN TRANSFERS TO FOREIGN TRUSTS AND ESTATES.

(a) REPEAL OF EXCISE TAX.—Chapter 5 (relating to transfers to avoid income tax) is hereby repealed.

(b) RECOGNITION OF GAIN ON CERTAIN TRANSFERS TO FOREIGN TRUSTS AND ESTATES.—Subpart F of part I of subchapter J of chapter 1 is amended by adding at the end the following new section:

''SEC. 684. RECOGNITION OF GAIN ON CERTAIN TRANSFERS TO CERTAIN FOREIGN TRUSTS AND ESTATES.

''(a) IN GENERAL.—In the case of any transfer of property by a United States person to a foreign estate or trust, for purposes of this subtitle, such transfer shall be treated as a sale or exchange for an amount equal to the fair market value of the property transferred, and the transferor shall recognize as gain the excess of—

''(1) the fair market value of the property so transferred, over

''(2) the adjusted basis (for purposes of determining gain) of such property in the hands of the transferor.

''(b) EXCEPTION.—Subsection (a) shall not apply to a transfer to a trust by a United States person if such person is treated as the owner of such trust under section 671.''.

(b) OTHER ANTI-AVOIDANCE PROVISIONS REPLACING REPEALED EXCISE TAX.—

(1) GAIN RECOGNITION ON EXCHANGES INVOLVING FOREIGN PERSONS.—Section 1035 is amended by redesignating subsection (c) as subsection (d) and by inserting after subsection (b) the following new subsection:

''(c) EXCHANGES INVOLVING FOREIGN PERSONS.—To the extent provided in regulations, subsection (a) shall not apply to any exchange having the effect of transferring property to any person other than a United States person.''.

(2) TRANSFERS TO FOREIGN CORPORATIONS.—Section 367 is amended by adding at the end the following new subsection:

''(f) OTHER TRANSFERS.—To the extent provided in regulations, if a United States person transfers property to a foreign corporation as paid-in surplus or as a contribution to capital (in a transaction not otherwise described in this section), such foreign corporation shall not, for purposes of determining the extent to which gain shall be recognized on such transfer, be considered to be a corporation.''.

(3) CERTAIN TRANSFERS TO PARTNERSHIPS.—Section 721 is amended by adding at the end the following new subsection:

''(c) REGULATIONS RELATING TO TRANSFERS TO FOREIGN PERSONS.—The Secretary may provide by regulations that subsection (a) shall not apply to gain realized on the transfer of property to a partnership if such gain, when recognized, will be includible in the gross income of a person other than a United States person.''.

(4) REPEAL OF U.S. SOURCE TREATMENT OF DEEMED ROYALTIES.—Subparagraph (C) of section 367(d)(2) is amended to read as follows:

''(C) AMOUNTS RECEIVED TREATED AS ORDINARY INCOME.—For purposes of this chapter, any amount included in gross income by reason of this subsection shall be treated as ordinary income.''.

(5) TRANSFERS OF INTANGIBLES TO PARTNERSHIPS.—

(A) Subsection (d) of section 367 is amended by adding at the end the following new paragraph:

''(3) REGULATIONS RELATING TO TRANSFERS OF INTANGIBLES TO PARTNERSHIPS.—The Secretary may provide by regulations that the rules of paragraph (2) also apply to the transfer of intangible property by a United States person to a partnership in circumstances consistent with the purposes of this subsection.''.

(B) Section 721 is amended by adding at the end the following new subsection:

''(d) TRANSFERS OF INTANGIBLES.—

''For regulatory authority to treat intangibles transferred to a partnership as sold, see section 367(d)(3).''.

(c) TECHNICAL AND CONFORMING AMENDMENTS.—

(1) Subsection (h) of section 814 is amended by striking ''or 1491''.

(2) Section 1057 (relating to election to treat transfer to foreign trust, etc., as taxable exchange) is hereby repealed.

(3) Section 6422 is amended by striking paragraph (5) and by redesignating paragraphs (6) through (13) as paragraphs (5) through (12), respectively.

(4) The table of chapters for subtitle A is amended by striking the item relating to chapter 5.

(5) The table of sections for part IV of subchapter O of chapter 1 is amended by striking the item relating to section 1057.

(6) The table of sections for subpart F of part I of subchapter J of chapter 1 is amended by adding at the end the following new item:

''Sec. 684. Recognition of gain on certain transfers to certain foreign trusts and estates.''.

(d) EFFECTIVE DATE.—The amendments made by this section shall take effect on the date of the enactment of this Act.

Subtitle E—Information Reporting

SEC. 1141. CLARIFICATION OF APPLICATION OF RETURN REQUIREMENT TO FOREIGN PARTNERSHIPS.

(a) IN GENERAL.—Section 6031 (relating to return of partnership income) is amended by adding at the end the following new subsection:

''(e) FOREIGN PARTNERSHIPS.—

''(1) EXCEPTION FOR FOREIGN PARTNERSHIP.—Except as provided in paragraph (2), the preceding provisions of this section shall not apply to a foreign partnership.

''(2) CERTAIN FOREIGN PARTNERSHIPS REQUIRED TO FILE RETURN.—Except as provided in regulations prescribed by the Secretary, this section shall apply to a foreign partnership for any taxable year if for such year, such partnership has—

''(A) gross income derived from sources within the United States, or

''(B) gross income which is effectively connected with the conduct of a trade or business within the United States.

The Secretary may provide simplified filing procedures for foreign partnerships to which this section applies.''.

(b) SANCTION FOR FAILURE BY FOREIGN PARTNERSHIP TO COMPLY WITH SECTION 6031 TO INCLUDE DENIAL OF DEDUCTIONS.—Subsection (f) of section 6231 is amended—

(1) by striking ''LOSSES AND'' in the heading and inserting ''DEDUCTIONS, LOSSES, AND'', and

(2) by striking ''loss or'' each place it appears and inserting ''deduction, loss, or''.

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

SEC. 1142. CONTROLLED FOREIGN PARTNERSHIPS SUBJECT TO INFORMATION REPORTING COMPARABLE TO INFORMATION REPORTING FOR CONTROLLED FOREIGN CORPORATIONS.

(a) IN GENERAL.—So much of section 6038 (relating to information with respect to certain foreign corporations) as precedes paragraph (2) of subsection (a) is amended to read as follows:

''SEC. 6038. INFORMATION REPORTING WITH RESPECT TO CERTAIN FOREIGN CORPORATIONS AND PARTNERSHIPS.

''(a) REQUIREMENT.—

''(1) IN GENERAL.—Every United States person shall furnish, with respect to any foreign business entity which such person controls, such information as the Secretary may prescribe relating to—

''(A) the name, the principal place of business, and the nature of business of such entity, and the country under whose laws such entity is incorporated (or organized in the case of a partnership);

''(B) in the case of a foreign corporation, its post-1986 undistributed earnings (as defined in section 902(c));

''(C) a balance sheet for such entity listing assets, liabilities, and capital;

''(D) transactions between such entity and—

''(i) such person,

''(ii) any corporation or partnership which such person controls, and

''(iii) any United States person owning, at the time the transaction takes place—

''(I) in the case of a foreign corporation, 10 percent or more of the value of any class of stock outstanding of such corporation, and

''(II) in the case of a foreign partnership, at least a 10-percent interest in such partnership; and

''(E)(i) in the case of a foreign corporation, a description of the various classes of stock outstanding, and a list showing the name and address of, and number of shares held by, each United States person who is a shareholder of record owning at any time during the annual accounting period 5 percent or more in value of any class of stock outstanding of such foreign corporation, and

''(ii) information comparable to the information described in clause (i) in the case of a foreign partnership.

The Secretary may also require the furnishing of any other information which is similar or related in nature to that specified in the preceding sentence or which the Secretary determines to be appropriate to carry out the provisions of this title.''.

(b) DEFINITIONS.—

(1) IN GENERAL.—Subsection (e) of section 6038 (relating to definitions) is amended—

(A) by redesignating paragraphs (1) and (2) as paragraphs (2) and (4), respectively,

(B) by inserting before paragraph (2) (as so redesignated) the following new paragraph:

''(1) FOREIGN BUSINESS ENTITY.—The term 'foreign business entity' means a foreign corporation and a foreign partnership.'', and

(C) by inserting after paragraph (2) (as so redesignated) the following new paragraph:

''(3) PARTNERSHIP-RELATED DEFINITIONS.—

''(A) CONTROL.—A person is in control of a partnership if such person owns directly or indirectly more than a 50 percent interest in such partnership.

''(B) 50-PERCENT INTEREST.—For purposes of subparagraph (A), a 50-percent interest in a partnership is—

''(i) an interest equal to 50 percent of the capital interest, or 50 percent of the profits interest, in such partnership, or

''(ii) to the extent provided in regulations, an interest to which 50 percent of the deductions or losses of such partnership are allocated.

For purposes of the preceding sentence, rules similar to the rules of section 267(c) (other than paragraph (3)) shall apply, except so as to consider a United States person as owning such an interest which is owned by a person which is not a United States person.

''(C) 10-PERCENT INTEREST.—A 10-percent interest in a partnership is an interest which would be described in subparagraph (B) if '10 percent' were substituted for '50 percent' each place it appears.''.

(2) CLERICAL AMENDMENT.—The paragraph heading for paragraph (2) of section 6038(e) (as so redesignated) is amended by inserting ''OF CORPORATION'' after ''CONTROL''.

(c) MODIFICATION OF SANCTIONS ON PARTNERSHIPS AND CORPORATIONS FOR FAILURE TO FURNISH INFORMATION.—

(1) IN GENERAL.—Subsection (b) of section 6038 is amended—

(A) by striking ''$1,000'' each place it appears and inserting ''$10,000'', and

(B) by striking ''$24,000'' in paragraph (2) and inserting ''$50,000''.

(d) REPORTING BY 10-PERCENT PARTNERS.—Subsection (a) of section 6038 is amended by adding at the end the following new paragraph:

''(5) INFORMATION REQUIRED FROM 10-PERCENT PARTNER OF CONTROLLED FOREIGN PARTNERSHIP.—In the case of a foreign partnership which is controlled by United States persons holding at least 10-percent interests (but not by any one United States person), the Secretary may require each United States person who holds a 10-percent interest in such partnership to furnish information relating to such partnership, including information relating to such partner's ownership interests in the partnership and allocations to such partner of partnership items.''.

(e) TECHNICAL AMENDMENTS.—

(1) The following provisions of section 6038 are each amended by striking ''foreign corporation'' each place it appears and inserting ''foreign business entity'':

(A) Paragraphs (2) and (3) of subsection (a).

(B) Subsection (b).

(C) Subsection (c) other than paragraph (1)(B) thereof.

(D) Subsection (d).

(E) Subsection (e)(4) (as redesignated by subsection (b)).

(2) Subparagraph (B) of section 6038(c)(1) is amended by inserting ''in the case of a foreign business entity which is a foreign corporation,'' after ''(B)''.

(3) Paragraph (8) of section 318(b) is amended by striking ''6038(d)(1)'' and inserting ''6038(d)(2)''.

(4) Paragraph (4) of section 901(k) is amended by striking ''foreign corporation'' and inserting ''foreign corporation or partnership''.

(5) The table of sections for subpart A of part III of subchapter A of chapter 61 is amended by striking the item relating to section 6038 and inserting the following new item:

''Sec. 6038. Information reporting with respect to certain foreign corporations and partnerships.''.

(f) EFFECTIVE DATE.—The amendments made by this section shall apply to annual accounting periods of foreign partnerships beginning after the date of the enactment of this Act.

SEC. 1143. MODIFICATIONS RELATING TO RETURNS REQUIRED TO BE FILED BY REASON OF CHANGES IN OWNERSHIP INTERESTS IN FOREIGN PARTNERSHIP.

(a) NO RETURN REQUIRED UNLESS CHANGES INVOLVE 10-PERCENT INTEREST IN PARTNERSHIP.—

(1) IN GENERAL.—Subsection (a) of section 6046A (relating to returns as to interests in foreign partnerships) is amended by adding at the end the following new sentence: ''Paragraphs (1) and (2) shall apply to any acquisition or disposition only if the United States person directly or indirectly holds at least a 10-percent interest in such partnership either before or after such acquisition or disposition, and paragraph (3) shall apply to any change only if the change is equivalent to at least a 10-interest in such partnership.''.

(2) 10-PERCENT INTEREST.—Section 6046A is amended by redesignating subsection (d) as subsection (e) and by inserting after subsection (c) the following new subsection:

''(d) 10-PERCENT INTEREST.—For purposes of subsection (a), a 10-percent interest in a partnership is an interest described in section 6038(e)(3)(C).''.

(b) MODIFICATION OF PENALTY ON FAILURE TO REPORT CHANGES IN OWNERSHIP INTERESTS IN FOREIGN CORPORATIONS AND PARTNERSHIPS.—Subsection (a) of section 6679 (relating to failure to file returns, etc., with respect to foreign corporations or foreign partnerships) is amended to read as follows:

''(a) CIVIL PENALTY.—

''(1) IN GENERAL.—In addition to any criminal penalty provided by law, any person required to file a return under section 6035, 6046, or 6046A who fails to file such return at the time provided in such section, or who files a return which does not show the information required pursuant to such section, shall pay a penalty of $10,000, unless it is shown that such failure is due to reasonable cause.

''(2) INCREASE IN PENALTY WHERE FAILURE CONTINUES AFTER NOTIFICATION.—If any failure described in paragraph (1) continues for more than 90 days after the day on which the Secretary mails notice of such failure to the United States person, such person shall pay a penalty (in addition to the amount required under paragraph (1)) of $10,000 for each 30-day period (or fraction thereof) during which such failure continues after the expiration of such 90-day period. The increase in any penalty under this paragraph shall not exceed $50,000.

''(3) REDUCED PENALTY FOR RETURNS RELATING TO FOREIGN PERSONAL HOLDING COMPANIES.—In the case of a return required under section 6035, paragraph (1) shall be applied by substituting '$1,000' for '$10,000', and paragraph (2) shall not apply.''.

(c) EFFECTIVE DATE.—The amendments made by this section shall apply to transfers and changes after the date of the enactment of this Act.

SEC. 1144. TRANSFERS OF PROPERTY TO FOREIGN PARTNERSHIPS SUBJECT TO INFORMATION REPORTING COMPARABLE TO INFORMATION REPORTING FOR SUCH TRANSFERS TO FOREIGN CORPORATIONS.

(a) IN GENERAL.—Paragraph (1) of section 6038B(a) (relating to notice of certain transfers to foreign corporations) is amended to read as follows:

''(1) transfers property to—

''(A) a foreign corporation in an exchange described in section 332, 351, 354, 355, 356, or 361, or

''(B) a foreign partnership in a contribution described in section 721 or in any other contribution described in regulations prescribed by the Secretary,''.

(b) EXCEPTIONS.—Section 6038B is amended by redesignating subsection (b) as subsection (c) and by inserting after subsection (a) the following new subsection:

''(b) EXCEPTIONS FOR CERTAIN TRANSFERS TO FOREIGN PARTNERSHIPS; SPECIAL RULE.—

''(1) EXCEPTIONS.—Subsection (a)(1)(B) shall apply to a transfer by a United States person to a foreign partnership only if—

''(A) the United States person holds (immediately after the transfer) directly or indirectly at least a 10-percent interest (as defined in section 6046A(d)) in the partnership, or

''(B) the value of the property transferred (when added to the value of the property transferred by such person or any related person to such partnership or a related partnership during the 12-month period ending on the date of the transfer) exceeds $100,000.

For purposes of the preceding sentence, the value of any transferred property is its fair market value at the time of its transfer.

''(2) SPECIAL RULE.—If by reason of an adjustment under section 482 or otherwise, a contribution described in subsection (a)(1) is deemed to have been made, such contribution shall be treated for purposes of this section as having been made not earlier than the date specified by the Secretary.''.

(c) MODIFICATION OF PENALTY APPLICABLE TO FOREIGN CORPORATIONS AND PARTNERSHIPS.—Paragraph (1) of section 6038B(b) is amended by striking ''equal to'' and all that follows and inserting ''equal to 10 percent of the fair market value of the property at the time of the exchange (and, in the case of a contribution described in subsection (a)(1)(B), such person shall recognize gain as if the contributed property had been sold for such value at the time of such contribution).''.

(d) EFFECTIVE DATE.—

(1) IN GENERAL.—The amendments made by this section shall apply to transfers made after the date of the enactment of this Act.

(2) ELECTION OF RETROACTIVE EFFECT.—Section 1494(c) of the Internal Revenue Code of 1986 shall not apply to any transfer after August 20, 1996, if the person otherwise required to file a return with respect to such transfer elects to apply the amendments made by this section to transfers after August 20, 1996. The Secretary of the Treasury or his delegate may prescribe simplified reporting under the preceding sentence.

SEC. 1145. EXTENSION OF STATUTE OF LIMITATION FOR FOREIGN TRANSFERS.

(a) IN GENERAL.—Paragraph (8) of section 6501(c) (relating to failure to notify Secretary under section 6038B) is amended to read as follows:

''(8) FAILURE TO NOTIFY SECRETARY OF CERTAIN FOREIGN TRANSFERS.—In the case of any information which is required to be reported to the Secretary under section 6038, 6038A, 6038B, 6046, 6046A, or 6048, the time for assessment of any tax imposed by this title with respect to any event or period to which such information relates shall not expire before the date which is 3 years after the date on which the Secretary is furnished the information required to be reported under such section.''.

(b) EFFECTIVE DATE.—The amendment made by subsection (a) shall apply to information the due date for the reporting of which is after the date of the enactment of this Act.

SEC. 1146. INCREASE IN FILING THRESHOLDS FOR RETURNS AS TO ORGANIZATION OF FOREIGN CORPORATIONS AND ACQUISITIONS OF STOCK IN SUCH CORPORATIONS.

(a) IN GENERAL.—Subsection (a) of section 6046 (relating to returns as to organization or reorganization of foreign corporations and as to acquisitions of their stock) is amended to read as follows:

''(a) REQUIREMENT OF RETURN.—

''(1) IN GENERAL.—A return complying with the requirements of subsection (b) shall be made by—

''(A) each United States citizen or resident who becomes an officer or director of a foreign corporation if a United States person (as defined in section 7701(a)(30)) meets the stock ownership requirements of paragraph (2) with respect to such corporation,

''(B) each United States person—

''(i) who acquires stock which, when added to any stock owned on the date of such acquisition, meets the stock ownership requirements of paragraph (2) with respect to a foreign corporation, or

''(ii) who acquires stock which, without regard to stock owned on the date of such acquisition, meets the stock ownership requirements of paragraph (2) with respect to a foreign corporation,

''(C) each person (not described in subparagraph (B)) who is treated as a United States shareholder under section 953(c) with respect to a foreign corporation, and

''(D) each person who becomes a United States person while meeting the stock ownership requirements of paragraph (2) with respect to stock of a foreign corporation.

In the case of a foreign corporation with respect to which any person is treated as a United States shareholder under section 953(c), subparagraph (A) shall be treated as including a reference to each United States person who is an officer or director of such corporation.

''(2) STOCK OWNERSHIP REQUIREMENTS.—A person meets the stock ownership requirements of this paragraph with respect to any corporation if such person owns 10 percent or more of—

''(A) the total combined voting power of all classes of stock of such corporation entitled to vote, or

''(B) the total value of the stock of such corporation.''.

(b) EFFECTIVE DATE.—The amendment made by this section shall take effect on January 1, 1998.

Subtitle F—Determination of Foreign or Domestic Status of Partnerships

SEC. 1151. DETERMINATION OF FOREIGN OR DOMESTIC STATUS OF PARTNERSHIPS.

(a) IN GENERAL.—Paragraph (4) of section 7701(a) is amended by inserting before the period ''unless, in the case of a partnership, the partnership is more properly treated as a foreign partnership under regulations prescribed by the Secretary''.

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

Subtitle G—Other Simplification Provisions

SEC. 1161. TRANSITION RULE FOR CERTAIN TRUSTS.

(a) IN GENERAL.—Paragraph (3) of section 1907(a) of the Small Business Job Protection Act of 1996 is amended by adding at the end the following flush sentence:

''To the extent prescribed in regulations by the Secretary of the Treasury or his delegate, a trust which was in existence on August 20, 1996 (other than a trust treated as owned by the grantor under subpart E of part I of subchapter J of chapter 1 of the Internal Revenue Code of 1986), and which was treated as a United States person on the day before the date of the enactment of this Act may elect to continue to be treated as a United States person notwithstanding section 7701(a)(30)(E) of such Code.''.

(b) EFFECTIVE DATE.—The amendment made by subsection (a) shall take effect as if included in the amendments made by section 1907(a) of the Small Business Job Protection Act of 1996.

SEC. 1162. REPEAL OF STOCK AND SECURITIES SAFE HARBOR REQUIREMENT THAT PRINCIPAL OFFICE BE OUTSIDE THE UNITED STATES.

(a) IN GENERAL.—The last sentence of clause (ii) of section 864(b)(2)(A) (relating to stock or securities) is amended by striking '', or in the case of a corporation'' and all that follows and inserting a period.

(b) EFFECTIVE DATE.—The amendment made by subsection (a) shall apply to taxable years beginning after December 31, 1997.

Subtitle H—Other Provisions

SEC. 1171. DEFINITION OF FOREIGN PERSONAL HOLDING COMPANY INCOME.

(a) INCOME FROM NOTIONAL PRINCIPAL CONTRACTS AND PAYMENTS IN LIEU OF DIVIDENDS.—

(1) IN GENERAL.—Paragraph (1) of section 954(c) (defining foreign personal holding company income) is amended by adding at the end the following new subparagraphs:

''(F) INCOME FROM NOTIONAL PRINCIPAL CONTRACTS.—Net income from notional principal contracts. Any item of income, gain, deduction, or loss from a notional principal contract entered into for purposes of hedging any item described in any preceding subparagraph shall not be taken into account for purposes of this subparagraph but shall be taken into account under such other subparagraph.

''(G) PAYMENTS IN LIEU OF DIVIDENDS.—Payments in lieu of dividends which are made pursuant to an agreement to which section 1058 applies.''.

(2) CONFORMING AMENDMENT.—Subparagraph (B) of section 954(c)(1) is amended—

(A) by striking the second sentence, and

(B) by striking ''also'' in the last sentence.

(b) EXCEPTION FOR DEALERS.—Paragraph (2) of section 954(c) is amended by adding at the end the following new subparagraph:

''(C) EXCEPTION FOR DEALERS.—Except as provided in subparagraph (A), (E), or (G) of paragraph (1) or by regulations, in the case of a regular dealer in property (within the meaning of paragraph (1)(B)), forward contracts, option contracts, or similar financial instruments (including notional principal contracts and all instruments referenced to commodities), there shall not be taken into account in computing foreign personal holding income any item of income, gain, deduction, or loss from any transaction (including hedging transactions) entered into in the ordinary course of such dealer's trade or business as such a dealer.''.

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

SEC. 1172. PERSONAL PROPERTY USED PREDOMINANTLY IN THE UNITED STATES TREATED AS NOT PROPERTY OF A LIKE KIND WITH RESPECT TO PROPERTY USED PREDOMINANTLY OUTSIDE THE UNITED STATES.

(a) IN GENERAL.—Subsection (h) of section 1031 (relating to exchange of property held for productive use or investment) is amended to read as follows:

''(h) SPECIAL RULES FOR FOREIGN REAL AND PERSONAL PROPERTY.—For purposes of this section—

''(1) REAL PROPERTY.—Real property located in the United States and real property located outside the United States are not property of a like kind.

''(2) PERSONAL PROPERTY.—

''(A) IN GENERAL.—Personal property used predominantly within the United States and personal property used predominantly outside the United States are not property of a like kind.

''(B) PREDOMINANT USE.—Except as provided in subparagraph (C) and (D), the predominant use of any property shall be determined based on—

''(i) in the case of the property relinquished in the exchange, the 2-year period ending on the date of such relinquishment, and

''(ii) in the case of the property acquired in the exchange, the 2-year period beginning on the date of such acquisition.

''(C) PROPERTY HELD FOR LESS THAN 2 YEARS.—Except in the case of an exchange which is part of a transaction (or series of transactions) structured to avoid the purposes of this subsection—

''(i) only the periods the property was held by the person relinquishing the property (or any related person) shall be taken into account under subparagraph (B)(i), and

''(ii) only the periods the property was held by the person acquiring the property (or any related person) shall be taken into account under subparagraph (B)(ii).

''(D) SPECIAL RULE FOR CERTAIN PROPERTY.—Property described in any subparagraph of section 168(g)(4) shall be treated as used predominantly in the United States.''.

(b) EFFECTIVE DATE.—

(1) IN GENERAL.—The amendment made by this section shall apply to transfers after June 8, 1997, in taxable years ending after such date.

(2) BINDING CONTRACTS.—The amendment made by this section shall not apply to any transfer pursuant to a written binding contract in effect on June 8, 1997, and at all times thereafter before the disposition of property. A contract shall not fail to meet the requirements of the preceding sentence solely because—

(A) it provides for a sale in lieu of an exchange, or

(B) the property to be acquired as replacement property was not identified under such contract before June 9, 1997.

SEC. 1173. HOLDING PERIOD REQUIREMENT FOR CERTAIN FOREIGN TAXES.

(a) IN GENERAL.—Section 901 is amended by redesignating subsection (k) as subsection (l) and by inserting after subsection (j) the following new subsection:

''(k) MINIMUM HOLDING PERIOD FOR CERTAIN TAXES.—

''(1) WITHHOLDING TAXES.—

''(A) IN GENERAL.—In no event shall a credit be allowed under subsection (a) for any withholding tax on a dividend with respect to stock in a corporation if—

''(i) such stock is held by the recipient of the dividend for 15 days or less during the 30-day period beginning on the date which is 15 days before the date on which such share becomes ex-dividend with respect to such dividend, or

''(ii) to the extent that the recipient of the dividend is under an obligation (whether pursuant to a short sale or otherwise) to make related payments with respect to positions in substantially similar or related property.

''(B) WITHHOLDING TAX.—For purposes of this paragraph, the term 'withholding tax' includes any tax determined on a gross basis; but does not include any tax which is in the nature of a prepayment of a tax imposed on a net basis.

''(2) DEEMED PAID TAXES.—In the case of income, war profits, or excess profits taxes deemed paid under section 853, 902, or 960 through a chain of ownership of stock in 1 or more corporations, no credit shall be allowed under subsection (a) for such taxes if—

''(A) any stock of any corporation in such chain (the ownership of which is required to obtain credit under subsection (a) for such taxes) is held for less than the period described in paragraph (1)(A)(i), or

''(B) the corporation holding the stock is under an obligation referred to in paragraph (1)(A)(ii).

''(3) 45-DAY RULE IN THE CASE OF CERTAIN PREFERENCE DIVIDENDS.—In the case of stock having preference in dividends and dividends with respect to such stock which are attributable to a period or periods aggregating in excess of 366 days, paragraph (1)(A)(i) shall be applied—

''(A) by substituting '45 days' for '15 days' each place it appears, and

''(B) by substituting '90-day period' for '30-day period'.

''(4) EXCEPTION FOR CERTAIN TAXES PAID BY SECURITIES DEALERS.—

''(A) IN GENERAL.—Paragraphs (1) and (2) shall not apply to any qualified tax with respect to any security held in the active conduct in a foreign country of a securities business of any person—

''(i) who is registered as a securities broker or dealer under section 15(a) of the Securities Exchange Act of 1934,

''(ii) who is registered as a Government securities broker or dealer under section 15C(a) of such Act, or

''(iii) who is licensed or authorized in such foreign country to conduct securities activities in such country and is subject to bona fide regulation by a securities regulating authority of such country.

''(B) QUALIFIED TAX.—For purposes of subparagraph (A), the term 'qualified tax' means a tax paid to a foreign country (other than the foreign country referred to in subparagraph (A)) if—

''(i) the dividend to which such tax is attributable is subject to taxation on a net basis by the country referred to in subparagraph (A), and

''(ii) such country allows a credit against its net basis tax for the full amount of the tax paid to such other foreign country.

''(C) REGULATIONS.—The Secretary may prescribe such regulations as may be appropriate to prevent the abuse of the exception provided by this paragraph.

''(5) CERTAIN RULES TO APPLY.—For purposes of this subsection, the rules of paragraphs (3) and (4) of section 246(c) shall apply.

''(6) TREATMENT OF BONA FIDE SALES.—If a person's holding period is reduced by reason of the application of the rules of section 246(c)(4) to any contract for the bona fide sale of stock, the determination of whether such person's holding period meets the requirements of paragraph (2) shall be made as of the date such contract is entered into.

''(7) TAXES ALLOWED AS DEDUCTION, ETC.—Sections 275 and 78 shall not apply to any tax which is not allowable as a credit under subsection (a) by reason of this subsection.''.

(b) NOTICE OF WITHHOLDING TAXES PAID BY REGULATED INVESTMENT COMPANY.—Subsection (c) of section 853 (relating to foreign tax credit allowed to shareholders) is amended by adding at the end the following new sentence: ''Such notice shall also include the amount of such taxes which (without regard to the election under this section) would not be allowable as a credit under section 901(a) to the regulated investment company by reason of section 901(k).''.

(c) EFFECTIVE DATE.—The amendments made by this section shall apply to dividends paid or accrued more than 30 days after the date of the enactment of this Act.

SEC. 1174. PENALTIES FOR FAILURE TO DISCLOSE POSITION THAT CERTAIN INTERNATIONAL TRANSPORTATION INCOME IS NOT INCLUDIBLE IN GROSS INCOME.

(a) IN GENERAL.—Section 883 is amended by adding at the end the following new subsection:

''(d) PENALTIES FOR FAILURE TO DISCLOSE POSITION THAT CERTAIN INTERNATIONAL TRANSPORTATION INCOME IS NOT INCLUDIBLE IN GROSS INCOME.—

''(1) IN GENERAL.—A taxpayer who, with respect to any tax imposed by this title, takes the position that any of its gross income derived from the international operation of 1 or more ships or aircraft is not includible in gross income by reason of paragraph (1) or (2) of subsection (a) or paragraph (1) or (2) of section 872(b) (or by reason of any applicable treaty) shall be entitled to such treatment only if such position is disclosed (in such manner as the Secretary may prescribe) on the return of tax for such tax (or any statement attached to such return).

''(2) ADDITIONAL PENALTIES FOR FAILING TO DISCLOSE POSITION.—If a taxpayer fails to meet the requirement of paragraph (1) for any taxable year with respect to the international operation of 1 or more ships or 1 or more aircraft—

''(A) the amount of the income from the international operation to which such failure relates—

''(i) which is from sources without the United States, and

''(ii) which is attributable to a fixed place of business in the United States,

shall be treated for purposes of this title as effectively connected with the conduct of a trade or business within the United States, and

''(B) no deductions or credits shall be allowed which are attributable to income from the international operation to which the failure relates.

''(3) REASONABLE CAUSE EXCEPTION.—This subsection shall not apply to a failure to disclose a position if it is shown that such failure is due to reasonable cause and not due to willful neglect.''.

(b) CONFORMING AMENDMENTS.—Paragraphs (1) and (2) of section 872(b), and paragraphs (1) and (2) of section 883(a), are each amended by striking ''Gross income'' each place it appears and inserting ''Except as provided in section 883(d), gross income''.

(c) EFFECTIVE DATE.—

(1) IN GENERAL.—The amendments made by this section shall apply to taxable years beginning after December 31, 1997.

(2) COORDINATION WITH TREATIES.—The amendments made by this section shall not apply in any case where their application would be contrary to any treaty obligation of the United States.

(d) INFORMATION TO BE PROVIDED BY CUSTOMS SERVICE.—The United States Custom Service shall provide the Secretary of the Treasury or his delegate with such information as may be specified by such Secretary in order to enable such Secretary to determine whether ships which are not registered in the United States are engaged in transportation to or from the United States.

SEC. 1175. DENIAL OF TREATY BENEFITS FOR CERTAIN PAYMENTS THROUGH HYBRID ENTITIES.

A foreign person shall be entitled under any income tax treaty of the United States with a foreign country to any reduced rate of any withholding tax imposed by the Internal Revenue Code of 1986 on an item of income derived through any partnership or other pass-thru entity only to the extent that such item is treated for purposes of the taxation laws of such foreign country as an item of income of such person. The preceding sentence shall not apply if—

(1) the treaty contains a provision addressing the applicability of the treaty in the case of an item of income derived through a partnership, or

(2) the foreign country imposes tax on a distribution of such item of income from such partnership to such person.

SEC. 1176. INTEREST ON UNDERPAYMENTS NOT REDUCED BY FOREIGN TAX CREDIT CARRYBACKS.

(a) IN GENERAL.—Subsection (d) of section 6601 is amended by redesignating paragraphs (2) and (3) as paragraphs (3) and (4), respectively, and by inserting after paragraph (1) the following new paragraph:

''(2) FOREIGN TAX CREDIT CARRYBACKS.—If any credit allowed for any taxable year is increased by reason of a carryback of tax paid or accrued to foreign countries or possessions of the United States, such increase shall not affect the computation of interest under this section for the period ending with the filing date for the taxable year in which such taxes were in fact paid or accrued, or, with respect to any portion of such credit carryback from a taxable year attributable to a net operating loss carryback or a capital loss carryback from a subsequent taxable year, such increase shall not affect the computation of interest under this section for the period ending with the filing date for such subsequent taxable year.''.

(b) CONFORMING AMENDMENT TO REFUNDS ATTRIBUTABLE TO FOREIGN TAX CREDIT CARRYBACKS.—

(1) IN GENERAL.—Subsection (f) of section 6611 is amended by redesignating paragraphs (2) and (3) as paragraphs (3) and (4), respectively, and by inserting after paragraph (1) the following new paragraph:

''(2) FOREIGN TAX CREDIT CARRYBACKS.—For purposes of subsection (a), if any overpayment of tax imposed by subtitle A results from a carryback of tax paid or accrued to foreign countries or possessions of the United States, such overpayment shall be deemed not to have been made before the filing date for the taxable year in which such taxes were in fact paid or accrued, or, with respect to any portion of such credit carryback from a taxable year attributable to a net operating loss carryback or a capital loss carryback from a subsequent taxable year, such overpayment shall be deemed not to have been made before the filing date for such subsequent taxable year.''.

(2) CONFORMING AMENDMENTS.—

(A) Paragraph (4) of section 6611(f) (as so redesignated) is amended—

(i) by striking ''PARAGRAPHS (1) AND (2)'' and inserting ''PARAGRAPHS (1), (2), AND (3)'', and

(ii) by striking ''paragraph (1) or (2)'' each place it appears and inserting ''paragraph (1), (2), or (3)''.

(B) Clause (ii) of section 6611(f)(4)(B) (as so redesignated) is amended by striking ''and'' at the end of subclause (I), by redesignating subclause (II) as subclause (III), and by inserting after subclause (I) the following new subclause:

''(II) in the case of a carryback of taxes paid or accrued to foreign countries or possessions of the United States, the taxable year in which such taxes were in fact paid or accrued (or, with respect to any portion of such carryback from a taxable year attributable to a net operating loss carryback or a capital loss carryback from a subsequent taxable year, such subsequent taxable year), and''.

(C) Subclause (III) of section 6611(f)(4)(B)(ii) (as so redesignated) is amended by inserting ''(as defined in paragraph (3)(B))'' after ''credit carryback'' the first place it appears.

(D) Section 6611 is amended by striking subsection (g) and by redesignating subsections (h) and (i) as subsections (g) and (h), respectively.

(c) EFFECTIVE DATE.—The amendments made by this section shall apply to carrybacks arising in taxable years beginning after the date of the enactment of this Act.

SEC. 1177. CLARIFICATION OF PERIOD OF LIMITATIONS ON CLAIM FOR CREDIT OR REFUND ATTRIBUTABLE TO FOREIGN TAX CREDIT CARRYFORWARD.

(a) IN GENERAL.—Subparagraph (A) of section 6511(d)(3) is amended by striking ''for the year with respect to which the claim is made'' and inserting ''for the year in which such taxes were actually paid or accrued''.

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

SEC. 1178. MISCELLANEOUS CLARIFICATIONS.

(a) ATTRIBUTION OF DEEMED PAID FOREIGN TAXES TO PRIOR DISTRIBUTIONS.—Subparagraph (B) of section 902(c)(2) is amended by striking ''deemed paid with respect to'' and inserting ''attributable to''.

(b) FINANCIAL SERVICES INCOME DETERMINED WITHOUT REGARD TO HIGH-TAXED INCOME.—Subclause (II) of section 904(d)(2)(C)(i) is amended by striking ''subclause (I)'' and inserting ''subclauses (I) and (III)''.

(c) EFFECTIVE DATE.—The amendments made by this section shall take effect on the date of the enactment of this Act.

TITLE XII—SIMPLIFICATION PROVISIONS RELATING TO INDIVIDUALS AND BUSINESSES

Subtitle A—Provisions Relating to Individuals

SEC. 1201. BASIC STANDARD DEDUCTION AND MINIMUM TAX EXEMPTION AMOUNT FOR CERTAIN DEPENDENTS.

(a) BASIC STANDARD DEDUCTION.—

(1) IN GENERAL.—Paragraph (5) of section 63(c) (relating to limitation on basic standard deduction in the case of certain dependents) is amended by striking ''shall not exceed'' and all that follows and inserting ''shall not exceed the greater of—

''(A) $500, or

''(B) the sum of $250 and such individual's earned income.''.

(2) CONFORMING AMENDMENT.—Paragraph (4) of section 63(c) is amended—

(A) by striking ''(5)(A)'' in the material preceding subparagraph (A) and inserting ''(5)'', and

(B) by striking ''by substituting'' and all that follows in subparagraph (B) and inserting ''by substituting for 'calendar year 1992' in subparagraph (B) thereof—

''(i) 'calendar year 1987' in the case of the dollar amounts contained in paragraph (2) or (5)(A) or subsection (f), and

''(ii) 'calendar year 1997' in the case of the dollar amount contained in paragraph (5)(B).''.

(b) MINIMUM TAX EXEMPTION AMOUNT.—Subsection (j) of section 59 is amended to read as follows:

''(j) TREATMENT OF UNEARNED INCOME OF MINOR CHILDREN.—

''(1) IN GENERAL.—In the case of a child to whom section 1(g) applies, the exemption amount for purposes of section 55 shall not exceed the sum of—

''(A) such child's earned income (as defined in section 911(d)(2)) for the taxable year, plus

''(B) $5,000.

''(2) INFLATION ADJUSTMENT.—In the case of any taxable year beginning in a calendar year after 1998, the dollar amount in paragraph (1)(B) shall be increased by an amount equal to the product of—

''(A) such dollar amount, and

''(B) the cost-of-living adjustment determined under section 1(f)(3) for the calendar year in which the taxable year begins, determined by substituting '1997' for '1992' in subparagraph (B) thereof.

If any increase determined under the preceding sentence is not a multiple of $50, such increase shall be rounded to the nearest multiple of $50.''.

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

SEC. 1202. INCREASE IN AMOUNT OF TAX EXEMPT FROM ESTIMATED TAX REQUIREMENTS.

(a) IN GENERAL.—Paragraph (1) of section 6654(e) (relating to exception where tax is small amount) is amended by striking ''$500'' and inserting ''$1,000''.

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

SEC. 1203. OPTIONAL METHODS FOR COMPUTING SECA TAX COMBINED.

(a) INTERNAL REVENUE CODE.—

(1) IN GENERAL.—Subsection (h) of section 1402 is amended to read as follows:

''(h) OPTIONAL METHOD FOR COMPUTING SELF-EMPLOYMENT INCOME.—

''(1) INDIVIDUALS.—In the case of any trade or business which is carried on by an individual—

''(A) if the gross income derived by him from such trade or business is not more than the upper limit for the taxable year, the net earnings from self-employment derived by him from such trade or business may, at his option, be deemed to be 66⅔ percent of such gross income, or

''(B) if the gross income derived by him from such trade or business is more than the upper limit for the taxable year and the net earnings from self-employment derived by him from such trade or business (computed under subsection (a) without regard to this sentence) are less than the lower limit for the taxable year, the net earnings from self-employment derived by him from such trade or business may, at his option, be deemed to be the lower limit for the taxable year.

''(2) MEMBER OF A PARTNERSHIP.—In the case of a member of a partnership carrying on any trade or business—

''(A) if his distributive share of the gross income of the partnership derived from such trade or business (after such gross income has been reduced by the sum of all payments to which section 707(c) applies) is not more than the upper limit for the taxable year, his distributive share of income described in section 702(a)(8) derived from such trade or business may, at his option, be deemed to be an amount equal to 66⅔ percent of his distributive share of such gross income (after such gross income has been so reduced), or

''(B) if his distributive share of the gross income of the partnership derived from such trade or business (after such gross income has been reduced by the sum of all payments to which section 707(c) applies) is more than the upper limit for the taxable year and his distributive share (whether or not distributed) of income described in section 702(a)(8) derived from such trade or business (computed under this subsection without regard to this sentence) is less than the lower limit for the taxable year, his distributive share of income described in section 702(a)(8) derived from such trade or business may, at his option, be deemed to be the lower limit for the taxable year.

''(3) UPPER AND LOWER LIMITS.—For purposes of this subsection—

''(A) LOWER LIMIT.—The lower limit for any taxable year is the sum of the amounts applicable under section 213(d) of the Social Security Act for calendar quarters ending with or within such taxable year.

''(B) UPPER LIMIT.—The upper limit for any taxable year is the amount equal to 150 percent of the lower limit for such taxable year.

''(4) DETERMINATION OF GROSS INCOME.—For purposes of this subsection, the term 'gross income' means—

''(A) in the case of any such trade or business in which the income is computed under a cash receipts and disbursements method, the gross receipts from such trade or business reduced by the cost or other basis of property which was purchased and sold in carrying on such trade or business, adjusted (after such reduction) in accordance with the provisions of paragraphs (1) through (7) and paragraph (9) of subsection (a), and

''(B) in the case of any such trade or business in which the income is computed under an accrual method, the gross income from such trade or business, adjusted in accordance with the provisions of paragraphs (1) through (7) and paragraph (9) of subsection (a).

''(5) INCOME DERIVED FROM MORE THAN 1 TRADE OR BUSINESS.—For purposes of this subsection, if an individual (including a member of a partnership) derives gross income from more than 1 such trade or business, such gross income (including his distributive share of the gross income of any partnership derived from any such trade or business) shall be deemed to have been derived from one trade or business.

''(6) ELECTION.—The option under this subsection shall be allowed for any taxable year only if elected on the first return filed for such taxable year.''.

(2) CONFORMING AMENDMENT.—Subsection (a) of section 1402 is amended by striking all that follows the first sentence following paragraph (15) and inserting ''For optional method of determining net earnings from self-employment, see subsection (h).''.

(b) SOCIAL SECURITY ACT.—Subsection (g) of section 211 of the Social Security Act is amended to read as follows:

''(g) OPTIONAL METHOD FOR COMPUTING SELF-EMPLOYMENT INCOME.—

''(1) INDIVIDUALS.—In the case of any trade or business which is carried on by an individual—

''(A) if the gross income derived by him from such trade or business is not more than the upper limit for the taxable year, the net earnings from self-employment derived by him from such trade or business may, at his option, be deemed to be 66⅔ percent of such gross income, or

''(B) if the gross income derived by him from such trade or business is more than the upper limit for the taxable year and the net earnings from self-employment derived by him from such trade or business (computed under subsection (a) without regard to this sentence) are less than the lower limit for the taxable year, the net earnings from self-employment derived by him from such trade or business may, at his option, be deemed to be the lower limit for the taxable year.

''(2) MEMBER OF A PARTNERSHIP.—In the case of a member of a partnership carrying on any trade or business—

''(A) if his distributive share of the gross income of the partnership derived from such trade or business (after such gross income has been reduced by the sum of all payments to which section 707(c) of the Internal Revenue Code of 1986 applies) is not more than the upper limit for the taxable year, his distributive share of income described in section 702(a)(8) of such Code derived from such trade or business may, at his option, be deemed to be an amount equal to 66⅔ percent of his distributive share of such gross income (after such gross income has been so reduced), or

''(B) if his distributive share of the gross income of the partnership derived from such trade or business (after such gross income has been reduced by the sum of all payments to which section 707(c) of such Code applies) is more than the upper limit for the taxable year and his distributive share (whether or not distributed) of income described in section 702(a)(8) of such Code derived from such trade or business (computed under this subsection without regard to this sentence) is less than the lower limit for the taxable year, his distributive share of income described in section 702(a)(8) of such Code derived from such trade or business may, at his option, be deemed to be the lower limit for the taxable year.

''(3) UPPER AND LOWER LIMITS.—For purposes of this subsection—

''(A) LOWER LIMIT.—The lower limit for any taxable year is the sum of the amounts applicable under section 213(d) for calendar quarters ending with or within such taxable year.

''(B) UPPER LIMIT.—The upper limit for any taxable year is the amount equal to 150 percent of the lower limit for such taxable year.

''(4) DETERMINATION OF GROSS INCOME.—For purposes of this subsection, the term 'gross income' means—

''(A) in the case of any such trade or business in which the income is computed under a cash receipts and disbursements method, the gross receipts from such trade or business reduced by the cost or other basis of property which was purchased and sold in carrying on such trade or business, adjusted (after such reduction) in accordance with the provisions of paragraphs (1) through (6) and paragraph (8) of subsection (a), and

''(B) in the case of any such trade or business in which the income is computed under an accrual method, the gross income from such trade or business, adjusted in accordance with the provisions of paragraphs (1) through (6) and paragraph (8) of subsection (a).

''(5) INCOME DERIVED FROM MORE THAN 1 TRADE OR BUSINESS.—For purposes of this subsection, if an individual (including a member of a partnership) derives gross income from more than 1 such trade or business, such gross income (including his distributive share of the gross income of any partnership derived from any such trade or business) shall be deemed to have been derived from one trade or business.

''(6) ELECTION.—The option under this subsection shall be allowed for any taxable year only if elected on the first return filed for such taxable year.''.

(2) CONFORMING AMENDMENT.—Subsection (a) of section 211 of the Social Security Act is amended by striking all that follows the first sentence following paragraph (15) and inserting ''For optional method of determining net earnings from self-employment, see subsection (g).''.

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

SEC. 1204. TREATMENT OF CERTAIN REIMBURSED EXPENSES OF RURAL MAIL CARRIERS.

(a) IN GENERAL.—Section 162 (relating to trade or business expenses) is amended by redesignating subsection (o) as subsection (p) and by inserting after subsection (n) the following new subsection:

''(o) TREATMENT OF CERTAIN REIMBURSED EXPENSES OF RURAL MAIL CARRIERS.—

''(1) GENERAL RULE.—In the case of any employee of the United States Postal Service who performs services involving the collection and delivery of mail on a rural route and who receives qualified reimbursements for the expenses incurred by such employee for the use of a vehicle in performing such services—

''(A) the amount allowable as a deduction under this chapter for the use of a vehicle in performing such services shall be equal to the amount of such qualified reimbursements; and

''(B) such qualified reimbursements shall be treated as paid under a reimbursement or other expense allowance arrangement for purposes of section 62(a)(2)(A) (and section 62(c) shall not apply to such qualified reimbursements).

''(2) DEFINITION OF QUALIFIED REIMBURSEMENTS.—For purposes of this subsection, the term 'qualified reimbursements' means the amounts paid by the United States Postal Service to employees as an equipment maintenance allowance under the 1991 collective bargaining agreement between the United States Postal Service and the National Rural Letter Carriers' Association. Amounts paid as an equipment maintenance allowance by such Postal Service under later collective bargaining agreements that supersede the 1991 agreement shall be considered qualified reimbursements if such amounts do not exceed the amounts that would have been paid under the 1991 agreement, adjusted for changes in the Consumer Price Index (as defined in section 1(f)(5)) since 1991.''.

(b) TECHNICAL AMENDMENT.—Section 6008 of the Technical and Miscellaneous Revenue Act of 1988 is hereby repealed.

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

SEC. 1205. TREATMENT OF TRAVELING EXPENSES OF CERTAIN FEDERAL EMPLOYEES ENGAGED IN CRIMINAL INVESTIGATIONS.

(a) IN GENERAL.—Subsection (a) of section 162 is amended by adding at the end the following new sentence: ''The preceding sentence shall not apply to any Federal employee during any period for which such employee is certified by the Attorney General (or the designee thereof) as traveling on behalf of the United States in temporary duty status to investigate, or provide support services for the investigation of, a Federal crime.''.

(b) EFFECTIVE DATE.—The amendment made by subsection (a) shall apply to amounts paid or incurred with respect to taxable years ending after the date of the enactment of this Act.

SEC. 1206. PAYMENT OF TAX BY COMMERCIALLY ACCEPTABLE MEANS.

(a) GENERAL RULE.—Section 6311 is amended to read as follows:

''SEC. 6311. PAYMENT OF TAX BY COMMERCIALLY ACCEPTABLE MEANS.

''(a) AUTHORITY TO RECEIVE.—It shall be lawful for the Secretary to receive for internal revenue taxes (or in payment for internal revenue stamps) any commercially acceptable means that the Secretary deems appropriate to the extent and under the conditions provided in regulations prescribed by the Secretary.

''(b) ULTIMATE LIABILITY.—If a check, money order, or other method of payment, including payment by credit card, debit card, or charge card so received is not duly paid, or is paid and subsequently charged back to the Secretary, the person by whom such check, or money order, or other method of payment has been tendered shall remain liable for the payment of the tax or for the stamps, and for all legal penalties and additions, to the same extent as if such check, money order, or other method of payment had not been tendered.

''(c) LIABILITY OF BANKS AND OTHERS.—If any certified, treasurer's, or cashier's check (or other guaranteed draft), or any money order, or any other means of payment that has been guaranteed by a financial institution (such as a credit card, debit card, or

charge card transaction which has been guaranteed expressly by a financial institution) so received is not duly paid, the United States shall, in addition to its right to exact payment from the party originally indebted therefor, have a lien for—

''(1) the amount of such check (or draft) upon all assets of the financial institution on which drawn,

''(2) the amount of such money order upon all the assets of the issuer thereof, or

''(3) the guaranteed amount of any other transaction upon all the assets of the institution making such guarantee,

and such amount shall be paid out of such assets in preference to any other claims whatsoever against such financial institution, issuer, or guaranteeing institution, except the necessary costs and expenses of administration and the reimbursement of the United States for the amount expended in the redemption of the circulating notes of such financial institution.

''(d) PAYMENT BY OTHER MEANS.—

''(1) AUTHORITY TO PRESCRIBE REGULATIONS.—The Secretary shall prescribe such regulations as the Secretary deems necessary to receive payment by commercially acceptable means, including regulations that—

''(A) specify which methods of payment by commercially acceptable means will be acceptable,

''(B) specify when payment by such means will be considered received,

''(C) identify types of nontax matters related to payment by such means that are to be resolved by persons ultimately liable for payment and financial intermediaries, without the involvement of the Secretary, and

''(D) ensure that tax matters will be resolved by the Secretary, without the involvement of financial intermediaries.

''(2) AUTHORITY TO ENTER INTO CONTRACTS.—Notwithstanding section 3718(f) of title 31, United States Code, the Secretary is authorized to enter into contracts to obtain services related to receiving payment by other means where cost beneficial to the Government.

''(3) SPECIAL PROVISIONS FOR USE OF CREDIT CARDS.—If use of credit cards is accepted as a method of payment of taxes pursuant to subsection (a)—

''(A) a payment of internal revenue taxes (or a payment for internal revenue stamps) by a person by use of a credit card shall not be subject to section 161 of the Truth-in-Lending Act (15 U.S.C. 1666), or to any similar provisions of State law, if the error alleged by the person is an error relating to the underlying tax liability, rather than an error relating to the credit card account such as a computational error or numerical transposition in the credit card transaction or an issue as to whether the person authorized payment by use of the credit card,

''(B) a payment of internal revenue taxes (or a payment for internal revenue stamps) shall not be subject to section 170 of the Truth-in-Lending Act (15 U.S.C. 1666i), or to any similar provisions of State law,

''(C) a payment of internal revenue taxes (or a payment for internal revenue stamps) by a person by use of a debit card shall not be subject to section 908 of the Electronic Fund Transfer Act (15 U.S.C. 1693f), or to any similar provisions of State law, if the error alleged by the person is an error relating to the underlying tax liability, rather than an error relating to the debit card account such as a computational error or numerical transposition in the debit card transaction or an issue as to whether the person authorized payment by use of the debit card,

''(D) the term 'creditor' under section 103(f) of the Truth-in-Lending Act (15 U.S.C. 1602(f)) shall not include the Secretary with respect to credit card transactions in payment of internal revenue taxes (or payment for internal revenue stamps), and

''(E) notwithstanding any other provision of law to the contrary, in the case of payment made by credit card or debit card transaction of an amount owed to a person as the result of the correction of an error under section 161 of the Truth-in-Lending Act (15 U.S.C. 1666) or section 908 of the Electronic Fund Transfer Act (15 U.S.C. 1693f), the Secretary is authorized to provide such amount to such person as a credit to that person's credit card or debit card account through the applicable credit card or debit card system.

''(e) CONFIDENTIALITY OF INFORMATION.—

''(1) IN GENERAL.—Except as otherwise authorized by this subsection, no person may use or disclose any information relating to credit or debit card transactions obtained pursuant to section 6103(k)(8) other than for purposes directly related to the processing of such transactions, or the billing or collection of amounts charged or debited pursuant thereto.

''(2) EXCEPTIONS.—

''(A) Debit or credit card issuers or others acting on behalf of such issuers may also use and disclose such information for purposes directly related to servicing an issuer's accounts.

''(B) Debit or credit card issuers or others directly involved in the processing of credit or debit card transactions or the billing or collection of amounts charged or debited thereto may also use and disclose such information for purposes directly related to—

''(i) statistical risk and profitability assessment;

''(ii) transferring receivables, accounts, or interest therein;

''(iii) auditing the account information;

''(iv) complying with Federal, State, or local law; and

''(v) properly authorized civil, criminal, or regulatory investigation by Federal, State, or local authorities.

''(3) PROCEDURES.—Use and disclosure of information under this paragraph shall be made only to the extent authorized by written procedures promulgated by the Secretary.

''(4) CROSS REFERENCE.—

''For provision providing for civil damages for violation of paragraph (1), see section 7431.''.

(b) SEPARATE APPROPRIATION REQUIRED FOR PAYMENT OF CREDIT CARD FEES.—No amount may be paid by the United States to a credit card issuer for the right to receive payments of internal revenue taxes by credit card without a separate appropriation therefor.

(c) CLERICAL AMENDMENT.—The table of sections for subchapter B of chapter 64 is amended by striking the item relating to section 6311 and inserting the following:

''Sec. 6311. Payment of tax by commercially acceptable means.''.

(d) AMENDMENTS TO SECTIONS 6103 AND 7431 WITH RESPECT TO DISCLOSURE AUTHORIZATION.—

(1) Subsection (k) of section 6103 (relating to confidentiality and disclosure of returns and return information) is amended by adding at the end the following new paragraph:

''(8) DISCLOSURE OF INFORMATION TO ADMINISTER SECTION 6311.—The Secretary may disclose returns or return information to financial institutions and others to the extent the Secretary deems necessary for the administration of section 6311. Disclosures of information for purposes other than to accept payments by checks or money orders shall be made only to the extent authorized by written procedures promulgated by the Secretary.''.

(2) Section 7431 (relating to civil damages for unauthorized disclosure of returns and return information) is amended by adding at the end the following new subsection:

''(g) SPECIAL RULE FOR INFORMATION OBTAINED UNDER SECTION 6103(k)(8).—For purposes of this section, any reference to section 6103 shall be treated as including a reference to section 6311(e).''.

(3) Section 6103(p)(3)(A) is amended by striking ''or (6)'' and inserting ''(6), or (8)''.

(e) EFFECTIVE DATE.—The amendments made by this section shall take effect on the day 9 months after the date of the enactment of this Act.

Subtitle B—Provisions Relating to Businesses Generally

SEC. 1211. MODIFICATIONS TO LOOK-BACK METHOD FOR LONG-TERM CONTRACTS.

(a) LOOK-BACK METHOD NOT TO APPLY IN CERTAIN CASES.—Subsection (b) of section 460 (relating to percentage of completion method) is amended by adding at the end the following new paragraph:

''(6) ELECTION TO HAVE LOOK-BACK METHOD NOT APPLY IN DE MINIMIS CASES.—

''(A) AMOUNTS TAKEN INTO ACCOUNT AFTER COMPLETION OF CONTRACT.—Paragraph (1)(B) shall not apply with respect to any taxable year (beginning after the taxable year in which the contract is completed) if—

''(i) the cumulative taxable income (or loss) under the contract as of the close of such taxable year, is within

''(ii) 10 percent of the cumulative look-back taxable income (or loss) under the contract as of the close of the most recent taxable year to which paragraph (1)(B) applied (or would have applied but for subparagraph (B)).

''(B) DE MINIMIS DISCREPANCIES.—Paragraph (1)(B) shall not apply in any case to which it would otherwise apply if—

''(i) the cumulative taxable income (or loss) under the contract as of the close of each prior contract year, is within

''(ii) 10 percent of the cumulative look-back income (or loss) under the contract as of the close of such prior contract year.

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

''(i) CONTRACT YEAR.—The term 'contract year' means any taxable year for which income is taken into account under the contract.

''(ii) LOOK-BACK INCOME OR LOSS.—The look-back income (or loss) is the amount which would be the taxable income (or loss) under the contract if the allocation method set forth in paragraph (2)(A) were used in determining taxable income.

''(iii) DISCOUNTING NOT APPLICABLE.—The amounts taken into account after the completion of the contract shall be determined without regard to any discounting under the 2nd sentence of paragraph (2).

''(D) CONTRACTS TO WHICH PARAGRAPH APPLIES.—This paragraph shall only apply if the taxpayer makes an election under this subparagraph. Unless revoked with the consent of the Secretary, such an election shall apply to all long-term contracts completed during the taxable year for which election is made or during any subsequent taxable year.''.

(b) MODIFICATION OF INTEREST RATE.—

(1) IN GENERAL.—Subparagraph (C) of section 460(b)(2) is amended by striking ''the overpayment rate established by section 6621'' and inserting ''the adjusted overpayment rate (as defined in paragraph (7))''.

(2) ADJUSTED OVERPAYMENT RATE.—Subsection (b) of section 460 is amended by adding at the end the following new paragraph:

''(7) ADJUSTED OVERPAYMENT RATE.—

''(A) IN GENERAL.—The adjusted overpayment rate for any interest accrual period is the overpayment rate in effect under section 6621 for the calendar quarter in which such interest accrual period begins.

''(B) INTEREST ACCRUAL PERIOD.—For purposes of subparagraph (A), the term 'interest accrual period' means the period—

''(i) beginning on the day after the return due date for any taxable year of the taxpayer, and

''(ii) ending on the return due date for the following taxable year.

For purposes of the preceding sentence, the term 'return due date' means the date prescribed for filing the return of the tax imposed by this chapter (determined without regard to extensions).''.

(c) EFFECTIVE DATE.—

(1) IN GENERAL.—Except as provided in paragraph (2), the amendments made by this section shall apply to contracts completed in taxable years ending after the date of the enactment of this Act.

(2) SUBSECTION (b).—The amendments made by subsection (b) shall apply for purposes of section 167(g) of the Internal Revenue Code of 1986 to property placed in service after September 13, 1995.

SEC. 1212. MINIMUM TAX TREATMENT OF CERTAIN PROPERTY AND CASUALTY INSURANCE COMPANIES.

(a) IN GENERAL.—Clause (i) of section 56(g)(4)(B) (relating to inclusion of items included for purposes of computing earnings and profits) is amended by adding at the end the following new sentence: ''In the case of any insurance company taxable under section 831(b), this clause shall not apply to any amount not described in section 834(b).''.

(b) EFFECTIVE DATE.—The amendment made by subsection (a) shall apply to taxable years beginning after December 31, 1997.

Subtitle C—Simplification Relating to Electing Large Partnerships

PART I—GENERAL PROVISIONS

SEC. 1221. SIMPLIFIED FLOW-THROUGH FOR ELECTING LARGE PARTNERSHIPS.

(a) GENERAL RULE.—Subchapter K (relating to partners and partnerships) is amended by adding at the end the following new part:

''PART IV—SPECIAL RULES FOR ELECTING LARGE PARTNERSHIPS

''Sec. 771. Application of subchapter to electing large partnerships.

''Sec. 772. Simplified flow-through.

''Sec. 773. Computations at partnership level.

''Sec. 774. Other modifications.

''Sec. 775. Electing large partnership defined.

''Sec. 776. Special rules for partnerships holding oil and gas properties.

''Sec. 777. Regulations.

''SEC. 771. APPLICATION OF SUBCHAPTER TO ELECTING LARGE PARTNERSHIPS.

''The preceding provisions of this subchapter to the extent inconsistent with the provisions of this part shall not apply to an electing large partnership and its partners.

''SEC. 772. SIMPLIFIED FLOW-THROUGH.

''(a) GENERAL RULE.—In determining the income tax of a partner of an electing large partnership, such partner shall take into account separately such partner's distributive share of the partnership's—

''(1) taxable income or loss from passive loss limitation activities,

''(2) taxable income or loss from other activities,

''(3) net capital gain (or net capital loss)—

''(A) to the extent allocable to passive loss limitation activities, and

''(B) to the extent allocable to other activities,

''(4) tax-exempt interest,

''(5) applicable net AMT adjustment separately computed for—

''(A) passive loss limitation activities, and

''(B) other activities,

''(6) general credits,

''(7) low-income housing credit determined under section 42,

''(8) rehabilitation credit determined under section 47,

''(9) foreign income taxes,

''(10) the credit allowable under section 29, and

''(11) other items to the extent that the Secretary determines that the separate treatment of such items is appropriate.

''(b) SEPARATE COMPUTATIONS.—In determining the amounts required under subsection (a) to be separately taken into account by any partner, this section and section 773 shall be applied separately with respect to such partner by taking into account such partner's distributive share of the items of income, gain, loss, deduction, or credit of the partnership.

''(c) TREATMENT AT PARTNER LEVEL.—

''(1) IN GENERAL.—Except as provided in this subsection, rules similar to the rules of section 702(b) shall apply to any partner's distributive share of the amounts referred to in subsection (a).

''(2) INCOME OR LOSS FROM PASSIVE LOSS LIMITATION ACTIVITIES.—For purposes of this chapter, any partner's distributive share of any income or loss described in subsection (a)(1) shall be treated as an item of income or loss (as the case may be) from the conduct of a trade or business which is a single passive activity (as defined in section 469). A similar rule shall apply to a partner's distributive share of amounts referred to in paragraphs (3)(A) and (5)(A) of subsection (a).

''(3) INCOME OR LOSS FROM OTHER ACTIVITIES.—

''(A) IN GENERAL.—For purposes of this chapter, any partner's distributive share of any income or loss described in subsection (a)(2) shall be treated as an item of income or expense (as the case may be) with respect to property held for investment.

''(B) DEDUCTIONS FOR LOSS NOT SUBJECT TO SECTION 67.—The deduction under section 212 for any loss described in subparagraph (A) shall not be treated as a miscellaneous itemized deduction for purposes of section 67.

''(4) TREATMENT OF NET CAPITAL GAIN OR LOSS.—For purposes of this chapter, any partner's distributive share of any gain or loss described in subsection (a)(3) shall be treated as a long-term capital gain or loss, as the case may be.

''(5) MINIMUM TAX TREATMENT.—In determining the alternative minimum taxable income of any partner, such partner's distributive share of any applicable net AMT adjustment shall be taken into account in lieu of making the separate adjustments provided in sections 56, 57, and 58 with respect to the items of the partnership. Except as provided in regulations, the applicable net AMT adjustment shall be treated, for purposes of section 53, as an adjustment or item of tax preference not specified in section 53(d)(1)(B)(ii).

''(6) GENERAL CREDITS.—A partner's distributive share of the amount referred to in paragraph (6) of subsection (a) shall be taken into account as a current year business credit.

''(d) OPERATING RULES.—For purposes of this section—

''(1) PASSIVE LOSS LIMITATION ACTIVITY.—The term 'passive loss limitation activity' means—

''(A) any activity which involves the conduct of a trade or business, and

''(B) any rental activity.

For purposes of the preceding sentence, the term 'trade or business' includes any activity treated as a trade or business under paragraph (5) or (6) of section 469(c).

''(2) TAX-EXEMPT INTEREST.—The term 'tax-exempt interest' means interest excludable from gross income under section 103.

''(3) APPLICABLE NET AMT ADJUSTMENT.—

''(A) IN GENERAL.—The applicable net AMT adjustment is—

''(i) with respect to taxpayers other than corporations, the net adjustment determined by using the adjustments applicable to individuals, and

''(ii) with respect to corporations, the net adjustment determined by using the adjustments applicable to corporations.

''(B) NET ADJUSTMENT.—The term 'net adjustment' means the net adjustment in the items attributable to passive loss activities or other activities (as the case may be) which would result if such items were determined with the adjustments of sections 56, 57, and 58.

''(4) TREATMENT OF CERTAIN SEPARATELY STATED ITEMS.—

''(A) EXCLUSION FOR CERTAIN PURPOSES.—In determining the amounts referred to in paragraphs (1) and (2) of subsection (a), any net capital gain or net capital loss (as the case may be), and any item referred to in subsection (a)(11), shall be excluded.

''(B) ALLOCATION RULES.—The net capital gain shall be treated—

''(i) as allocable to passive loss limitation activities to the extent the net capital gain does not exceed the net capital gain determined by only taking into account gains and losses from sales and exchanges of property used in connection with such activities, and

''(ii) as allocable to other activities to the extent such gain exceeds the amount allocated under clause (i).

A similar rule shall apply for purposes of allocating any net capital loss.

''(C) NET CAPITAL LOSS.—The term 'net capital loss' means the excess of the losses from sales or exchanges of capital assets over the gains from sales or exchange of capital assets.

''(5) GENERAL CREDITS.—The term 'general credits' means any credit other than the low-income housing credit, the rehabilitation credit, the foreign tax credit, and the credit allowable under section 29.

''(6) FOREIGN INCOME TAXES.—The term 'foreign income taxes' means taxes described in section 901 which are paid or accrued to foreign countries and to possessions of the United States.

''(e) SPECIAL RULE FOR UNRELATED BUSINESS TAX.—In the case of a partner which is an organization subject to tax under section 511, such partner's distributive share of any items shall be taken into account separately to the extent necessary to comply with the provisions of section 512(c)(1).

''(f) SPECIAL RULES FOR APPLYING PASSIVE LOSS LIMITATIONS.—If any person holds an interest in an electing large partnership other than as a limited partner—

''(1) paragraph (2) of subsection (c) shall not apply to such partner, and

''(2) such partner's distributive share of the partnership items allocable to passive loss limitation activities shall be taken into account separately to the extent necessary to comply with the provisions of section 469.

The preceding sentence shall not apply to any items allocable to an interest held as a limited partner.

''SEC. 773. COMPUTATIONS AT PARTNERSHIP LEVEL.

''(a) GENERAL RULE.—

''(1) TAXABLE INCOME.—The taxable income of an electing large partnership shall be computed in the same manner as in the case of an individual except that—

''(A) the items described in section 772(a) shall be separately stated, and

''(B) the modifications of subsection (b) shall apply.

''(2) ELECTIONS.—All elections affecting the computation of the taxable income of an electing large partnership or the computation of any credit of an electing large partnership shall be made by the partnership; except that the election under section 901, and any election under section 108, shall be made by each partner separately.

''(3) LIMITATIONS, ETC.—

''(A) IN GENERAL.—Except as provided in subparagraph (B), all limitations and other provisions affecting the computation of the taxable income of an electing large partnership or the computation of any credit of an electing large partnership shall be applied at the partnership level (and not at the partner level).

''(B) CERTAIN LIMITATIONS APPLIED AT PARTNER LEVEL.—The following provisions shall be applied at the partner level (and not at the partnership level):

''(i) Section 68 (relating to overall limitation on itemized deductions).

''(ii) Sections 49 and 465 (relating to at risk limitations).

''(iii) Section 469 (relating to limitation on passive activity losses and credits).

''(iv) Any other provision specified in regulations.

''(4) COORDINATION WITH OTHER PROVISIONS.—Paragraphs (2) and (3) shall apply notwithstanding any other provision of this chapter other than this part.

''(b) MODIFICATIONS TO DETERMINATION OF TAXABLE INCOME.—In determining the taxable income of an electing large partnership—

''(1) CERTAIN DEDUCTIONS NOT ALLOWED.—The following deductions shall not be allowed:

''(A) The deduction for personal exemptions provided in section 151.

''(B) The net operating loss deduction provided in section 172.

''(C) The additional itemized deductions for individuals provided in part VII of subchapter B (other than section 212 thereof).

''(2) CHARITABLE DEDUCTIONS.—In determining the amount allowable under section 170, the limitation of section 170(b)(2) shall apply.

''(3) COORDINATION WITH SECTION 67.—In lieu of applying section 67, 70 percent of the amount of the miscellaneous itemized deductions shall be disallowed.

''(c) SPECIAL RULES FOR INCOME FROM DISCHARGE OF INDEBTEDNESS.—If an electing large partnership has income from the discharge of any indebtedness—

''(1) such income shall be excluded in determining the amounts referred to in section 772(a), and

''(2) in determining the income tax of any partner of such partnership—

''(A) such income shall be treated as an item required to be separately taken into account under section 772(a), and

''(B) the provisions of section 108 shall be applied without regard to this part.

''SEC. 774. OTHER MODIFICATIONS.

''(a) TREATMENT OF CERTAIN OPTIONAL ADJUSTMENTS, ETC.—In the case of an electing large partnership—

''(1) computations under section 773 shall be made without regard to any adjustment under section 743(b) or 108(b), but

''(2) a partner's distributive share of any amount referred to in section 772(a) shall be appropriately adjusted to take into account any adjustment under section 743(b) or 108(b) with respect to such partner.

''(b) CREDIT RECAPTURE DETERMINED AT PARTNERSHIP LEVEL.—

''(1) IN GENERAL.—In the case of an electing large partnership—

''(A) any credit recapture shall be taken into account by the partnership, and

''(B) the amount of such recapture shall be determined as if the credit with respect to which the recapture is made had been fully utilized to reduce tax.

''(2) METHOD OF TAKING RECAPTURE INTO ACCOUNT.—An electing large partnership shall take into account a credit recapture by reducing the amount of the appropriate current year credit to the extent thereof, and if such recapture exceeds the amount of such current year credit, the partnership shall be liable to pay such excess.

''(3) DISPOSITIONS NOT TO TRIGGER RECAPTURE.—No credit recapture shall be required by reason of any transfer of an interest in an electing large partnership.

''(4) CREDIT RECAPTURE.—For purposes of this subsection, the term 'credit recapture' means any increase in tax under section 42(j) or 50(a).

''(c) PARTNERSHIP NOT TERMINATED BY REASON OF CHANGE IN OWNERSHIP.—Subparagraph (B) of section 708(b)(1) shall not apply to an electing large partnership.

''(d) PARTNERSHIP ENTITLED TO CERTAIN CREDITS.—The following shall be allowed to an electing large partnership and shall not be taken into account by the partners of such partnership:

''(1) The credit provided by section 34.

''(2) Any credit or refund under section 852(b)(3)(D).

''(e) TREATMENT OF REMIC RESIDUALS.—For purposes of applying section 860E(e)(6) to any electing large partnership—

''(1) all interests in such partnership shall be treated as held by disqualified organizations,

''(2) in lieu of applying subparagraph (C) of section 860E(e)(6), the amount subject to tax under section 860E(e)(6) shall be excluded from the gross income of such partnership, and

''(3) subparagraph (D) of section 860E(e)(6) shall not apply.

''(f) SPECIAL RULES FOR APPLYING CERTAIN INSTALLMENT SALE RULES.—In the case of an electing large partnership—

''(1) the provisions of sections 453(l)(3) and 453A shall be applied at the partnership level, and

''(2) in determining the amount of interest payable under such sections, such partnership shall be treated as subject to tax under this chapter at the highest rate of tax in effect under section 1 or 11.

''SEC. 775. ELECTING LARGE PARTNERSHIP DEFINED.

''(a) GENERAL RULE.—For purposes of this part—

''(1) IN GENERAL.—The term 'electing large partnership' means, with respect to any partnership taxable year, any partnership if—

''(A) the number of persons who were partners in such partnership in the preceding partnership taxable year equaled or exceeded 100, and

''(B) such partnership elects the application of this part.

To the extent provided in regulations, a partnership shall cease to be treated as an electing large partnership for any partnership taxable year if in such taxable year fewer than 100 persons were partners in such partnership.

''(2) ELECTION.—The election under this subsection shall apply to the taxable year for which made and all subsequent taxable years unless revoked with the consent of the Secretary.

''(b) SPECIAL RULES FOR CERTAIN SERVICE PARTNERSHIPS.—

''(1) CERTAIN PARTNERS NOT COUNTED.—For purposes of this section, the term 'partner' does not include any individual performing substantial services in connection with the activities of the partnership and holding an interest in such partnership, or an individual who formerly performed substantial services in connection with such activities and who held an interest in such partnership at the time the individual performed such services.

''(2) EXCLUSION.—For purposes of this part, an election under subsection (a) shall not be effective with respect to any partnership if substantially all the partners of such partnership—

''(A) are individuals performing substantial services in connection with the activities of such partnership or are personal service corporations (as defined in section 269A(b)) the owner-employees (as defined in section 269A(b)) of which perform such substantial services,

''(B) are retired partners who had performed such substantial services, or

''(C) are spouses of partners who are performing (or had previously performed) such substantial services.

''(3) SPECIAL RULE FOR LOWER TIER PARTNERSHIPS.—For purposes of this subsection, the activities of a partnership shall include the activities of any other partnership in which the partnership owns directly an interest in the capital and profits of at least 80 percent.

''(c) EXCLUSION OF COMMODITY POOLS.—For purposes of this part, an election under subsection (a) shall not be effective with respect to any partnership the principal activity of which is the buying and selling of commodities (not described in section 1221(1)), or options, futures, or forwards with respect to such commodities.

''(d) SECRETARY MAY RELY ON TREATMENT ON RETURN.—If, on the partnership return of any partnership, such partnership is treated as an electing large partnership, such treatment shall be binding on such partnership and all partners of such partnership but not on the Secretary.

''SEC. 776. SPECIAL RULES FOR PARTNERSHIPS HOLDING OIL AND GAS PROPERTIES.

''(a) COMPUTATION OF PERCENTAGE DEPLETION.—In the case of an electing large partnership, except as provided in subsection (b)—

''(1) the allowance for depletion under section 611 with respect to any partnership oil or gas property shall be computed at the partnership level without regard to any provision of section 613A requiring such allowance to be computed separately by each partner,

''(2) such allowance shall be determined without regard to the provisions of section 613A(c) limiting the amount of production for which percentage depletion is allowable and without regard to paragraph (1) of section 613A(d), and

''(3) paragraph (3) of section 705(a) shall not apply.

''(b) TREATMENT OF CERTAIN PARTNERS.—

''(1) IN GENERAL.—In the case of a disqualified person, the treatment under this chapter of such person's distributive share of any item of income, gain, loss, deduction, or credit attributable to any partnership oil or gas property shall be determined without regard to this part. Such person's distributive share of any such items shall be excluded for purposes of making determinations under sections 772 and 773.

''(2) DISQUALIFIED PERSON.—For purposes of paragraph (1), the term 'disqualified person' means, with respect to any partnership taxable year—

''(A) any person referred to in paragraph (2) or (4) of section 613A(d) for such person's taxable year in which such partnership taxable year ends, and

''(B) any other person if such person's average daily production of domestic crude oil and natural gas for such person's taxable year in which such partnership taxable year ends exceeds 500 barrels.

''(3) AVERAGE DAILY PRODUCTION.—For purposes of paragraph (2), a person's average daily production of domestic crude oil and natural gas for any taxable year shall be computed as provided in section 613A(c)(2)—

''(A) by taking into account all production of domestic crude oil and natural gas (including such person's proportionate share of any production of a partnership),

''(B) by treating 6,000 cubic feet of natural gas as a barrel of crude oil, and

''(C) by treating as 1 person all persons treated as 1 taxpayer under section 613A(c)(8) or among whom allocations are required under such section.

''SEC. 777. REGULATIONS.

''The Secretary shall prescribe such regulations as may be appropriate to carry out the purposes of this part.''.

(b) CLERICAL AMENDMENT.—The table of parts for subchapter K of chapter 1 is amended by adding at the end the following new item:

''Part IV. Special rules for electing large partnerships.''.

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

SEC. 1222. SIMPLIFIED AUDIT PROCEDURES FOR ELECTING LARGE PARTNERSHIPS.

(a) GENERAL RULE.—Chapter 63 is amended by adding at the end thereof the following new subchapter:

''Subchapter D—Treatment of electing large partnerships

''Part I. Treatment of partnership items and adjustments.

''Part II. Partnership level adjustments.

''Part III. Definitions and special rules.

''PART I—TREATMENT OF PARTNERSHIP ITEMS AND ADJUSTMENTS

''Sec. 6240. Application of subchapter.

''Sec. 6241. Partner's return must be consistent with partnership return.

''Sec. 6242. Procedures for taking partnership adjustments into account.

''SEC. 6240. APPLICATION OF SUBCHAPTER.

''(a) GENERAL RULE.—This subchapter shall only apply to electing large partnerships and partners in such partnerships.

''(b) COORDINATION WITH OTHER PARTNERSHIP AUDIT PROCEDURES.—

''(1) IN GENERAL.—Subchapter C of this chapter shall not apply to any electing large partnership other than in its capacity as a partner in another partnership which is not an electing large partnership.

''(2) TREATMENT WHERE PARTNER IN OTHER PARTNERSHIP.—If an electing large partnership is a partner in another partnership which is not an electing large partnership—

''(A) subchapter C of this chapter shall apply to items of such electing large partnership which are partnership items with respect to such other partnership, but

''(B) any adjustment under such subchapter C shall be taken into account in the manner provided by section 6242.

''SEC. 6241. PARTNER'S RETURN MUST BE CONSISTENT WITH PARTNERSHIP RETURN.

''(a) GENERAL RULE.—A partner of any electing large partnership shall, on the partner's return, treat each partnership item attributable to such partnership in a manner which is consistent with the treatment of such partnership item on the partnership return.

''(b) UNDERPAYMENT DUE TO INCONSISTENT TREATMENT ASSESSED AS MATH ERROR.—Any underpayment of tax by a partner by reason of failing to comply with the requirements of subsection (a) shall be assessed and collected in the same manner as if such underpayment were on account of a mathematical or clerical error appearing on the partner's return. Paragraph (2) of section 6213(b) shall not apply to any assessment of an underpayment referred to in the preceding sentence.

''(c) ADJUSTMENTS NOT TO AFFECT PRIOR YEAR OF PARTNERS.—

''(1) IN GENERAL.—Except as provided in paragraph (2), subsections (a) and (b) shall apply without regard to any adjustment to the partnership item under part II.

''(2) CERTAIN CHANGES IN DISTRIBUTIVE SHARE TAKEN INTO ACCOUNT BY PARTNER.—

''(A) IN GENERAL.—To the extent that any adjustment under part II involves a change under section 704 in a partner's distributive share of the amount of any partnership item shown on the partnership return, such adjustment shall be taken into account in applying this title to such partner for the partner's taxable year for which such item was required to be taken into account.

''(B) COORDINATION WITH DEFICIENCY PROCEDURES.—

''(i) IN GENERAL.—Subchapter B shall not apply to the assessment or collection of any underpayment of tax attributable to an adjustment referred to in subparagraph (A).

''(ii) ADJUSTMENT NOT PRECLUDED.—Notwithstanding any other law or rule of law, nothing in subchapter B (or in any proceeding under subchapter B) shall preclude the assessment or collection of any underpayment of tax (or the allowance of any credit or refund of any overpayment of tax) attributable to an adjustment referred to in subparagraph (A) and such assessment or collection or allowance (or any notice thereof) shall not preclude any notice, proceeding, or determination under subchapter B.

''(C) PERIOD OF LIMITATIONS.—The period for—

''(i) assessing any underpayment of tax, or

''(ii) filing a claim for credit or refund of any overpayment of tax,

attributable to an adjustment referred to in subparagraph (A) shall not expire before the close of the period prescribed by section 6248 for making adjustments with respect to the partnership taxable year involved.

''(D) TIERED STRUCTURES.—If the partner referred to in subparagraph (A) is another partnership or an S corporation, the rules of this paragraph shall also apply to persons holding interests in such partnership or S corporation (as the case may be); except that, if such partner is an electing large partnership, the adjustment referred to in subparagraph (A) shall be taken into account in the manner provided by section 6242.

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

''For addition to tax in case of partner's disregard of requirements of this section, see part II of subchapter A of chapter 68.

''SEC. 6242. PROCEDURES FOR TAKING PARTNERSHIP ADJUSTMENTS INTO ACCOUNT.

''(a) ADJUSTMENTS FLOW THROUGH TO PARTNERS FOR YEAR IN WHICH ADJUSTMENT TAKES EFFECT.—

''(1) IN GENERAL.—If any partnership adjustment with respect to any partnership item takes effect (within the meaning of subsection (d)(2)) during any partnership taxable year and if an election under paragraph (2) does not apply to such adjustment, such adjustment shall be taken into account in determining the amount of such item for the partnership taxable year in which such adjustment takes effect. In applying this title to any person who is (directly or indirectly) a partner in such partnership during such partnership taxable year, such adjustment shall be treated as an item actually arising during such taxable year.

''(2) PARTNERSHIP LIABLE IN CERTAIN CASES.—If—

''(A) a partnership elects under this paragraph to not take an adjustment into account under paragraph (1),

''(B) a partnership does not make such an election but in filing its return for any partnership taxable year fails to take fully into account any partnership adjustment as required under paragraph (1), or

''(C) any partnership adjustment involves a reduction in a credit which exceeds the amount of such credit determined for the partnership taxable year in which the adjustment takes effect,

the partnership shall pay to the Secretary an amount determined by applying the rules of subsection (b)(4) to the adjustments not so taken into account and any excess referred to in subparagraph (C).

''(3) OFFSETTING ADJUSTMENTS TAKEN INTO ACCOUNT.—If a partnership adjustment requires another adjustment in a taxable year after the adjusted year and before the partnership taxable year in which such partnership adjustment takes effect, such other adjustment shall be taken into account under this subsection for the partnership taxable year in which such partnership adjustment takes effect.

''(4) COORDINATION WITH PART II.—Amounts taken into account under this subsection for any partnership taxable year shall continue to be treated as adjustments for the adjusted year for purposes of determining whether such amounts may be readjusted under part II.

''(b) PARTNERSHIP LIABLE FOR INTEREST AND PENALTIES.—

''(1) IN GENERAL.—If a partnership adjustment takes effect during any partnership taxable year and such adjustment results in an imputed underpayment for the adjusted year, the partnership—

''(A) shall pay to the Secretary interest computed under paragraph (2), and

''(B) shall be liable for any penalty, addition to tax, or additional amount as provided in paragraph (3).

''(2) DETERMINATION OF AMOUNT OF INTEREST.—The interest computed under this paragraph with respect to any partnership adjustment is the interest which would be determined under chapter 67—

''(A) on the imputed underpayment determined under paragraph (4) with respect to such adjustment,

''(B) for the period beginning on the day after the return due date for the adjusted year and ending on the return due date for the partnership taxable year in which such adjustment takes effect (or, if earlier, in the case of any adjustment to which subsection (a)(2) applies, the date on which the payment under subsection (a)(2) is made).

Proper adjustments in the amount determined under the preceding sentence shall be made for adjustments required for partnership taxable years after the adjusted year and before the year in which the partnership adjustment takes effect by reason of such partnership adjustment.

''(3) PENALTIES.—A partnership shall be liable for any penalty, addition to tax, or additional amount for which it would have been liable if such partnership had been an individual subject to tax under chapter 1 for the adjusted year and the imputed underpayment determined under paragraph (4) were an actual underpayment (or understatement) for such year.

''(4) IMPUTED UNDERPAYMENT.—For purposes of this subsection, the imputed underpayment determined under this paragraph

with respect to any partnership adjustment is the underpayment (if any) which would result—

''(A) by netting all adjustments to items of income, gain, loss, or deduction and by treating any net increase in income as an underpayment equal to the amount of such net increase multiplied by the highest rate of tax in effect under section 1 or 11 for the adjusted year, and

''(B) by taking adjustments to credits into account as increases or decreases (whichever is appropriate) in the amount of tax.

For purposes of the preceding sentence, any net decrease in a loss shall be treated as an increase in income and a similar rule shall apply to a net increase in a loss.

''(c) ADMINISTRATIVE PROVISIONS.—

''(1) IN GENERAL.—Any payment required by subsection (a)(2) or (b)(1)(A)—

''(A) shall be assessed and collected in the same manner as if it were a tax imposed by subtitle C, and

''(B) shall be paid on or before the return due date for the partnership taxable year in which the partnership adjustment takes effect.

''(2) INTEREST.—For purposes of determining interest, any payment required by subsection (a)(2) or (b)(1)(A) shall be treated as an underpayment of tax.

''(3) PENALTIES.—

''(A) IN GENERAL.—In the case of any failure by any partnership to pay on the date prescribed therefor any amount required by subsection (a)(2) or (b)(1)(A), there is hereby imposed on such partnership a penalty of 10 percent of the underpayment. For purposes of the preceding sentence, the term 'underpayment' means the excess of any payment required under this section over the amount (if any) paid on or before the date prescribed therefor.

''(B) ACCURACY-RELATED AND FRAUD PENALTIES MADE APPLICABLE.—For purposes of part II of subchapter A of chapter 68, any payment required by subsection (a)(2) shall be treated as an underpayment of tax.

''(d) DEFINITIONS AND SPECIAL RULES.—For purposes of this section—

''(1) PARTNERSHIP ADJUSTMENT.—The term 'partnership adjustment' means any adjustment in the amount of any partnership item of an electing large partnership.

''(2) WHEN ADJUSTMENT TAKES EFFECT.—A partnership adjustment takes effect—

''(A) in the case of an adjustment pursuant to the decision of a court in a proceeding brought under part II, when such decision becomes final,

''(B) in the case of an adjustment pursuant to any administrative adjustment request under section 6251, when such adjustment is allowed by the Secretary, or

''(C) in any other case, when such adjustment is made.

''(3) ADJUSTED YEAR.—The term 'adjusted year' means the partnership taxable year to which the item being adjusted relates.

''(4) RETURN DUE DATE.—The term 'return due date' means, with respect to any taxable year, the date prescribed for filing the partnership return for such taxable year (determined without regard to extensions).

''(5) ADJUSTMENTS INVOLVING CHANGES IN CHARACTER.—Under regulations, appropriate adjustments in the application of this section shall be made for purposes of taking into account partnership adjustments which involve a change in the character of any item of income, gain, loss, or deduction.

''(e) PAYMENTS NONDEDUCTIBLE.—No deduction shall be allowed under subtitle A for any payment required to be made by an electing large partnership under this section.

''PART II—PARTNERSHIP LEVEL ADJUSTMENTS

''Subpart A. Adjustments by Secretary.

''Subpart B. Claims for adjustments by partnership.

''Subpart A—Adjustments by Secretary

''Sec. 6245. Secretarial authority.

''Sec. 6246. Restrictions on partnership adjustments.

''Sec. 6247. Judicial review of partnership adjustment.

''Sec. 6248. Period of limitations for making adjustments.

''SEC. 6245. SECRETARIAL AUTHORITY.

''(a) GENERAL RULE.—The Secretary is authorized and directed to make adjustments at the partnership level in any partnership item to the extent necessary to have such item be treated in the manner required.

''(b) NOTICE OF PARTNERSHIP ADJUSTMENT.—

''(1) IN GENERAL.—If the Secretary determines that a partnership adjustment is required, the Secretary is authorized to send notice of such adjustment to the partnership by certified mail or registered mail. Such notice shall be sufficient if mailed to the partnership at its last known address even if the partnership has terminated its existence.

''(2) FURTHER NOTICES RESTRICTED.—If the Secretary mails a notice of a partnership adjustment to any partnership for any partnership taxable year and the partnership files a petition under section 6247 with respect to such notice, in the absence of a showing of fraud, malfeasance, or misrepresentation of a material fact, the Secretary shall not mail another such notice to such partnership with respect to such taxable year.

''(3) AUTHORITY TO RESCIND NOTICE WITH PARTNERSHIP CONSENT.—The Secretary may, with the consent of the partnership, rescind any notice of a partnership adjustment mailed to such partnership. Any notice so rescinded shall not be treated as a notice of a partnership adjustment, for purposes of this section, section 6246, and section 6247, and the taxpayer shall have no right to bring a proceeding under section 6247 with respect to such notice. Nothing in this subsection shall affect any suspension of the running of any period of limitations during any period during which the rescinded notice was outstanding.

''SEC. 6246. RESTRICTIONS ON PARTNERSHIP ADJUSTMENTS.

''(a) GENERAL RULE.—Except as otherwise provided in this chapter, no adjustment to any partnership item may be made (and no levy or proceeding in any court for the collection of any amount resulting from such adjustment may be made, begun or prosecuted) before—

''(1) the close of the 90th day after the day on which a notice of a partnership adjustment was mailed to the partnership, and

''(2) if a petition is filed under section 6247 with respect to such notice, the decision of the court has become final.

''(b) PREMATURE ACTION MAY BE ENJOINED.—Notwithstanding section 7421(a), any action which violates subsection (a) may be enjoined in the proper court, including the Tax Court. The Tax Court shall have no jurisdiction to enjoin any action under this subsection unless a timely petition has been filed under section 6247 and then only in respect of the adjustments that are the subject of such petition.

''(c) EXCEPTIONS TO RESTRICTIONS ON ADJUSTMENTS.—

''(1) ADJUSTMENTS ARISING OUT OF MATH OR CLERICAL ERRORS.—

''(A) IN GENERAL.—If the partnership is notified that, on account of a mathematical or clerical error appearing on the partnership return, an adjustment to a partnership item is required, rules similar to the rules of paragraphs (1) and (2) of section 6213(b) shall apply to such adjustment.

''(B) SPECIAL RULE.—If an electing large partnership is a partner in another electing large partnership, any adjustment on account of such partnership's failure to comply with the requirements of section 6241(a) with respect to its interest in such other partnership shall be treated as an adjustment referred to in subparagraph (A), except that paragraph (2) of section 6213(b) shall not apply to such adjustment.

''(2) PARTNERSHIP MAY WAIVE RESTRICTIONS.—The partnership shall at any time (whether or not a notice of partnership adjustment has been issued) have the right, by a signed notice in writing filed with the Secretary, to waive the restrictions provided in subsection (a) on the making of any partnership adjustment.

''(d) LIMIT WHERE NO PROCEEDING BEGUN.—If no proceeding under section 6247 is begun with respect to any notice of a partnership adjustment during the 90-day period described in subsection (a), the amount for which the partnership is liable under section 6242 (and any increase in any partner's liability for tax under chapter 1 by reason of any adjustment under section 6242(a)) shall not exceed the amount determined in accordance with such notice.

''SEC. 6247. JUDICIAL REVIEW OF PARTNERSHIP ADJUSTMENT.

''(a) GENERAL RULE.—Within 90 days after the date on which a notice of a partnership adjustment is mailed to the partnership with respect to any partnership taxable year, the partnership may file a petition for a readjustment of the partnership items for such taxable year with—

''(1) the Tax Court,

''(2) the district court of the United States for the district in which the partnership's principal place of business is located, or

''(3) the Claims Court.

''(b) JURISDICTIONAL REQUIREMENT FOR BRINGING ACTION IN DISTRICT COURT OR CLAIMS COURT.—

''(1) IN GENERAL.—A readjustment petition under this section may be filed in a district court of the United States or the Claims Court only if the partnership filing the petition deposits with the Secretary, on or before the date the petition is filed, the amount for which the partnership would be liable under section 6242(b) (as of the date of the filing of the petition) if the partnership items were adjusted as provided by the notice of partnership adjustment. The court may by order provide that the jurisdictional requirements of this paragraph are satisfied where there has been a good faith attempt to satisfy such requirement and any shortfall of the amount required to be deposited is timely corrected.

''(2) INTEREST PAYABLE.—Any amount deposited under paragraph (1), while deposited, shall not be treated as a payment of tax for purposes of this title (other than chapter 67).

''(c) SCOPE OF JUDICIAL REVIEW.—A court with which a petition is filed in accordance with this section shall have jurisdiction to determine all partnership items of the partnership for the partnership taxable year to which the notice of partnership adjustment relates and the proper allocation of such items among the partners (and the applicability of any penalty, addition to tax, or additional amount for which the partnership may be liable under section 6242(b)).

''(d) DETERMINATION OF COURT REVIEWABLE.—Any determination by a court under this section shall have the force and effect of a decision of the Tax Court or a final judgment or decree of the district court or the Claims Court, as the case may be, and shall be reviewable as such. The date of any such determination shall be treated as being the date of the court's order entering the decision.

''(e) EFFECT OF DECISION DISMISSING ACTION.—If an action brought under this section is dismissed other than by reason of a rescission under section 6245(b)(3), the decision of the court dismissing the action shall be considered as its decision that the notice of partnership adjustment is correct, and an appropriate order shall be entered in the records of the court.

''SEC. 6248. PERIOD OF LIMITATIONS FOR MAKING ADJUSTMENTS.

''(a) GENERAL RULE.—Except as otherwise provided in this section, no adjustment under this subpart to any partnership item for any partnership taxable year may be made after the date which is 3 years after the later of—

''(1) the date on which the partnership return for such taxable year was filed, or

''(2) the last day for filing such return for such year (determined without regard to extensions).

''(b) EXTENSION BY AGREEMENT.—The period described in subsection (a) (including an extension period under this subsection) may be extended by an agreement entered into by the Secretary and the partnership before the expiration of such period.

''(c) SPECIAL RULE IN CASE OF FRAUD, ETC.—

''(1) FALSE RETURN.—In the case of a false or fraudulent partnership return with intent to evade tax, the adjustment may be made at any time.

''(2) SUBSTANTIAL OMISSION OF INCOME.—If any partnership omits from gross income an amount properly includible therein which is in excess of 25 percent of the amount of gross income stated in its return, subsection (a) shall be applied by substituting '6 years' for '3 years'.

''(3) NO RETURN.—In the case of a failure by a partnership to file a return for any taxable year, the adjustment may be made at any time.

''(4) RETURN FILED BY SECRETARY.—For purposes of this section, a return executed by the Secretary under subsection (b) of section 6020 on behalf of the partnership shall not be treated as a return of the partnership.

''(d) SUSPENSION WHEN SECRETARY MAILS NOTICE OF ADJUSTMENT.—If notice of a partnership adjustment with respect to any taxable year is mailed to the partnership, the running of the period specified in subsection (a) (as modified by the other provisions of this section) shall be suspended—

''(1) for the period during which an action may be brought under section 6247 (and, if a petition is filed under section 6247 with respect to such notice, until the decision of the court becomes final), and

''(2) for 1 year thereafter.

''Subpart B—Claims for Adjustments by Partnership

''Sec. 6251. Administrative adjustment requests.

''Sec. 6252. Judicial review where administrative adjustment request is not allowed in full.

''SEC. 6251. ADMINISTRATIVE ADJUSTMENT REQUESTS.

''(a) GENERAL RULE.—A partnership may file a request for an administrative adjustment of partnership items for any partnership taxable year at any time which is—

''(1) within 3 years after the later of—

''(A) the date on which the partnership return for such year is filed, or

''(B) the last day for filing the partnership return for such year (determined without regard to extensions), and

''(2) before the mailing to the partnership of a notice of a partnership adjustment with respect to such taxable year.

''(b) SECRETARIAL ACTION.—If a partnership files an administrative adjustment request under subsection (a), the Secretary may allow any part of the requested adjustments.

''(c) SPECIAL RULE IN CASE OF EXTENSION UNDER SECTION 6248.—If the period described in section 6248(a) is extended pursuant to an agreement under section 6248(b), the period prescribed by subsection (a)(1) shall not expire before the date 6 months after the expiration of the extension under section 6248(b).

''SEC. 6252. JUDICIAL REVIEW WHERE ADMINISTRATIVE ADJUSTMENT REQUEST IS NOT ALLOWED IN FULL.

''(a) IN GENERAL.—If any part of an administrative adjustment request filed under section 6251 is not allowed by the Secretary, the partnership may file a petition for an adjustment with respect to the partnership items to which such part of the request relates with—

''(1) the Tax Court,

''(2) the district court of the United States for the district in which the principal place of business of the partnership is located, or

''(3) the Claims Court.

''(b) PERIOD FOR FILING PETITION.—A petition may be filed under subsection (a) with respect to partnership items for a partnership taxable year only—

''(1) after the expiration of 6 months from the date of filing of the request under section 6251, and

''(2) before the date which is 2 years after the date of such request.

The 2-year period set forth in paragraph (2) shall be extended for such period as may be agreed upon in writing by the partnership and the Secretary.

''(c) COORDINATION WITH SUBPART A.—

''(1) NOTICE OF PARTNERSHIP ADJUSTMENT BEFORE FILING OF PETITION.—No petition may be filed under this section after the Secretary mails to the partnership a notice of a partnership adjustment for the partnership taxable year to which the request under section 6251 relates.

''(2) NOTICE OF PARTNERSHIP ADJUSTMENT AFTER FILING BUT BEFORE HEARING OF PETITION.—If the Secretary mails to the partnership a notice of a partnership adjustment for the partnership taxable year to which the request under section 6251 relates after the filing of a petition under this subsection but before the hearing of such petition, such petition shall be treated as an action brought under section 6247 with respect to such notice, except that subsection (b) of section 6247 shall not apply.

''(3) NOTICE MUST BE BEFORE EXPIRATION OF STATUTE OF LIMITATIONS.—A notice of a partnership adjustment for the partnership taxable year shall be taken into account under paragraphs (1) and (2) only if such notice is mailed before the expiration of the period prescribed by section 6248 for making adjustments to partnership items for such taxable year.

''(d) SCOPE OF JUDICIAL REVIEW.—Except in the case described in paragraph (2) of subsection (c), a court with which a petition is filed in accordance with this section shall have jurisdiction to determine only those partnership items to which the part of the request under section 6251 not allowed by the Secretary relates and those items with respect to which the Secretary asserts adjustments as offsets to the adjustments requested by the partnership.

''(e) DETERMINATION OF COURT REVIEWABLE.—Any determination by a court under this subsection shall have the force and effect of a decision of the Tax Court or a final judgment or decree of the district court or the Claims Court, as the case may be, and shall be reviewable as such. The date of any such determination shall be treated as being the date of the court's order entering the decision.

''PART III—DEFINITIONS AND SPECIAL RULES

''Sec. 6255. Definitions and special rules.

''SEC. 6255. DEFINITIONS AND SPECIAL RULES.

''(a) DEFINITIONS.—For purposes of this subchapter—

''(1) ELECTING LARGE PARTNERSHIP.—The term 'electing large partnership' has the meaning given to such term by section 775.

''(2) PARTNERSHIP ITEM.—The term 'partnership item' has the meaning given to such term by section 6231(a)(3).

''(b) PARTNERS BOUND BY ACTIONS OF PARTNERSHIP, ETC.—

''(1) DESIGNATION OF PARTNER.—Each electing large partnership shall designate (in the manner prescribed by the Secretary) a partner (or other person) who shall have the sole authority to act on behalf of such partnership under this subchapter. In any case in which such a designation is not in effect, the Secretary may select any partner as the partner with such authority.

''(2) BINDING EFFECT.—An electing large partnership and all partners of such partnership shall be bound—

''(A) by actions taken under this subchapter by the partnership, and

''(B) by any decision in a proceeding brought under this subchapter.

''(c) PARTNERSHIPS HAVING PRINCIPAL PLACE OF BUSINESS OUTSIDE THE UNITED STATES.—For purposes of sections 6247 and 6252, a principal place of business located outside the United States shall be treated as located in the District of Columbia.

''(d) TREATMENT WHERE PARTNERSHIP CEASES TO EXIST.—If a partnership ceases to exist before a partnership adjustment under this subchapter takes effect, such adjustment shall be taken into account by the former partners of such partnership under regulations prescribed by the Secretary.

''(e) DATE DECISION BECOMES FINAL.—For purposes of this subchapter, the principles of section 7481(a) shall be applied in determining the date on which a decision of a district court or the Claims Court becomes final.

''(f) PARTNERSHIPS IN CASES UNDER TITLE 11 OF THE UNITED STATES CODE.—The running of any period of limitations provided in this subchapter on making a partnership adjustment (or provided by section 6501 or 6502 on the assessment or collection of any amount required to be paid under section 6242) shall, in a case under title 11 of the United States Code, be suspended during the period during which the Secretary is prohibited by reason of such case from making the adjustment (or assessment or collection) and—

''(1) for adjustment or assessment, 60 days thereafter, and

''(2) for collection, 6 months thereafter.

''(g) REGULATIONS.—The Secretary shall prescribe such regulations as may be necessary to carry out the provisions of this subchapter, including regulations—

''(1) to prevent abuse through manipulation of the provisions of this subchapter, and

''(2) providing that this subchapter shall not apply to any case described in section 6231(c)(1) (or the regulations prescribed thereunder) where the application of this subchapter to such a case would interfere with the effective and efficient enforcement of this title.

In any case to which this subchapter does not apply by reason of paragraph (2), rules similar to the rules of sections 6229(f) and 6255(f) shall apply.''.

(b) CLERICAL AMENDMENT.—The table of subchapters for chapter 63 is amended by adding at the end thereof the following new item:

''Subchapter D. Treatment of electing large partnerships.''.

SEC. 1223. DUE DATE FOR FURNISHING INFORMATION TO PARTNERS OF ELECTING LARGE PARTNERSHIPS.

(a) GENERAL RULE.—Subsection (b) of section 6031 (relating to copies to partners) is amended by adding at the end the following new sentence: ''In the case of an electing large partnership (as defined in section 775), such information shall be furnished on or before the first March 15 following the close of such taxable year.''.

(b) TREATMENT AS INFORMATION RETURN.—Section 6724 is amended by adding at the end the following new subsection:

''(e) SPECIAL RULE FOR CERTAIN PARTNERSHIP RETURNS.—If any partnership return under section 6031(a) is required under section 6011(e) to be filed on magnetic media or in other machine-readable form, for purposes of this part, each schedule required to be included with such return with respect to each partner shall be treated as a separate information return.''.

SEC. 1224. RETURNS MAY BE REQUIRED ON MAGNETIC MEDIA.

Paragraph (2) of section 6011(e) (relating to returns on magnetic media) is amended by adding at the end thereof the following new sentence:

''Notwithstanding the preceding sentence, the Secretary shall require partnerships having more than 100 partners to file returns on magnetic media.''.

SEC. 1225. TREATMENT OF PARTNERSHIP ITEMS OF INDIVIDUAL RETIREMENT ACCOUNTS.

Subsection (b) of section 6012 is amended by adding at the end thereof the following new paragraph:

''(6) IRA SHARE OF PARTNERSHIP INCOME.—In the case of a trust which is exempt from taxation under section 408(e), for purposes of this section, the trust's distributive share of items of gross income and gain of any partnership to which subchapter C or D of chapter 63 applies shall be treated as equal to the trust's distributive share of the taxable income of such partnership.''.

SEC. 1226. EFFECTIVE DATE.

The amendments made by this part shall apply to partnership taxable years ending on or after December 31, 1997.

PART II—PROVISIONS RELATED TO TEFRA PARTNERSHIP PROCEEDINGS

SEC. 1231. TREATMENT OF PARTNERSHIP ITEMS IN DEFICIENCY PROCEEDINGS.

(a) IN GENERAL.—Subchapter C of chapter 63 is amended by adding at the end the following new section:

''SEC. 6234. DECLARATORY JUDGMENT RELATING TO TREATMENT OF ITEMS OTHER THAN PARTNERSHIP ITEMS WITH RESPECT TO AN OVERSHELTERED RETURN.

''(a) GENERAL RULE.—If—

''(1) a taxpayer files an oversheltered return for a taxable year,

''(2) the Secretary makes a determination with respect to the treatment of items (other than partnership items) of such taxpayer for such taxable year, and

''(3) the adjustments resulting from such determination do not give rise to a deficiency (as defined in section 6211) but would give rise to a deficiency if there were no net loss from partnership items,

the Secretary is authorized to send a notice of adjustment reflecting such determination to the taxpayer by certified or registered mail.

''(b) OVERSHELTERED RETURN.—For purposes of this section, the term 'oversheltered return' means an income tax return which—

''(1) shows no taxable income for the taxable year, and

''(2) shows a net loss from partnership items.

''(c) JUDICIAL REVIEW IN THE TAX COURT.—Within 90 days, or 150 days if the notice is addressed to a person outside the United States, after the day on which the notice of adjustment authorized in subsection (a) is mailed to the taxpayer, the taxpayer may file a petition with the Tax Court for redetermination of the adjustments. Upon the filing of such a petition, the Tax Court shall have jurisdiction to make a declaration with respect to all items (other than partnership items and affected items which require partner level determinations as described in section 6230(a)(2)(A)(i)) for the taxable year to which the notice of adjustment relates, in accordance with the principles of section 6214(a). Any such declaration shall have the force and effect of a decision of the Tax Court and shall be reviewable as such.

''(d) FAILURE TO FILE PETITION.—

''(1) IN GENERAL.—Except as provided in paragraph (2), if the taxpayer does not file a petition with the Tax Court within the time prescribed in subsection (c), the determination of the Secretary set forth in the notice of adjustment that was mailed to the taxpayer shall be deemed to be correct.

''(2) EXCEPTION.—Paragraph (1) shall not apply after the date that the taxpayer—

''(A) files a petition with the Tax Court within the time prescribed in subsection (c) with respect to a subsequent notice of adjustment relating to the same taxable year, or

''(B) files a claim for refund of an overpayment of tax under section 6511 for the taxable year involved.

If a claim for refund is filed by the taxpayer, then solely for purposes of determining (for the taxable year involved) the amount of any computational adjustment in connection with a partnership proceeding under this subchapter (other than under this section) or the amount of any deficiency attributable to affected items in a proceeding under section 6230(a)(2), the items that are the subject of the notice of adjustment shall be presumed to have been correctly reported on the taxpayer's return during the pendency of the refund claim (and, if within the time prescribed by section 6532 the taxpayer commences a civil action for refund under section 7422, until the decision in the refund action becomes final).

''(e) LIMITATIONS PERIOD.—

''(1) IN GENERAL.—Any notice to a taxpayer under subsection (a) shall be mailed before the expiration of the period prescribed by section 6501 (relating to the period of limitations on assessment).

''(2) SUSPENSION WHEN SECRETARY MAILS NOTICE OF ADJUSTMENT.—If the Secretary mails a notice of adjustment to the taxpayer for a taxable year, the period of limitations on the making of assessments shall be suspended for the period during which the Secretary is prohibited from making the assessment (and, in any event, if a proceeding in respect of the notice of adjustment is placed on the docket of the Tax Court, until the decision of the Tax Court becomes final), and for 60 days thereafter.

''(3) RESTRICTIONS ON ASSESSMENT.—Except as otherwise provided in section 6851, 6852, or 6861, no assessment of a deficiency with respect to any tax imposed by subtitle A attributable to any item (other than a partnership item or any item affected by a partnership item) shall be made—

''(A) until the expiration of the applicable 90-day or 150-day period set forth in subsection (c) for filing a petition with the Tax Court, or

''(B) if a petition has been filed with the Tax Court, until the decision of the Tax Court has become final.

''(f) FURTHER NOTICES OF ADJUSTMENT RESTRICTED.—If the Secretary mails a notice of adjustment to the taxpayer for a taxable year and the taxpayer files a petition with the Tax Court within the time prescribed in subsection (c), the Secretary may not mail another such notice to the taxpayer with respect to the same taxable year in the absence of a showing of fraud, malfeasance, or misrepresentation of a material fact.

''(g) COORDINATION WITH OTHER PROCEEDINGS UNDER THIS SUBCHAPTER.—

''(1) IN GENERAL.—The treatment of any item that has been determined pursuant to subsection (c) or (d) shall be taken into account in determining the amount of any computational adjustment that is made in connection with a partnership proceeding under this subchapter (other than under this section), or the amount of any deficiency attributable to affected items in a proceeding under section 6230(a)(2), for the taxable year involved. Notwithstanding any other law or rule of law pertaining to the period of limitations on the making of assessments, for purposes of the preceding sentence, any adjustment made in accordance with this section shall be taken into account regardless of whether any assessment has been made with respect to such adjustment.

''(2) SPECIAL RULE IN CASE OF COMPUTATIONAL ADJUSTMENT.—In the case of a computational adjustment that is made in connection with a partnership proceeding under this subchapter (other than under this section), the provisions of paragraph (1) shall apply only if the computational adjustment is made within the period prescribed by section 6229 for assessing any tax under subtitle A which is attributable to any partnership item or affected item for the taxable year involved.

''(3) CONVERSION TO DEFICIENCY PROCEEDING.—If—

''(A) after the notice referred to in subsection (a) is mailed to a taxpayer for a taxable year but before the expiration of the period for filing a petition with the Tax Court under subsection (c) (or, if a petition is filed with the Tax Court, before the Tax Court makes a declaration for that taxable year), the treatment of any partnership item for the taxable year is finally determined, or any such item ceases to be a partnership item pursuant to section 6231(b), and

''(B) as a result of that final determination or cessation, a deficiency can be determined with respect to the items that are the subject of the notice of adjustment,

the notice of adjustment shall be treated as a notice of deficiency under section 6212 and any petition filed in respect of the notice shall be treated as an action brought under section 6213.

''(4) FINALLY DETERMINED.—For purposes of this subsection, the treatment of partnership items shall be treated as finally determined if—

''(A) the Secretary enters into a settlement agreement (within the meaning of section 6224) with the taxpayer regarding such items,

''(B) a notice of final partnership administrative adjustment has been issued and—

''(i) no petition has been filed under section 6226 and the time for doing so has expired, or

''(ii) a petition has been filed under section 6226 and the decision of the court has become final, or

''(C) the period within which any tax attributable to such items may be assessed against the taxpayer has expired.

''(h) SPECIAL RULES IF SECRETARY INCORRECTLY DETERMINES APPLICABLE PROCEDURE.—

''(1) SPECIAL RULE IF SECRETARY ERRONEOUSLY MAILS NOTICE OF ADJUSTMENT.—If the Secretary erroneously determines that

subchapter B does not apply to a taxable year of a taxpayer and consistent with that determination timely mails a notice of adjustment to the taxpayer pursuant to subsection (a) of this section, the notice of adjustment shall be treated as a notice of deficiency under section 6212 and any petition that is filed in respect of the notice shall be treated as an action brought under section 6213.

''(2) SPECIAL RULE IF SECRETARY ERRONEOUSLY MAILS NOTICE OF DEFICIENCY.—If the Secretary erroneously determines that subchapter B applies to a taxable year of a taxpayer and consistent with that determination timely mails a notice of deficiency to the taxpayer pursuant to section 6212, the notice of deficiency shall be treated as a notice of adjustment under subsection (a) and any petition that is filed in respect of the notice shall be treated as an action brought under subsection (c).''.

(b) TREATMENT OF PARTNERSHIP ITEMS IN DEFICIENCY PROCEEDINGS.—Section 6211 (defining deficiency) is amended by adding at the end the following new subsection:

''(c) COORDINATION WITH SUBCHAPTER C.—In determining the amount of any deficiency for purposes of this subchapter, adjustments to partnership items shall be made only as provided in subchapter C.''.

(c) CLERICAL AMENDMENT.—The table of sections for subchapter C of chapter 63 is amended by adding at the end the following new item:

''Sec. 6234. Declaratory judgment relating to treatment of items other than partnership items with respect to an oversheltered return.''.

(d) EFFECTIVE DATE.—The amendments made by this section shall apply to partnership taxable years ending after the date of the enactment of this Act.

SEC. 1232. PARTNERSHIP RETURN TO BE DETERMINATIVE OF AUDIT PROCEDURES TO BE FOLLOWED.

(a) IN GENERAL.—Section 6231 (relating to definitions and special rules) is amended by adding at the end the following new subsection:

''(g) PARTNERSHIP RETURN TO BE DETERMINATIVE OF WHETHER SUBCHAPTER APPLIES.—

''(1) DETERMINATION THAT SUBCHAPTER APPLIES.—If, on the basis of a partnership return for a taxable year, the Secretary reasonably determines that this subchapter applies to such partnership for such year but such determination is erroneous, then the provisions of this subchapter are hereby extended to such partnership (and its items) for such taxable year and to partners of such partnership.

''(2) DETERMINATION THAT SUBCHAPTER DOES NOT APPLY.—If, on the basis of a partnership return for a taxable year, the Secretary reasonably determines that this subchapter does not apply to such partnership for such year but such determination is erroneous, then the provisions of this subchapter shall not apply to such partnership (and its items) for such taxable year or to partners of such partnership.''.

(b) EFFECTIVE DATE.—The amendment made by this section shall apply to partnership taxable years ending after the date of the enactment of this Act.

SEC. 1233. PROVISIONS RELATING TO STATUTE OF LIMITATIONS.

(a) SUSPENSION OF STATUTE WHERE UNTIMELY PETITION FILED.—Paragraph (1) of section 6229(d) (relating to suspension where Secretary makes administrative adjustment) is amended by striking all that follows ''section 6226'' and inserting the following: ''(and, if a petition is filed under section 6226 with respect to such administrative adjustment, until the decision of the court becomes final), and''.

(b) SUSPENSION OF STATUTE DURING BANKRUPTCY PROCEEDING.—Section 6229 is amended by adding at the end the following new subsection:

''(h) SUSPENSION DURING PENDENCY OF BANKRUPTCY PROCEEDING.—If a petition is filed naming a partner as a debtor in a bankruptcy proceeding under title 11 of the United States Code, the running of the period of limitations provided in this section with respect to such partner shall be suspended—

''(1) for the period during which the Secretary is prohibited by reason of such bankruptcy proceeding from making an assessment, and

''(2) for 60 days thereafter.''.

(c) TAX MATTERS PARTNER IN BANKRUPTCY.—Section 6229(b) is amended by redesignating paragraph (2) as paragraph (3) and by inserting after paragraph (1) the following new paragraph:

''(2) SPECIAL RULE WITH RESPECT TO DEBTORS IN TITLE 11 CASES.—Notwithstanding any other law or rule of law, if an agreement is entered into under paragraph (1)(B) and the agreement is signed by a person who would be the tax matters partner but for the fact that, at the time that the agreement is executed, the person is a debtor in a bankruptcy proceeding under title 11 of the United States Code, such agreement shall be binding on all partners in the partnership unless the Secretary has been notified of the bankruptcy proceeding in accordance with regulations prescribed by the Secretary.''.

(d) EFFECTIVE DATES.—

(1) SUBSECTIONS (a) AND (b).—The amendments made by subsections (a) and (b) shall apply to partnership taxable years with respect to which the period under section 6229 of the Internal Revenue Code of 1986 for assessing tax has not expired on or before the date of the enactment of this Act.

(2) SUBSECTION (c).—The amendment made by subsection (c) shall apply to agreements entered into after the date of the enactment of this Act.

SEC. 1234. EXPANSION OF SMALL PARTNERSHIP EXCEPTION.

(a) IN GENERAL.—Clause (i) of section 6231(a)(1)(B) (relating to exception for small partnerships) is amended to read as follows:

''(i) IN GENERAL.—The term 'partnership' shall not include any partnership having 10 or fewer partners each of whom is an individual (other than a nonresident alien), a C corporation, or an estate of a deceased partner. For purposes of the preceding sentence, a husband and wife (and their estates) shall be treated as 1 partner.''.

(b) EFFECTIVE DATE.—The amendment made by this section shall apply to partnership taxable years ending after the date of the enactment of this Act.

SEC. 1235. EXCLUSION OF PARTIAL SETTLEMENTS FROM 1-YEAR LIMITATION ON ASSESSMENT.

(a) IN GENERAL.—Subsection (f) of section 6229 (relating to items becoming nonpartnership items) is amended—

(1) by striking ''(f) ITEMS BECOMING NONPARTNERSHIP ITEMS.—If'' and inserting the following:

''(f) SPECIAL RULES.—

''(1) ITEMS BECOMING NONPARTNERSHIP ITEMS.—If'',

(2) by moving the text of such subsection 2 ems to the right, and

(3) by adding at the end the following new paragraph:

''(2) SPECIAL RULE FOR PARTIAL SETTLEMENT AGREEMENTS.—If a partner enters into a settlement agreement with the Secretary with respect to the treatment of some of the partnership items in dispute for a partnership taxable year but other partnership items for such year remain in dispute, the period of limitations for assessing any tax attributable to the settled items shall be determined as if such agreement had not been entered into.''.

(b) EFFECTIVE DATE.—The amendment made by this section shall apply to settlements entered into after the date of the enactment of this Act.

SEC. 1236. EXTENSION OF TIME FOR FILING A REQUEST FOR ADMINISTRATIVE ADJUSTMENT.

(a) IN GENERAL.—Section 6227 (relating to administrative adjustment requests) is amended by redesignating subsections (b) and (c) as subsections (c) and (d), respectively, and by inserting after subsection (a) the following new subsection:

''(b) SPECIAL RULE IN CASE OF EXTENSION OF PERIOD OF LIMITATIONS UNDER SECTION 6229.—The period prescribed by subsection (a)(1) for filing of a request for an administrative adjustment shall be extended—

''(1) for the period within which an assessment may be made pursuant to an agreement (or any extension thereof) under section 6229(b), and

''(2) for 6 months thereafter.''.

(b) EFFECTIVE DATE.—The amendment made by this section shall take effect as if included in the amendments made by section 402 of the Tax Equity and Fiscal Responsibility Act of 1982.

SEC. 1237. AVAILABILITY OF INNOCENT SPOUSE RELIEF IN CONTEXT OF PARTNERSHIP PROCEEDINGS.

(a) IN GENERAL.—Subsection (a) of section 6230 is amended by adding at the end the following new paragraph:

''(3) SPECIAL RULE IN CASE OF ASSERTION BY PARTNER'S SPOUSE OF INNOCENT SPOUSE RELIEF.—

''(A) Notwithstanding section 6404(b), if the spouse of a partner asserts that section 6013(e) applies with respect to a liability that is attributable to any adjustment to a partnership item, then such spouse may file with the Secretary within 60 days after the notice of computational adjustment is mailed to the spouse a request for abatement of the assessment specified in such notice. Upon receipt of such request, the Secretary shall abate the assessment. Any reassessment of the tax with respect to which an abatement is made under this subparagraph shall be subject to the deficiency procedures prescribed by subchapter B. The period for making any such reassessment shall not expire before the expiration of 60 days after the date of such abatement.

''(B) If the spouse files a petition with the Tax Court pursuant to section 6213 with respect to the request for abatement described in subparagraph (A), the Tax Court shall only have jurisdiction pursuant to this section to determine whether the requirements of section 6013(e) have been satisfied. For purposes of such determination, the treatment of partnership items under the settlement, the final partnership administrative adjustment, or the decision of the court (whichever is appropriate) that gave rise to the liability in question shall be conclusive.

''(C) Rules similar to the rules contained in subparagraphs (B) and (C) of paragraph (2) shall apply for purposes of this paragraph.''.

(b) CLAIMS FOR REFUND.—Subsection (c) of section 6230 is amended by adding at the end the following new paragraph:

''(5) RULES FOR SEEKING INNOCENT SPOUSE RELIEF.—

''(A) IN GENERAL.—The spouse of a partner may file a claim for refund on the ground that the Secretary failed to relieve the spouse under section 6013(e) from a liability that is attributable to an adjustment to a partnership item.

''(B) TIME FOR FILING CLAIM.—Any claim under subparagraph (A) shall be filed within

6 months after the day on which the Secretary mails to the spouse the notice of computational adjustment referred to in subsection (a)(3)(A).

''(C) SUIT IF CLAIM NOT ALLOWED.—If the claim under subparagraph (B) is not allowed, the spouse may bring suit with respect to the claim within the period specified in paragraph (3).

''(D) PRIOR DETERMINATIONS ARE BINDING.—For purposes of any claim or suit under this paragraph, the treatment of partnership items under the settlement, the final partnership administrative adjustment, or the decision of the court (whichever is appropriate) that gave rise to the liability in question shall be conclusive.''.

(c) TECHNICAL AMENDMENTS.—

(1) Paragraph (1) of section 6230(a) is amended by striking ''paragraph (2)'' and inserting ''paragraph (2) or (3)''.

(2) Subsection (a) of section 6503 is amended by striking ''section 6230(a)(2)(A)'' and inserting ''paragraph (2)(A) or (3) of section 6230(a)''.

(d) EFFECTIVE DATE.—The amendments made by this section shall take effect as if included in the amendments made by section 402 of the Tax Equity and Fiscal Responsibility Act of 1982.

SEC. 1238. DETERMINATION OF PENALTIES AT PARTNERSHIP LEVEL.

(a) IN GENERAL.—Section 6221 (relating to tax treatment determined at partnership level) is amended by striking ''item'' and inserting ''item (and the applicability of any penalty, addition to tax, or additional amount which relates to an adjustment to a partnership item)''.

(b) CONFORMING AMENDMENTS.—

(1) Subsection (f) of section 6226 is amended—

(A) by striking ''relates and'' and inserting ''relates,'', and

(B) by inserting before the period '', and the applicability of any penalty, addition to tax, or additional amount which relates to an adjustment to a partnership item''.

(2) Clause (i) of section 6230(a)(2)(A) is amended to read as follows:

''(i) affected items which require partner level determinations (other than penalties, additions to tax, and additional amounts that relate to adjustments to partnership items), or''.

(3)(A) Subparagraph (A) of section 6230(a)(3), as added by section 14317, is amended by inserting ''(including any liability for any penalty, addition to tax, or additional amount relating to such adjustment)'' after ''partnership item''.

(B) Subparagraph (B) of such section is amended by inserting ''(and the applicability of any penalties, additions to tax, or additional amounts)'' after ''partnership items''.

(C) Subparagraph (A) of section 6230(c)(5), as added by section 14317, is amended by inserting before the period ''(including any liability for any penalties, additions to tax, or additional amounts relating to such adjustment)''.

(D) Subparagraph (D) of section 6230(c)(5), as added by section 14317, is amended by inserting ''(and the applicability of any penalties, additions to tax, or additional amounts)'' after ''partnership items''.

(4) Paragraph (1) of section 6230(c) is amended by striking ''or'' at the end of subparagraph (A), by striking the period at the end of subparagraph (B) and inserting '', or'', and by adding at the end the following new subparagraph:

''(C) the Secretary erroneously imposed any penalty, addition to tax, or additional amount which relates to an adjustment to a partnership item.''.

(5) So much of subparagraph (A) of section 6230(c)(2) as precedes ''shall be filed'' is amended to read as follows:

''(A) UNDER PARAGRAPH (1) (A) OR (C).—Any claim under subparagraph (A) or (C) of paragraph (1)''.

(6) Paragraph (4) of section 6230(c) is amended by adding at the end the following: ''In addition, the determination under the final partnership administrative adjustment or under the decision of the court (whichever is appropriate) concerning the applicability of any penalty, addition to tax, or additional amount which relates to an adjustment to a partnership item shall also be conclusive. Notwithstanding the preceding sentence, the partner shall be allowed to assert any partner level defenses that may apply or to challenge the amount of the computational adjustment.''.

(c) EFFECTIVE DATE.—The amendments made by this section shall apply to partnership taxable years ending after the date of the enactment of this Act.

SEC. 1239. PROVISIONS RELATING TO COURT JURISDICTION, ETC.

(a) TAX COURT JURISDICTION TO ENJOIN PREMATURE ASSESSMENTS OF DEFICIENCIES ATTRIBUTABLE TO PARTNERSHIP ITEMS.—Subsection (b) of section 6225 is amended by striking ''the proper court.'' and inserting ''the proper court, including the Tax Court. The Tax Court shall have no jurisdiction to enjoin any action or proceeding under this subsection unless a timely petition for a readjustment of the partnership items for the taxable year has been filed and then only in respect of the adjustments that are the subject of such petition.''.

(b) JURISDICTION TO CONSIDER STATUTE OF LIMITATIONS WITH RESPECT TO PARTNERS.—Paragraph (1) of section 6226(d) is amended by adding at the end the following new sentence:

''Notwithstanding subparagraph (B), any person treated under subsection (c) as a party to an action shall be permitted to participate in such action (or file a readjustment petition under subsection (b) or paragraph (2) of this subsection) solely for the purpose of asserting that the period of limitations for assessing any tax attributable to partnership items has expired with respect to such person, and the court having jurisdiction of such action shall have jurisdiction to consider such assertion.''.

(c) TAX COURT JURISDICTION TO DETERMINE OVERPAYMENTS ATTRIBUTABLE TO AFFECTED ITEMS.—

(1) Paragraph (6) of section 6230(d) is amended by striking ''(or an affected item)''.

(2) Paragraph (3) of section 6512(b) is amended by adding at the end the following new sentence:

''In the case of a credit or refund relating to an affected item (within the meaning of section 6231(a)(5)), the preceding sentence shall be applied by substituting the periods under sections 6229 and 6230(d) for the periods under section 6511(b)(2), (c), and (d).''.

(d) VENUE ON APPEAL.—

(1) Paragraph (1) of section 7482(b) is amended by striking ''or'' at the end of subparagraph (D), by striking the period at the end of subparagraph (E) and inserting '', or'', and by inserting after subparagraph (E) the following new subparagraph:

''(F) in the case of a petition under section 6234(c)—

''(i) the legal residence of the petitioner if the petitioner is not a corporation, and

''(ii) the place or office applicable under subparagraph (B) if the petitioner is a corporation.''.

(2) The last sentence of section 7482(b)(1) is amended by striking ''or 6228(a)'' and inserting '', 6228(a), or 6234(c)''.

(e) OTHER PROVISIONS.—

(1) Subsection (c) of section 7459 is amended by striking ''or section 6228(a)'' and inserting '', 6228(a), or 6234(c)''.

(2) Subsection (o) of section 6501 is amended by adding at the end the following new paragraph:

''(3) For declaratory judgment relating to treatment of items other than partnership items with respect to an oversheltered return, see section 6234.''.

(f) EFFECTIVE DATE.—The amendments made by this section shall apply to partnership taxable years ending after the date of the enactment of this Act.

SEC. 1240. TREATMENT OF PREMATURE PETITIONS FILED BY NOTICE PARTNERS OR 5-PERCENT GROUPS.

(a) IN GENERAL.—Subsection (b) of section 6226 (relating to judicial review of final partnership administrative adjustments) is amended by redesignating paragraph (5) as paragraph (6) and by inserting after paragraph (4) the following new paragraph:

''(5) TREATMENT OF PREMATURE PETITIONS.—If—

''(A) a petition for a readjustment of partnership items for the taxable year involved is filed by a notice partner (or a 5-percent group) during the 90-day period described in subsection (a), and

''(B) no action is brought under paragraph (1) during the 60-day period described therein with respect to such taxable year which is not dismissed,

such petition shall be treated for purposes of paragraph (1) as filed on the last day of such 60-day period.''.

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

SEC. 1241. BONDS IN CASE OF APPEALS FROM CERTAIN PROCEEDING.

(a) IN GENERAL.—Subsection (b) of section 7485 (relating to bonds to stay assessment of collection) is amended—

(1) by inserting ''penalties,'' after ''any interest,'', and

(2) by striking ''aggregate of such deficiencies'' and inserting ''aggregate liability of the parties to the action''.

(b) EFFECTIVE DATE.—The amendment made by this section shall take effect as if included in the amendments made by section 402 of the Tax Equity and Fiscal Responsibility Act of 1982.

SEC. 1242. SUSPENSION OF INTEREST WHERE DELAY IN COMPUTATIONAL ADJUSTMENT RESULTING FROM CERTAIN SETTLEMENTS.

(a) IN GENERAL.—Subsection (c) of section 6601 (relating to interest on underpayment, nonpayment, or extension of time for payment, of tax) is amended by adding at the end the following new sentence: ''In the case of a settlement under section 6224(c) which results in the conversion of partnership items to nonpartnership items pursuant to section 6231(b)(1)(C), the preceding sentence shall apply to a computational adjustment resulting from such settlement in the same manner as if such adjustment were a deficiency and such settlement were a waiver referred to in the preceding sentence.''.

(b) EFFECTIVE DATE.—The amendment made by this section shall apply to adjustments with respect to partnership taxable years beginning after the date of the enactment of this Act.

SEC. 1243. SPECIAL RULES FOR ADMINISTRATIVE ADJUSTMENT REQUESTS WITH RESPECT TO BAD DEBTS OR WORTHLESS SECURITIES.

(a) GENERAL RULE.—Section 6227 (relating to administrative adjustment requests) is amended by adding at the end the following new subsection:

''(e) REQUESTS WITH RESPECT TO BAD DEBTS OR WORTHLESS SECURITIES.—In the case of that portion of any request for an administrative adjustment which relates to the deductibility by the partnership under section 166 of a debt as a debt which became worthless, or under section 165(g) of a loss from worthlessness of a security, the period prescribed in subsection (a)(1) shall be 7 years from the last day for filing the partnership return for the year with respect to which such request is made (determined without regard to extensions).''.

(b) EFFECTIVE DATE.—

(1) IN GENERAL.—The amendment made by subsection (a) shall take effect as if included in the amendments made by section 402 of the Tax Equity and Fiscal Responsibility Act of 1982.

(2) TREATMENT OF REQUESTS FILED BEFORE DATE OF ENACTMENT.—In the case of that portion of any request (filed before the date of the enactment of this Act) for an administrative adjustment which relates to the deductibility of a debt as a debt which became worthless or the deductibility of a loss from the worthlessness of a security—

(A) paragraph (2) of section 6227(a) of the Internal Revenue Code of 1986 shall not apply,

(B) the period for filing a petition under section 6228 of the Internal Revenue Code of 1986 with respect to such request shall not expire before the date 6 months after the date of the enactment of this Act, and

(C) such a petition may be filed without regard to whether there was a notice of the beginning of an administrative proceeding or a final partnership administrative adjustment.

PART III—PROVISION RELATING TO CLOSING OF PARTNERSHIP TAXABLE YEAR WITH RESPECT TO DECEASED PARTNER, ETC.

SEC. 1246. CLOSING OF PARTNERSHIP TAXABLE YEAR WITH RESPECT TO DECEASED PARTNER, ETC.

(a) GENERAL RULE.—Subparagraph (A) of section 706(c)(2) (relating to disposition of entire interest) is amended to read as follows:

''(A) DISPOSITION OF ENTIRE INTEREST.—The taxable year of a partnership shall close with respect to a partner whose entire interest in the partnership terminates (whether by reason of death, liquidation, or otherwise).''.

(b) CLERICAL AMENDMENT.—The paragraph heading for paragraph (2) of section 706(c) is amended to read as follows:

''(2) TREATMENT OF DISPOSITIONS.—''.

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

Subtitle D—Provisions Relating to Real Estate Investment Trusts

SEC. 1251. CLARIFICATION OF LIMITATION ON MAXIMUM NUMBER OF SHAREHOLDERS.

(a) RULES RELATING TO DETERMINATION OF OWNERSHIP.—

(1) FAILURE TO ISSUE SHAREHOLDER DEMAND LETTER NOT TO DISQUALIFY REIT.—Section 857(a) (relating to requirements applicable to real estate investment trusts) is amended by striking paragraph (2) and by redesignating paragraph (3) as paragraph (2).

(2) SHAREHOLDER DEMAND LETTER REQUIREMENT; PENALTY.—Section 857 (relating to taxation of real estate investment trusts and their beneficiaries) is amended by redesignating subsection (f) as subsection (g) and by inserting after subsection (e) the following new subsection:

''(f) REAL ESTATE INVESTMENT TRUSTS TO ASCERTAIN OWNERSHIP.—

''(1) IN GENERAL.—Each real estate investment trust shall each taxable year comply with regulations prescribed by the Secretary for the purposes of ascertaining the actual ownership of the outstanding shares, or certificates of beneficial interest, of such trust.

''(2) FAILURE TO COMPLY.—

''(A) IN GENERAL.—If a real estate investment trust fails to comply with the requirements of paragraph (1) for a taxable year, such trust shall pay (on notice and demand by the Secretary and in the same manner as tax) a penalty of $25,000.

''(B) INTENTIONAL DISREGARD.—If any failure under paragraph (1) is due to intentional disregard of the requirement under paragraph (1), the penalty under subparagraph (A) shall be $50,000.

''(C) FAILURE TO COMPLY AFTER NOTICE.—The Secretary may require a real estate investment trust to take such actions as the Secretary determines appropriate to ascertain actual ownership if the trust fails to meet the requirements of paragraph (1). If the trust fails to take such actions, the trust shall pay (on notice and demand by the Secretary and in the same manner as tax) an additional penalty equal to the penalty determined under subparagraph (A) or (B), whichever is applicable.

''(D) REASONABLE CAUSE.—No penalty shall be imposed under this paragraph with respect to any failure if it is shown that such failure is due to reasonable cause and not to willful neglect.''.

(b) COMPLIANCE WITH CLOSELY HELD PROHIBITION.—

(1) IN GENERAL.—Section 856 (defining real estate investment trust) is amended by adding at the end the following new subsection:

''(k) REQUIREMENT THAT ENTITY NOT BE CLOSELY HELD TREATED AS MET IN CERTAIN CASES.—A corporation, trust, or association—

''(1) which for a taxable year meets the requirements of section 857(f)(1), and

''(2) which does not know, or exercising reasonable diligence would not have known, whether the entity failed to meet the requirement of subsection (a)(6),

shall be treated as having met the requirement of subsection (a)(6) for the taxable year.''.

(2) CONFORMING AMENDMENT.—Paragraph (6) of section 856(a) is amended by inserting ''subject to the provisions of subsection (k),'' before ''which is not''.

SEC. 1252. DE MINIMIS RULE FOR TENANT SERVICES INCOME.

(a) IN GENERAL.—Paragraph (2) of section 856(d) (defining rents from real property) is amended by striking subparagraph (C) and the last sentence and inserting:

''(C) any impermissible tenant service income (as defined in paragraph (7)).''.

(b) IMPERMISSIBLE TENANT SERVICE INCOME.—Section 856(d) is amended by adding at the end the following new paragraph:

''(7) IMPERMISSIBLE TENANT SERVICE INCOME.—For purposes of paragraph (2)(C)—

''(A) IN GENERAL.—The term 'impermissible tenant service income' means, with respect to any real or personal property, any amount received or accrued directly or indirectly by the real estate investment trust for—

''(i) services furnished or rendered by the trust to the tenants of such property, or

''(ii) managing or operating such property.

''(B) DISQUALIFICATION OF ALL AMOUNTS WHERE MORE THAN DE MINIMIS AMOUNT.—If the amount described in subparagraph (A) with respect to a property for any taxable year exceeds 1 percent of all amounts received or accrued during such taxable year directly or indirectly by the real estate investment trust with respect to such property, the impermissible tenant service income of the trust with respect to the property shall include all such amounts.

''(C) EXCEPTIONS.—For purposes of subparagraph (A)—

''(i) services furnished or rendered, or management or operation provided, through an independent contractor from whom the trust itself does not derive or receive any income shall not be treated as furnished, rendered, or provided by the trust, and

''(ii) there shall not be taken into account any amount which would be excluded from unrelated business taxable income under section 512(b)(3) if received by an organization described in section 511(a)(2).

''(D) AMOUNT ATTRIBUTABLE TO IMPERMISSIBLE SERVICES.—For purposes of subparagraph (A), the amount treated as received for any service (or management or operation) shall not be less than 150 percent of the direct cost of the trust in furnishing or rendering the service (or providing the management or operation).

''(E) COORDINATION WITH LIMITATIONS.—For purposes of paragraphs (2) and (3) of subsection (c), amounts described in subparagraph (A) shall be included in the gross income of the corporation, trust, or association.''.

SEC. 1253. ATTRIBUTION RULES APPLICABLE TO TENANT OWNERSHIP.

Section 856(d)(5) (relating to constructive ownership of stock) is amended by adding at the end the following: ''For purposes of paragraph (2)(B), section 318(a)(3)(A) shall be applied under the preceding sentence in the case of a partnership by taking into account only partners who own (directly or indirectly) 25 percent or more of the capital interest, or the profits interest, in the partnership.''.

SEC. 1254. CREDIT FOR TAX PAID BY REIT ON RETAINED CAPITAL GAINS.

(a) GENERAL RULE.—Paragraph (3) of section 857(b) (relating to capital gains) is amended by redesignating subparagraph (D) as subparagraph (E) and by inserting after subparagraph (C) the following new subparagraph:

''(D) TREATMENT BY SHAREHOLDERS OF UNDISTRIBUTED CAPITAL GAINS.—

''(i) Every shareholder of a real estate investment trust at the close of the trust's taxable year shall include, in computing his long-term capital gains in his return for his taxable year in which the last day of the trust's taxable year falls, such amount as the trust shall designate in respect of such shares in a written notice mailed to its shareholders at any time prior to the expiration of 60 days after the close of its taxable year (or mailed to its shareholders or holders of beneficial interests with its annual report for the taxable year), but the amount so includible by any shareholder shall not exceed that part of the amount subjected to tax in subparagraph (A)(ii) which he would have received if all of such amount had been distributed as capital gain dividends by the trust to the holders of such shares at the close of its taxable year.

''(ii) For purposes of this title, every such shareholder shall be deemed to have paid, for his taxable year under clause (i), the tax imposed by subparagraph (A)(ii) on the amounts required by this subparagraph to be included in respect of such shares in computing his long-term capital gains for that year; and such shareholders shall be allowed credit or refund as the case may be, for the tax so deemed to have been paid by him.

''(iii) The adjusted basis of such shares in the hands of the holder shall be increased with respect to the amounts required by this subparagraph to be included in computing his long-term capital gains, by the difference between the amount of such includible gains and the tax deemed paid by such shareholder in respect of such shares under clause (ii).

''(iv) In the event of such designation, the tax imposed by subparagraph (A)(ii) shall be paid by the real estate investment trust within 30 days after the close of its taxable year.

''(v) The earnings and profits of such real estate investment trust, and the earnings and profits of any such shareholder which is a corporation, shall be appropriately adjusted in accordance with regulations prescribed by the Secretary.

''(vi) As used in this subparagraph, the terms 'shares' and 'shareholders' shall include beneficial interests and holders of beneficial interests, respectively.''.

(b) CONFORMING AMENDMENTS.—

(1) Clause (i) of section 857(b)(7)(A) is amended by striking ''subparagraph (B)'' and inserting ''subparagraph (B) or (D)''.

(2) Clause (iii) of section 852(b)(3)(D) is amended by striking ''by 65 percent'' and all that follows and inserting ''by the difference between the amount of such includible gains and the tax deemed paid by such shareholder in respect of such shares under clause (ii).''.

SEC. 1255. REPEAL OF 30-PERCENT GROSS INCOME REQUIREMENT.

(a) GENERAL RULE.—Subsection (c) of section 856 (relating to limitations) is amended—

(1) by adding ''and'' at the end of paragraph (3),

(2) by striking paragraphs (4) and (8), and

(3) by redesignating paragraphs (5), (6), and (7) as paragraphs (4), (5), and (6), respectively.

(b) CONFORMING AMENDMENTS.—

(1) Subparagraph (G) of section 856(c)(5), as redesignated by subsection (a), is amended by striking ''and such agreement shall be treated as a security for purposes of paragraph (4)(A)''.

(2) Paragraph (5) of section 857(b) is amended by striking ''section 856(c)(7)'' and inserting ''section 856(c)(6)''.

(3) Subparagraph (C) of section 857(b)(6) is amended by striking ''section 856(c)(6)(B)'' and inserting ''section 856(c)(5)(B)''.

SEC. 1256. MODIFICATION OF EARNINGS AND PROFITS RULES FOR DETERMINING WHETHER REIT HAS EARNINGS AND PROFITS FROM NON-REIT YEAR.

Subsection (d) of section 857 is amended by adding at the end the following new paragraph:

''(3) DISTRIBUTIONS TO MEET REQUIREMENTS OF SUBSECTION (a)(2)(B).—Any distribution which is made in order to comply with the requirements of subsection (a)(2)(B)—

''(A) shall be treated for purposes of this subsection and subsection (a)(2)(B) as made from the earliest accumulated earnings and profits (other than earnings and profits to which subsection (a)(2)(A) applies) rather than the most recently accumulated earnings and profits, and

''(B) to the extent treated under subparagraph (A) as made from accumulated earnings and profits, shall not be treated as a distribution for purposes of subsection (b)(2)(B).''.

SEC. 1257. TREATMENT OF FORECLOSURE PROPERTY.

(a) GRACE PERIODS.—

(1) INITIAL PERIOD.—Paragraph (2) of section 856(e) (relating to special rules for foreclosure property) is amended by striking ''on the date which is 2 years after the date the trust acquired such property'' and inserting ''as of the close of the 3d taxable year following the taxable year in which the trust acquired such property''.

(2) EXTENSION.—Paragraph (3) of section 856(e) is amended—

(A) by striking ''or more extensions'' and inserting ''extension'', and

(B) by striking the last sentence and inserting: ''Any such extension shall not extend the grace period beyond the close of the 3d taxable year following the last taxable year in the period under paragraph (2).''.

(b) REVOCATION OF ELECTION.—Paragraph (5) of section 856(e) is amended by striking the last sentence and inserting: ''A real estate investment trust may revoke any such election for a taxable year by filing the revocation (in the manner provided by the Secretary) on or before the due date (including any extension of time) for filing its return of tax under this chapter for the taxable year. If a trust revokes an election for any property, no election may be made by the trust under this paragraph with respect to the property for any subsequent taxable year.''.

(c) CERTAIN ACTIVITIES NOT TO DISQUALIFY PROPERTY.—Paragraph (4) of section 856(e) is amended by adding at the end the following new flush sentence:

''For purposes of subparagraph (C), property shall not be treated as used in a trade or business by reason of any activities of the real estate investment trust with respect to such property to the extent that such activities would not result in amounts received or accrued, directly or indirectly, with respect to such property being treated as other than rents from real property.''.

SEC. 1258. PAYMENTS UNDER HEDGING INSTRUMENTS.

Section 856(c)(5)(G) (relating to treatment of certain interest rate agreements), as redesignated by section 1255, is amended to read as follows:

''(G) TREATMENT OF CERTAIN HEDGING INSTRUMENTS.—Except to the extent provided by regulations, any—

''(i) payment to a real estate investment trust under an interest rate swap or cap agreement, option, futures contract, forward rate agreement, or any similar financial instrument, entered into by the trust in a transaction to reduce the interest rate risks with respect to any indebtedness incurred or to be incurred by the trust to acquire or carry real estate assets, and

''(ii) gain from the sale or other disposition of any such investment,

shall be treated as income qualifying under paragraph (2).''.

SEC. 1259. EXCESS NONCASH INCOME.

Section 857(e)(2) (relating to determination of amount of excess noncash income) is amended—

(1) by striking subparagraph (B),

(2) by striking the period at the end of subparagraph (C) and inserting a comma,

(3) by redesignating subparagraph (C) (as amended by paragraph (2)) as subparagraph (B), and

(4) by adding at the end the following new subparagraphs:

''(C) the amount (if any) by which—

''(i) the amounts includible in gross income with respect to instruments to which section 860E(a) or 1272 applies, exceed

''(ii) the amount of money and the fair market value of other property received during the taxable year under such instruments, and

''(D) amounts includible in income by reason of cancellation of indebtedness.''.

SEC. 1260. PROHIBITED TRANSACTION SAFE HARBOR.

Clause (iii) of section 857(b)(6)(C) (relating to certain sales not to constitute prohibited transactions) is amended by striking ''(other than foreclosure property)'' in subclauses (I) and (II) and inserting ''(other than sales of foreclosure property or sales to which section 1033 applies)''.

SEC. 1261. SHARED APPRECIATION MORTGAGES.

(a) BANKRUPTCY SAFE HARBOR.—Section 856(j) (relating to treatment of shared appreciation mortgages) is amended by redesignating paragraph (4) as paragraph (5) and by inserting after paragraph (3) the following new paragraph:

''(4) COORDINATION WITH 4-YEAR HOLDING PERIOD.—

''(A) IN GENERAL.—For purposes of section 857(b)(6)(C), if a real estate investment trust is treated as having sold secured property under paragraph (3)(A), the trust shall be treated as having held such property for at least 4 years if—

''(i) the secured property is sold or otherwise disposed of pursuant to a case under title 11 of the United States Code,

''(ii) the seller is under the jurisdiction of the court in such case, and

''(iii) the disposition is required by the court or is pursuant to a plan approved by the court.

''(B) EXCEPTION.—Subparagraph (A) shall not apply if—

''(i) the secured property was acquired by the trust with the intent to evict or foreclose, or

''(ii) the trust knew or had reason to know that default on the obligation described in paragraph (5)(A) would occur.''.

(b) CLARIFICATION OF DEFINITION OF SHARED APPRECIATION PROVISION.—Clause (ii) of section 856(j)(5)(A) is amended by inserting before the period ''or appreciation in value as of any specified date''.

SEC. 1262. WHOLLY OWNED SUBSIDIARIES.

Section 856(i)(2) (defining qualified REIT subsidiary) is amended by striking ''at all times during the period such corporation was in existence''.

SEC. 1263. EFFECTIVE DATE.

The amendments made by this part shall apply to taxable years beginning after the date of the enactment of this Act.

Subtitle E—Provisions Relating to Regulated Investment Companies

SEC. 1271. REPEAL OF 30-PERCENT GROSS INCOME LIMITATION.

(a) GENERAL RULE.—Subsection (b) of section 851 (relating to limitations) is amended by striking paragraph (3), by adding ''and'' at the end of paragraph (2), and by redesignating paragraph (4) as paragraph (3).

(b) TECHNICAL AMENDMENTS.—

(1) The material following paragraph (3) of section 851(b) (as redesignated by subsection (a)) is amended—

(A) by striking out ''paragraphs (2) and (3)'' and inserting ''paragraph (2)'', and

(B) by striking out the last sentence thereof.

(2) Subsection (c) of section 851 is amended by striking ''subsection (b)(4)'' each place it appears (including the heading) and inserting ''subsection (b)(3)''.

(3) Subsection (d) of section 851 is amended by striking ''subsections (b)(4)'' and inserting ''subsections (b)(3)''.

(4) Paragraph (1) of section 851(e) is amended by striking ''subsection (b)(4)'' and inserting ''subsection (b)(3)''.

(5) Paragraph (4) of section 851(e) is amended by striking ''subsections (b)(4)'' and inserting ''subsections (b)(3)''.

(6) Section 851 is amended by striking subsection (g) and redesignating subsection (h) as subsection (g).

(7) Subsection (g) of section 851 (as redesignated by paragraph (6)) is amended by striking paragraph (3).

(8) Section 817(h)(2) is amended—

(A) by striking ''851(b)(4)'' in subparagraph (A) and inserting ''851(b)(3)'', and

(B) by striking ''851(b)(4)(A)(i)'' in subparagraph (B) and inserting ''851(b)(3)(A)(i)''.

(9) Section 1092(f)(2) is amended by striking ''Except for purposes of section 851(b)(3), the'' and inserting ''The''.

(c) EFFECTIVE DATE.—The amendments made by this section shall apply to taxable

years ending after the date of the enactment of this Act.

Subtitle F—Taxpayer Protections

SEC. 1281. REASONABLE CAUSE EXCEPTION FOR CERTAIN PENALTIES.

(a) INFORMATION ON DEDUCTIBLE EMPLOYEE CONTRIBUTIONS.—Subsection (g) of section 6652 (relating to information required in connection with deductible employee contributions) is amended by adding at the end the following new sentence: ''No penalty shall be imposed under this subsection on any failure which is shown to be due to reasonable cause and not willful neglect.''.

(b) REPORTS ON STATUS AS QUALIFIED SMALL BUSINESS.—Subsection (k) of section 6652 (relating to failure to make reports required under section 1202) is amended by adding at the end the following new sentence: ''No penalty shall be imposed under this subsection on any failure which is shown to be due to reasonable cause and not willful neglect.''.

(c) RETURNS OF PERSONAL HOLDING COMPANY TAX BY FOREIGN CORPORATIONS.—Section 6683 (relating to failure of foreign corporation to file return of personal holding company tax) is amended by adding at the end the following new sentence: ''No penalty shall be imposed under this section on any failure which is shown to be due to reasonable cause and not willful neglect.''.

(d) FAILURE TO MAKE REQUIRED PAYMENTS.—Subparagraph (A) of section 7519(f)(4) is amended by adding at the end the following new sentence: ''No penalty shall be imposed under this subparagraph on any failure which is shown to be due to reasonable cause and not willful neglect.''.

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

SEC. 1282. CLARIFICATION OF PERIOD FOR FILING CLAIMS FOR REFUNDS.

(a) IN GENERAL.—Paragraph (3) of section 6512(b) (relating to overpayment determined by Tax Court) is amended by adding at the end the following flush sentence:

''In a case described in subparagraph (B) where the date of the mailing of the notice of deficiency is during the third year after the due date (with extensions) for filing the return of tax and no return was filed before such date, the applicable period under subsections (a) and (b)(2) of section 6511 shall be 3 years.''.

(b) EFFECTIVE DATE.—The amendment made by subsection (a) shall apply to claims for credit or refund for taxable years ending after the date of the enactment of this Act.

SEC. 1283. REPEAL OF AUTHORITY TO DISCLOSE WHETHER PROSPECTIVE JUROR HAS BEEN AUDITED.

(a) IN GENERAL.—Subsection (h) of section 6103 (relating to disclosure to certain Federal officers and employees for purposes of tax administration, etc.) is amended by striking paragraph (5) and by redesignating paragraph (6) as paragraph (5).

(b) CONFORMING AMENDMENT.—Paragraph (4) of section 6103(p) is amended by striking ''(h)(6)'' each place it appears and inserting ''(h)(5)''.

(c) EFFECTIVE DATE.—The amendments made by this section shall apply to judicial proceedings commenced after the date of the enactment of this Act.

SEC. 1284. CLARIFICATION OF STATUTE OF LIMITATIONS.

(a) IN GENERAL.—Subsection (a) of section 6501 (relating to limitations on assessment and collection) is amended by adding at the end thereof the following new sentence: ''For purposes of this chapter, the term 'return' means the return required to be filed by the taxpayer (and does not include a return of any person from whom the taxpayer has received an item of income, gain, loss, deduction, or credit).''.

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

SEC. 1285. AWARDING OF ADMINISTRATIVE COSTS.

(a) RIGHT TO APPEAL TAX COURT DECISION.—Subsection (f) of section 7430 (relating to right of appeal) is amended by adding at the end the following new paragraph:

''(3) APPEAL OF TAX COURT DECISION.—An order of the Tax Court disposing of a petition under paragraph (2) shall be reviewable in the same manner as a decision of the Tax Court, but only with respect to the matters determined in such order.''.

(b) PERIOD FOR APPLYING TO IRS FOR COSTS.—Subsection (b) of section 7430 (relating to limitations) is amended by adding at the end the following new paragraph:

''(5) PERIOD FOR APPLYING TO IRS FOR ADMINISTRATIVE COSTS.—An award may be made under subsection (a) by the Internal Revenue Service for reasonable administrative costs only if the prevailing party files an application with the Internal Revenue Service for such costs before the 91st day after the date on which the final decision of the Internal Revenue Service as to the determination of the tax, interest, or penalty is mailed to such party.''.

(c) PERIOD FOR PETITIONING OF TAX COURT FOR REVIEW OF DENIAL OF COSTS.—Paragraph (2) of section 7430(f) (relating to right of appeal) is amended—

(1) by striking ''appeal to'' and inserting ''the filing of a petition for review with'', and

(2) by adding at the end the following new sentence: ''If the Secretary sends by certified or registered mail a notice of such decision to the petitioner, no proceeding in the Tax Court may be initiated under this paragraph unless such petition is filed before the 91st day after the date of such mailing.''.

(d) EFFECTIVE DATE.—The amendments made by this section shall apply to civil actions or proceedings commenced after the date of the enactment of this Act.

SEC. 1286. PENALTY FOR UNAUTHORIZED INSPECTION OF TAX RETURNS OR TAX RETURN INFORMATION.

(a) IN GENERAL.—Part I of subchapter A of chapter 75 (relating to crimes, other offenses, and forfeitures) is amended by adding after section 7213 the following new section:

''SEC. 7213A. UNAUTHORIZED INSPECTION OF RETURNS OR RETURN INFORMATION.

''(a) PROHIBITIONS.—

''(1) FEDERAL EMPLOYEES AND OTHER PERSONS.—It shall be unlawful for—

''(A) any officer or employee of the United States, or

''(B) any person described in section 6103(n) or an officer or employee of any such person,

willfully to inspect, except as authorized in this title, any return or return information.

''(2) STATE AND OTHER EMPLOYEES.—It shall be unlawful for any person (not described in paragraph (1)) willfully to inspect, except as authorized in this title, any return or return information acquired by such person or another person under a provision of section 6103 referred to in section 7213(a)(2).

''(b) PENALTY.—

''(1) IN GENERAL.—Any violation of subsection (a) shall be punishable upon conviction by a fine in any amount not exceeding $1,000, or imprisonment of not more than 1 year, or both, together with the costs of prosecution.

''(2) FEDERAL OFFICERS OR EMPLOYEES.—An officer or employee of the United States who is convicted of any violation of subsection (a) shall, in addition to any other punishment, be dismissed from office or discharged from employment.

''(c) DEFINITIONS.—For purposes of this section, the terms 'inspect', 'return', and 'return information' have the respective meanings given such terms by section 6103(b).''.

(b) TECHNICAL AMENDMENTS.—

(1) Paragraph (2) of section 7213(a) is amended by inserting ''(5),'' after ''(m)(2), (4),''.

(2) The table of sections for part I of subchapter A of chapter 75 is amended by inserting after the item relating to section 7213 the following new item:

''Sec. 7213A. Unauthorized inspection of returns or return information.''.

(c) EFFECTIVE DATE.—The amendments made by this section shall apply to violations occurring on and after the date of the enactment of this Act.

SEC. 1287. CIVIL DAMAGES FOR UNAUTHORIZED INSPECTION OF RETURNS AND RETURN INFORMATION; NOTIFICATION OF UNLAWFUL INSPECTION OR DISCLOSURE.

(a) CIVIL DAMAGES FOR UNAUTHORIZED INSPECTION.—Subsection (a) of section 7431 is amended—

(1) by striking ''DISCLOSURE'' in the headings for paragraphs (1) and (2) and inserting ''INSPECTION OR DISCLOSURE'', and

(2) by striking ''discloses'' in paragraphs (1) and (2) and inserting ''inspects or discloses''.

(b) NOTIFICATION OF UNLAWFUL INSPECTION OR DISCLOSURE.—Section 7431 is amended by redesignating subsections (e) and (f) as subsections (f) and (g), respectively, and by inserting after subsection (d) the following new subsection:

''(e) NOTIFICATION OF UNLAWFUL INSPECTION AND DISCLOSURE.—If any person is criminally charged by indictment or information with inspection or disclosure of a taxpayer's return or return information in violation of—

''(1) paragraph (1) or (2) of section 7213(a),

''(2) section 7213A(a), or

''(3) subparagraph (B) of section 1030(a)(2) of title 18, United States Code,

the Secretary shall notify such taxpayer as soon as practicable of such inspection or disclosure.''.

(c) NO DAMAGES FOR INSPECTION REQUESTED BY TAXPAYER.—Subsection (b) of section 7431 is amended to read as follows:

''(b) EXCEPTIONS.—No liability shall arise under this section with respect to any inspection or disclosure—

''(1) which results from a good faith, but erroneous, interpretation of section 6103, or

''(2) which is requested by the taxpayer.''.

(d) CONFORMING AMENDMENTS.—

(1) Subsections (c)(1)(A), (c)(1)(B)(i), and (d) of section 7431 are each amended by inserting ''inspection or'' before ''disclosure''.

(2) Clause (ii) of section 7431(c)(1)(B) is amended by striking ''willful disclosure or a disclosure'' and inserting ''willful inspection or disclosure or an inspection or disclosure''.

(3) Subsection (f) of section 7431, as redesignated by subsection (b), is amended to read as follows:

''(f) DEFINITIONS.—For purposes of this section, the terms 'inspect', 'inspection', 'return', and 'return information' have the respective meanings given such terms by section 6103(b).''.

(4) The section heading for section 7431 is amended by inserting ''**INSPECTION OR**'' before ''**DISCLOSURE**''.

(5) The table of sections for subchapter B of chapter 76 is amended by inserting ''inspection or'' before ''disclosure'' in the item relating to section 7431.

(6) Paragraph (2) of section 7431(g), as redesignated by subsection (b), is amended by

striking ''any use'' and inserting ''any inspection or use''.

(e) EFFECTIVE DATE.—The amendments made by this section shall apply to inspections and disclosures occurring on and after the date of the enactment of this Act.

TITLE XIII—SIMPLIFICATION PROVISIONS RELATING TO ESTATE AND GIFT TAXES

SEC. 1301. GIFTS TO CHARITIES EXEMPT FROM GIFT TAX FILING REQUIREMENTS.

(a) IN GENERAL.—Section 6019 is amended by striking ''or'' at the end of paragraph (1), by adding ''or'' at the end of paragraph (2), and by inserting after paragraph (2) the following new paragraph:

''(3) a transfer with respect to which a deduction is allowed under section 2522, except that this paragraph shall apply with respect to a transfer of property (other than a transfer described in section 2522(d)) only if the entire value of such property is allowed as a deduction under section 2522,''.

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

SEC. 1302. CLARIFICATION OF WAIVER OF CERTAIN RIGHTS OF RECOVERY.

(a) AMENDMENT TO SECTION 2207A.—Paragraph (2) of section 2207A(a) (relating to right of recovery in the case of certain marital deduction property) is amended to read as follows:

''(2) DECEDENT MAY OTHERWISE DIRECT.—Paragraph (1) shall not apply with respect to any property to the extent that the decedent in his will (or a revocable trust) specifically indicates an intent to waive any right of recovery under this subchapter with respect to such property.''.

(b) AMENDMENT TO SECTION 2207B.—Paragraph (2) of section 2207B(a) (relating to right of recovery where decedent retained interest) is amended to read as follows:

''(2) DECEDENT MAY OTHERWISE DIRECT.—Paragraph (1) shall not apply with respect to any property to the extent that the decedent in his will (or a revocable trust) specifically indicates an intent to waive any right of recovery under this subchapter with respect to such property.''.

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

SEC. 1303. TRANSITIONAL RULE UNDER SECTION 2056A.

(a) GENERAL RULE.—In the case of any trust created under an instrument executed before the date of the enactment of the Revenue Reconciliation Act of 1990, such trust shall be treated as meeting the requirements of paragraph (1) of section 2056A(a) of the Internal Revenue Code of 1986 if the trust instrument requires that all trustees of the trust be individual citizens of the United States or domestic corporations.

(b) EFFECTIVE DATE.—The provisions of subsection (a) shall take effect as if included in the provisions of section 11702(g) of the Revenue Reconciliation Act of 1990.

SEC. 1304. CLARIFICATIONS RELATING TO DISCLAIMERS.

(a) PARTIAL TRANSFER-TYPE DISCLAIMERS PERMITTED.—Paragraph (3) of section 2518(c) (relating to certain transfers treated as disclaimers) is amended by inserting ''(or an undivided portion of such interest)'' after ''entire interest in the property''.

(b) RETENTION OF INTEREST BY DECEDENT'S SPOUSE PERMITTED IN TRANSFER-TYPE DISCLAIMERS.—Paragraph (3) of section 2518(c) is amended by adding at the end the following new flush sentence:

''For purposes of the preceding sentence, a written transfer by the spouse of the decedent of property to a trust shall not fail to be treated as a transfer of such spouse's interest in such property by reason of such spouse having an interest in such trust.''.

(c) DISCLAIMERS ARE EFFECTIVE FOR INCOME TAX PURPOSES.—Subsection (a) of section 2518 is amended by inserting ''and subtitle A'' after ''this subtitle'' each place it appears.

(d) EFFECTIVE DATE.—The amendments made by this section shall apply to transfers creating an interest in the person disclaiming, and disclaimers, made after the date of the enactment of this Act.

SEC. 1305. INCREASE OF AMOUNT OF LAPSE OF GENERAL POWER OF APPOINTMENT NOT TREATED AS RELEASE FOR PURPOSES OF ESTATE AND GIFT TAX (5 OR 5 POWER).

(a) ESTATE TAX.—Subparagraph (A) of section 2041(b)(2) (relating to lapse of power) is amended by striking ''$5,000'' and inserting ''$10,000''.

(b) GIFT TAX.—Paragraph (1) of section 2514(e) (relating to lapse of power) is amended by striking ''$5,000'' and inserting ''$10,000''.

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

SEC. 1306. TREATMENT FOR ESTATE TAX PURPOSES OF SHORT-TERM OBLIGATIONS HELD BY NONRESIDENT ALIENS.

(a) IN GENERAL.—Subsection (b) of section 2105 is amended by striking ''and'' at the end of paragraph (2), by striking the period at the end of paragraph (3) and inserting '', and'', and by inserting after paragraph (3) the following new paragraph:

''(4) obligations which would be original issue discount obligations as defined in section 871(g)(1) but for subparagraph (B)(i) thereof, if any interest thereon (were such interest received by the decedent at the time of his death) would not be effectively connected with the conduct of a trade or business within the United States.''.

(b) EFFECTIVE DATE.—The amendment made by this section shall apply to estates of decedents dying after the date of the enactment of this Act.

SEC. 1307. CERTAIN REVOCABLE TRUSTS TREATED AS PART OF ESTATE.

(a) IN GENERAL.—Subpart A of part I of subchapter J (relating to estates, trusts, beneficiaries, and decedents) is amended by adding at the end the following new section:

''SEC. 646. CERTAIN REVOCABLE TRUSTS TREATED AS PART OF ESTATE.

''(a) GENERAL RULE.—For purposes of this subtitle, if both the executor (if any) of an estate and the trustee of a qualified revocable trust elect the treatment provided in this section, such trust shall be treated and taxed as part of such estate (and not as a separate trust) for all taxable years of the estate ending after the date of the decedent's death and before the applicable date.

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

''(1) QUALIFIED REVOCABLE TRUST.—The term 'qualified revocable trust' means any trust (or portion thereof) which was treated under section 676 as owned by the decedent of the estate referred to in subsection (a) by reason of a power in the grantor (determined without regard to section 672(e)).

''(2) APPLICABLE DATE.—The term 'applicable date' means—

''(A) if no return of tax imposed by chapter 11 is required to be filed, the date which is 2 years after the date of the decedent's death, and

''(B) if such a return is required to be filed, the date which is 6 months after the date of the final determination of the liability for tax imposed by chapter 11.

''(c) ELECTION.—The election under subsection (a) shall be made not later than the time prescribed for filing the return of tax imposed by this chapter for the first taxable year of the estate (determined with regard to extensions) and, once made, shall be irrevocable.''.

(b) COMPARABLE TREATMENT UNDER GENERATION-SKIPPING TAX.—Paragraph (1) of section 2652(b) is amended by adding at the end the following new sentence: ''Such term shall not include any trust during any period the trust is treated as part of an estate under section 646.''.

(c) CLERICAL AMENDMENT.—The table of sections for such subpart A is amended by adding at the end the following new item:

''Sec. 646. Certain revocable trusts treated as part of estate.''.

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

SEC. 1308. DISTRIBUTIONS DURING FIRST 65 DAYS OF TAXABLE YEAR OF ESTATE.

(a) IN GENERAL.—Subsection (b) of section 663 (relating to distributions in first 65 days of taxable year) is amended by inserting ''an estate or'' before ''a trust'' each place it appears.

(b) CONFORMING AMENDMENT.—Paragraph (2) of section 663(b) is amended by striking ''the fiduciary of such trust'' and inserting ''the executor of such estate or the fiduciary of such trust (as the case may be)''.

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

SEC. 1309. SEPARATE SHARE RULES AVAILABLE TO ESTATES.

(a) IN GENERAL.—Subsection (c) of section 663 (relating to separate shares treated as separate trusts) is amended—

(1) by inserting before the last sentence the following new sentence: ''Rules similar to the rules of the preceding provisions of this subsection shall apply to treat substantially separate and independent shares of different beneficiaries in an estate having more than 1 beneficiary as separate estates.'', and

(2) by inserting ''or estates'' after ''trusts'' in the last sentence.

(b) CONFORMING AMENDMENT.—The subsection heading of section 663(c) is amended by inserting ''ESTATES OR'' before ''TRUSTS''.

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

SEC. 1310. EXECUTOR OF ESTATE AND BENEFICIARIES TREATED AS RELATED PERSONS FOR DISALLOWANCE OF LOSSES, ETC.

(a) DISALLOWANCE OF LOSSES.—Subsection (b) of section 267 (relating to losses, expenses, and interest with respect to transactions between related taxpayers) is amended by striking ''or'' at the end of paragraph (11), by striking the period at the end of paragraph (12) and inserting ''; or'', and by adding at the end the following new paragraph:

''(13) Except in the case of a sale or exchange in satisfaction of a pecuniary bequest, an executor of an estate and a beneficiary of such estate.''.

(b) ORDINARY INCOME FROM GAIN FROM SALE OF DEPRECIABLE PROPERTY.—Subsection (b) of section 1239 is amended by striking the period at the end of paragraph (2) and inserting '', and'' and by adding at the end the following new paragraph:

''(3) except in the case of a sale or exchange in satisfaction of a pecuniary bequest, an executor of an estate and a beneficiary of such estate.''.

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

SEC. 1311. LIMITATION ON TAXABLE YEAR OF ESTATES.

(a) IN GENERAL.—Section 645 (relating to taxable year of trusts) is amended to read as follows:

''SEC. 645. TAXABLE YEAR OF ESTATES AND TRUSTS.

''(a) ESTATES.—For purposes of this subtitle, the taxable year of an estate shall be a year ending on October 31, November 30, or December 31.

''(b) TRUSTS.—

''(1) IN GENERAL.—For purposes of this subtitle, the taxable year of any trust shall be the calendar year.

''(2) EXCEPTION FOR TRUSTS EXEMPT FROM TAX AND CHARITABLE TRUSTS.—Paragraph (1) shall not apply to a trust exempt from taxation under section 501(a) or to a trust described in section 4947(a)(1).''.

(b) CLERICAL AMENDMENT.—The table of sections for subpart A of part I of subchapter J of chapter 1 is amended by striking the item relating to section 645 and inserting the following new item:

''Sec. 645. Taxable year of estates and trusts.''.

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

SEC. 1312. TREATMENT OF FUNERAL TRUSTS.

(a) IN GENERAL.—Subpart F of part I of subchapter J of chapter 1 is amended by adding at the end the following new section:

''SEC. 684. TREATMENT OF FUNERAL TRUSTS.

''(a) IN GENERAL.—In the case of a qualified funeral trust—

''(1) subparts B, C, D, and E shall not apply, and

''(2) no deduction shall be allowed by section 642(b).

''(b) QUALIFIED FUNERAL TRUST.—For purposes of this subsection, the term 'qualified funeral trust' means any trust (other than a foreign trust) if—

''(1) the trust arises as a result of a contract with a person engaged in the trade or business of providing funeral or burial services or property necessary to provide such services,

''(2) the sole purpose of the trust is to hold, invest, and reinvest funds in the trust and to use such funds solely to make payments for such services or property for the benefit of the beneficiaries of the trust,

''(3) the only beneficiaries of such trust are individuals who have entered into contracts described in paragraph (1) to have such services or property provided at their death,

''(4) the only contributions to the trust are contributions by or for the benefit of such beneficiaries,

''(5) the trustee elects the application of this subsection, and

''(6) the trust would (but for the election described in paragraph (5)) be treated as owned by the beneficiaries under subpart E.

''(c) DOLLAR LIMITATION ON CONTRIBUTIONS.—

''(1) IN GENERAL.—The term 'qualified funeral trust' shall not include any trust which accepts aggregate contributions by or for the benefit of an individual in excess of $7,000.

''(2) RELATED TRUSTS.—For purposes of paragraph (1), all trusts having trustees which are related persons shall be treated as 1 trust. For purposes of the preceding sentence, persons are related if—

''(A) the relationship between such persons is described in section 267 or 707(b),

''(B) such persons are treated as a single employer under subsection (a) or (b) of section 52, or

''(C) the Secretary determines that treating such persons as related is necessary to prevent avoidance of the purposes of this section.

''(3) INFLATION ADJUSTMENT.—In the case of any contract referred to in subsection (b)(1) which is entered into during any calendar year after 1998, the dollar amount referred to paragraph (1) shall be increased by an amount equal to—

''(A) such dollar amount, multiplied by

''(B) the cost-of-living adjustment determined under section 1(f)(3) for such calendar year, by substituting 'calendar year 1997' for 'calendar year 1992' in subparagraph (B) thereof.

If any dollar amount after being increased under the preceding sentence is not a multiple of $100, such dollar amount shall be rounded to the nearest multiple of $100.

''(d) APPLICATION OF RATE SCHEDULE.—Section 1(e) shall be applied to each qualified funeral trust by treating each beneficiary's interest in each such trust as a separate trust.

''(e) TREATMENT OF AMOUNTS REFUNDED TO BENEFICIARY ON CANCELLATION.—No gain or loss shall be recognized to a beneficiary described in subsection (b)(3) of any qualified funeral trust by reason of any payment from such trust to such beneficiary by reason of cancellation of a contract referred to in subsection (b)(1). If any payment referred to in the preceding sentence consists of property other than money, the basis of such property in the hands of such beneficiary shall be the same as the trust's basis in such property immediately before the payment.

''(f) SIMPLIFIED REPORTING.—The Secretary may prescribe rules for simplified reporting of all trusts having a single trustee.''.

(b) CLERICAL AMENDMENT.—The table of sections for subpart F of part I of subchapter J of chapter 1 is amended by adding at the end the following new item:

''Sec. 684. Treatment of funeral trusts.''.

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

SEC. 1313. ADJUSTMENTS FOR GIFTS WITHIN 3 YEARS OF DECEDENT'S DEATH.

(a) GENERAL RULE.—Section 2035 is amended to read as follows:

''SEC. 2035. ADJUSTMENTS FOR CERTAIN GIFTS MADE WITHIN 3 YEARS OF DECEDENT'S DEATH.

''(a) INCLUSION OF CERTAIN PROPERTY IN GROSS ESTATE.—If—

''(1) the decedent made a transfer (by trust or otherwise) of an interest in any property, or relinquished a power with respect to any property, during the 3-year period ending on the date of the decedent's death, and

''(2) the value of such property (or an interest therein) would have been included in the decedent's gross estate under section 2036, 2037, 2038, or 2042 if such transferred interest or relinquished power had been retained by the decedent on the date of his death,

the value of the gross estate shall include the value of any property (or interest therein) which would have been so included.

''(b) INCLUSION OF GIFT TAX ON GIFTS MADE DURING 3 YEARS BEFORE DECEDENT'S DEATH.—The amount of the gross estate (determined without regard to this subsection) shall be increased by the amount of any tax paid under chapter 12 by the decedent or his estate on any gift made by the decedent or his spouse during the 3-year period ending on the date of the decedent's death.

''(c) OTHER RULES RELATING TO TRANSFERS WITHIN 3 YEARS OF DEATH.—

''(1) IN GENERAL.—For purposes of—

''(A) section 303(b) (relating to distributions in redemption of stock to pay death taxes),

''(B) section 2032A (relating to special valuation of certain farms, etc., real property), and

''(C) subchapter C of chapter 64 (relating to lien for taxes),

the value of the gross estate shall include the value of all property to the extent of any interest therein of which the decedent has at any time made a transfer, by trust or otherwise, during the 3-year period ending on the date of the decedent's death.

''(2) COORDINATION WITH SECTION 6166.—An estate shall be treated as meeting the 35 percent of adjusted gross estate requirement of section 6166(a)(1) only if the estate meets such requirement both with and without the application of paragraph (1).

''(3) MARITAL AND SMALL TRANSFERS.—Paragraph (1) shall not apply to any transfer (other than a transfer with respect to a life insurance policy) made during a calendar year to any donee if the decedent was not required by section 6019 (other than by reason of section 6019(2)) to file any gift tax return for such year with respect to transfers to such donee.

''(d) EXCEPTION.—Subsection (a) shall not apply to any bona fide sale for an adequate and full consideration in money or money's worth.

''(e) TREATMENT OF CERTAIN TRANSFERS FROM REVOCABLE TRUSTS.—For purposes of this section and section 2038, any transfer from any portion of a trust during any period that such portion was treated under section 676 as owned by the decedent by reason of a power in the grantor (determined without regard to section 672(e)) shall be treated as a transfer made directly by the decedent.''.

(b) CLERICAL AMENDMENT.—The table of sections for part III of subchapter A of chapter 11 is amended by striking ''gifts'' in the item relating to section 2035 and inserting ''certain gifts''.

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

SEC. 1314. CLARIFICATION OF TREATMENT OF SURVIVOR ANNUITIES UNDER QUALIFIED TERMINABLE INTEREST RULES.

(a) IN GENERAL.—Subparagraph (C) of section 2056(b)(7) is amended by inserting ''(or, in the case of an interest in an annuity arising under the community property laws of a State, included in the gross estate of the decedent under section 2033)'' after ''section 2039''.

(b) EFFECTIVE DATE.—The amendment made by this section shall apply to estates of decedents dying after the date of the enactment of this Act.

SEC. 1315. TREATMENT UNDER QUALIFIED DOMESTIC TRUST RULES OF FORMS OF OWNERSHIP WHICH ARE NOT TRUSTS.

(a) IN GENERAL.—Subsection (c) of section 2056A (defining qualified domestic trust) is amended by adding at the end the following new paragraph:

''(3) TRUST.—To the extent provided in regulations prescribed by the Secretary, the term 'trust' includes other arrangements which have substantially the same effect as a trust.''.

(b) EFFECTIVE DATE.—The amendment made by this section shall apply to estates of decedents dying after the date of the enactment of this Act.

SEC. 1316. OPPORTUNITY TO CORRECT CERTAIN FAILURES UNDER SECTION 2032A.

(a) GENERAL RULE.—Paragraph (3) of section 2032A(d) (relating to modification of election and agreement to be permitted) is amended to read as follows:

''(3) MODIFICATION OF ELECTION AND AGREEMENT TO BE PERMITTED.—The Secretary shall

prescribe procedures which provide that in any case in which the executor makes an election under paragraph (1) (and submits the agreement referred to in paragraph (2)) within the time prescribed therefor, but—

''(A) the notice of election, as filed, does not contain all required information, or

''(B) signatures of 1 or more persons required to enter into the agreement described in paragraph (2) are not included on the agreement as filed, or the agreement does not contain all required information,

the executor will have a reasonable period of time (not exceeding 90 days) after notification of such failures to provide such information or signatures.''.

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

SEC. 1317. AUTHORITY TO WAIVE REQUIREMENT OF UNITED STATES TRUSTEE FOR QUALIFIED DOMESTIC TRUSTS.

(a) IN GENERAL.—Subparagraph (A) of section 2056A(a)(1) is amended by inserting ''except as provided in regulations prescribed by the Secretary,'' before ''requires''.

(b) EFFECTIVE DATE.—The amendment made by this section shall apply to estates of decedents dying after the date of the enactment of this Act.

TITLE XIV—SIMPLIFICATION PROVISIONS RELATING TO EXCISE TAXES, TAX-EXEMPT BONDS, AND OTHER MATTERS

Subtitle A—Excise Tax Simplification

PART I—EXCISE TAXES ON HEAVY TRUCKS AND LUXURY CARS

SEC. 1401. INCREASE IN DE MINIMIS LIMIT FOR AFTER-MARKET ALTERATIONS FOR HEAVY TRUCKS AND LUXURY CARS.

(a) IN GENERAL.—Sections 4003(a)(3)(C) and 4051(b)(2)(B) (relating to exceptions) are each amended by striking ''$200'' and inserting ''$1,000''.

(b) EFFECTIVE DATE.—The amendments made by subsection (a) shall apply to installations on vehicles sold after the date of the enactment of this Act.

SEC. 1402. CREDIT FOR TIRE TAX IN LIEU OF EXCLUSION OF VALUE OF TIRES IN COMPUTING PRICE.

(a) IN GENERAL.—Subsection (e) of section 4051 is amended to read as follows:

''(e) CREDIT AGAINST TAX FOR TIRE TAX.—If—

''(1) tires are sold on or in connection with the sale of any article, and

''(2) tax is imposed by this subchapter on the sale of such tires,

there shall be allowed as a credit against the tax imposed by this subchapter an amount equal to the tax (if any) imposed by section 4071 on such tires.''.

(b) CONFORMING AMENDMENT.—Subparagraph (B) of section 4052(b)(1) is amended by striking clause (iii), by adding ''and'' at the end of clause (ii), and by redesignating clause (iv) as clause (iii).

(c) EFFECTIVE DATE.—The amendments made by this section shall take effect on January 1, 1998.

PART II—PROVISIONS RELATED TO DISTILLED SPIRITS, WINES, AND BEER

SEC. 1411. CREDIT OR REFUND FOR IMPORTED BOTTLED DISTILLED SPIRITS RETURNED TO DISTILLED SPIRITS PLANT.

(a) IN GENERAL.—Section 5008(c)(1) (relating to distilled spirits returned to bonded premises) is amended by striking ''withdrawn from bonded premises on payment or determination of tax'' and inserting ''on which tax has been determined or paid''.

(b) EFFECTIVE DATE.—The amendment made by subsection (a) shall take effect on the 1st day of the 1st calendar quarter that begins at least 90 days after the date of the enactment of this Act.

SEC. 1412. AUTHORITY TO CANCEL OR CREDIT EXPORT BONDS WITHOUT SUBMISSION OF RECORDS.

(a) IN GENERAL.—Section 5175(c) (relating to cancellation of credit of export bonds) is amended by striking ''on the submission of'' and all that follows and inserting ''if there is such proof of exportation as the Secretary may by regulations require.''.

(b) EFFECTIVE DATE.—The amendment made by subsection (a) shall take effect on the 1st day of the 1st calendar quarter that begins at least 90 days after the date of the enactment of this Act.

SEC. 1413. REPEAL OF REQUIRED MAINTENANCE OF RECORDS ON PREMISES OF DISTILLED SPIRITS PLANT.

(a) IN GENERAL.—Section 5207(c) (relating to preservation and inspection) is amended by striking ''shall be kept on the premises where the operations covered by the record are carried on and''.

(b) EFFECTIVE DATE.—The amendment made by subsection (a) shall take effect on the 1st day of the 1st calendar quarter that begins at least 90 days after the date of the enactment of this Act.

SEC. 1414. FERMENTED MATERIAL FROM ANY BREWERY MAY BE RECEIVED AT A DISTILLED SPIRITS PLANT.

(a) IN GENERAL.—Section 5222(b)(2) (relating to receipt) is amended to read as follows:

''(2) beer conveyed without payment of tax from brewery premises, beer which has been lawfully removed from brewery premises upon determination of tax, or''.

(b) CLARIFICATION OF AUTHORITY TO PERMIT REMOVAL OF BEER WITHOUT PAYMENT OF TAX FOR USE AS DISTILLING MATERIAL.—Section 5053 (relating to exemptions) is amended by redesignating subsection (f) as subsection (i) and by inserting after subsection (e) the following new subsection:

''(f) REMOVAL FOR USE AS DISTILLING MATERIAL.—Subject to such regulations as the Secretary may prescribe, beer may be removed from a brewery without payment of tax to any distilled spirits plant for use as distilling material.''.

(c) CLARIFICATION OF REFUND AND CREDIT OF TAX.—Section 5056 (relating to refund and credit of tax, or relief from liability) is amended—

(1) by redesignating subsection (c) as subsection (d) and by inserting after subsection (b) the following new subsection:

''(c) BEER RECEIVED AT A DISTILLED SPIRITS PLANT.—Any tax paid by any brewer on beer produced in the United States may be refunded or credited to the brewer, without interest, or if the tax has not been paid, the brewer may be relieved of liability therefor, under regulations as the Secretary may prescribe, if such beer is received on the bonded premises of a distilled spirits plant pursuant to the provisions of section 5222(b)(2), for use in the production of distilled spirits.'', and

(2) by striking ''or rendering unmerchantable'' in subsection (d) (as so redesignated) and inserting ''rendering unmerchantable, or receipt on the bonded premises of a distilled spirits plant''.

(d) EFFECTIVE DATE.—The amendments made by this section shall take effect on the 1st day of the 1st calendar quarter that begins at least 90 days after the date of the enactment of this Act.

SEC. 1415. REPEAL OF REQUIREMENT FOR WHOLESALE DEALERS IN LIQUORS TO POST SIGN.

(a) IN GENERAL.—Section 5115 (relating to sign required on premises) is hereby repealed.

(b) CONFORMING AMENDMENTS.—

(1) Section 5681(a) is amended by striking '', and every wholesale dealer in liquors,'' and by striking ''section 5115(a) or''.

(2) Section 5681(c) is amended—

(A) by striking ''or wholesale liquor establishment, on which no sign required by section 5115(a) or'' and inserting ''on which no sign required by'', and

(B) by striking ''or wholesale liquor establishment, or who'' and inserting ''or who''.

(3) The table of sections for subpart D of part II of subchapter A of chapter 51 is amended by striking the item relating to section 5115.

(c) EFFECTIVE DATE.—The amendments made by this section shall take effect on the date of the enactment of this Act.

SEC. 1416. REFUND OF TAX TO WINE RETURNED TO BOND NOT LIMITED TO UNMERCHANTABLE WINE.

(a) IN GENERAL.—Section 5044(a) (relating to refund of tax on unmerchantable wine) is amended by striking ''as unmerchantable''.

(b) CONFORMING AMENDMENTS.—

(1) Section 5361 is amended by striking ''unmerchantable''.

(2) The section heading for section 5044 is amended by striking ''UNMERCHANTABLE''.

(3) The item relating to section 5044 in the table of sections for subpart C of part I of subchapter A of chapter 51 is amended by striking ''unmerchantable''.

(c) EFFECTIVE DATE.—The amendments made by this section shall take effect on the 1st day of the 1st calendar quarter that begins at least 90 days after the date of the enactment of this Act.

SEC. 1417. USE OF ADDITIONAL AMELIORATING MATERIAL IN CERTAIN WINES.

(a) IN GENERAL.—Section 5384(b)(2)(D) (relating to ameliorated fruit and berry wines) is amended by striking ''loganberries, currants, or gooseberries,'' and inserting ''any fruit or berry with a natural fixed acid of 20 parts per thousand or more (before any correction of such fruit or berry)''.

(b) EFFECTIVE DATE.—The amendment made by this section shall take effect on the 1st day of the 1st calendar quarter that begins at least 90 days after the date of the enactment of this Act.

SEC. 1418. DOMESTICALLY PRODUCED BEER MAY BE WITHDRAWN FREE OF TAX FOR USE OF FOREIGN EMBASSIES, LEGATIONS, ETC.

(a) IN GENERAL.—Section 5053 (relating to exemptions), as amended by section 1414(b), is amended by inserting after subsection (f) the following new subsection:

''(g) REMOVALS FOR USE OF FOREIGN EMBASSIES, LEGATIONS, ETC.—

''(1) IN GENERAL.—Subject to such regulations as the Secretary may prescribe—

''(A) beer may be withdrawn from the brewery without payment of tax for transfer to any customs bonded warehouse for entry pending withdrawal therefrom as provided in subparagraph (B), and

''(B) beer entered into any customs bonded warehouse under subparagraph (A) may be withdrawn for consumption in the United States by, and for the official and family use of, such foreign governments, organizations, and individuals as are entitled to withdraw imported beer from such warehouses free of tax.

Beer transferred to any customs bonded warehouse under subparagraph (A) shall be entered, stored, and accounted for in such warehouse under such regulations and bonds as the Secretary may prescribe, and may be withdrawn therefrom by such governments, organizations, and individuals free of tax under the same conditions and procedures as imported beer.

''(2) OTHER RULES TO APPLY.—Rules similar to the rules of paragraphs (2) and (3) of section 5362(e) shall apply for purposes of this subsection.''.

(b) EFFECTIVE DATE.—The amendment made by subsection (a) shall take effect on

the 1st day of the 1st calendar quarter that begins at least 90 days after the date of the enactment of this Act.

SEC. 1419. BEER MAY BE WITHDRAWN FREE OF TAX FOR DESTRUCTION.

(a) IN GENERAL.—Section 5053 (relating to exemptions), as amended by section 1418(a), is amended by inserting after subsection (g) the following new subsection:

''(h) REMOVALS FOR DESTRUCTION.—Subject to such regulations as the Secretary may prescribe, beer may be removed from the brewery without payment of tax for destruction.''.

(b) EFFECTIVE DATE.—The amendment made by subsection (a) shall take effect on the 1st day of the 1st calendar quarter that begins at least 90 days after the date of the enactment of this Act.

SEC. 1420. AUTHORITY TO ALLOW DRAWBACK ON EXPORTED BEER WITHOUT SUBMISSION OF RECORDS.

(a) IN GENERAL.—The first sentence of section 5055 (relating to drawback of tax on beer) is amended by striking ''found to have been paid'' and all that follows and inserting ''paid on such beer if there is such proof of exportation as the Secretary may by regulations require.''.

(b) EFFECTIVE DATE.—The amendment made by subsection (a) shall take effect on the 1st day of the 1st calendar quarter that begins at least 90 days after the date of the enactment of this Act.

SEC. 1421. TRANSFER TO BREWERY OF BEER IMPORTED IN BULK WITHOUT PAYMENT OF TAX.

(a) IN GENERAL.—Part II of subchapter G of chapter 51 is amended by adding at the end the following new section:

''SEC. 5418. BEER IMPORTED IN BULK.

''Beer imported or brought into the United States in bulk containers may, under such regulations as the Secretary may prescribe, be withdrawn from customs custody and transferred in such bulk containers to the premises of a brewery without payment of the internal revenue tax imposed on such beer. The proprietor of a brewery to which such beer is transferred shall become liable for the tax on the beer withdrawn from customs custody under this section upon release of the beer from customs custody, and the importer, or the person bringing such beer into the United States, shall thereupon be relieved of the liability for such tax.''.

(b) CLERICAL AMENDMENT.—The table of sections for such part II is amended by adding at the end the following new item:

''Sec. 5418. Beer imported in bulk.''.

(c) EFFECTIVE DATE.—The amendments made by this section shall take effect on the 1st day of the 1st calendar quarter that begins at least 90 days after the date of the enactment of this Act.

SEC. 1422. TRANSFER TO BONDED WINE CELLARS OF WINE IMPORTED IN BULK WITHOUT PAYMENT OF TAX.

(a) IN GENERAL.—Part II of subchapter F of chapter 51 is amended by inserting after section 5363 the following new section:

''SEC. 5364. WINE IMPORTED IN BULK.

''Wine imported or brought into the United States in bulk containers may, under such regulations as the Secretary may prescribe, be withdrawn from customs custody and transferred in such bulk containers to the premises of a bonded wine cellar without payment of the internal revenue tax imposed on such wine. The proprietor of a bonded wine cellar to which such wine is transferred shall become liable for the tax on the wine withdrawn from customs custody under this section upon release of the wine from customs custody, and the importer, or the person bringing such wine into the United States, shall thereupon be relieved of the liability for such tax.''.

(b) CLERICAL AMENDMENT.—The table of sections for such part II is amended by inserting after the item relating to section 5363 the following new item:

''Sec. 5364. Wine imported in bulk.''.

(c) EFFECTIVE DATE.—The amendments made by this section shall take effect on the 1st day of the 1st calendar quarter that begins at least 90 days after the date of the enactment of this Act.

PART III—OTHER EXCISE TAX PROVISIONS

SEC. 1431. AUTHORITY TO GRANT EXEMPTIONS FROM REGISTRATION REQUIREMENTS.

(a) IN GENERAL.—Section 4222(b)(2) (relating to export) is amended—

(1) by striking ''in the case of any sale or resale for export,'', and

(2) by striking ''EXPORT'' and inserting ''UNDER REGULATIONS''.

(b) EFFECTIVE DATE.—The amendments made by subsection (a) shall take effect on the date of the enactment of this Act.

SEC. 1432. REPEAL OF EXPIRED PROVISIONS.

(a) PIGGY-BACK TRAILERS.—Section 4051 (relating to imposition of tax on heavy trucks and trailers sold at retail) is amended by striking subsection (d) and by redesignating subsection (e) as subsection (d).

(b) DEEP SEABED MINING.—

(1) IN GENERAL.—Subchapter F of chapter 36 (relating to tax on removal of hard mineral resources from deep seabed) is hereby repealed.

(2) CONFORMING AMENDMENT.—The table of subchapters for chapter 36 is amended by striking the item relating to subchapter F.

(c) OZONE-DEPLETING CHEMICALS.—

(1) Paragraph (1) of section 4681(b) is amended by striking subparagraphs (B) and (C) and inserting the following new subparagraph:

''(B) BASE TAX AMOUNT.—The base tax amount for purposes of subparagraph (A) with respect to any sale or use during any calendar year after 1995 shall be $5.35 increased by 45 cents for each year after 1995.''.

(2) Subsection (g) of section 4682 is amended to read as follows:

''(g) CHEMICALS USED AS PROPELLANTS IN METERED-DOSE INHALERS.—

''(1) EXEMPTION FROM TAX.—

''(A) IN GENERAL.—No tax shall be imposed by section 4681 on—

''(i) any use of any substance as a propellant in metered-dose inhalers, or

''(ii) any qualified sale by the manufacturer, producer, or importer of any substance.

''(B) QUALIFIED SALE.—For purposes of subparagraph (A), the term 'qualified sale' means any sale by the manufacturer, producer, or importer of any substance—

''(i) for use by the purchaser as a propellant in metered dose inhalers, or

''(ii) for resale by the purchaser to a 2d purchaser for such use by the 2d purchaser.

The preceding sentence shall apply only if the manufacturer, producer, and importer, and the 1st and 2d purchasers (if any) meet such registration requirements as may be prescribed by the Secretary.

''(2) OVERPAYMENTS.—If any substance on which tax was paid under this subchapter is used by any person as a propellant in metered-dose inhalers, credit or refund without interest shall be allowed to such person in an amount equal to the tax so paid. Amounts payable under the preceding sentence with respect to uses during the taxable year shall be treated as described in section 34(a) for such year unless claim thereof has been timely filed under this paragraph.''.

Subtitle B—Tax-Exempt Bond Provisions

SEC. 1441. REPEAL OF $100,000 LIMITATION ON UNSPENT PROCEEDS UNDER 1-YEAR EXCEPTION FROM REBATE.

Subclause (I) of section 148(f)(4)(B)(ii) (relating to additional period for certain bonds) is amended by striking ''the lesser of 5 percent of the proceeds of the issue or $100,000'' and inserting ''5 percent of the proceeds of the issue''.

SEC. 1442. EXCEPTION FROM REBATE FOR EARNINGS ON BONA FIDE DEBT SERVICE FUND UNDER CONSTRUCTION BOND RULES.

Subparagraph (C) of section 148(f)(4) is amended by adding at the end the following new clause:

''(xvii) TREATMENT OF BONA FIDE DEBT SERVICE FUNDS.—If the spending requirements of clause (ii) are met with respect to the available construction proceeds of a construction issue, then paragraph (2) shall not apply to earnings on a bona fide debt service fund for such issue.''.

SEC. 1443. REPEAL OF DEBT SERVICE-BASED LIMITATION ON INVESTMENT IN CERTAIN NONPURPOSE INVESTMENTS.

Subsection (d) of section 148 (relating to special rules for reasonably required reserve or replacement fund) is amended by striking paragraph (3).

SEC. 1444. REPEAL OF EXPIRED PROVISIONS.

(a) Paragraph (2) of section 148(c) is amended by striking subparagraph (B) and by redesignating subparagraphs (C), (D), and (E) as subparagraphs (B), (C), and (D), respectively.

(b) Paragraph (4) of section 148(f) is amended by striking subparagraph (E).

SEC. 1445. EFFECTIVE DATE.

The amendments made by this subtitle shall apply to bonds issued after the date of the enactment of this Act.

Subtitle C—Tax Court Procedures

SEC. 1451. OVERPAYMENT DETERMINATIONS OF TAX COURT.

(a) APPEAL OF ORDER.—Paragraph (2) of section 6512(b) (relating to jurisdiction to enforce) is amended by adding at the end the following new sentence: ''An order of the Tax Court disposing of a motion under this paragraph shall be reviewable in the same manner as a decision of the Tax Court, but only with respect to the matters determined in such order.''.

(b) DENIAL OF JURISDICTION REGARDING CERTAIN CREDITS AND REDUCTIONS.—Subsection (b) of section 6512 (relating to overpayment determined by Tax Court) is amended by adding at the end the following new paragraph:

''(4) DENIAL OF JURISDICTION REGARDING CERTAIN CREDITS AND REDUCTIONS.—The Tax Court shall have no jurisdiction under this subsection to restrain or review any credit or reduction made by the Secretary under section 6402.''.

(c) EFFECTIVE DATE.—The amendments made by this section shall take effect on the date of the enactment of this Act.

SEC. 1452. REDETERMINATION OF INTEREST PURSUANT TO MOTION.

(a) IN GENERAL.—Subsection (c) of section 7481 (relating to jurisdiction over interest determinations) is amended to read as follows:

''(c) JURISDICTION OVER INTEREST DETERMINATIONS.—

''(1) IN GENERAL.—Notwithstanding subsection (a), if, within 1 year after the date the decision of the Tax Court becomes final under subsection (a) in a case to which this subsection applies, the taxpayer files a motion in the Tax Court for a redetermination of the amount of interest involved, then the Tax Court may reopen the case solely to determine whether the taxpayer has made an overpayment of such interest or the Secretary has made an underpayment of such interest and the amount thereof.

''(2) CASES TO WHICH THIS SUBSECTION APPLIES.—This subsection shall apply where—

''(A)(i) an assessment has been made by the Secretary under section 6215 which includes interest as imposed by this title, and

''(ii) the taxpayer has paid the entire amount of the deficiency plus interest claimed by the Secretary, and

''(B) the Tax Court finds under section 6512(b) that the taxpayer has made an overpayment.

''(3) SPECIAL RULES.—If the Tax Court determines under this subsection that the taxpayer has made an overpayment of interest or that the Secretary has made an underpayment of interest, then that determination shall be treated under section 6512(b)(1) as a determination of an overpayment of tax. An order of the Tax Court redetermining interest, when entered upon the records of the court, shall be reviewable in the same manner as a decision of the Tax Court.''.

(b) EFFECTIVE DATE.—The amendment made by this section shall take effect on the date of the enactment of this Act.

SEC. 1453. APPLICATION OF NET WORTH REQUIREMENT FOR AWARDS OF LITIGATION COSTS.

(a) IN GENERAL.—Paragraph (4) of section 7430(c) (defining prevailing party) is amended by adding at the end thereof the following new subparagraph:

''(D) SPECIAL RULES FOR APPLYING NET WORTH REQUIREMENT.—In applying the requirements of section 2412(d)(2)(B) of title 28, United States Code, for purposes of subparagraph (A)(iii) of this paragraph—

''(i) the net worth limitation in clause (i) of such section shall apply to—

''(I) an estate but shall be determined as of the date of the decedent's death, and

''(II) a trust but shall be determined as of the last day of the taxable year involved in the proceeding, and

''(ii) individuals filing a joint return shall be treated as 1 individual for purposes of clause (i) of such section, except in the case of a spouse relieved of liability under section 6013(e).''.

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

SEC. 1454. PROCEEDINGS FOR DETERMINATION OF EMPLOYMENT STATUS.

(a) IN GENERAL.—Subchapter B of chapter 76 (relating to proceedings by taxpayers and third parties) is amended by redesignating section 7435 as section 7436 and by inserting after section 7434 the following new section:

''SEC. 7435. PROCEEDINGS FOR DETERMINATION OF EMPLOYMENT STATUS.

''(a) CREATION OF REMEDY.—If, in connection with an audit of any person, there is an actual controversy involving a determination by the Secretary as part of an examination that—

''(1) one or more individuals performing services for such person are employees of such person for purposes of subtitle C, or

''(2) such person is not entitled to the treatment under subsection (a) of section 530 of the Revenue Act of 1978 with respect to such an individual,

upon the filing of an appropriate pleading, the Tax Court may determine whether such a determination by the Secretary is correct. Any such determination by the Tax Court shall have the force and effect of a decision of the Tax Court and shall be reviewable as such.

''(b) LIMITATIONS.—

''(1) PETITIONER.—A pleading may be filed under this section only by the person for whom the services are performed.

''(2) TIME FOR FILING ACTION.—If the Secretary sends by certified or registered mail notice to the petitioner of a determination by the Secretary described in subsection (a), no proceeding may be initiated under this section with respect to such determination unless the pleading is filed before the 91st day after the date of such mailing.

''(3) NO ADVERSE INFERENCE FROM TREATMENT WHILE ACTION IS PENDING.—If, during the pendency of any proceeding brought under this section, the petitioner changes his treatment for employment tax purposes of any individual whose employment status as an employee is involved in such proceeding (or of any individual holding a substantially similar position) to treatment as an employee, such change shall not be taken into account in the Tax Court's determination under this section.

''(c) SMALL CASE PROCEDURES.—

''(1) IN GENERAL.—At the option of the petitioner, concurred in by the Tax Court or a division thereof before the hearing of the case, proceedings under this section may (notwithstanding the provisions of section 7453) be conducted subject to the rules of evidence, practice, and procedure applicable under section 7463 if the amount of employment taxes placed in dispute is $10,000 or less for each calendar quarter involved.

''(2) FINALITY OF DECISIONS.—A decision entered in any proceeding conducted under this subsection shall not be reviewed in any other court and shall not be treated as a precedent for any other case not involving the same petitioner and the same determinations.

''(3) CERTAIN RULES TO APPLY.—Rules similar to the rules of the last sentence of subsection (a), and subsections (c), (d), and (e), of section 7463 shall apply to proceedings conducted under this subsection.

''(d) SPECIAL RULES.—

''(1) RESTRICTIONS ON ASSESSMENT AND COLLECTION PENDING ACTION, ETC.—The principles of subsections (a), (b), and (d) of section 6213, section 6214(a), section 6503(a), and section 6512 shall apply to proceedings brought under this section in the same manner as if the Secretary's determination described in subsection (a) were a notice of deficiency.

''(2) AWARDING OF COSTS AND CERTAIN FEES.—Section 7430 shall apply to proceedings brought under this section.

''(e) EMPLOYMENT TAX.—The term 'employment tax' means any tax imposed by subtitle C.''.

(b) CONFORMING AMENDMENTS.—

(1) Subsection (d) of section 6511 is amended by adding at the end the following new paragraph:

''(7) SPECIAL PERIOD OF LIMITATION WITH RESPECT TO SELF-EMPLOYMENT TAX IN CERTAIN CASES.—If—

''(A) the claim for credit or refund relates to an overpayment of the tax imposed by chapter 2 (relating to the tax on self-employment income) attributable to Tax Court determination in a proceeding under section 7435, and

''(B) the allowance of a credit or refund of such overpayment is otherwise prevented by the operation of any law or rule of law other than section 7122 (relating to compromises),

such credit or refund may be allowed or made if claim therefor is filed on or before the last day of the second year after the calendar year in which such determination becomes final.''.

(2) Sections 7453 and 7481(b) are each amended by striking ''section 7463'' and inserting ''section 7435(c) or 7463''.

(3) The table of sections for subchapter B of chapter 76 is amended by striking the last item and inserting the following:

''Sec. 7435. Proceedings for determination of employment status.

''Sec. 7436. Cross references.''.

(c) EFFECTIVE DATE.—The amendments made by this section shall take effect on the date of the enactment of this Act.

Subtitle D—Other Provisions

SEC. 1461. EXTENSION OF DUE DATE OF FIRST QUARTER ESTIMATED TAX PAYMENT BY PRIVATE FOUNDATIONS.

(a) IN GENERAL.—Paragraph (3) of section 6655(g) is amended by adding at the end the following new sentence: ''In the case of a private foundation, subsection (c)(2) shall be applied by substituting 'May 15' for 'April 15'.''.

(b) EFFECTIVE DATE.—The amendment made by subsection (a) shall apply for purposes of determining underpayments of estimated tax for taxable years beginning after the date of the enactment of this Act.

SEC. 1462. CLARIFICATION OF AUTHORITY TO WITHHOLD PUERTO RICO INCOME TAXES FROM SALARIES OF FEDERAL EMPLOYEES.

(a) IN GENERAL.—Subsection (c) of section 5517 of title 5, United States Code, is amended by striking ''or territory or possession'' and inserting '', territory, possession, or commonwealth''.

(b) EFFECTIVE DATE.—The amendment made by subsection (a) shall take effect on January 1, 1998.

SEC. 1463. CERTAIN NOTICES DISREGARDED UNDER PROVISION INCREASING INTEREST RATE ON LARGE CORPORATE UNDERPAYMENTS.

(a) GENERAL RULE.—Subparagraph (B) of section 6621(c)(2) (defining applicable date) is amended by adding at the end the following new clause:

''(iii) EXCEPTION FOR LETTERS OR NOTICES INVOLVING SMALL AMOUNTS.—For purposes of this paragraph, any letter or notice shall be disregarded if the amount of the deficiency or proposed deficiency (or the assessment or proposed assessment) set forth in such letter or notice is not greater than $100,000 (determined by not taking into account any interest, penalties, or additions to tax).''.

(b) EFFECTIVE DATE.—The amendment made by subsection (a) shall apply for purposes of determining interest for periods after December 31, 1997.

TITLE XV—TECHNICAL AMENDMENTS RELATED TO SMALL BUSINESS JOB PROTECTION ACT OF 1996 AND OTHER LEGISLATION

SEC. 1501. AMENDMENTS RELATED TO SMALL BUSINESS JOB PROTECTION ACT OF 1996.

(a) AMENDMENTS RELATED TO SUBTITLE A.—

(1) AMENDMENT RELATED TO SECTION 1116.—Paragraph (1) of section 6050R(c) is amended by striking ''name and address'' and inserting ''name, address, and phone number of the information contact''.

(2) AMENDMENT TO SECTION 1116.—Paragraphs (1) and (2)(C) of section 1116(b) of the Small Business Job Protection Act of 1996 shall each be applied as if the reference to chapter 68 were a reference to chapter 61.

(b) AMENDMENT RELATED TO SUBTITLE B.—Subsection (c) of section 52 is amended by striking ''targeted jobs credit'' and inserting ''work opportunity credit''.

(c) AMENDMENTS RELATED TO SUBTITLE C.—

(1) AMENDMENT RELATED TO SECTION 1302.—Subparagraph (B) of section 1361(e)(1) is amended by striking ''and'' at the end of clause (i), striking the period at the end of clause (ii) and inserting '', and'', and adding at the end the following new clause:

''(iii) any charitable remainder annuity trust or charitable remainder unitrust (as defined in section 664(d)).''.

(2) EFFECTIVE DATE FOR SECTION 1307.—

(A) Notwithstanding section 1317 of the Small Business Job Protection Act of 1996, the amendments made by subsections (a) and (b) of section 1307 of such Act shall apply to determinations made after December 31, 1996.

(B) In no event shall the 120-day period referred to in section 1377(b)(1)(B) of the Internal Revenue Code of 1986 (as added by such section 1307) expire before the end of the 120-day period beginning on the date of the enactment of this Act.

(3) AMENDMENT RELATED TO SECTION 1308.—Subparagraph (A) of section 1361(b)(3) is amended by striking ''For purposes of this title'' and inserting ''Except as provided in regulations prescribed by the Secretary, for purposes of this title''.

(4) AMENDMENTS RELATED TO SECTION 1316.—

(A) Paragraph (2) of section 512(e) is amended by striking ''within the meaning of section 1012'' and inserting ''as defined in section 1361(e)(1)(C)''.

(B) Paragraph (7) of section 1361(c) is redesignated as paragraph (6).

(C) Subparagraph (B) of section 1361(b)(1) is amended by striking ''subsection (c)(7)'' and inserting ''subsection (c)(6)''.

(D) Paragraph (1) of section 512(e) is amended by striking ''section 1361(c)(7)'' and inserting ''section 1361(e)(6)''.

(d) AMENDMENTS RELATED TO SUBTITLE D.—

(1) AMENDMENTS RELATED TO SECTION 1421.—

(A) Subsection (i) of section 408 is amended in the last sentence by striking ''30 days'' and inserting ''31 days''.

(B) Subparagraph (H) of section 408(k)(6) is amended by striking ''if the terms of such pension'' and inserting ''of an employer if the terms of simplified employee pensions of such employer''.

(C)(i) Subparagraph (B) of section 408(l)(2) is amended—

(I) by inserting ''and the issuer of an annuity established under such an arrangement'' after ''under subsection (p)'', and

(II) in clause (i), by inserting ''or issuer'' after ''trustee''.

(ii) Paragraph (2) of section 6693(c) is amended—

(I) by inserting ''or issuer'' after ''trustee'', and

(II) in the heading, by inserting ''AND ISSUER'' after ''trustee''.

(D) Subsection (p) of section 408 is amended by adding at the end the following new paragraph:

''(8) COORDINATION WITH MAXIMUM LIMITATION UNDER SUBSECTION (a).—In the case of any simple retirement account, subsections (a)(1) and (b)(2) shall be applied by substituting 'the sum of the dollar amount in effect under paragraph (2)(A)(ii) of this subsection and the employer contribution required under subparagraph (A)(iii) or (B)(i) of paragraph (2) of this subsection, whichever is applicable' for '$2,000'.''.

(E) Clause (i) of section 408(p)(2)(D) is amended by adding at the end the following new sentence: ''If only individuals other than employees described in subparagraph (A) or (B) of section 410(b)(3) are eligible to participate in such arrangement, then the preceding sentence shall be applied without regard to any qualified plan in which only employees so described are eligible to participate.''.

(F) Subparagraph (D) of section 408(p)(2) is amended by adding at the end the following new clause:

''(iii) GRACE PERIOD.—In the case of an employer who establishes and maintains a plan under this subsection for 1 or more years and who fails to meet the requirements of this subparagraph for any subsequent year due to any acquisition, disposition, or similar transaction involving another such employer, rules similar to the rules of section 410(b)(6)(C) shall apply for purposes of this subparagraph.''.

(G) Paragraph (5) of section 408(p) is amended in the text preceding subparagraph (A) by striking ''simplified'' and inserting ''simple''.

(2) AMENDMENTS RELATED TO SECTION 1422.—

(A) Clause (ii) of section 401(k)(11)(D) is amended by striking the period and inserting ''if such plan allows only contributions required under this paragraph.''.

(B) Paragraph (11) of section 401(k) is amended by adding at the end the following new subparagraph:

''(E) COST-OF-LIVING ADJUSTMENT.—The Secretary shall adjust the $6,000 amount under subparagraph (B)(i)(I) at the same time and in the same manner as under section 408(p)(2)(E).''.

(C) Subparagraph (A) of section 404(a)(3) is amended—

(i) in clause (i), by striking ''not in excess of'' and all that follows and inserting the following: ''not in excess of the greater of—

''(I) 15 percent of the compensation otherwise paid or accrued during the taxable year to the beneficiaries under the stock bonus or profit-sharing plan, or

''(II) the amount such employer is required to contribute to such trust under section 401(k)(11) for such year.'', and

(ii) in clause (ii), by striking ''15 percent'' and all that follows and inserting the following ''the amount described in subclause (I) or (II) of clause (i), whichever is greater, with respect to such taxable year.''.

(D) Subparagraph (B) of section 401(k)(11) is amended by adding at the end the following new clause:

''(iii) ADMINISTRATIVE REQUIREMENTS.—

''(I) IN GENERAL.—Rules similar to the rules of subparagraphs (B) and (C) of section 408(p)(5) shall apply for purposes of this subparagraph.

''(II) NOTICE OF ELECTION PERIOD.—The requirements of this subparagraph shall not be treated as met with respect to any year unless the employer notifies each employee eligible to participate, within a reasonable period of time before the 60th day before the beginning of such year (and, for the first year the employee is so eligible, the 60th day before the first day such employee is so eligible), of the rules similar to the rules of section 408(p)(5)(C) which apply by reason of subclause (I).''.

(3) AMENDMENT RELATED TO SECTION 1433.—The heading of paragraph (11) of section 401(m) is amended by striking ''ALTERNATIVE'' and inserting ''ADDITIONAL ALTERNATIVE''.

(4) AMENDMENT RELATED TO SECTION 1462.—The paragraph (7) of section 414(q) added by section 1462 of the Small Business Job Protection Act of 1996 is redesignated as paragraph (9).

(5) CLARIFICATION OF SECTION 1450.—

(A) Section 403(b)(11) of the Internal Revenue Code of 1986 shall not apply with respect to a distribution from a contract described in section 1450(b)(1) of such Act to the extent that such distribution is not includible in income by reason of section 403(b)(8) of such Code (determined after the application of section 1450(b)(2) of such Act).

(B) This paragraph shall apply as if included in section 1450 of the Small Business Job Protection Act of 1996.

(e) AMENDMENT RELATED TO SUBTITLE E.—Subparagraph (A) of section 956(b)(1) is amended by inserting ''to the extent such amount was accumulated in prior taxable years'' after ''section 316(a)(1)''.

(f) AMENDMENTS RELATED TO SUBTITLE F.—

(1) AMENDMENTS RELATED TO SECTION 1601.—

(A) The heading of section 30A is amended to read as follows:

''SEC. 30A. PUERTO RICO ECONOMIC ACTIVITY CREDIT.''.

(B) The table of sections for subpart B of part IV of subchapter A of chapter 1 is amended in the item relating to section 30A by striking ''Puerto Rican'' and inserting ''Puerto Rico''.

(C) Paragraph (1) of section 55(c) is amended by striking ''Puerto Rican'' and inserting ''Puerto Rico''.

(2) AMENDMENTS RELATED TO SECTION 1606.—

(A) Clause (ii) of section 9503(c)(2)(A) is amended by striking ''(or with respect to qualified diesel-powered highway vehicles purchased before January 1, 1999)''.

(B) Subparagraph (A) of section 9503(e)(5) is amended by striking ''; except that'' and all that follows and inserting a period.

(3) AMENDMENTS RELATED TO SECTION 1607.—

(A) Subsection (f) of section 4001 (relating to phasedown of tax on luxury passenger automobiles) is amended—

(i) by inserting ''and section 4003(a)'' after ''subsection (a)'', and

(ii) by inserting '', each place it appears,'' before ''the percentage''.

(B) Subsection (g) of section 4001 (relating to termination) is amended by striking ''tax imposed by this section'' and inserting ''taxes imposed by this section and section 4003'' and by striking ''or use'' and inserting '', use, or installation''.

(4) AMENDMENTS RELATED TO SECTION 1609.—

(A) Subsection (l) of section 4041 is amended—

(i) by inserting ''or a fixed-wing aircraft'' after ''helicopter'', and

(ii) in the heading, by striking ''HELICOPTER''.

(B) The last sentence of section 4041(a)(2) is amended by striking ''section 4081(a)(2)(A)'' and inserting ''section 4081(a)(2)(A)(i)''.

(C) Subsection (b) of section 4092 is amended by striking ''section 4041(c)(4)'' and inserting ''section 4041(c)(2)''.

(D) Subsection (g) of section 4261 (as redesignated by title X) is amended by inserting ''on that flight'' after ''dedicated''.

(E) Paragraph (1) of section 1609(h) of such Act is amended by striking ''paragraph (3)(A)(i)'' and inserting ''paragraph (3)(A)''.

(F) Paragraph (4) of section 1609(h) of such Act is amended by inserting before the period ''or exclusively for the use described in section 4092(b) of such Code''.

(5) AMENDMENTS RELATED TO SECTION 1616.—

(A) Subparagraph (A) of section 593(e)(1) is amended by inserting ''(and, in the case of an S corporation, the accumulated adjustments account, as defined in section 1368(e)(1))'' after ''1951,''.

(B) Paragraph (7) of section 1374(d) is amended by adding at the end the following new sentence: ''For purposes of applying this section to any amount includible in income by reason of section 593(e), the preceding sentence shall be applied without regard to the phrase '10-year'.''.

(6) AMENDMENTS RELATED TO SECTION 1621.—

(A) Subparagraph (A) of section 860L(b)(1) is amended in the text preceding clause (i) by striking ''after the startup date'' and inserting ''on or after the startup date''.

(B) Paragraph (2) of section 860L(d) is amended by striking ''section 860I(c)(2)'' and inserting ''section 860I(b)(2)''.

(C) Subparagraph (B) of section 860L(e)(2) is amended by inserting ''other than foreclosure property'' after ''any permitted asset''.

(D) Subparagraph (A) of section 860L(e)(3) is amended by striking ''if the FASIT'' and all that follows and inserting the following new flush text after clause (ii):

''if the FASIT were treated as a REMIC and permitted assets (other than cash or cash equivalents) were treated as qualified mortgages.''.

(E)(i) Paragraph (3) of section 860L(e) is amended by adding at the end the following new subparagraph:

''(D) INCOME FROM DISPOSITIONS OF FORMER HEDGE ASSETS.—Paragraph (2)(A) shall not apply to income derived from the disposition of—

''(i) an asset which was described in subsection (c)(1)(D) when first acquired by the FASIT but on the date of such disposition was no longer described in subsection (c)(1)(D)(ii), or

''(ii) a contract right to acquire an asset described in clause (i).''.

(ii) Subparagraph (A) of section 860L(e)(2) is amended by inserting ''except as provided in paragraph (3),'' before ''the receipt''.

(g) AMENDMENTS RELATED TO SUBTITLE G.—

(1) EXTENSION OF PERIOD FOR CLAIMING REFUNDS FOR ALCOHOL FUELS.—Notwithstanding section 6427(i)(3)(C) of the Internal Revenue Code of 1986, a claim filed under section 6427(f) of such Code for any period after September 30, 1995, and before October 1, 1996, shall be treated as timely filed if filed before the 60th day after the date of the enactment of this Act.

(2) AMENDMENTS TO SECTIONS 1703 AND 1704.—Sections 1703(n)(8) and 1704(j)(4)(B) of the Small Business Job Protection Act of 1996 shall each be applied as if such sections referred to section 1702 instead of section 1602.

(h) AMENDMENTS RELATED TO SUBTITLE H.—

(1) AMENDMENTS RELATED TO SECTION 1806.—

(A) Subparagraph (B) of section 529(e)(1) is amended by striking ''subsection (c)(2)(C)'' and inserting ''subsection (c)(3)(C)''.

(B) Subparagraph (C) of section 529(e)(1) is amended by inserting ''(or agency or instrumentality thereof)'' after ''local government''.

(C) Paragraph (2) of section 1806(c) of the Small Business Job Protection Act of 1996 is amended by striking so much of the first sentence as follows subparagraph (B)(ii) and inserting the following:

''then such program (as in effect on August 20, 1996) shall be treated as a qualified State tuition program with respect to contributions (and earnings allocable thereto) pursuant to contracts entered into under such program before the first date on which such program meets such requirements (determined without regard to this paragraph) and the provisions of such program (as so in effect) shall apply in lieu of section 529(b) of the Internal Revenue Code of 1986 with respect to such contributions and earnings.''.

(2) AMENDMENTS RELATED TO SECTION 1807.—

(A) Paragraph (2) of section 23(a) is amended to read as follows:

''(2) YEAR CREDIT ALLOWED.—The credit under paragraph (1) with respect to any expense shall be allowed—

''(A) in the case of any expense paid or incurred before the taxable year in which such adoption becomes final, for the taxable year following the taxable year during which such expense is paid or incurred, and

''(B) in the case of an expense paid or incurred during or after the taxable year in which such adoption becomes final, for the taxable year in which such expense is paid or incurred.''.

(B) Subparagraph (B) of section 23(b)(2) is amended by striking ''determined—'' and all that follows and inserting the following: ''determined without regard to sections 911, 931, and 933.''.

(C) Paragraph (1) of section 137(b) (relating to adoption assistance programs) is amended by striking ''amount excludable from gross income'' and inserting ''of the amounts paid or expenses incurred which may be taken into account''.

(D)(i) Subparagraph (C) of section 414(n)(3) is amended by inserting ''137,'' after ''132,''.

(ii) Paragraph (2) of section 414(t) is amended by inserting ''137,'' after ''132,''.

(iii) Paragraph (1) of section 6039D(d) is amended by striking ''or 129'' and inserting ''129, or 137''.

(i) AMENDMENTS RELATED TO SUBTITLE I.—

(1) AMENDMENT RELATED TO SECTION 1901.—Subsection (b) of section 6048 is amended in the heading by striking ''GRANTOR'' and inserting ''OWNER''.

(2) AMENDMENTS RELATED TO SECTION 1903.—Clauses (ii) and (iii) of section 679(a)(3)(C) are each amended by inserting '', owner,'' after ''grantor''.

(3) AMENDMENTS RELATED TO SECTION 1907.—

(A) Clause (ii) of section 7701(a)(30)(E) is amended by striking ''fiduciaries'' and inserting ''persons''.

(B) Subsection (b) of section 641 is amended by adding at the end the following new sentence: ''For purposes of this subsection, a foreign trust or foreign estate shall be treated as a nonresident alien individual who is not present in the United States at any time.''.

(4) EFFECTIVE DATE RELATED TO SUBTITLE I.—The Secretary of the Treasury may by regulations or other administrative guidance provide that the amendments made by section 1907(a) of the Small Business Job Protection Act of 1996 shall not apply to a trust with respect to a reasonable period beginning on the date of the enactment of such Act, if—

(A) such trust is in existence on August 20, 1996, and is a United States person for purposes of the Internal Revenue Code of 1986 on such date (determined without regard to such amendments),

(B) no election is in effect under section 1907(a)(3)(B) of such Act with respect to such trust,

(C) before the expiration of such reasonable period, such trust makes the modifications necessary to be treated as a United States person for purposes of such Code (determined with regard to such amendments), and

(D) such trust meets such other conditions as the Secretary may require.

(j) EFFECTIVE DATE.—

(1) IN GENERAL.—Except as provided in paragraph (2), the amendments made by this section shall take effect as if included in the provisions of the Small Business Job Protection Act of 1996 to which they relate.

(2) CERTAIN ADMINISTRATIVE REQUIREMENTS WITH RESPECT TO CERTAIN PENSION PLANS.—The amendment made by subsection (d)(2)(D) shall apply to calendar years beginning after the date of the enactment of this Act.

SEC. 1502. AMENDMENTS RELATED TO HEALTH INSURANCE PORTABILITY AND ACCOUNTABILITY ACT OF 1996.

(a) AMENDMENTS RELATED TO SECTION 301.—

(1) Paragraph (2) of section 26(b) is amended by striking ''and'' at the end of subparagraph (N), by striking the period at the end of subparagraph (O) and inserting '', and'', and by adding at the end the following new subparagraph:

''(P) section 220(f)(4) (relating to additional tax on medical savings account distributions not used for qualified medical expenses).''.

(2) Paragraph (3) of section 220(c) is amended by striking subparagraph (A) and redesignating subparagraphs (B) through (D) as subparagraphs (A) through (C), respectively.

(3) Subparagraph (C) of section 220(d)(2) is amended by striking ''an eligible individual'' and inserting ''described in clauses (i) and (ii) of subsection (c)(1)(A)''.

(4) 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)(X).''.

(5) Paragraph (4) of section 4975(d) is amended by striking ''if, with respect to such transaction'' and all that follows and inserting the following: ''if section 220(e)(2) applies to such transaction.''.

(b) AMENDMENT RELATED TO SECTION 321.—Subparagraph (B) of section 7702B(c)(2) is amended in the last sentence by inserting ''described in subparagraph (A)(i)'' after ''chronically ill individual''.

(c) AMENDMENT RELATED TO SECTION 322.—Subparagraph (B) of section 162(l)(2) is amended by adding at the end the following new sentence: ''The preceding sentence shall be applied separately with respect to—

''(i) plans which include coverage for qualified long-term care services (as defined in section 7702B(c)) or are qualified long-term care insurance contracts (as defined in section 7702B(b)), and

''(ii) plans which do not include such coverage and are not such contracts.''.

(d) AMENDMENTS RELATED TO SECTION 323.—

(1) Paragraph (1) of section 6050Q(b) is amended by inserting '', address, and phone number of the information contact'' after ''name''.

(2)(A) Paragraph (2) of section 6724(d) is amended by striking so much as follows subparagraph (Q) and precedes the last sentence, and inserting the following new subparagraphs:

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

''(S) section 6051 (relating to receipts for employees),

''(T) section 6052(b) (relating to returns regarding payment of wages in the form of group-term life insurance),

''(U) section 6053(b) or (c) (relating to reports of tips),

''(V) section 6048(b)(1)(B) (relating to foreign trust reporting requirements),

''(W) section 4093(c)(4)(B) (relating to certain purchasers of diesel and aviation fuels),

''(X) 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

''(Y) 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) Subsection (e) of section 6652 is amended in the last sentence by striking ''section 6724(d)(2)(X)'' and inserting ''section 6724(d)(2)(Y)''.

(e) AMENDMENT RELATED TO SECTION 325.—Clauses (ii) and (iii) of section 7702B(g)(4)(B) are each amended by striking ''Secretary'' and inserting ''appropriate State regulatory agency''.

(f) AMENDMENTS RELATED TO SECTION 501.—

(1) Paragraph (4) of section 264(a) is amended by striking subparagraph (A) and all that follows through ''by the taxpayer.'' and inserting the following:

''(A) is or was an officer or employee, or

''(B) is or was financially interested in,

any trade or business carried on (currently or formerly) by the taxpayer.''.

(2) The last 2 sentences of section 264(d)(2)(B)(ii) are amended to read as follows:

''For purposes of subclause (II), the term 'applicable period' means the 12-month period beginning on the date the policy is issued (and each successive 12-month period thereafter) unless the taxpayer elects a number of months (not greater than 12) other than such 12-month period to be its applicable period. Such an election shall be made not later than the 90th day after the date of the enactment of this sentence and, if made, shall apply to the taxpayer's first taxable year ending on or after October 13, 1995, and all subsequent taxable years unless revoked with the consent of the Secretary.''.

(3) Subparagraph (B) of section 264(d)(4) is amended by striking ''the employer'' and inserting ''the taxpayer''.

(4) Subsection (c) of section 501 of the Health Insurance Portability and Accountability Act of 1996 is amended by striking paragraph (3).

(5) Paragraph (2) of section 501(d) of such Act is amended by striking ''no additional premiums'' and all that follows and inserting the following: ''a lapse occurring by reason of no additional premiums being received under the contract after October 13, 1995.''.

(g) AMENDMENTS RELATED TO SECTION 511.—

(1) Subparagraph (B) of section 877(d)(2) is amended by striking ''the 10-year period described in subsection (a)'' and inserting ''the 10-year period beginning on the date the individual loses United States citizenship''.

(2) Subparagraph (D) of section 877(d)(2) is amended by adding at the end the following new sentence: ''In the case of any exchange occurring during such 5 years, any gain recognized under this subparagraph shall be recognized immediately after such loss of citizenship.''.

(3) Paragraph (3) of section 877(d) is amended by inserting ''and the period applicable under paragraph (2)'' after ''subsection (a)''.

(4) Subparagraph (A) of section 877(d)(4) is amended—

(A) by inserting ''during the 10-year period beginning on the date the individual loses United States citizenship'' after ''contributes property'' in clause (i),

(B) by inserting ''immediately before such contribution'' after ''from such property'', and

(C) by striking ''during the 10-year period referred to in subsection (a),''.

(5) Subparagraph (C) of section 2501(a)(3) is amended by striking ''decedent'' and inserting ''donor''.

(6)(A) Clause (i) of section 2107(c)(2)(A) is amended by striking ''such foreign country in respect of property included in the gross estate'' and inserting ''such foreign country''.

(B) Subparagraph (C) of section 2107(c)(2) is amended to read as follows:

''(C) PROPORTIONATE SHARE.—In the case of property which is included in the gross estate solely by reason of subsection (b), such property's proportionate share is the percentage which the value of such property bears to the total value of all property included in the gross estate solely by reason of subsection (b).''.

(h) AMENDMENTS RELATED TO SECTION 512.—

(1) Subpart A of part III of subchapter A of chapter 61 is amended by redesignating the section 6039F added by section 512 of the Health Insurance Portability and Accountability Act of 1996 as section 6039G and by moving such section 6039G to immediately after the section 6039F added by section 1905 of the Small Business Job Protection Act of 1996.

(2) The table of sections for subpart A of part III of subchapter A of chapter 61 is amended by striking the item relating to the section 6039F related to information on individuals losing United States citizenship and inserting after the item relating to the section 6039F related to notice of large gifts received from foreign persons the following new item:

''Sec. 6039G. Information on individuals losing United States citizenship.''.

(3) Paragraph (1) of section 877(e) is amended by striking ''6039F'' and inserting ''6039G''.

(i) EFFECTIVE DATE.—The amendments made by this section shall take effect as if included in the provisions of the Health Insurance Portability and Accountability Act of 1996 to which such amendments relate.

SEC. 1503. AMENDMENTS RELATED TO TAXPAYER BILL OF RIGHTS 2.

(a) AMENDMENT RELATED TO SECTION 1311.—Subsection (b) of section 4962 is amended by striking ''subchapter A or C'' and inserting ''subchapter A, C, or D''.

(b) AMENDMENTS RELATED TO SECTION 1312.—

(1)(A) Paragraph (10) of section 6033(b) is amended by striking all that precedes subparagraph (A) and inserting the following:

''(10) the respective amounts (if any) of the taxes imposed on the organization, or any organization manager of the organization, during the taxable year under any of the following provisions (and the respective amounts (if any) of reimbursements paid by the organization during the taxable year with respect to taxes imposed on any such organization manager under any of such provisions):''.

(B) Subparagraph (C) of section 6033(b)(10) is amended by adding at the end the following: ''except to the extent that, by reason of section 4962, the taxes imposed under such section are not required to be paid or are credited or refunded,''.

(2) Paragraph (11) of section 6033(b) is amended to read as follows:

''(11) the respective amounts (if any) of—

''(A) the taxes imposed with respect to the organization on any organization manager, or any disqualified person, during the taxable year under section 4958 (relating to taxes on private excess benefit from certain charitable organizations), and

''(B) reimbursements paid by the organization during the taxable year with respect to taxes imposed under such section,

except to the extent that, by reason of section 4962, the taxes imposed under such section are not required to be paid or are credited or refunded,''.

(c) EFFECTIVE DATE.—The amendments made by this section shall take effect as if included in the provisions of the Taxpayer Bill of Rights 2 to which such amendments relate.

SEC. 1504. MISCELLANEOUS PROVISIONS.

(a) AMENDMENTS RELATED TO ENERGY POLICY ACT OF 1992.—

(1) Paragraph (1) of section 263(a) is amended by striking ''or'' at the end of subparagraph (F), by striking the period at the end of subparagraph (G) and inserting ''; or'', and by adding at the end the following new subparagraph:

''(H) expenditures for which a deduction is allowed under section 179A.''.

(2) Subparagraph (B) of section 312(k)(3) is amended—

(A) by striking ''179'' in the heading and the first place it appears in the text and inserting ''179 or 179A'', and

(B) by striking ''179'' the last place it appears and inserting ''179 or 179A, as the case may be''.

(3) Paragraphs (2)(C) and (3)(C) of section 1245(a) are each amended by inserting ''179A,'' after ''179,''.

(4) The amendments made by this subsection shall take effect as if included in the amendments made by section 1913 of the Energy Policy Act of 1992.

(b) AMENDMENTS RELATED TO URUGUAY ROUND AGREEMENTS ACT.—

(1) Paragraph (1) of section 6621(a) is amended in the last sentence by striking ''subsection (c)(3))'' and inserting ''subsection (c)(3), applied by substituting 'overpayment' for 'underpayment')''.

(2) Subclause (II) of section 412(m)(5)(E)(ii) is amended by striking ''clause (i)'' and inserting ''subclause (I)''.

(3) Subparagraph (A) of section 767(d)(3) of the Uruguay Round Agreements Act is amended in the last sentence by striking ''(except that'' and all that follows through ''into account)''.

(4) The amendments made by this subsection shall take effect as if included in the sections of the Uruguay Round Agreements Act to which they relate.

(c) AMENDMENT RELATED TO OMNIBUS BUDGET RECONCILIATION ACT OF 1993.—

(1) Paragraph (6) of section 168(j) (defining Indian reservation) is amended by adding at the end the following new flush sentence:

''For purposes of the preceding sentence, such section 3(d) shall be applied by treating the term 'former Indian reservations in Oklahoma' as including only lands which are within the jurisdictional area of an Oklahoma Indian tribe (as determined by the Secretary of the Interior) and are recognized by such Secretary as eligible for trust land status under 25 CFR Part 151 (as in effect on the date of the enactment of this sentence).''.

(2) The amendment made by paragraph (1) shall apply as if included in the amendments made by section 13321 of the Omnibus Budget Reconciliation Act of 1993, except that such amendment shall not apply—

(A) with respect to property (with an applicable recovery period under section 168(j) of the Internal Revenue Code of 1986 of 6 years or less) held by the taxpayer if the taxpayer claimed the benefits of section 168(j) of such Code with respect to such property on a return filed before March 18, 1997, but only if such return is the first return of tax filed for the taxable year in which such property was placed in service, or

(B) with respect to wages for which the taxpayer claimed the benefits of section 45A of such Code for a taxable year on a return filed before March 18, 1997, but only if such return was the first return of tax filed for such taxable year.

(d) AMENDMENT RELATED TO TAX REFORM ACT OF 1986.—Paragraph (3) of section 1059(d) is amended by striking ''subsection (a)(2)'' and inserting ''subsection (a)''.

(e) AMENDMENT RELATED TO TAX REFORM ACT OF 1984.—

(1) Section 267(f) is amended by adding at the end the following new paragraph:

''(4) DETERMINATION OF RELATIONSHIP RESULTING IN DISALLOWANCE OF LOSS, FOR PURPOSES OF OTHER PROVISIONS.—For purposes of any other section of this title which refers to a relationship which would result in a disallowance of losses under this section, deferral under paragraph (2) shall be treated as disallowance.''.

(2) EFFECTIVE DATE.—The amendment made by paragraph (1) shall take effect as if included in section 174(b) of the Tax Reform Act of 1984.

(f) CLERICAL AMENDMENTS.—

(1) Clause (iii) of section 163(j)(2)(B) is amended by striking ''clause (i)'' and inserting ''clause (ii)''.

(2) Paragraph (1) of section 665(d) is amended in the last sentence by striking ''or 669(d) and (e)''.

(3) Subsection (g) of section 1441 (relating to cross reference) is amended by striking ''one-half'' and inserting ''85 percent''.

(4) Paragraph (1) of section 2523(g) is amended by striking ''qualified remainder trust'' and inserting ''qualified charitable remainder trust''.

(5) Subsection (d) of section 9502 is amended by redesignating the paragraph added by section 806 of the Federal Aviation Reauthorization Act of 1996 as paragraph (6).

The CHAIRMAN pro tempore. No other amendment is in order except the further amendment numbered 1 in the CONGRESSIONAL RECORD. That amendment may be offered only by the gentleman from New York [Mr. RANGEL] or

his designee, shall be considered as read, shall be debatable for 1 hour, equally divided and controlled by the proponent and an opponent, shall not be subject to amendment, and shall not be subject to a demand for a division of the question.

AMENDMENT IN THE NATURE OF A SUBSTITUTE OFFERED BY MR. RANGEL

Mr. RANGEL. Mr. Chairman, I offer an amendment in the nature of a substitute No. 1, pursuant to the rule.

The CHAIRMAN pro tempore. The Clerk will designate the amendment in the nature of a substitute.

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

Amendment in the nature of a substitute No. 1 offered by Mr. RANGEL:

Strike all after enacting clause, and insert the following:

SECTION 1. SHORT TITLE; AMENDMENT OF 1986 CODE.

(a) SHORT TITLE.—This Act may be cited as the ''Revenue Reconciliation Act of 1997''.

(b) AMENDMENT OF 1986 CODE.—Except as otherwise expressly provided, whenever in this Act 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.

(c) TABLE OF CONTENTS.—

Sec. 1. Short title; amendment of 1986 Code.
Sec. 2. Modifications of certain requirements.

TITLE I—TAX INCENTIVES FOR HIGHER EDUCATION

Sec. 101. Hope scholarship credits.
Sec. 102. Employer-provided educational assistance programs.

TITLE II—PUBLIC-PRIVATE EDUCATION PARTNERSHIPS

Sec. 201. Purpose.
Sec. 202. Incentives for education zones.

TITLE III—FAMILY TAX RELIEF

Sec. 301. Credit for families with young children.

TITLE IV—CAPITAL GAINS RELIEF

Subtitle A—Exemption From Tax for Gain on Sale of Principal Residence

Sec. 401. Exemption from tax for gain on sale of principal residence.
Sec. 402. Capital loss deduction allowed with respect to sale or exchange of principal residence.

Subtitle B—Lifetime Capital Gains Rate Reduction for Nontradable Property

Sec. 411. Lifetime capital gains rate reduction for nontradable property.

TITLE V—ESTATE TAX RELIEF

Sec. 501. Family-owned business exclusion.

TITLE VI—EXTENSION OF EXPIRING PROVISIONS

Sec. 601. Research credit.
Sec. 602. Orphan drug credit made permanent.
Sec. 603. Contributions of appreciated stock.
Sec. 604. Extension and modification of work opportunity credit.

TITLE VII—EMPOWERMENT ZONES, ETC.

Subtitle A—Empowerment Zones

Sec. 701. Additional empowerment zones with current law benefits.
Sec. 702. Designation of additional empowerment zones and enterprise communities.
Sec. 703. Volume cap not to apply to enterprise zone facility bonds with respect to new empowerment zones.
Sec. 704. Modifications to enterprise zone facility bond rules for all empowerment zones and enterprise communities.
Sec. 705. Modifications to enterprise zone business definition for all empowerment zones and enterprise communities.

Subtitle B—Brownfields

Sec. 711. Expensing of environmental remediation costs.
Sec. 712. Use of redevelopment bonds for environmental remediation.

Subtitle C—Welfare to Work Credit

Sec. 721. Welfare to work credit.

Subtitle D—Community Development Financial Institutions

Sec. 731. Credit for qualified equity investments in community development financial institutions.

TITLE VIII—OTHER TAX RELIEF

Sec. 801. Suspension of statute of limitations on filing refund claims during periods of disability.
Sec. 802. Modifications of Puerto Rico economic activity credit.
Sec. 803. Treatment of software as FSC export property.

TITLE IX—INCENTIVES FOR THE DISTRICT OF COLUMBIA

Sec. 901. Tax incentives for revitalization of the District of Columbia.

TITLE X—REVENUES

Subtitle A—Financial Products

Sec. 1001. Constructive sales treatment for appreciated financial positions.
Sec. 1002. Limitation on exception for investment companies under section 351.
Sec. 1003. Modification of rules for allocating interest expense to tax-exempt interest.
Sec. 1004. Gains and losses from certain terminations with respect to property.
Sec. 1005. Determination of original issue discount where pooled debt obligations subject to acceleration.
Sec. 1006. Denial of interest deductions on certain debt instruments.

Subtitle B—Corporate Organizations and Reorganizations

Sec. 1011. Tax treatment of certain extraordinary dividends.
Sec. 1012. Application of section 355 to distributions followed by acquisitions and to intragroup transactions.
Sec. 1013. Tax treatment of redemptions involving related corporations.
Sec. 1014. Modification of holding period applicable to dividends received deduction.

Subtitle C—Other Corporate Provisions

Sec. 1021. Registration and other provisions relating to confidential corporate tax shelters.
Sec. 1022. Certain preferred stock treated as boot.

Subtitle D—Administrative Provisions

Sec. 1031. Reporting of certain payments made to attorneys.
Sec. 1032. Decrease of threshold for reporting payments to corporations performing services for Federal agencies.
Sec. 1033. Disclosure of return information for administration of certain veterans programs.
Sec. 1034. Continuous levy on certain payments.
Sec. 1035. Returns of beneficiaries of estates and trusts required to file returns consistent with estate or trust return or to notify Secretary of inconsistency.

Subtitle E—Excise and Employment Tax Provisions

Sec. 1041. Extension and modification of Airport and Airway Trust Fund taxes.
Sec. 1042. Credit for tire tax in lieu of exclusion of value of tires in computing price.
Sec. 1043. Restoration of Leaking Underground Storage Tank Trust Fund taxes.
Sec. 1044. Reinstatement of Oil Spill Liability Trust Fund tax.
Sec. 1045. Extension of Federal unemployment surtax.

Subtitle F—Provisions Relating to Tax-Exempt Entities

Sec. 1051. Expansion of look-thru rule for interest, annuities, royalties, and rents derived by subsidiaries of tax-exempt organizations.

Subtitle G—Foreign-Related Provisions

Sec. 1061. Definition of foreign personal holding company income.
Sec. 1062. Personal property used predominantly in the United States treated as not property of a like kind with respect to property used predominantly outside the United States.
Sec. 1063. Holding period requirement for certain foreign taxes.
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Sec. 1065. Interest on underpayments not reduced by foreign tax credit carrybacks.

Subtitle H—Other Revenue Provisions

Sec. 1071. Termination of suspense accounts for family corporations required to use accrual method of accounting.
Sec. 1072. Allocation of basis among properties distributed by partnership.
Sec. 1073. Repeal of requirement that inventory be substantially appreciated.
Sec. 1074. Extension of time for taxing precontribution gain.
Sec. 1075. Limitation on property for which income forecast method may be used.
Sec. 1076. Repeal of special rule for rental use of vacation homes, etc., for less than 15 days.
Sec. 1077. Expansion of requirement that involuntarily converted property be replaced with property acquired from an unrelated person.
Sec. 1078. Treatment of exception from installment sales rules for sales of property by a manufacturer to a dealer.

SEC. 2. MODIFICATIONS OF CERTAIN REQUIREMENTS.

(a) MODIFICATION OF DEPOSIT OF AIRLINE TICKET TAX REVENUES.—Deposits of taxes imposed by section 4261 of the Internal Revenue Code of 1986 which (but for this subsection) would be required to be made on or after July 1, 2001, and before October 1, 2001, shall be made on October 10, 2001.

(b) MODIFICATION OF ESTIMATED TAX PROVISIONS.—Subparagraph (C) of section 6654(d)(1) of the Internal Revenue Code of 1986 shall not apply in determining the amount of any

required installment for a taxable year beginning in calendar year 2001.

TITLE I—TAX INCENTIVES FOR HIGHER EDUCATION

SEC. 101. HOPE SCHOLARSHIP CREDITS.

(a) IN GENERAL.—Subpart A of part IV of subchapter A of chapter 1 (relating to nonrefundable personal credits) is amended by inserting after section 23 the following new section:

"SEC. 24. HOPE SCHOLARSHIP CREDITS.

''(a) ALLOWANCE OF CREDIT.—In the case of an individual, there shall be allowed as a credit against the tax imposed by this chapter for the taxable year the amount equal to the sum of—

''(1) the 100-Percent Hope Scholarship Credit, and

''(2) the 20-Percent Hope Scholarship Credit.

''(b) AMOUNT OF CREDITS.—For purposes of this section—

''(1) HOPE CREDIT.—

''(A) IN GENERAL.—The 100-Percent Hope Scholarship Credit is the amount of the qualified higher education expenses paid by the taxpayer during the taxable year for education furnished to an individual during any academic period beginning in such taxable year, but only if this paragraph applies to such individual for such taxable year.

''(B) DOLLAR LIMITATION.—The amount of the 100-Percent Hope Scholarship Credit determined under this paragraph with respect to any individual shall not exceed—

''(i) $1,100 for taxable years beginning in 1997, 1998, or 1999,

''(ii) $1,200 for taxable years beginning in 2000, or

''(iii) $1,500 for taxable years beginning in 2001 or thereafter.

''(C) 100-PERCENT HOPE SCHOLARSHIP CREDIT ALLOWED FOR ONLY 2 TAXABLE YEARS.—This paragraph shall apply for a taxable year with respect to the qualified higher education expenses of an individual only if the taxpayer elects to have this section apply with respect to such individual for such year. An election under this subparagraph shall not take effect with respect to an individual for any taxable year if an election under this subparagraph (by the taxpayer or any other individual) is in effect with respect to such individual for any 2 prior taxable years.

''(D) 100-PERCENT HOPE SCHOLARSHIP CREDIT ALLOWED ONLY FOR FIRST 2 YEARS OF POSTSECONDARY EDUCATION.—This paragraph shall not apply for a taxable year with respect to the qualified higher education expenses of an individual if the individual has completed (before the beginning of such taxable year) the first 2 years of postsecondary education at an institution of higher education.

''(2) 20-PERCENT HOPE SCHOLARSHIP CREDIT.—

''(A) IN GENERAL.—The 20-Percent Hope Scholarship Credit is 20 percent of the qualified higher education expenses paid by the taxpayer during the taxable year for education furnished to an individual during any academic period beginning in such taxable year. Education expenses with respect to an individual for whom a Hope credit is determined for the taxable year shall not be taken into account under this paragraph.

''(B) DOLLAR LIMITATION.—The amount of qualified higher education expenses taken into account under subparagraph (A) for any taxable year shall not exceed—

''(i) $4,000 for taxable years beginning in 1997, 1998, or 1999,

''(ii) $5,000 for taxable years beginning in 2000,

''(iii) $7,500 for taxable years beginning in 2001, or

''(iv) $10,000 for taxable years beginning in 2002 or thereafter.

''(3) CREDIT ALLOWED FOR YEAR ONLY IF INDIVIDUAL IS AT LEAST ½ TIME STUDENT FOR PORTION OF YEAR.—No credit shall be allowed under subsection (a) for a taxable year with respect to the qualified higher education expenses of an individual unless such individual is an eligible student for at least one academic period which begins during such year.

''(c) LIMITATION BASED ON MODIFIED ADJUSTED GROSS INCOME.—

''(1) IN GENERAL.—The amount which would (but for this section) be allowed as a credit under subsection (a) for the taxable year shall be reduced (but not below zero) by the amount determined under paragraph (2).

''(2) AMOUNT OF REDUCTION.—The amount determined under this paragraph is the amount which bears the same ratio to the credit which would be so allowed as—

''(A) the excess of—

''(i) the taxpayer's modified adjusted gross income for such taxable year, over

''(ii) $50,000 ($80,000 in the case of a joint return), bears to

''(B) $20,000.

''(3) MODIFIED ADJUSTED GROSS INCOME.—The term 'modified adjusted gross income' means the adjusted gross income of the taxpayer for the taxable year increased by any amount excluded from gross income under section 911, 931, or 933.

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

''(1) QUALIFIED HIGHER EDUCATION EXPENSES.—

''(A) IN GENERAL.—The term 'qualified higher education expenses' means tuition and fees required for the enrollment or attendance of—

''(i) the taxpayer,

''(ii) the taxpayer's spouse, or

''(iii) any dependent of the taxpayer with respect to whom the taxpayer is allowed a deduction under section 151,

at an institution of higher education.

''(B) EXCEPTION FOR EDUCATION INVOLVING SPORTS, ETC.—Such term does not include expenses with respect to any course or other education involving sports, games, or hobbies, unless such course or other education is part of the individual's degree program.

''(C) EXCEPTION FOR NONACADEMIC FEES.—Such term does not include student activity fees, athletic fees, insurance expenses, or other expenses unrelated to an individual's academic course of instruction.

''(2) INSTITUTION OF HIGHER EDUCATION.—The term 'institution of higher education' means an institution—

''(A) which is described in section 481 of the Higher Education Act of 1965 (20 U.S.C. 1088), as in effect on the date of the enactment of this section, and

''(B) which is eligible to participate in a program under title IV of such Act.

''(3) ELIGIBLE STUDENT.—The term 'eligible student' means, with respect to any academic period, a student who—

''(A) meets the requirements of section 484(a)(1) of the Higher Education Act of 1965 (20 U.S.C. 1091(a)(1)), as in effect on the date of the enactment of this section, and

''(B) is carrying at least ½ the normal full-time work load for the course of study the student is pursuing.

''(e) TREATMENT OF EXPENSES PAID BY DEPENDENT.—If a deduction under section 151 with respect to an individual is allowed to another taxpayer for a taxable year beginning in the calendar year in which such individual's taxable year begins—

''(1) no credit shall be allowed under subsection (a) to such individual for such individual's taxable year, and

''(2) qualified higher education expenses paid by such individual during such individual's taxable year shall be treated for purposes of this section as paid by such other taxpayer.

''(f) TREATMENT OF CERTAIN PREPAYMENTS.—If qualified higher education expenses are paid by the taxpayer during a taxable year for an academic period which begins during the first 3 months following such taxable year, such academic period shall be treated for purposes of this section as beginning during such taxable year.

''(g) SPECIAL RULES.—

''(1) DENIAL OF CREDIT IF INDIVIDUAL CONVICTED OF DRUG OFFENSE.—No credit shall be allowed under subsection (a) with respect to the qualified higher education expenses of an individual for any taxable year if the individual has been convicted before the end of such year of a Federal or State felony offense consisting of the possession or distribution of a controlled substance.

''(2) DENIAL OF CREDIT IF INDIVIDUAL FAILS TO MAKE SATISFACTORY ACADEMIC PROGRESS.—If—

''(A) if a credit is allowable under this section with respect to the qualified higher education expenses of an individual for any taxable year, and

''(B) such individual failed to make satisfactory academic progress described in section 484(c) of the Higher Education Act of 1965 during such year,

no credit shall be allowed under subsection (a) with respect to qualified higher education expenses of such individual for a succeeding taxable year.

''(3) NO DOUBLE BENEFIT.—No credit shall be allowed under subsection (a) for any taxable year for any expense for which a deduction is allowed under any other provision of this chapter.

''(4) IDENTIFICATION REQUIREMENT.—No credit shall be allowed under subsection (a) to a taxpayer with respect to the qualified higher education expenses of an individual unless the taxpayer includes the name and taxpayer identification number of such individual on the return of tax for the taxable year.

''(5) ADJUSTMENT FOR CERTAIN SCHOLARSHIPS.—The amount of qualified higher education expenses otherwise taken into account under subsection (b) with respect to an individual for an academic period shall be reduced (before the application of any dollar limitation under this section) by the sum of—

''(A) any amounts paid for the benefit of such individual which are allocable to such period as—

''(i) a qualified scholarship which is excludable from gross income under section 117,

''(ii) an educational assistance allowance under chapter 30, 31, 32, 34, or 35 of title 38, United States Code, or under chapter 1606 of title 10, United States Code,

''(iii) a payment which is excludable from gross income under section 127, or

''(iv) a payment (other than a gift, bequest, devise, or inheritance within the meaning of section 102(a)) for such individual's educational expenses, or attributable to such individual's enrollment at an institution of higher education, which is excludable from gross income under any law of the United States, and

''(B) the amount excludable from gross income under section 135 which is allocable to such expenses with respect to such individual for such period.

''(6) NO CREDIT FOR MARRIED INDIVIDUALS FILING SEPARATE RETURNS.—If the taxpayer is a married individual (within the meaning of section 7703), this section shall apply only if the taxpayer and the taxpayer's spouse file a joint return for the taxable year.

''(7) NONRESIDENT ALIENS.—If the taxpayer is a nonresident alien individual for any portion of the taxable year, this section shall

apply only if such individual is treated as a resident alien of the United States for purposes of this chapter by reason of an election under subsection (g) or (h) of section 6013.

''(h) INFLATION ADJUSTMENTS.—

''(1) DOLLAR LIMITATION ON AMOUNT OF CREDIT.—

''(A) IN GENERAL.—In the case of a taxable year beginning after 2001, each applicable dollar amount contained in subsection (b) shall be increased by an amount equal to—

''(i) such dollar amount, multiplied by

''(ii) the cost-of-living adjustment determined under section 1(f)(3) for the calendar year in which the taxable year begins, determined by substituting 'calendar year 2000' for 'calendar year 1992' in subparagraph (B) thereof.

''(B) ROUNDING.—If any amount as adjusted under subparagraph (A) is not a multiple of $50, such amount shall be rounded to the next lowest multiple of $50.

''(2) INCOME LIMITS.—

''(A) IN GENERAL.—In the case of a taxable year beginning after 2000, the $50,000 and $80,000 amounts in subsection (c)(2) shall each be increased by an amount equal to—

''(i) such dollar amount, multiplied by

''(ii) the cost-of-living adjustment determined under section 1(f)(3) for the calendar year in which the taxable year begins, determined by substituting 'calendar year 1999' for 'calendar year 1992' in subparagraph (B) thereof.

''(B) ROUNDING.—If any amount as adjusted under subparagraph (A) is not a multiple of $5,000, such amount shall be rounded to the next lowest multiple of $5,000.

''(i) REGULATIONS.—The Secretary may prescribe such regulations as may be necessary or appropriate to carry out this section, including regulations providing for a recapture of credit allowed under this section in cases where there is a refund in a subsequent taxable year of any amount which was taken into account in determining the amount of such credit.''

(b) EXTENSION OF PROCEDURES APPLICABLE TO MATHEMATICAL OR CLERICAL ERRORS.—Paragraph (2) of section 6213(g) (relating to the definition of mathematical or clerical errors) is amended by striking ''and'' at the end of subparagraph (G), by striking the period at the end of subparagraph (H) and inserting '', and'', and by inserting after subparagraph (H) the following new subparagraph:

''(I) an omission of a correct TIN required under section 24(g)(4) (relating to higher education tuition and fees) to be included on a return.''

(c) RETURNS RELATING TO HIGHER EDUCATION EXPENSES.—

(1) IN GENERAL.—Subpart B of part III of subchapter A of chapter 61 (relating to information concerning transactions with other persons) is amended by inserting after section 6050R the following new section:

''SEC. 6050S. RETURNS RELATING TO HIGHER EDUCATION EXPENSES.

''(a) IN GENERAL.—Any person—

''(1) which is an institution of higher education which receives payments for qualified higher education expenses with respect to any individual for any calendar year, or

''(2) which is engaged in a trade or business which, in the course of such trade or business makes payments during any calendar year to any individual which constitute reimbursements or refunds (or similar amounts) of qualified higher education expenses of such individual,

shall make the return described in subsection (b) with respect to the individual at such time as the Secretary may by regulations prescribe.

''(b) FORM AND MANNER OF RETURNS.—A return is described in this subsection if such return—

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

''(2) contains—

''(A) the name, address, and TIN of the individual with respect to whom payments described in subsection (a) were received from (or were paid to),

''(B) the name, address, and TIN of any individual certified by the individual described in subparagraph (A) as the taxpayer who will claim the individual as a dependent for purposes of the deduction allowable under section 151 for any taxable year ending with or within the calendar year,

''(C) the—

''(i) aggregate amount of payments for qualified higher education expenses received with respect to the individual described in subparagraph (A) during the calendar year, and

''(ii) aggregate amount of reimbursements or refunds (or similar amounts) paid to such individual during the calendar year, and

''(D) such other information as the Secretary may prescribe.

''(c) APPLICATION TO GOVERNMENTAL UNITS.—For purposes of this section—

''(1) a governmental unit or any agency or instrumentality thereof shall be treated as a person, and

''(2) any return required under subsection (a) by such governmental entity shall be made by the officer or employee appropriately designated for the purpose of making such return.

''(d) STATEMENTS TO BE FURNISHED TO INDIVIDUALS WITH RESPECT TO WHOM INFORMATION IS REQUIRED.—Every person required to make a return under subsection (a) shall furnish to each individual whose name is required to be set forth in such return under subparagraph (A) or (B) of subsection (b)(2) a written statement showing—

''(1) the name, address, and phone number of the information contact of the person required to make such return, and

''(2) the aggregate amounts described in subparagraph (C) of subsection (b)(2).

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

''(e) DEFINITIONS.—For purposes of this section, the terms 'institution of higher education' and 'qualified higher education expenses' have the respective meanings given such terms by section 24.

''(f) RETURNS WHICH WOULD BE REQUIRED TO BE MADE BY 2 OR MORE PERSONS.—Except to the extent provided in regulations prescribed by the Secretary, in the case of any amount received by any person on behalf of another person, only the person first receiving such amount shall be required to make the return under subsection (a).

''(g) REGULATIONS.—The Secretary shall prescribe such regulations as may be necessary to carry out the provisions of this section. No penalties shall be imposed under section 6724 with respect to any return or statement required under this section until such time as such regulations are issued.''

(2) ASSESSABLE PENALTIES.—Section 6724(d) (relating to definitions) is amended—

(A) in paragraph (1)(B) by redesignating clauses (x) through (xv) as clauses (xi) through (xvi), respectively, and by inserting after clause (ix) of such paragraph the following new clause:

''(x) section 6050S (relating to returns relating to payments for qualified higher education expenses),'', and

(B) in paragraph (2) by striking ''or'' at the end of the next to last subparagraph, by striking the period at the end of the last subparagraph and inserting '', or'', and by adding at the end the following new subparagraph:

''(Z) section 6050S(d) (relating to returns relating to qualified higher education expenses).''

(3) CLERICAL AMENDMENT.—The table of sections for subpart B of part III of subchapter A of chapter 61 is amended by inserting after the item relating to section 6050R the following new item:

''Sec. 6050S. Returns relating to higher education expenses.''

(d) CONFORMING AMENDMENT.—The table of sections for subpart A of part IV of subchapter A of chapter 1 is amended by inserting after the item relating to section 23 the following new item:

''Sec. 24. Hope scholarship credits.''

(e) CREDIT ALLOWED AGAINST MINIMUM TAX.—Section 26 is amended by adding at the end the following new subsection:

''(c) SCHOLARSHIP CREDITS ALLOWED AGAINST MINIMUM TAX.—Subsection (a) shall not apply to the credit allowable under section 24, but the amount of the credit allowed by that section shall not exceed the sum of—

''(1) the regular tax liability for the taxable year reduced by the sum of the credits allowable under this subpart (other than section 24), and

''(2) the minimum tax imposed by section 55.''

(f) EFFECTIVE DATE.—The amendments made by this section shall apply to expenses paid after December 31, 1996 (in taxable years ending after such date), for education furnished in academic periods beginning after June 30, 1997.

SEC. 102. EMPLOYER-PROVIDED EDUCATIONAL ASSISTANCE PROGRAMS.

(a) PERMANENT EXTENSION.—Section 127 (relating to exclusion for educational assistance programs) is amended by striking subsection (d) and by redesignating subsection (e) as subsection (d).

(b) REPEAL OF LIMITATION ON GRADUATE EDUCATION.—The last sentence of section 127(c)(1) is amended by striking '', and such term also does not include any payment for, or the provision of any benefits with respect to, any graduate level course of a kind normally taken by an individual pursuing a program leading to a law, business, medical, or other advanced academic or professional degree''.

(c) EFFECTIVE DATES.—

(1) EXTENSION.—The amendment made by subsection (a) shall apply to taxable years beginning after December 31, 1996.

(2) GRADUATE EDUCATION.—The amendment made by subsection (b) shall apply with respect to expenses relating to courses beginning after June 30, 1997.

TITLE II—PUBLIC-PRIVATE EDUCATION PARTNERSHIPS

SEC. 201. PURPOSE.

The purpose of this title is to facilitate the establishment of working partnerships of public school educators, businesses, labor, and community groups to—

(1) enhance the academic curriculum for education and training below the postsecondary level,

(2) increase graduation and employment rates,

(3) better prepare students for the rigors of college and the increasingly complex workforce, and

(4) promote the global leadership position of the United States economy,

by providing a no-cost source of capital to eligible local education agencies for the cost of establishing specialized academies in distressed areas (referred to as ''education zones'').

SEC. 202. INCENTIVES FOR EDUCATION ZONES.

(a) IN GENERAL.—Part III of subchapter U of chapter 1 (relating to additional incentives for empowerment zones), as amended by subsection (b), is amended by inserting after subpart B the following new subpart:

"Subpart C—Incentives for Education Zones

''Sec. 1397B. Credit to holders of qualified zone academy bonds.''

"SEC. 1397B. CREDIT TO HOLDERS OF QUALIFIED ZONE ACADEMY BONDS.

''(a) ALLOWANCE OF CREDIT.—In the case of a taxpayer who holds a qualified zone academy bond on the credit allowance date of such bond which occurs during the taxable year, there shall be allowed as a credit against the tax imposed by this chapter for such taxable year the amount determined under subsection (b).

''(b) AMOUNT OF CREDIT.—

''(1) IN GENERAL.—The amount of the credit determined under this subsection with respect to any qualified zone academy bond is the amount equal to the product of—

''(A) the credit rate determined by the Secretary under paragraph (2) for the month in which such bond was issued, multiplied by

''(B) the face amount of the bond held by the taxpayer on the credit allowance date.

''(2) DETERMINATION.—During each calendar month, the Secretary shall determine a credit rate which shall apply to bonds issued during the following calendar month. The credit rate for any month is the percentage which the Secretary estimates will permit the issuance of qualified zone academy bonds without discount and without interest cost to the issuer.

''(c) LIMITATION BASED ON AMOUNT OF TAX.—The credit allowed under subsection (a) for any taxable year shall not exceed the excess of—

''(1) the sum of the regular tax liability (as defined in section 26(b)) plus the tax imposed by section 55, over

''(2) the sum of the credits allowable under part IV of subchapter A (other than subpart C thereof, relating to refundable credits).

''(d) QUALIFIED ZONE ACADEMY BOND.—For purposes of this section—

''(1) IN GENERAL.—The term 'qualified zone academy bond' means any bond issued as part of an issue if—

''(A) 95 percent or more of the proceeds of such issue are to be used for a qualified purpose with respect to a qualified zone academy established by an eligible local education agency,

''(B) the bond is issued by a State or local government within the jurisdiction of which such academy is located,

''(C) the issuer—

''(i) designates such bond for purposes of this section,

''(ii) certifies that it has written assurances that the private business contribution requirement of paragraph (2) will be met with respect to such academy, and

''(iii) certifies that it has the written approval of the eligible local education agency for such bond issuance, and

''(D) the term of each bond which is part of such issue does not exceed the maximum term permitted under paragraph (3).

''(2) PRIVATE BUSINESS CONTRIBUTION REQUIREMENT.—

''(A) IN GENERAL.—For purposes of paragraph (1), the private business contribution requirement of this paragraph is met with respect to any issue if the eligible local education agency that established the qualified zone academy has written commitments from private entities to make qualified contributions having a present value (as of the date of issuance of the issue) of not less than 10 percent of the proceeds of the issue.

''(B) QUALIFIED CONTRIBUTIONS.—For purposes of subparagraph (A), the term 'qualified contribution' means any contribution (of a type and quality acceptable to the eligible local education agency) of—

''(i) equipment for use in the qualified zone academy (including state-of-the-art technology and vocational equipment),

''(ii) technical assistance in developing curriculum or in training teachers in order to promote appropriate market driven technology in the classroom,

''(iii) services of employees as volunteer mentors,

''(iv) internships, field trips, or other educational opportunities outside the academy for students, or

''(v) any other property or service specified by the eligible local education agency.

''(3) TERM REQUIREMENT.—During each calendar month, the Secretary shall determine the maximum term permitted under this paragraph for bonds issued during the following calendar month. Such maximum term shall be the term which the Secretary estimates will result in the present value of the obligation to repay the principal on the bond being equal to 50 percent of the face amount of the bond. Such present value shall be determined using as a discount rate the average annual interest rate of tax-exempt obligations having a term of 10 years or more which are issued during the month. If the term as so determined is not a multiple of a whole year, such term shall be rounded to the next highest whole year.

''(4) QUALIFIED ZONE ACADEMY.—

''(A) IN GENERAL.—The term 'qualified zone academy' means any public school (or academic program within a public school) which is established by and operated under the supervision of an eligible local education agency to provide education or training below the postsecondary level if—

''(i) such public school or program (as the case may be) is designed in cooperation with business to enhance the academic curriculum, increase graduation and employment rates, and better prepare students for the rigors of college and the increasingly complex workforce,

''(ii) students in such public school or program (as the case may be) will be subject to the same academic standards and assessments as other students educated by the eligible local education agency,

''(iii) the comprehensive education plan of such public school or program is approved by the eligible local education agency, and

''(iv)(I) such public school is located in an empowerment zone or enterprise community (including any such zone or community designated after the date of the enactment of this section), or

''(II) there is a reasonable expectation (as of the date of issuance of the bonds) that at least 35 percent of the students attending such school or participating in such program (as the case may be) will be eligible for free or reduced-cost lunches under the school lunch program established under the National School Lunch Act.

''(B) ELIGIBLE LOCAL EDUCATION AGENCY.—The term 'eligible local education agency' means any local education agency as defined in section 14101 of the Elementary and Secondary Education Act of 1965.

''(5) QUALIFIED PURPOSE.—The term 'qualified purpose' means, with respect to any qualified zone academy—

''(A) constructing or renovating the public school facility in which the academy is established,

''(B) providing equipment for use at such academy,

''(C) developing course materials for education to be provided at such academy, and

''(D) training teachers and other school personnel in such academy.

''(e) LIMITATION ON AMOUNT OF BONDS DESIGNATED.—

''(1) NATIONAL LIMITATION.—There is a national zone academy bond limitation for each calendar year. Such limitation is $10,000,000,000 for 1998, 1999, 2000, 2001, and 2002, and zero thereafter.

''(2) ALLOCATION OF LIMITATION.—The national zone academy bond limitation for a calendar year shall be allocated by the Secretary among the States on the basis of their respective populations of individuals below the poverty line (as defined by the Office of Management and Budget). The limitation amount allocated to a State under the preceding sentence shall be allocated by the State education agency to qualified zone academies within such State.

''(3) DESIGNATION SUBJECT TO LIMITATION AMOUNT.—The maximum aggregate face amount of bonds issued during any calendar year which may be designated under subsection (d)(1) with respect to any qualified zone academy shall not exceed the limitation amount allocated to such academy under paragraph (2) for such calendar year.

''(4) CARRYOVER OF USED LIMITATION.—If for any calendar year—

''(A) the limitation amount for any State, exceeds

''(B) the amount of bonds issued during such year which are designated under subsection (d)(1) with respect to qualified zone academies within such State,

the limitation amount for such State for the following calendar year shall be increased by the amount of such excess.

''(f) OTHER DEFINITIONS.—For purposes of this section—

''(1) CREDIT ALLOWANCE DATE.—The term 'credit allowance date' means, with respect to any issue, the last day of the 1-year period beginning on the date of issuance of such issue and the last day of each successive 1-year period thereafter.

''(2) BOND.—The term 'bond' includes any obligation.

''(3) STATE.—The term 'State' includes the District of Columbia and any possession of the United States.

''(g) CREDIT INCLUDED IN GROSS INCOME.—Gross income includes the amount of the credit allowed to the taxpayer under this section.''

(b) CONFORMING AMENDMENTS.—

(1) Subchapter U of chapter 1 (as in effect before the amendment made by subsection (a)) is amended by redesignating subpart C as subpart D, and by redesignating sections 1397B, 1397C, and 1397D as sections 1397D, 1397E, and 1397F, respectively.

(2) Subsection (b) of section 1394 is amended—

(A) by striking ''section 1397C'' in paragraph (2) and inserting ''section 1397E'', and

(B) by striking ''section 1397B'' in paragraph (3) and inserting ''section 1397D''.

(3) The table of subparts for part III of subchapter U of chapter 1 is amended by striking the last item and inserting the following:

''Subpart C. Incentives for education zones.

''Subpart D. General provisions.''

(4) The table of sections for subpart D of such part III, as so redesignated, is amended to read as follows:

''Sec. 1397D. Enterprise zone business defined.

''Sec. 1397E. Qualified zone property defined.''

(5) The table of sections for part IV of subchapter U of chapter 1 is amended to read as follows:

''Sec. 1397F. Regulations.''

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

TITLE III—FAMILY TAX RELIEF

SEC. 301. CREDIT FOR FAMILIES WITH YOUNG CHILDREN.

(a) IN GENERAL.—Subpart C of part IV of subchapter A of chapter 1 (relating to refundable credits) is amended by inserting after section 34 the following new section:

"SEC. 34A. FAMILIES WITH YOUNG CHILDREN.

''(a) ALLOWANCE OF CREDIT.—

''(1) IN GENERAL.—In the case of an individual, there shall be allowed as a credit against the tax imposed by this subtitle for the taxable year an amount equal to $500 multiplied by the number of eligible children of the taxpayer for the taxable year.

''(2) PHASE-IN OF CREDIT.—In the case of taxable years beginning before January 1, 2001, paragraph (1) shall be applied by substituting '$300' for '$500'.

''(b) PHASEOUT OF CREDIT.—

''(1) IN GENERAL.—The amount of the credit allowed under subsection (a) shall be reduced (but not below zero) by the amount determined under paragraph (2).

''(2) AMOUNT OF REDUCTION.—The amount determined under this paragraph equals the amount which bears the same ratio to the credit (determined without regard to this subsection) as—

''(A) the excess of—

''(i) the taxpayer's adjusted gross income for such taxable year, over

''(ii) $60,000, bears to

''(B) $15,000.

Any amount determined under this paragraph which is not a multiple of $10 shall be rounded to the next lowest $10.

''(3) ADJUSTED GROSS INCOME.—For purposes of this subsection, adjusted gross income of any taxpayer shall be increased by any amount excluded from gross income under section 911, 931, or 933.

''(c) ELIGIBLE CHILD.—For purposes of this section, the term 'eligible child' means any child (as defined in section 151(c)(3)) of the taxpayer—

''(1) who has not attained age 18 as of the close of the calendar year in which the taxable year of the taxpayer begins,

''(2) who is a dependent of the taxpayer with respect to whom the taxpayer is allowed a deduction under section 151 for such taxable year, and

''(3) whose TIN is included on the taxpayer's return for such taxable year.

''(d) LIMITATION BASED ON AMOUNT OF TAX.—

''(1) IN GENERAL.—The credit allowed by subsection (a) for the taxable year shall not exceed the sum of—

''(A) the tax imposed by this chapter for the taxable year (reduced by the sum of the other credits allowable under this part against such tax other than under this subpart, relating to refundable credits), and

''(B) the taxpayer's social security taxes for such taxable year.

''(2) SOCIAL SECURITY TAXES.—For purposes of paragraph (1)—

''(A) IN GENERAL.—The term 'social security taxes' means, with respect to any taxpayer for any taxable year—

''(i) the amount of the taxes imposed by sections 3101 and 3201(a) on amounts received by the taxpayer during the calendar year in which the taxable year begins,

''(ii) ½ of the amount of the taxes imposed by section 1401 on the self-employment income of the taxpayer for the taxable year, and

''(iii) ½ of the amount of the taxes imposed by section 3211(a)(1) on amounts received by the taxpayer during the calendar year in which the taxable year begins.

''(B) COORDINATION WITH SPECIAL REFUND OF SOCIAL SECURITY TAXES.—The term 'social security taxes' shall not include any taxes to the extent the taxpayer is entitled to a special refund of such taxes under section 6413(c).

''(C) SPECIAL RULE.—Any amounts paid pursuant to an agreement under section 3121(l) (relating to agreements entered into by American employers with respect to foreign affiliates) which are equivalent to the taxes referred to in subparagraph (A)(i) shall be treated as taxes referred to in such subparagraph.

''(e) INFLATION ADJUSTMENTS.—In the case of a taxable year beginning in a calendar year after 2000—

''(1) IN GENERAL.—The $500 and $60,000 amounts contained in subsections (a)(1) and (b)(2) shall each be increased by an amount equal to—

''(A) such dollar amount, multiplied by

''(B) the cost-of-living adjustment determined under section 1(f)(3) for the calendar year in which the taxable year begins, determined by substituting 'calendar year 1999' for 'calendar year 1992' in subparagraph (B) thereof.

''(2) INCREASE IN PHASEOUT RANGE.—If the dollar amount in effect under subsection (a)(1) for any taxable year exceeds $500, subsection (b)(2)(B) shall be applied by substituting an amount equal to 30 times such dollar amount for '$15,000'.

''(3) ROUNDING.—If any amount as adjusted under paragraph (1) is not a multiple of $100, such amount shall be rounded to the next lowest multiple of $100.

''(f) SPECIAL RULES.—

''(1) AMOUNT OF CREDIT MAY BE DETERMINED UNDER TABLES.—The amount of the credit allowed by this section may be determined under tables prescribed by the Secretary.

''(2) CERTAIN OTHER RULES APPLY.—Rules similar to the rules of subsections (c)(1)(E) and (F), (d), and (e) of section 32 shall apply for purposes of this section.''

(b) CLERICAL AMENDMENT.—The table of sections for subpart C of part IV of subchapter A of chapter 1 is amended by inserting after the item relating to section 34 the following new item:

''Sec. 34A. Families with young children.''

(c) CONFORMING AMENDMENT.—Paragraph (2) of section 1324(b) of title 31, United States Code, is amended by inserting before the period '', or from section 34A of such Code''.

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

TITLE IV—CAPITAL GAINS RELIEF

Subtitle A—Exemption From Tax for Gain on Sale of Principal Residence

SEC. 401. EXEMPTION FROM TAX FOR GAIN ON SALE OF PRINCIPAL RESIDENCE.

(a) IN GENERAL.—Section 121 (relating to one-time exclusion of gain from sale of principal residence by individual who has attained age 55) is amended to read as follows:

"SEC. 121. EXCLUSION OF GAIN FROM SALE OF PRINCIPAL RESIDENCE.

''(a) EXCLUSION.—Gross income shall not include gain from the sale or exchange of property if, during the 5-year period ending on the date of the sale or exchange, such property has been owned and used by the taxpayer as the taxpayer's principal residence for periods aggregating 2 years or more.

''(b) LIMITATIONS.—

''(1) DOLLAR LIMITATION.—The amount of gain excluded from gross income under subsection (a) with respect to any sale or exchange shall not exceed $250,000 ($500,000 in the case of a joint return where both spouses meet the use requirement of subsection (a)).

''(2) APPLICATION TO ONLY 1 SALE OR EXCHANGE EVERY 2 YEARS.—

''(A) IN GENERAL.—Subsection (a) shall not apply to any sale or exchange by the taxpayer if, during the 2-year period ending on the date of such sale or exchange, there was any other sale or exchange by the taxpayer to which subsection (a) applied.

''(B) PRIOR SALES BY SPOUSE NOT TAKEN INTO ACCOUNT.—If, but for this subparagraph, subsection (a) would not apply to a sale or exchange by a married individual filing a joint return solely by reason of a prior sale or exchange by such individual's spouse—

''(i) subparagraph (A) shall be applied without regard to the sale or exchange by such individual's spouse or any ownership or use by such spouse, but

''(ii) the amount of gain excluded from gross income under subsection (a) with respect to the sale or exchange by such individual shall not exceed $250,000.

''(C) PRE-EFFECTIVE DATE SALES NOT TAKEN INTO ACCOUNT.—Subparagraph (A) shall be applied without regard to any sale or exchange before May 7, 1997.

''(c) EXCLUSION FOR TAXPAYERS FAILING TO MEET CERTAIN REQUIREMENTS.—

''(1) IN GENERAL.—In the case of a sale or exchange to which this subsection applies, the ownership and use requirements of subsection (a) shall not apply and subsection (b)(2) shall not apply; but the amount of gain excluded from gross income under subsection (a) with respect to such sale of exchange shall not exceed—

''(A) the amount which bears the same ratio to the amount which would be so excluded if such requirements had been met, as

''(B) the shorter of—

''(i) the aggregate periods, during the 5-year period ending on the date of such sale or exchange, such property has been owned and used by the taxpayer as the taxpayer's principal residence, or

''(ii) the period after the date of the most recent prior sale or exchange by the taxpayer or his spouse to which subsection (a) applied and before the date of such sale or exchange,

bears to 2 years.

''(2) SALES AND EXCHANGES TO WHICH SUBSECTION APPLIES.—This subsection shall apply to any sale or exchange if—

''(A) subsection (a) would not (but for this subsection) apply to such sale or exchange by reason of—

''(i) a failure to meet the ownership and use requirements of subsection (a), or

''(ii) subsection (b)(2), and

''(B) such sale or exchange is by reason of a change in place of employment, health, or other unforeseen circumstances.

''(d) SPECIAL RULES.—

''(1) JOINT RETURNS.—For purposes of this section, if a husband and wife make a joint return for the taxable year of the sale or exchange of property, both spouses shall be treated as meeting the ownership requirement of subsection (a) with respect to such property if either spouse meets such requirement.

''(2) PROPERTY OF DECEASED SPOUSE.—For purposes of this section, in the case of an unmarried individual whose spouse is deceased on the date of the sale or exchange of property, the period such unmarried individual owned such property shall include the period such deceased spouse held such property before death.

''(3) TENANT-STOCKHOLDER IN COOPERATIVE HOUSING CORPORATION.—For purposes of this section, if the taxpayer holds stock as a tenant-stockholder (as defined in section 216) in a cooperative housing corporation (as defined in such section), then—

''(A) the holding requirements of subsection (a) shall be applied to the holding of such stock, and

''(B) the use requirements of subsection (a) shall be applied to the house or apartment which the taxpayer was entitled to occupy as such stockholder.

''(4) INVOLUNTARY CONVERSIONS.—

''(A) IN GENERAL.—For purposes of this section, the destruction, theft, seizure, requisition, or condemnation of property shall be treated as the sale of such property.

''(B) APPLICATION OF SECTION 1033.—In applying section 1033 (relating to involuntary conversions), the amount realized from the sale or exchange of property shall be treated as being the amount determined without regard to this section, reduced by the amount of gain not included in gross income pursuant to this section.

''(C) PROPERTY ACQUIRED AFTER INVOLUNTARY CONVERSION.—If the basis of the property sold or exchanged is determined (in whole or in part) under section 1033(b) (relating to basis of property acquired through involuntary conversion), then the holding and use by the taxpayer of the converted property shall be treated for purposes of this section as holding and use by the taxpayer of the property sold or exchanged.

''(5) RECOGNITION OF GAIN ATTRIBUTABLE TO DEPRECIATION.—Subsection (a) shall not apply to so much of the gain from the sale of any property as does not exceed the portion of the depreciation adjustments (as defined in section 1250(b)(3)) attributable to periods after December 31, 1996, in respect of such property.

''(6) DETERMINATION OF USE DURING PERIODS OF OUT-OF-RESIDENCE CARE.—In the case of a taxpayer who—

''(A) becomes physically or mentally incapable of self-care, and

''(B) owns property and uses such property as the taxpayer's principal residence during the 5-year period described in subsection (a) for periods aggregating at least 1 year,

then the taxpayer shall be treated as using such property as the taxpayer's principal residence during any time during such 5-year period in which the taxpayer owns the property and resides in any facility (including a nursing home) licensed by a State or political subdivision to care for an individual in the taxpayer's condition.

''(7) DETERMINATION OF MARITAL STATUS.—In the case of any sale or exchange, for purposes of this section—

''(A) the determination of whether an individual is married shall be made as of the date of the sale or exchange, and

''(B) an individual legally separated from his spouse under a decree of divorce or of separate maintenance shall not be considered as married.

''(e) ELECTION TO HAVE SECTION NOT APPLY.—This section shall not apply to any sale or exchange with respect to which the taxpayer elects not to have this section apply.

''(f) RESIDENCES ACQUIRED IN ROLLOVERS UNDER SECTION 1034.—For purposes of this section, in the case of property the acquisition of which by the taxpayer resulted under section 1034 (as in effect on the day before the date of the enactment of this sentence) in the nonrecognition of any part of the gain realized on the sale or exchange of another residence, in determining the period for which the taxpayer has owned and used such property as the taxpayer's principal residence, there shall be included the aggregate periods for which such other residence (and each prior residence taken into account under section 1223(7) in determining the holding period of such property) had been so owned and used.''

(b) REPEAL OF NONRECOGNITION OF GAIN ON ROLLOVER OF PRINCIPAL RESIDENCE.—Section 1034 (relating to rollover of gain on sale of principal residence) is hereby repealed.

(c) CONFORMING AMENDMENTS.—

(1) The following provisions of the Internal Revenue Code of 1986 are each amended by striking ''section 1034'' and inserting ''section 121'': sections 25(e)(7), 56(e)(1)(A), 56(e)(3)(B)(i), 143(i)(1)(C)(i)(I), 163(h)(4)(A)(i)(I), 280A(d)(4)(A), 464(f)(3)(B)(i), 1033(k)(3), 1274(c)(3)(B), 6334(a)(13), and 7872(f)(11)(A).

(2) Paragraph (4) of section 32(c) is amended by striking ''(as defined in section 1034(h)(3))'' and by adding at the end the following new sentence: ''For purposes of the preceding sentence, the term 'extended active duty' means any period of active duty pursuant to a call or order to such duty for a period in excess of 90 days or for an indefinite period.''

(3) Subparagraph (A) of 143(m)(6) is amended by inserting ''(as in effect on the day before the date of the enactment of the Revenue Reconciliation Act of 1997)'' after ''1034(e)''.

(4) Subsection (e) of section 216 is amended by striking ''such exchange qualifies for nonrecognition of gain under section 1034(f)'' and inserting ''such dwelling unit is used as his principal residence (within the meaning of section 121)''.

(5) Section 512(a)(3)(D) is amended by inserting ''(as in effect on the day before the date of the enactment of the Revenue Reconciliation Act of 1997)'' after ''1034''.

(6) Paragraph (7) of section 1016(a) is amended by inserting ''(as in effect on the day before the date of the enactment of the Revenue Reconciliation Act of 1997)'' after ''1034'' and by inserting ''(as so in effect)'' after ''1034(e)''.

(7) Paragraph (3) of section 1033(k) is amended to read as follows:

''(3) For exclusion from gross income of gain from involuntary conversion of principal residence, see section 121.''

(8) Subsection (e) of section 1038 is amended to read as follows:

''(e) PRINCIPAL RESIDENCES.—If—

''(1) subsection (a) applies to a reacquisition of real property with respect to the sale of which gain was not recognized under section 121 (relating to gain on sale of principal residence), and

''(2) within 1 year after the date of the reacquisition of such property by the seller, such property is resold by him,

then, under regulations prescribed by the Secretary, subsections (b), (c), and (d) of this section shall not apply to the reacquisition of such property and, for purposes of applying section 121, the resale of such property shall be treated as a part of the transaction constituting the original sale of such property.''

(9) Paragraph (7) of section 1223 is amended by inserting ''(as in effect on the day before the date of the enactment of the Revenue Reconciliation Act of 1997)'' after ''1034''.

(10) Section 1250(d)(7) is amended to read as follows:

''(7) PRINCIPAL RESIDENCE.—Subsection (a) shall not apply to a disposition to the extent that gain from the disposition is excluded from gross income under section 121.''

(11) Paragraph (2) of section 6212(c) is amended by striking subparagraph (C) and by redesignating the succeeding subparagraphs accordingly.

(12) Section 6504 is amended by striking paragraph (4) and by redesignating the succeeding paragraphs accordingly.

(13) The item relating to section 121 in the table of sections for part III of subchapter B of chapter 1 is amended to read as follows:

''Sec. 121. Exclusion of gain from sale of principal residence.''

(14) The table of sections for part III of subchapter O of chapter 1 is amended by striking the item relating to section 1034.

(d) EFFECTIVE DATE.—

(1) IN GENERAL.—The amendments made by this section shall apply to sales and exchanges on or after May 7, 1997.

(2) TRANSITIONAL RULE.—At the election of the taxpayer, the amendments made by this section shall not apply to—

(A) a sale or exchange on or before the date of the enactment of this Act, or

(B) a sale or exchange after such date of enactment, if—

(i) such sale or exchange is pursuant to a contract which was binding on such date, and at all times thereafter before such sale or exchange, or

(ii) without regard to such amendments, gain would not be recognized under section 1034 of the Internal Revenue Code of 1986 (as in effect on the day before the date of the enactment of this Act) on such sale or exchange by reason of a new residence acquired on or before such date.

SEC. 402. CAPITAL LOSS DEDUCTION ALLOWED WITH RESPECT TO SALE OR EXCHANGE OF PRINCIPAL RESIDENCE.

(a) IN GENERAL.—Subsection (c) of section 165 (relating to limitation on losses of individuals) is amended by striking ''and'' at the end of paragraph (2), by striking the period at the end of paragraph (3) and inserting ''; and'', and by adding at the end the following new paragraph:

''(4) losses (not in excess of $250,000) arising from the sale or exchange of the principal residence (within the meaning of section 121) of the taxpayer.''

(b) EFFECTIVE DATE.—The amendment made by subsection (a) shall apply to sales and exchanges on or after May 7, 1997, in taxable years ending after such date.

Subtitle B—Lifetime Capital Gains Rate Reduction for Nontradable Property

SEC. 411. LIFETIME CAPITAL GAINS RATE REDUCTION FOR NONTRADABLE PROPERTY.

(a) IN GENERAL.—Subsection (h) of section 1 (relating to maximum capital gains rate) is amended to read as follows:

''(h) MAXIMUM CAPITAL GAINS RATE.—If a taxpayer has a net capital gain for any taxable year, the tax imposed by this section for such taxable year shall not exceed the sum of—

''(1) a tax computed at the rates and in the manner as if this subsection had not been enacted on the greater of—

''(A) taxable income reduced by the amount of the net capital gain, or

''(B) the amount of taxable income taxed at a rate below 18 percent, plus

''(2) the sum of—

''(A) 18 percent of the lifetime qualified net capital gain (or if lesser, the amount of taxable income in excess of the amount taxed under paragraph (1)), plus

''(B) 28 percent of the excess of the net capital gain (or if lesser, the amount of taxable income in excess of the amount taxed under paragraph (1)) over the lifetime qualified net capital gain for the taxable year.

For purposes of the preceding sentence, the net capital gain for any taxable year shall be reduced (but not below zero) by the amount which the taxpayer elects to take into account as investment income for the taxable year under section 163(d)(4)(B)(iii). In the case of a taxpayer only subject to tax under this section at the 15 percent rate, the amount of the tax under paragraph (1)(B) on net capital gain shall be determined at a rate of 7.5 percent.''

(b) DEFINITION.—Section 1 is amended by adding at the end thereof the following new subsection:

''(i) LIFETIME QUALIFIED NET CAPITAL GAIN

''(1) IN GENERAL.—For purposes of subsection (h), the lifetime qualified net capital gain is the qualified net gain for the taxable year.

''(2) LIMITATION.—

''(A) IN GENERAL.—The amount of the qualified net gain taken into account under paragraph (1) for any taxable year shall not exceed $600,000 reduced by the aggregate amount of the qualified net gain taken into account under this subsection by the taxpayer for prior taxable years.

''(B) SPECIAL RULE FOR JOINT RETURNS.—The amount of the qualified net gain taken into account under this subsection on a joint return for any taxable year shall be allocated equally between the spouses for purposes of determining the limitation under subparagraph (A) for any succeeding taxable year.

''(3) QUALIFIED NET GAIN.—For purposes of paragraph (1), the term 'qualified net gain' means the lesser of—

''(A) the net capital gain for the taxable year, or

''(B) the net capital gain for the taxable year determined by only taking into account gains and losses from sales and exchanges on or after May 7, 1997, of qualified assets.

A taxpayer may elect for any taxable year not to take into account under this subsection all (or any portion) of the qualified net gain for such taxable year. Such an election, once made, shall be irrevocable.

''(4) QUALIFIED ASSETS.—For purposes of this subsection, the term 'qualified assets' means any property held for more than 3 years other than—

''(A) stock or securities for which there is a market on an established securities market or otherwise, and

''(B) property (other than stock or securities) of a kind regularly traded on an established market.

Such term shall not include any qualified small business stock (as defined in section 1202) nor the principal residence of the taxpayer.

''(5) SUBSECTION NOT TO APPLY TO CERTAIN INDIVIDUALS.—This subsection shall not apply to any individual who has not attained age 25 before the close of the taxable year.

''(6) SUBSECTION NOT TO APPLY TO CERTAIN TAXPAYERS.—This subsection shall not apply to—

''(A) a married individual (within the meaning of section 7703) filing a separate return for the taxable year, or

''(B) an estate or trust.

''(7) SPECIAL RULES.—

''(A) TREATMENT OF CERTAIN SALES OF INTERESTS IN PARTNERSHIPS, ETC.—For purposes of this subsection, any gain from the sale or exchange of a qualified asset which is an interest in a partnership, S corporation, or trust shall not be treated as gain from the sale or exchange of a qualified asset to the extent such gain is attributable to unrealized appreciation in the value of property described in subparagraph (A) or (B) of paragraph (4) which is held by such entity. Rules similar to the rules of section 751(f) shall apply for purposes of the preceding sentence.

''(B) SPECIAL RULE FOR PASS-THRU ENTITIES.—

''(i) IN GENERAL.—In applying this subsection with respect to any pass-thru entity—

''(I) the determination of when the sale or exchange occurs shall be made at the entity level, and

''(II) any gain attributable to such entity shall in no event be treated as gain from sale or exchange of a qualified asset if interests in such entity are described in subparagraph (A) or (B) of paragraph (4).

''(ii) PASS-THRU ENTITY DEFINED.—For purposes of clause (i), the term 'pass-thru-entity' means—

''(I) a regulated investment company,

''(II) a real estate investment trust,

''(III) an S corporation,

''(IV) a partnership,

''(V) an estate or trust, and

''(VI) a common trust fund.''

(c) TREATMENT OF COLLECTIBLES.—

(1) IN GENERAL.—Section 1222 is amended by inserting after paragraph (11) the following new paragraph:

''(12) SPECIAL RULE FOR COLLECTIBLES.—

''(A) IN GENERAL.—Any gain or loss from the sale or exchange of a collectible shall be treated as a short-term capital gain or loss (as the case may be), without regard to the period such asset was held. The preceding sentence shall apply only to the extent the gain or loss is taken into account in computing taxable income.

''(B) TREATMENT OF CERTAIN SALES OF INTERESTS IN PARTNERSHIPS, ETC.—For purposes of subparagraph (A), any gain from the sale or exchange of an interest in a partnership, S corporation, or trust which is attributable to unrealized appreciation in the value of collectibles held by such entity shall be treated as gain from the sale or exchange of a collectible. Rules similar to the rules of section 751(f) shall apply for purposes of the preceding sentence.

''(C) COLLECTIBLE.—For purposes of this paragraph, the term 'collectible' means any capital asset which is a collectible (as defined in section 408(m) without regard to paragraph (3) thereof).''

(2) CHARITABLE DEDUCTION NOT AFFECTED.—

(A) Paragraph (1) of section 170(e) is amended by adding at the end thereof the following new sentence: ''For purposes of this paragraph, section 1222 shall be applied without regard to paragraph (12) thereof (relating to special rule for collectibles).''

(B) Clause (iv) of section 170(b)(1)(C) is amended by inserting before the period at the end thereof the following: ''and section 1222 shall be applied without regard to paragraph (12) thereof (relating to special rule for collectibles)''.

(d) MINIMUM TAX TREATMENT.—Clause (i) of section 55(b)(1)(A) is amended to read as follows:

''(i) IN GENERAL.—In the case of a taxpayer other than a corporation, the tentative minimum tax for the taxable year is the sum of—

''(I) 18 percent of so much of the taxable excess as does not exceed the lifetime qualified net capital gain for the taxable year,

''(II) 26 percent of so much of the ordinary taxable excess as does not exceed $175,000, plus

''(III) 28 percent of so much of the ordinary taxable excess as exceeds $175,000.

For purposes of the preceding sentence, the term 'ordinary taxable excess' means the taxable excess reduced by the lifetime qualified net capital gain. The amount determined under this clause shall be reduced by the alternative minimum tax foreign tax credit for the taxable year.''

(e) EFFECTIVE DATE.—Except as provided in paragraph (2), the amendments made by this section shall apply to taxable years ending on or after May 7, 1997.

TITLE V—ESTATE TAX RELIEF

SEC. 501. FAMILY-OWNED BUSINESS EXCLUSION.

(a) IN GENERAL.—Part III of subchapter A of chapter 11 (relating to gross estate) is amended by inserting after section 2033 the following new section:

''SEC. 2033A. FAMILY-OWNED BUSINESS EXCLUSION.

''(a) IN GENERAL.—In the case of an estate of a decedent to which this section applies, the value of the gross estate shall not include the lesser of—

''(1) the adjusted value of the qualified family-owned business interests of the decedent otherwise includible in the estate, or

''(2) $400,000, increased by the amount (if any) of the limitation under this paragraph not claimed by the estate of a previously deceased spouse of the decedent.

''(b) ESTATES TO WHICH SECTION APPLIES.—

''(1) IN GENERAL.—This section shall apply to an estate if—

''(A) the decedent was (at the date of the decedent's death) a citizen or resident of the United States,

''(B) the sum of—

''(i) the adjusted value of the qualified family-owned business interests described in paragraph (2), plus

''(ii) the amount of the gifts of such interests determined under paragraph (3),

exceeds 50 percent of the adjusted gross estate, and

''(C) during the 8-year period ending on the date of the decedent's death there have been periods aggregating 5 years or more during which—

''(i) such interests were owned by the decedent or a member of the decedent's family, and

''(ii) there was material participation (within the meaning of section 2032A(e)(6)) by the decedent or a member of the decedent's family in the operation of the business to which such interests relate.

''(2) INCLUDIBLE QUALIFIED FAMILY-OWNED BUSINESS INTERESTS.—The qualified family-owned business interests described in this paragraph are the interests which—

''(A) are included in determining the value of the gross estate (without regard to this section), and

''(B) are acquired by any qualified heir from, or passed to any qualified heir from, the decedent (within the meaning of section 2032A(e)(9)).

''(3) INCLUDIBLE GIFTS OF INTERESTS.—The amount of the gifts of qualified family-owned business interests determined under this paragraph is the excess of—

''(A) the sum of—

''(i) the amount of such gifts from the decedent to members of the decedent's family taken into account under subsection 2001(b)(1)(B), plus

''(ii) the amount of such gifts otherwise excluded under section 2503(b),

to the extent such interests are continuously held by members of such family (other than the decedent's spouse) between the date of the gift and the date of the decedent's death, over

''(B) the amount of such gifts from the decedent to members of the decedent's family otherwise included in the gross estate.

''(c) ADJUSTED GROSS ESTATE.—For purposes of this section, the term 'adjusted gross estate' means the value of the gross estate (determined without regard to this section)—

''(1) reduced by any amount deductible under paragraph (3) or (4) of section 2053(a), and

''(2) increased by the excess of—

''(A) the sum of—

''(i) the amount of gifts determined under subsection (b)(3),

''(ii) the amount (if more than de minimis) of other transfers from the decedent to the decedent's spouse (at the time of the transfer) within 10 years of the date of the decedent's death, plus

''(iii) the amount of other gifts (not included under clause (i) or (ii)) from the decedent within 3 years of such date, other than gifts to members of the decedent's family otherwise excluded under section 2503(b), over

''(B) the sum of the amounts described in clauses (i), (ii), and (iii) of subparagraph (A) which are otherwise includible in the gross estate.

For purposes of the preceding sentence, the Secretary may provide that de minimis gifts to persons other than members of the decedent's family shall not be taken into account.

''(d) ADJUSTED VALUE OF THE QUALIFIED FAMILY-OWNED BUSINESS INTERESTS.—For purposes of this section, the adjusted value of any qualified family-owned business interest is the value of such interest for purposes of this chapter (determined without regard to this section), reduced by the excess of—

''(1) any amount deductible under paragraph (3) or (4) of section 2053(a), over

''(2) the sum of—

''(A) any indebtedness on any qualified residence of the decedent the interest on which is deductible under section 163(h)(3),

''(B) any indebtedness to the extent the taxpayer establishes that the proceeds of such indebtedness were used for the payment of educational and medical expenses of the decedent, the decedent's spouse, or the decedent's dependents (within the meaning of section 152), plus

''(C) any indebtedness not described in clause (i) or (ii), to the extent such indebtedness does not exceed $10,000.

''(e) QUALIFIED FAMILY-OWNED BUSINESS INTEREST.—

''(1) IN GENERAL.—For purposes of this section, the term 'qualified family-owned business interest' means—

''(A) an interest as a proprietor in a trade or business carried on as a proprietorship, or

''(B) an interest in an entity carrying on a trade or business, if—

''(i) at least—

''(I) 50 percent of such entity is owned (directly or indirectly) by the decedent and members of the decedent's family,

''(II) 70 percent of such entity is so owned by members of 2 families, or

''(III) 90 percent of such entity is so owned by members of 3 families, and

''(ii) for purposes of subclause (II) or (III) of clause (i), at least 30 percent of such entity is so owned by the decedent and members of the decedent's family.

''(2) LIMITATION.—Such term shall not include—

''(A) any interest in a trade or business the principal place of business of which is not located in the United States,

''(B) any interest in an entity, if the stock or debt of such entity or a controlled group (as defined in section 267(f)(1)) of which such entity was a member was readily tradable on an established securities market or secondary market (as defined by the Secretary) at any time within 3 years of the date of the decedent's death,

''(C) any interest in a trade or business not described in section 542(c)(2), if more than 35 percent of the adjusted ordinary gross income of such trade or business for the taxable year which includes the date of the decedent's death would qualify as personal holding company income (as defined in section 543(a)), or

''(D) that portion of an interest in a trade or business that is attributable to—

''(i) cash or marketable securities, or both, in excess of the reasonably expected day-to-day working capital needs of such trade or business, and

''(ii) any other assets of the trade or business (other than assets used in the active conduct of a trade or business described in section 542(c)(2)), the income of which is described in section 543(a) or in subparagraph (B), (C), (D), or (E) of section 954(c)(1) (determined by substituting 'trade or business' for 'controlled foreign corporation').

''(3) RULES REGARDING OWNERSHIP.—

''(A) OWNERSHIP OF ENTITIES.—For purposes of paragraph (1)(B)—

''(i) CORPORATIONS.—Ownership of a corporation shall be determined by the holding of stock possessing the appropriate percentage of the total combined voting power of all classes of stock entitled to vote and the appropriate percentage of the total value of shares of all classes of stock.

''(ii) PARTNERSHIPS.—Ownership of a partnership shall be determined by the owning of the appropriate percentage of the capital interest in such partnership.

''(B) OWNERSHIP OF TIERED ENTITIES.—For purposes of this section, if by reason of holding an interest in a trade or business, a decedent, any member of the decedent's family, any qualified heir, or any member of any qualified heir's family is treated as holding an interest in any other trade or business—

''(i) such ownership interest in the other trade or business shall be disregarded in determining if the ownership interest in the first trade or business is a qualified family-owned business interest, and

''(ii) this section shall be applied separately in determining if such interest in any other trade or business is a qualified family-owned business interest.

''(C) INDIVIDUAL OWNERSHIP RULES.—For purposes of this section, an interest owned, directly or indirectly, by or for an entity described in paragraph (1)(B) shall be considered as being owned proportionately by or for the entity's shareholders, partners, or beneficiaries. A person shall be treated as a beneficiary of any trust only if such person has a present interest in such trust.

''(f) TAX TREATMENT OF FAILURE TO MATERIALLY PARTICIPATE IN BUSINESS OR DISPOSITIONS OF INTERESTS.—

''(1) IN GENERAL.—There is imposed an additional estate tax if, within 10 years after the date of the decedent's death and before the date of the qualified heir's death—

''(A) the material participation requirements described in section 2032A(c)(6)(B) are not met with respect to the qualified family-owned business interest which was acquired (or passed) from the decedent,

''(B) the qualified heir disposes of any portion of a qualified family-owned business interest (other than by a disposition to a member of the qualified heir's family or through a qualified conservation contribution under section 170(h)),

''(C) the qualified heir loses United States citizenship (within the meaning of section 877) or with respect to whom an event described in subparagraph (A) or (B) of section 877(e)(1) occurs, and such heir does not comply with the requirements of subsection (g), or

''(D) the principal place of business of a trade or business of the qualified family-owned business interest ceases to be located in the United States.

''(2) ADDITIONAL ESTATE TAX.—

''(A) IN GENERAL.—The amount of the additional estate tax imposed by paragraph (1) shall be equal to—

''(i) the applicable percentage of the adjusted tax difference attributable to the qualified family-owned business interest (as determined under rules similar to the rules of section 2032A(c)(2)(B)), plus

''(ii) interest on the amount determined under clause (i) at the underpayment rate established under section 6621 for the period beginning on the date the estate tax liability was due under this chapter and ending on the date such additional estate tax is due.

''(B) APPLICABLE PERCENTAGE.—For purposes of this paragraph, the applicable percentage shall be determined under the following table:

''If the event described in paragraph (1) occurs in the following year of material participation:	**The applicable percentage is:**
1 through 6	100
7	80
8	60
9	40
10	20.

''(g) SECURITY REQUIREMENTS FOR NONCITIZEN QUALIFIED HEIRS.—

''(1) IN GENERAL.—Except upon the application of subparagraph (F) or (M) of subsection (h)(3), if a qualified heir is not a citizen of the United States, any interest under this section passing to or acquired by such heir (including any interest held by such heir at a time described in subsection (f)(1)(C)) shall be treated as a qualified family-owned business interest only if the interest passes or is acquired (or is held) in a qualified trust.

''(2) QUALIFIED TRUST.—The term 'qualified trust' means a trust—

''(A) which is organized under, and governed by, the laws of the United States or a State, and

''(B) except as otherwise provided in regulations, with respect to which the trust instrument requires that at least 1 trustee of the trust be an individual citizen of the United States or a domestic corporation.

''(h) OTHER DEFINITIONS AND APPLICABLE RULES.—For purposes of this section—

''(1) QUALIFIED HEIR.—The term 'qualified heir'—

''(A) has the meaning given to such term by section 2032A(e)(1), and

''(B) includes any active employee of the trade or business to which the qualified family-owned business interest relates if such employee has been employed by such trade or business for a period of at least 10 years before the date of the decedent's death.

''(2) MEMBER OF THE FAMILY.—The term 'member of the family' has the meaning given to such term by section 2032A(e)(2).

''(3) APPLICABLE RULES.—Rules similar to the following rules shall apply:

''(A) Section 2032A(b)(4) (relating to decedents who are retired or disabled).

''(B) Section 2032A(b)(5) (relating to special rules for surviving spouses).

''(C) Section 2032A(c)(2)(D) (relating to partial dispositions).

''(D) Section 2032A(c)(3) (relating to only 1 additional tax imposed with respect to any 1 portion).

''(E) Section 2032A(c)(4) (relating to due date).

''(F) Section 2032A(c)(5) (relating to liability for tax; furnishing of bond).

''(G) Section 2032A(c)(7) (relating to no tax if use begins within 2 years; active management by eligible qualified heir treated as material participation).

''(H) Section 2032A(e)(10) (relating to community property).

''(I) Section 2032A(e)(14) (relating to treatment of replacement property acquired in section 1031 or 1033 transactions).

''(J) Section 2032A(f) (relating to statute of limitations).

''(K) Section 6166(b)(3) (relating to farmhouses and certain other structures taken into account).

''(L) Subparagraphs (B), (C), and (D) of section 6166(g)(1) (relating to acceleration of payment).

''(M) Section 6324B (relating to special lien for additional estate tax).''

(b) CLERICAL AMENDMENT.—The table of sections for part III of subchapter A of chapter 11 is amended by inserting after the item relating to section 2033 the following new item:

''Sec. 2033A. Family-owned business exclusion.''

(c) EFFECTIVE DATE.—The amendments made by this section shall apply to estates of decedents dying after December 31, 1997.

TITLE VI—EXTENSION OF EXPIRING PROVISIONS

SEC. 601. RESEARCH CREDIT.

(a) IN GENERAL.—Section 41(h)(1) is amended—

(1) by striking ''May 31, 1997'' and inserting ''May 31, 1998'', and

(2) by striking the last sentence.

(b) CONFORMING AMENDMENT.—Section 45C(b)(1)(D) is amended by striking ''1997'' and inserting ''1998''.

(c) EFFECTIVE DATE.—The amendment made by subsection (a) shall apply to taxable years ending after May 31, 1997.

SEC. 602. ORPHAN DRUG CREDIT MADE PERMANENT.

(a) IN GENERAL.—Subsection (e) of section 45C is hereby repealed.

(b) EFFECTIVE DATE.—The amendment made by subsection (a) shall apply to amounts paid or incurred in taxable years ending after May 31, 1997.

SEC. 603. CONTRIBUTIONS OF APPRECIATED STOCK.

(a) IN GENERAL.—Clause (ii) of section 170(e)(5)(D) is amended by striking ''May 31, 1997'' and inserting ''May 31, 1998''.

(b) EFFECTIVE DATE.—The amendment made by subsection (a) shall apply to contributions made after May 31, 1997.

SEC. 604. EXTENSION AND MODIFICATION OF WORK OPPORTUNITY CREDIT.

(a) EXTENSION OF CREDIT.—Subparagraph (B) of section 51(c)(4) (relating to termination) is amended by striking ''September 30, 1997'' and inserting ''September 30, 1998''.

(b) PERCENTAGE OF WAGES ALLOWED AS CREDIT.—

(1) IN GENERAL.—Subsection (a) of section 51 (relating to determination of amount) is amended by striking ''35 percent'' and inserting ''40 percent''.

(2) APPLICATION OF CREDIT FOR INDIVIDUALS PERFORMING FEWER THAN 400 HOURS OF SERVICES.—Paragraph (3) of section 51(i) is amended to read as follows:

''(3) INDIVIDUALS NOT MEETING MINIMUM EMPLOYMENT PERIODS.—

''(A) REDUCTION OF CREDIT FOR INDIVIDUALS PERFORMING FEWER THAN 400 HOURS OF SERVICES.—In the case of an individual who has completed at least 120 hours, but less than 400 hours, of services performed for the employer, subsection (a) shall be applied by substituting '25 percent' for '40 percent'.

''(B) DENIAL OF CREDIT FOR INDIVIDUALS PERFORMING FEWER THAN 120 HOURS OF SERVICES.—No wages shall be taken into account under subsection (a) with respect to any individual unless such individual has completed at least 120 hours of services performed for the employer.''

(c) MODIFICATION OF ELIGIBILITY REQUIREMENT BASED ON PERIOD ON WELFARE.—Subparagraph (A) of section 51(d)(2) (defining qualified IV–A recipient) is amended by striking all that follows ''a IV–A program'' and inserting ''for any 9 months during the 18-month period ending on the hiring date.''

(d) CERTAIN OLDER FOOD STAMP RECIPIENTS TREATED AS MEMBERS OF TARGETED GROUP.—Paragraph (8) of section 51(d) (defining qualified food stamp recipient) is amended to read as follows:

''(8) QUALIFIED FOOD STAMP RECIPIENT.—

''(A) IN GENERAL.—The term 'qualified food stamp recipient' 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 being a member of a family receiving assistance under a food stamp program under the Food Stamp Act of 1977 for the 6-month period ending on the hiring date.

''(B) CERTAIN OLDER RECIPIENTS.—The term 'qualified food stamp recipient' includes any individual who is certified by the designated local agency—

''(i) as having attained age 18 but not age 50 on the hiring date,

''(ii) as being a recipient of benefits under the food stamp program who is affected by section 6(o) of the Food Stamp Act of 1977 but who has not been made ineligible for refusing to work in accordance with section 6(o)(2)(A) of such Act, or failing to comply with the requirements of a work program under subparagraph (B), (C), or (D) of section 6(o)(2)(A) of such Act, and

''(iii) as having a hiring date which is not more than 1 year after the date of such cessation.

''(C) TERMINATION.—In lieu of applying subsection (c)(4), this subsection shall not apply to amounts paid or incurred with respect to an individual who begins work for the employer after September 30, 2000.''

(e) EFFECTIVE DATE.—The amendments made by this section shall apply to individuals who begin work for the employer after the date of the enactment of this Act.

TITLE VII—EMPOWERMENT ZONES, ETC.

Subtitle A—Empowerment Zones

SEC. 701. ADDITIONAL EMPOWERMENT ZONES WITH CURRENT LAW BENEFITS.

(a) IN GENERAL.—Paragraph (2) of section 1391(b) (relating to designations of empowerment zones and enterprise communities) is amended—

(1) by striking ''9'' and inserting ''11'',

(2) by striking ''6'' and inserting ''8'', and

(3) by striking ''750,000'' and inserting ''1,000,000''.

(b) EFFECTIVE DATE.—The amendments made by this section shall take effect on the date of the enactment of this Act, except that designations of new empowerment zones made pursuant to such amendments shall be made during the 180-day period beginning on the date of the enactment of this Act.

SEC. 702. DESIGNATION OF ADDITIONAL EMPOWERMENT ZONES AND ENTERPRISE COMMUNITIES.

(a) IN GENERAL.—Section 1391 (relating to designation procedure for empowerment zones and enterprise communities) is amended by adding at the end the following new subsection:

''(g) ADDITIONAL DESIGNATIONS PERMITTED.—

''(1) IN GENERAL.—In addition to the areas designated under subsection (a)—

''(A) ENTERPRISE COMMUNITIES.—The appropriate Secretaries may designate in the aggregate an additional 80 nominated areas as enterprise communities under this section, subject to the availability of eligible nominated areas. Of that number, not more than 50 may be designated in urban areas and not more than 30 may be designated in rural areas.

''(B) EMPOWERMENT ZONES.—The appropriate Secretaries may designate in the aggregate an additional 20 nominated areas as empowerment zones under this section, subject to the availability of eligible nominated areas. Of that number, not more than 15 may be designated in urban areas and not more than 5 may be designated in rural areas.

''(2) PERIOD DESIGNATIONS MAY BE MADE.—A designation may be made under this subsection after the date of the enactment of this subsection and before January 1, 1999.

''(3) MODIFICATIONS TO ELIGIBILITY CRITERIA, ETC.—

''(A) POVERTY RATE REQUIREMENT.—

''(i) IN GENERAL.—A nominated area shall be eligible for designation under this subsection only if the poverty rate for each population census tract within the nominated area is not less than 20 percent and the poverty rate for at least 90 percent of the population census tracts within the nominated area is not less than 25 percent.

''(ii) TREATMENT OF CENSUS TRACTS WITH SMALL POPULATIONS.—A population census tract with a population of less than 2,000 shall be treated as having a poverty rate of not less than 25 percent if—

''(I) more than 75 percent of such tract is zoned for commercial or industrial use, and

''(II) such tract is contiguous to 1 or more other population census tracts which have a poverty rate of not less than 25 percent (determined without regard to this clause).

''(iii) EXCEPTION FOR DEVELOPABLE SITES.—Clause (i) shall not apply to up to 3 noncontiguous parcels in a nominated area which may be developed for commercial or industrial purposes. The aggregate area of noncontiguous parcels to which the preceding sentence applies with respect to any nominated area shall not exceed 1,000 acres (2,000 acres in the case of an empowerment zone).

''(iv) CERTAIN PROVISIONS NOT TO APPLY.—Section 1392(a)(4) (and so much of paragraphs (1) and (2) of section 1392(b) as relate to section 1392(a)(4)) shall not apply to an area nominated for designation under this subsection.

''(v) SPECIAL RULE FOR RURAL EMPOWERMENT ZONES AND ENTERPRISE COMMUNITIES.—The Secretary of Agriculture may designate not more than 1 empowerment zone, and not more than 5 enterprise communities, in rural areas without regard to clause (i) if such areas satisfy emigration criteria specified by the Secretary of Agriculture.

''(B) SIZE LIMITATION.—

''(i) IN GENERAL.—The parcels described in subparagraph (A)(iii) shall not be taken into account in determining whether the requirement of subparagraph (A) or (B) of section 1392(a)(3) is met.

''(ii) SPECIAL RULE FOR RURAL AREAS.—If a population census tract (or equivalent division under section 1392(b)(4)) in a rural area exceeds 1,000 square miles or includes a substantial amount of land owned by the Federal, State, or local government, the nominated area may exclude such excess square mileage or governmentally owned land and the exclusion of that area will not be treated as violating the continuous boundary requirement of section 1392(a)(3)(B).

''(C) AGGREGATE POPULATION LIMITATION.—The aggregate population limitation under the last sentence of subsection (b)(2) shall not apply to a designation under paragraph (1)(B).

''(D) PREVIOUSLY DESIGNATED ENTERPRISE COMMUNITIES MAY BE INCLUDED.—Subsection (e)(5) shall not apply to any enterprise community designated under subsection (a) that is also nominated for designation under this subsection.

''(E) INDIAN RESERVATIONS MAY BE NOMINATED.—

''(i) IN GENERAL.—Section 1393(a)(4) shall not apply to an area nominated for designation under this subsection.

''(ii) SPECIAL RULE.—An area in an Indian reservation shall be treated as nominated by a State and a local government if it is nominated by the reservation governing body (as determined by the Secretary of Interior).''

(b) EMPLOYMENT CREDIT NOT TO APPLY TO NEW EMPOWERMENT ZONES.—Section 1396 (relating to empowerment zone employment credit) is amended by adding at the end the following new subsection:

''(e) CREDIT NOT TO APPLY TO EMPOWERMENT ZONES DESIGNATED UNDER SECTION 1391(g).—This section shall be applied without regard to any empowerment zone designated under section 1391(g).''

(c) INCREASED EXPENSING UNDER SECTION 179 NOT TO APPLY IN DEVELOPABLE SITES.—Section 1397A (relating to increase in expensing under section 179) is amended by adding at the end the following new subsection:

''(c) LIMITATION.—For purposes of this section, qualified zone property shall not include any property substantially all of the use of which is in any parcel described in section 1391(g)(3)(A)(iii).''

(d) SET ASIDE FOR AREAS WITH EMPLOYMENT LOSSES IN FINANCIAL SERVICE INDUSTRIES.—Section 1391 is amended by adding at the end the following new subsection:

''(g) SET ASIDE FOR AREAS WITH EMPLOYMENT LOSSES IN FINANCIAL SERVICE INDUSTRIES.—

''(1) IN GENERAL.—At least 3 of the additional empowerment zones authorized under this section by reason of the enactment of the Revenue Reconciliation Act of 1997 shall be nominated areas described in paragraph (2).

''(2) DESCRIPTION.—A nominated area is described in this paragraph if—

''(A) at least 12 percent of the wages attributable to private, nonagricultural employment in the area during 1989, and subject to tax under section 3301 during such year, were in the financial institution and real estate sectors, and

''(B) the employment in such area in such sectors for the calendar year preceding the calendar year in which such area is nominated for designation is 10 percent (or, if lesser, 5,000 full-time equivalent jobs) less than such employment during 1989.

The requirement of subparagraph (B) shall not be met if substantially all of such decline in employment is attributable to 1 employer. Data for the labor market area which includes the nominated area may be used for purposes of this paragraph if data is not separately available for the nominated area.

''(3) CENTRAL BUSINESS DISTRICT ELIGIBLE.—Subparagraph (D) of section 1392(a)(3) shall not apply to a nominated area described in paragraph (2).

''(4) FINANCIAL SERVICES BUSINESSES ELIGIBLE.—For purposes of this part, the term 'enterprise zone business' includes any entity (or portion of an entity) if substantially all the activities of such entity (or portion thereof) consists of engaging in a banking, insurance, financing, or similar business in an empowerment zone designated by reason of this subsection.''

(e) CONFORMING AMENDMENTS.—

(1) Subsections (e) and (f) of section 1391 are each amended by striking ''subsection (a)'' and inserting ''this section''.

(2) Section 1391(c) is amended by striking ''this section'' and inserting ''subsection (a)''.

SEC. 703. VOLUME CAP NOT TO APPLY TO ENTERPRISE ZONE FACILITY BONDS WITH RESPECT TO NEW EMPOWERMENT ZONES.

(a) IN GENERAL.—Section 1394 (relating to tax-exempt enterprise zone facility bonds) is amended by adding at the end the following new subsection:

''(f) BONDS FOR EMPOWERMENT ZONES DESIGNATED UNDER SECTION 1391(g).—

''(1) IN GENERAL.—In the case of a new empowerment zone facility bond—

''(A) such bond shall not be treated as a private activity bond for purposes of section 146, and

''(B) subsection (c) of this section shall not apply.

''(2) LIMITATION ON AMOUNT OF BONDS.—

''(A) IN GENERAL.—Paragraph (1) shall apply to a new empowerment zone facility bond only if such bond is designated for purposes of this subsection by the local government which nominated the area to which such bond relates.

''(B) LIMITATION ON BONDS DESIGNATED.—The aggregate face amount of bonds which may be designated under subparagraph (A) with respect to any empowerment zone shall not exceed—

''(i) $60,000,000 if such zone is in a rural area,

''(ii) $130,000,000 if such zone is in an urban area and the zone has a population of less than 100,000, and

''(iii) $230,000,000 if such zone is in an urban area and the zone has a population of at least 100,000.

''(C) SPECIAL RULES.—

''(i) COORDINATION WITH LIMITATION IN SUBSECTION (c).—Bonds to which paragraph (1) applies shall not be taken into account in applying the limitation of subsection (c) to other bonds.

''(ii) CURRENT REFUNDING NOT TAKEN INTO ACCOUNT.—In the case of a refunding (or series of refundings) of a bond designated under this paragraph, the refunding obligation shall be treated as designated under this paragraph (and shall not be taken into account in applying subparagraph (B)) if—

''(I) the amount of the refunding bond does not exceed the outstanding amount of the refunded bond, and

''(II) the refunded bond is redeemed not later than 90 days after the date of issuance of the refunding bond.

''(3) NEW EMPOWERMENT ZONE FACILITY BOND.—For purposes of this subsection, the term 'new empowerment zone facility bond' means any bond which would be described in subsection (a) if only empowerment zones designated under section 1391(g) were taken into account under sections 1397B and 1397C.''

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

SEC. 704. MODIFICATIONS TO ENTERPRISE ZONE FACILITY BOND RULES FOR ALL EMPOWERMENT ZONES AND ENTERPRISE COMMUNITIES.

(a) MODIFICATIONS RELATING TO ENTERPRISE ZONE BUSINESS.—Paragraph (3) of section 1394(b) (defining enterprise zone business) is amended to read as follows:

''(3) ENTERPRISE ZONE BUSINESS.—

''(A) IN GENERAL.—Except as modified in this paragraph, the term 'enterprise zone business' has the meaning given such term by section 1397B.

''(B) MODIFICATIONS.—In applying section 1397B for purposes of this section—

''(i) BUSINESSES IN ENTERPRISE COMMUNITIES ELIGIBLE.—References in section 1397B to empowerment zones shall be treated as including references to enterprise communities.

''(ii) WAIVER OF REQUIREMENTS DURING STARTUP PERIOD.—A business shall not fail to be treated as an enterprise zone business during the startup period if—

''(I) as of the beginning of the startup period, it is reasonably expected that such business will be an enterprise zone business (as defined in section 1397B as modified by this paragraph) at the end of such period, and

''(II) such business makes bona fide efforts to be such a business.

''(iii) REDUCED REQUIREMENTS AFTER TESTING PERIOD.—A business shall not fail to be treated as an enterprise zone business for any taxable year beginning after the testing period by reason of failing to meet any requirement of subsection (b) or (c) of section 1397B if at least 35 percent of the employees of such business for such year are residents of an empowerment zone or an enterprise community. The preceding sentence shall not apply to any business which is not a qualified business by reason of paragraph (1), (4), or (5) of section 1397B(d).

''(C) DEFINITIONS RELATING TO SUBPARAGRAPH (B).—For purposes of subparagraph (B)—

''(i) STARTUP PERIOD.—The term 'startup period' means, with respect to any property being provided for any business, the period before the first taxable year beginning more than 2 years after the later of—

''(I) the date of issuance of the issue providing such property, or

''(II) the date such property is first placed in service after such issuance (or, if earlier, the date which is 3 years after the date described in subclause (I)).

''(ii) TESTING PERIOD.—The term 'testing period' means the first 3 taxable years beginning after the startup period.

''(D) PORTIONS OF BUSINESS MAY BE ENTERPRISE ZONE BUSINESS.—The term 'enterprise zone business' includes any trades or businesses which would qualify as an enterprise zone business (determined after the modifications of subparagraph (B)) if such trades or businesses were separately incorporated.''

(b) MODIFICATIONS RELATING TO QUALIFIED ZONE PROPERTY.—Paragraph (2) of section 1394(b) (defining qualified zone property) is amended to read as follows:

''(2) QUALIFIED ZONE PROPERTY.—The term 'qualified zone property' has the meaning given such term by section 1397C; except that—

''(A) the references to empowerment zones shall be treated as including references to enterprise communities, and

''(B) section 1397C(a)(2) shall be applied by substituting 'an amount equal to 15 percent of the adjusted basis' for 'an amount equal to the adjusted basis'.''

(c) EFFECTIVE DATE.—The amendments made by this section shall apply to obligations issued after the date of the enactment of this Act.

SEC. 705. MODIFICATIONS TO ENTERPRISE ZONE BUSINESS DEFINITION FOR ALL EMPOWERMENT ZONES AND ENTERPRISE COMMUNITIES.

(a) IN GENERAL.—Section 1397B (defining enterprise zone business) is amended—

(1) by striking ''80 percent'' in subsections (b)(2) and (c)(1) and inserting ''50 percent'',

(2) by striking ''substantially all'' each place it appears in subsections (b) and (c) and inserting ''a substantial portion'',

(3) by striking '', and exclusively related to,'' in subsections (b)(4) and (c)(3),

(4) by adding at the end of subsection (d)(2) the following new flush sentence:

''For purposes of subparagraph (B), the lessor of the property may rely on a lessee's certification that such lessee is an enterprise zone business.'',

(5) by striking ''substantially all'' in subsection (d)(3) and inserting ''at least 50 percent'', and

(6) by adding at the end the following new subsection:

''(f) TREATMENT OF BUSINESSES STRADDLING CENSUS TRACT LINES.—For purposes of this section, if—

''(1) a business entity or proprietorship uses real property located within an empowerment zone,

''(2) the business entity or proprietorship also uses real property located outside the empowerment zone,

''(3) the amount of real property described in paragraph (1) is substantial compared to the amount of real property described in paragraph (2), and

''(4) the real property described in paragraph (2) is contiguous to part or all of the real property described in paragraph (1),

then all the services performed by employees, all business activities, all tangible property, and all intangible property of the business entity or proprietorship that occur in or is located on the real property described in paragraphs (1) and (2) shall be treated as occurring or situated in an empowerment zone.''

(b) EFFECTIVE DATES.—

(1) IN GENERAL.—The amendments made by this section shall apply to taxable years beginning on or after the date of the enactment of this Act.

(2) SPECIAL RULE FOR ENTERPRISE ZONE FACILITY BONDS.—For purposes of section 1394(b) of the Internal Revenue Code of 1986, the amendments made by this section shall apply to obligations issued after the date of the enactment of this Act.

Subtitle B—Brownfields

SEC. 711. EXPENSING OF ENVIRONMENTAL REMEDIATION COSTS.

(a) IN GENERAL.—Part VI of subchapter B of chapter 1 is amended by adding at the end the following new section:

''SEC. 198. EXPENSING OF ENVIRONMENTAL REMEDIATION COSTS.

''(a) IN GENERAL.—A taxpayer may elect to treat any qualified environmental remediation expenditure which is paid or incurred by the taxpayer as an expense which is not chargeable to capital account. Any expenditure which is so treated shall be allowed as a deduction for the taxable year in which it is paid or incurred.

''(b) QUALIFIED ENVIRONMENTAL REMEDIATION EXPENDITURE.—For purposes of this section—

''(1) IN GENERAL.—The term 'qualified environmental remediation expenditure' means any expenditure—

''(A) which is otherwise chargeable to capital account, and

''(B) which is paid or incurred in connection with the abatement or control of hazardous substances at a qualified contaminated site.

''(2) SPECIAL RULE FOR EXPENDITURES FOR DEPRECIABLE PROPERTY.—Such term shall not include any expenditure for the acquisition of property of a character subject to the allowance for depreciation which is used in connection with the abatement or control of hazardous substances at a qualified contaminated site; except that the portion of the allowance under section 167 for such property which is otherwise allocated to such site shall be treated as a qualified environmental remediation expenditure.

''(c) QUALIFIED CONTAMINATED SITE.—For purposes of this section—

''(1) QUALIFIED CONTAMINATED SITE.—

''(A) IN GENERAL.—The term 'qualified contaminated site' means any area—

''(i) which is held by the taxpayer for use in a trade or business or for the production of income, or which is property described in section 1221(1) in the hands of the taxpayer,

''(ii) which is within a targeted area, and

''(iii) at or on which there has been a release (or threat of release) or disposal of any hazardous substance.

''(B) TAXPAYER MUST RECEIVE STATEMENT FROM STATE ENVIRONMENTAL AGENCY.—An area shall be treated as a qualified contaminated site with respect to expenditures paid or incurred during any taxable year only if the taxpayer receives a statement from the appropriate agency of the State in which such area is located that such area meets the requirements of clauses (ii) and (iii) of subparagraph (A).

''(C) APPROPRIATE STATE AGENCY.— For purposes of subparagraph (B), the appropriate agency of a State is the agency designated by the Administrator of the Environmental Protection Agency for purposes of this section. If no agency of a State is designated under the preceding sentence, the appropriate agency for such State shall be the Environmental Protection Agency.

''(2) TARGETED AREA.—

''(A) IN GENERAL.—The term 'targeted area' means—

''(i) any population census tract with a poverty rate of not less than 20 percent,

''(ii) a population census tract with a population of less than 2,000 if—

''(I) more than 75 percent of such tract is zoned for commercial or industrial use, and

''(II) such tract is contiguous to 1 or more other population census tracts which meet the requirement of clause (i) without regard to this clause,

''(iii) any empowerment zone or enterprise community (and any supplemental zone designated on December 21, 1994), and

''(iv) any site announced before February 1, 1997, as being included as a brownfields pilot project of the Environmental Protection Agency.

''(B) NATIONAL PRIORITIES LISTED SITES NOT INCLUDED.—Such term shall not include any site which is on, or proposed for, the national priorities list under section 105(a)(8)(B) of the Comprehensive Environmental Response, Compensation, and Liability Act of 1980 (as in effect on the date of the enactment of this section).

''(C) CERTAIN RULES TO APPLY.—For purposes of this paragraph the rules of sections 1392(b)(4) and 1393(a)(9) shall apply.

''(d) HAZARDOUS SUBSTANCE.—For purposes of this section—

''(1) IN GENERAL.—The term 'hazardous substance' means—

''(A) any substance which is a hazardous substance as defined in section 101(14) of the Comprehensive Environmental Response, Compensation, and Liability Act of 1980, and

''(B) any substance which is designated as a hazardous substance under section 102 of such Act.

''(2) EXCEPTION.—Such term shall not include any substance with respect to which a removal or remedial action is not permitted under section 104 of such Act by reason of subsection (a)(3) thereof.

''(e) DEDUCTION RECAPTURED AS ORDINARY INCOME ON SALE, ETC.—Solely for purposes of section 1245, in the case of property to which a qualified environmental remediation expenditure would have been capitalized but for this section—

''(1) the deduction allowed by this section for such expenditure shall be treated as a deduction for depreciation, and

''(2) such property (if not otherwise section 1245 property) shall be treated as section 1245 property solely for purposes of applying section 1245 to such deduction.

''(f) COORDINATION WITH OTHER PROVISIONS.—Sections 280B and 468 shall not apply to amounts which are treated as expenses under this section.

''(g) REGULATIONS.—The Secretary shall prescribe such regulations as may be necessary or appropriate to carry out the purposes of this section.''

(b) CLERICAL AMENDMENT.—The table of sections for part VI of subchapter B of chapter 1 is amended by adding at the end the following new item:

''Sec. 198. Expensing of environmental remediation costs.''

(c) EFFECTIVE DATE.—The amendments made by this section shall apply to expenditures paid or incurred after the date of the enactment of this Act, in taxable years ending after such date.

SEC. 712. USE OF REDEVELOPMENT BONDS FOR ENVIRONMENTAL REMEDIATION.

(a) ENVIRONMENTAL REMEDIATION INCLUDED AS REDEVELOPMENT PURPOSE.—Subparagraph (A) of section 144(c)(3) (relating to redevelopment purposes) is amended by striking ''and'' at the end of clause (iii), by striking the period at the end of clause (iv) and inserting '', and'', and by adding at the end the following new clause:

''(v) costs incurred in connection with abatement or control of hazardous substances at a qualified contaminated site (as defined in section 198(c)) if such costs are incurred pursuant to an environmental remediation plan which was approved by the Administrator of the Environmental Protection Agency or by the head of any State or local government agency designated by the Administrator to carry out the Administrator's functions under this clause.''

(b) CERTAIN REQUIREMENTS NOT TO APPLY TO REDEVELOPMENT BONDS FOR ENVIRONMENTAL REMEDIATION.—Subsection (c) of section 144 is amended by adding at the end the following new paragraph:

''(9) CERTAIN REQUIREMENTS NOT TO APPLY TO REDEVELOPMENT BONDS FOR ENVIRONMENTAL REMEDIATION.—In the case of any bond issued as part of an issue 95 percent or more of the proceeds of which are to finance costs referred to in paragraph (3)(A)(v)—

''(A) paragraph (2)(A)(i) shall not apply,

''(B) paragraph (2)(A)(ii) shall not apply to any issue issued by the governing body described in paragraph (4)(A) with respect to the area which includes the site,

''(C) the requirement of paragraph (2)(B)(ii) shall be treated as met if—

''(i) the payment of the principal and interest on such issue is secured by taxes imposed by a governmental unit, or

''(ii) such issue is approved by the applicable elected representative (as defined in section 147(f)(2)(E)) of the governmental unit which issued such issue (or on behalf of which such issue was issued),

''(D) subparagraphs (C) and (D) of paragraph (2) shall not apply,

''(E) subparagraphs (C) and (D) of paragraph (4) shall not apply, and

''(F) if the real property referred to in clause (iii) of paragraph (3)(A) is 1 or more dwelling units, such clause shall apply only if the requirements of section 142(d) or 143 (as the case may be) are met with respect to such units.''

(c) PENALTY FOR FAILURE TO SATISFACTORILY COMPLETE REMEDIATION PLAN.—Subsection (b) of section 150 is amended by adding at the end thereof the following new paragraph:

''(7) QUALIFIED CONTAMINATED SITE REMEDIATION BONDS.—In the case of financing provided for costs described in section 144(c)(3)(A)(v), no deduction shall be allowed under this chapter for interest on such financing during any period during which there is a determination by the Administrator of the Environmental Protection Agency (or by the head of any State or local government agency designated by the Administrator to carry out the Administrator's functions under this paragraph) that the remediation plan under which such costs were incurred was not satisfactorily completed.''

(d) EFFECTIVE DATE.—The amendments made by this section shall apply to bonds issued after the date of the enactment of this Act.

Subtitle C—Welfare to Work Credit

SEC. 721. WELFARE TO WORK CREDIT.

(a) ADDITIONAL TEMPORARY INCENTIVES FOR EMPLOYING LONG-TERM FAMILY ASSISTANCE RECIPIENTS.—Section 51 (relating to amount of work opportunity credit) is amended by inserting after subsection (d) the following new subsection:

''(e) ADDITIONAL TEMPORARY INCENTIVES FOR EMPLOYING LONG-TERM FAMILY ASSISTANCE RECIPIENTS.—

''(1) TREATMENT AS MEMBER OF TARGETED GROUP.—A long-term family assistance recipient shall be treated for purposes of this section as a member of a targeted group.

''(2) MODIFICATION TO PERCENTAGE AND YEARS OF CREDIT.—In the case of a long-term family assistance recipient, the amount of the work opportunity credit determined under this section for the taxable year shall be equal to the sum of—

''(A) 50 percent of the qualified first-year wages, and

''(B) 50 percent of the qualified second-year wages.

''(3) MODIFICATION TO AMOUNT OF WAGES TAKEN INTO ACCOUNT.—In the case of a long-term family assistance recipient—

''(A) $10,000 OF WAGES MAY BE TAKEN INTO ACCOUNT.—In lieu of applying subsection (b)(3), the amount of the qualified first-year wages, and the amount of qualified second-year wages, which may be taken into account with respect to any individual shall not exceed $10,000 per year.

''(B) CERTAIN AMOUNTS TREATED AS WAGES.—The term 'wages' includes amounts paid or incurred by the employer which are excludable from such recipient's gross income under—

''(i) section 105 (relating to amounts received under accident and health plans),

''(ii) section 106 (relating to contributions by employer to accident and health plans),

''(iii) section 127 (relating to educational assistance programs) or would be so excludable but for section 127(d), but only to the extent paid or incurred to a person not related to the employer, or

''(iv) section 129 (relating to dependent care assistance programs).

The amount treated as wages by clause (i) or (ii) for any period shall be based on the reasonable cost of coverage for the period, but shall not exceed the applicable premium for the period under section 4980B(f)(4).

''(C) SPECIAL RULES FOR AGRICULTURAL AND RAILWAY LABOR.—If such recipient is an employee to which subparagraph (A) or (B) of subsection (h)(1) applies—

''(i) such subparagraph (A) shall be applied by substituting '$10,000' for '$6,000', and

''(ii) such subparagraph (B) shall be applied by substituting '$825' for '$500'.

''(D) TERMINATION.—In lieu of applying subsection (c)(4), this subsection shall not apply to amounts paid or incurred with respect to an individual who begins work for the employer after September 30, 2000.

''(4) LONG-TERM FAMILY ASSISTANCE RECIPIENT.—For purposes of this subsection, the term 'long-term family assistance recipient' means any individual who is certified by the designated local agency—

''(A) as being a member of a family receiving assistance under a IV-A program (as defined in subsection (d)(2)(B)) for at least the 18-month period ending on the hiring date,

''(B)(i) as being a member of a family receiving such assistance for any 18-month period beginning after the date of the enactment of this subsection, and

''(ii) as having a hiring date which is not more than 2 years after the end of the earliest such 18-month period, or

''(C)(i) as being a member of a family which ceased to be eligible after the date of the enactment of this subsection for such assistance by reason of any limitation imposed by Federal or State law on the maximum period such assistance is payable to a family, and

''(ii) as having a hiring date which is not more than 2 years after the date of such cessation.

''(5) QUALIFIED SECOND-YEAR WAGES.—For purposes of this subsection, the term 'qualified second-year wages' means, with respect to any individual, the qualified wages attributable to service rendered during the 1-year period beginning on the day after the last day of the 1-year period with respect to such individual determined under subsection (b)(2).''

(b) EFFECTIVE DATE.—The amendment made by subsection (a) shall apply with respect to individuals who begin work for the employer after the date of the enactment of this Act.

Subtitle D—Community Development Financial Institutions

SEC. 731. CREDIT FOR QUALIFIED EQUITY INVESTMENTS IN COMMUNITY DEVELOPMENT FINANCIAL INSTITUTIONS.

(a) IN GENERAL.—Subpart D of part IV of subchapter A of chapter 1 (relating to business-related credits) is amended by adding at the end the following new section:

''SEC. 45E. QUALIFIED EQUITY INVESTMENTS IN COMMUNITY DEVELOPMENT FINANCIAL INSTITUTIONS.

''(a) GENERAL RULE.—For purposes of section 38, the community development financial institution investment credit for any taxable year is an amount equal to the applicable percentage of the qualified equity investment made by the taxpayer during the taxable year.

''(b) APPLICABLE PERCENTAGE.—For purposes of subsection (a), the term 'applicable percentage' means, with respect to any investment, 25 percent, or, if the CDFI Fund establishes a lower percentage with respect to such investment for purposes of this section, such lower percentage.

''(c) QUALIFIED EQUITY INVESTMENT.—For purposes of this section—

''(1) IN GENERAL.—The term 'qualified equity investment' means any stock or partnership interest in a community development financial institution (as defined in section 103 of the Community Development Banking and Financial Institutions Act of 1994 (12 U.S.C. 4702))—

''(A) if such institution is designated for purposes of this section by the CDFI Fund,

''(B) if such stock or partnership interest is acquired by the taxpayer at its original issue from the institution (directly or through an underwriter) in exchange for money or other property, and

''(C) to the extent the amount of such investment is designated for such purposes by such Fund.

Rules similar to the rules of section 1202(c)(3) shall apply for purposes of subparagraph (B).

''(2) CRITERIA FOR DESIGNATING INSTITUTIONS.—Designations under paragraph (1)(A) shall be made in accordance with criteria established by the CDFI Fund. In establishing such criteria, the CDFI Fund shall take into account the requirements and criteria set forth in sections 105(b) and 107 of such Act.

''(3) CDFI FUND.—The term 'CDFI Fund' means the Community Development Financial Institutions Fund established by section 104 of such Act.

''(d) LIMITATION ON AMOUNT OF CREDIT.—

''(1) IN GENERAL.—The amount of credit determined under this section for any qualified equity investment shall not exceed the credit amount allocated to such investment by the CDFI Fund.

''(2) OVERALL LIMITATION.—The aggregate credit amount which may be allocated by the CDFI Fund under this section shall not exceed $100,000,000.

''(e) RECAPTURE OF CREDIT WHERE DISPOSITION OF EQUITY INVESTMENT WITHIN 5 YEARS.—

''(1) IN GENERAL.—If the taxpayer disposes of any investment with respect to which a credit was determined under subsection (a) (or any other property the basis of which is determined in whole or in part by reference to the adjusted basis of such investment) before the end of the 5-year period beginning on the date such investment was made, the tax imposed by this chapter for the taxable year in which such disposition occurs shall be increased by the aggregate decrease in tax of the taxpayer resulting from the credit determined under this subsection (a) with respect to such investment.

''(2) EXCEPTIONS.—Paragraph (1) shall not apply to any gift, transfer, or transaction described in paragraph (1), (2), or (3) of section 1245(b).

''(3) SPECIAL RULE.—Any increase in tax under paragraph (1) shall not be treated as a tax imposed by this chapter for purposes of—

''(A) determining the amount of any credit allowable under this chapter, and

''(B) determining the amount of the tax imposed by section 55.

''(f) BASIS REDUCTION.—The basis of any qualified equity investment shall be reduced by the amount of any credit determined under this section with respect to such investment.

''(g) REGULATIONS.—The Secretary shall prescribe such regulations as may be appropriate to carry out this section. Such regulations may provide for the recapture of the credit under this section with respect to investments in institutions which cease to satisfy the criteria established by the CDFI Fund for designation under subsection (c)(1)(A).

''(h) TERMINATION.—This section shall not apply to any investment made after December 31, 2006.''

(b) CREDIT MADE PART OF GENERAL BUSINESS CREDIT.—Subsection (b) of section 38 is amended by striking ''plus'' at the end of paragraph (11), by striking the period at the end of paragraph (12) and inserting '', plus'', and by adding at the end the following new paragraph:

''(13) the community development financial institution investment credit determined under section 45E(a).''

(c) CREDIT ALLOWED AGAINST REGULAR AND MINIMUM TAX.—

(1) IN GENERAL.—Subsection (c) of section 38 (relating to limitation based on amount of tax) is amended by redesignating paragraph (3) as paragraph (4) and by inserting after paragraph (2) the following new paragraph:

''(3) SPECIAL RULES FOR COMMUNITY DEVELOPMENT FINANCIAL INSTITUTION INVESTMENT CREDIT.—

''(A) IN GENERAL.—In the case of the community development financial institution investment credit—

''(i) this section and section 39 shall be applied separately with respect to the credit, and

''(ii) in applying paragraph (1) to the credit—

''(I) 75 percent of the tentative minimum tax shall be substituted for the tentative minimum tax under subparagraph (A) thereof, and

''(II) the limitation under paragraph (1) (as modified by subclause (I)) shall be reduced by the credit allowed under subsection (a) for the taxable year (other than the community development financial institution investment credit).

''(B) COMMUNITY DEVELOPMENT FINANCIAL INSTITUTION INVESTMENT CREDIT.—For purposes of this subsection, the term 'community development financial institution investment credit' means the credit allowable under subsection (a) by reason of section 45E(a).''

(2) CONFORMING AMENDMENT.—Subclause (II) of section 38(c)(2)(A)(ii) is amended by inserting ''and the community development financial institution investment credit'' after ''employment credit''.

(d) LIMITATION ON CARRYBACK.—Subsection (d) of section 39 is amended by adding at the end the following new paragraph:

''(9) NO CARRYBACK OF COMMUNITY DEVELOPMENT FINANCIAL INSTITUTION INVESTMENT CREDIT BEFORE EFFECTIVE DATE.—No portion of the unused business credit for any taxable year which is attributable to the credit under section 45E may be carried back to a taxable year ending before the date of the enactment of section 45E.''

(e) DEDUCTION FOR UNUSED CREDIT.—Subsection (c) of section 196 is amended by striking ''and'' at the end of paragraph (6), by striking the period at the end of paragraph (7) and inserting '', and'', and by adding at the end the following new paragraph:

''(8) the community development financial institution investment credit determined under section 45E(a).''

(f) CLERICAL AMENDMENT.—The table of sections for subpart D of part IV of subchapter A of chapter 1 is amended by adding at the end the following new item:

''Sec. 45E. Qualified equity investments in community development financial institutions.''

(g) EFFECTIVE DATE.—The amendments made by this section shall apply to investments made after the date of the enactment of this Act.

TITLE VIII—OTHER TAX RELIEF

SEC. 801. SUSPENSION OF STATUTE OF LIMITATIONS ON FILING REFUND CLAIMS DURING PERIODS OF DISABILITY.

(a) IN GENERAL.—Section 6511 (relating to limitations on credit or refund) is amended by redesignating subsection (h) as subsection (i) and by inserting after subsection (g) the following new subsection:

''(h) RUNNING OF PERIODS OF LIMITATION SUSPENDED WHILE TAXPAYER IS FINANCIALLY DISABLED.—

''(1) IN GENERAL.—In the case of an individual, the running of the periods specified in subsections (a), (b), and (c) shall be suspended during any period of such individual's life that such individual is financially disabled.

''(2) FINANCIALLY DISABLED.—

''(A) IN GENERAL.—For purposes of paragraph (1), an individual is financially disabled if such individual is unable to manage his financial affairs by reason of any medically determinable physical or mental impairment which can be expected to result in death or which has lasted or can be expected to last for a continuous period of not less than 12 months. An individual shall not be considered to have such an impairment unless proof of the existence thereof is furnished in such form and manner as the Secretary may require.

''(B) EXCEPTION WHERE INDIVIDUAL HAS GUARDIAN, ETC.—An individual shall not be treated as financially disabled during any period that such individual's spouse or any other person is authorized to act on behalf of such individual in financial matters.''

(b) EFFECTIVE DATE.—The amendment made by subsection (a) shall apply to claims for credit or refund for periods ending after the date of the enactment of this Act.

SEC. 802. MODIFICATIONS OF PUERTO RICO ECONOMIC ACTIVITY CREDIT.

(a) EXTENSION OF CREDIT.—Section 30A(g) (relating to application of credit) is amended by striking '', and before January 1, 2006''.

(b) TAXPAYERS OTHER THAN EXISTING CLAIMANTS ELIGIBLE FOR CREDIT.—Section 30A(a)(2) (defining qualified domestic corporation) is amended to read as follows:

''(2) QUALIFIED DOMESTIC CORPORATION.—For purposes of paragraph (1), the term 'qualified domestic corporation' means a domestic corporation with respect to which section 936(a)(4)(B) does not apply for the taxable year.''

(c) REPEAL OF BASE PERIOD CAP.—Section 30A(a)(1) is amended by striking the last sentence.

(d) CONFORMING AMENDMENTS.—

(1) Section 30A(a)(3) is amended to read as follows:

''(3) SEPARATE APPLICATION.—For purposes of determining 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.''

(2) Section 30A(e)(1) is amended by inserting ''but not including subsection (j) thereof'' after ''thereunder''.

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

SEC. 803. TREATMENT OF SOFTWARE AS FSC EXPORT PROPERTY.

(a) IN GENERAL.—Section 927(a)(2)(B) (relating to excluded property) is amended by inserting ''computer software,'' after ''other than''.

(b) EFFECTIVE DATES.—

(1) IN GENERAL.—Except as provided in paragraph (2), the amendment made by this section shall apply to software licenses granted after the date of the enactment of this Act in taxable years ending after such date.

(2) EXCEPTION FOR EXISTING LICENSES.—The amendment made by this section shall not apply to software licenses granted by a licensor after the date of the enactment of this Act if, on such date, the person to whom the license is granted (or any related person) held a substantially similar license granted by the licensor (or any related person).

TITLE IX—INCENTIVES FOR THE DISTRICT OF COLUMBIA

SEC. 901. TAX INCENTIVES FOR REVITALIZATION OF THE DISTRICT OF COLUMBIA.

(a) IN GENERAL.—Chapter 1 is amended by adding at the end the following new subchapter:

''Subchapter W—Incentives for Revitalization of the District of Columbia

''Sec. 1400A. Employment credit.

''Sec. 1400B. Additional expensing.

''Sec. 1400C. Tax-exempt economic development bonds.

''Sec. 1400D. Credit for equity investments in and loans to District of Columbia businesses.

''Sec. 1400E. Definitions.

''Sec. 1400F. Status of Economic Development Corporation for District of Columbia.

''SEC. 1400A. EMPLOYMENT CREDIT.

''(a) AMOUNT OF CREDIT.—For purposes of section 38, the amount of the District of Columbia employment credit determined under this section for the taxable year shall be equal to 40 percent of the qualified first-year wages for such year.

''(b) QUALIFIED FIRST-YEAR WAGES.—For purposes of this section—

''(1) IN GENERAL.—The term 'qualified first-year wages' means wages paid or incurred by the employer during the taxable year which are attributable to services rendered by an employee of the employer—

''(A) during the 1-year period beginning on the day the employee begins work for the employer, and

''(B) while the employee is a qualified District employee.

''(2) ONLY FIRST $10,000 OF WAGES TAKEN INTO ACCOUNT.—The amount of the qualified first-year wages which may be taken into account with respect to any individual for all taxable years of an employer shall not exceed $10,000.

''(3) COORDINATION WITH WORK OPPORTUNITY CREDIT.—The amount of the credit determined under this section with respect to qualified first-year wages of an individual shall be reduced by the amount of the work opportunity credit determined under section 51 with respect to such wages.

''(c) QUALIFIED DISTRICT EMPLOYEE.—For purposes of this section—

''(1) IN GENERAL.—Except as otherwise provided in this subsection, the term 'qualified District employee' means any employee of an employer if—

''(A) the principal place of abode of such employee throughout the 1-year period described in subsection (b)(1)(A)—

''(i) is within the District of Columbia, and

''(ii) in the case of an individual who is not a member of a targeted group (within the meaning of section 51(d)), is within a population census tract having a poverty rate of at least 15 percent,

''(B)(i) substantially all of the services performed during such period by such employee for such employer are performed within the District of Columbia in a trade or business of the employer, or

''(ii) the principal place of business of the employer is within the District of Columbia, and

''(C) in the case of an individual who is not a member of a targeted group (within the meaning of section 51(d)), as of the beginning of such period it is reasonable to expect that the compensation to be paid to such individual for services performed during such period for the employer will be less than $28,500.

''(2) CERTAIN PERSONS NOT ELIGIBLE.—The term 'qualified District employee' shall not include—

''(A) any individual described in subparagraph (A), (B), or (C) of section 51(i)(1) (relating to related individuals),

''(B) any individual described in section 51(i)(2) (relating to nonqualifying rehires), determined by treating qualified District employees as members of a targeted group,

''(C) any 5-percent owner (as defined in section 416(i)(1)(B)),

''(D) any individual employed by the employer unless such individual—

''(i) is employed by the employer for at least 180 days, or

''(ii) has completed at least 400 hours of services performed for the employer, and

''(E) any individual employed by the employer at any facility described in section 144(c)(6)(B).

Rules similar to the rules of section 1396(d)(3) shall apply for purposes of subparagraph (D).

''(d) DEFINITION AND SPECIAL RULES.—For purposes of this section—

''(1) WAGES.—The term 'wages' has the same meaning as when used in section 51, including amounts treated as wages by section 51(e)(3)(B); except that subsections (c)(4) and (e)(3)(D) shall not apply.

''(2) CONTROLLED GROUPS.—All employers treated as a single employer under subsection (a) or (b) of section 52 shall be treated as a single employer, and the credit (if any) determined under this section with respect to each such employer shall be its proportionate share of the wages giving rise to such credit.

''(3) CERTAIN OTHER RULES MADE APPLICABLE.—Rules similar to the rules of subsections (j) and (k) of section 51, and subsections (c), (d), and (e) of section 52, shall apply.

''(4) CERTIFICATION OF PRINCIPAL PLACE OF ABODE.—An individual shall not be treated as meeting the requirement of subsection

(c)(1)(A) unless requirements similar to the requirements of section 51(d)(11) are met.

''(5) COST-OF-LIVING ADJUSTMENT OF $28,500 LIMIT.—In the case of any period during a calendar year after 1997, the dollar amount contained in subsection (c)(1)(C) shall be increased by an amount equal to—

''(A) such dollar amount, multiplied by

''(B) the cost-of-living adjustment determined under section 1(f)(3) for such calendar year by substituting 'calendar year 1996' for 'calendar year 1992' in subparagraph (B) thereof.

''(6) OTHER INCENTIVES.—

''(A) EXTENSION OF ADDITIONAL TEMPORARY INCENTIVE FOR EMPLOYING LONG-TERM FAMILY ASSISTANCE RECIPIENTS RESIDING IN THE DISTRICT OF COLUMBIA.—In the case of a long-term family assistance recipient (as defined in section 51(e)(4)), section 51(e)(3)(D) shall be applied by substituting 'September 30, 2002' for 'September 30, 2000' if—

''(i) such individual's principal place of abode is within the District of Columbia during the period described in section 51(e)(3), and

''(ii) the requirement of clause (i) or (ii) of subsection (c)(1)(B) is met during such period with respect to such individual.

''(B) EXTENSION OF WORK OPPORTUNITY CREDIT.—In the case of wages paid to a member of a targeted group (within the meaning of section 51(d)) while such member's principal place of abode is within the District of Columbia, section 51(c)(4)(B) shall be applied by substituting 'September 30, 2002' for 'September 30, 1998'.

''(e) APPLICATION OF SECTION.—This section shall apply with respect to individuals who begin work for the employer on and after the date of the enactment of this section and before October 1, 2002.

''SEC. 1400B. ADDITIONAL EXPENSING.

''(a) GENERAL RULE.—In the case of a qualified District business, for purposes of section 179—

''(1) the limitation under section 179(b)(1) shall be increased by the lesser of—

''(A) $20,000, or

''(B) the cost of section 179 property which is qualified District property placed in service during the taxable year, and

''(2) the amount taken into account under section 179(b)(2) with respect to any section 179 property which is qualified District property shall be 50 percent of the cost thereof.

''(b) RECAPTURE.—Rules similar to the rules under section 179(d)(10) shall apply with respect to any qualified District property which ceases to be used in the District of Columbia by a District business.

''(c) COORDINATION WITH SECTION 1397A.—In no event shall qualified District property be treated as qualified zone property for purposes of section 1397A.

''(d) APPLICATION OF SECTION.—This section shall apply to property placed in service after December 31, 1997, and before January 1, 2002.

''SEC. 1400C. TAX-EXEMPT ECONOMIC DEVELOPMENT BONDS.

''(a) IN GENERAL.—For purposes of part IV of subchapter B of this chapter (relating to tax exemption requirements for State and local bonds), the term 'exempt facility bond' includes any bond issued as part of an issue 95 percent or more of the net proceeds (as defined in section 150(a)(3)) of which are to be used to provide any District facility.

''(b) DISTRICT FACILITY.—For purposes of this section, the term 'District facility' means any District property the principal user of which is a qualified District business, and any land which is functionally related and subordinate to such property.

''(c) LIMITATION ON AMOUNT OF BONDS.—Subsection (a) shall not apply to any issue if the aggregate amount of outstanding District facility bonds allocable to any person (taking into account such issue) exceeds $15,000,000.

''(d) CERTAIN RULES TO APPLY.—

''(1) IN GENERAL.—Rules similar to the rules of subsections (c)(2), (d), and (e) of section 1394, and subparagraphs (B)(ii), (C), and (D) of section 1394(b)(3), shall apply for purposes of this section.

''(2) REQUIREMENTS AFTER TESTING PERIOD.—A business shall not fail to be treated as a qualified District business for purposes of this section for any taxable year beginning after the testing period (as defined in section 1394(b)(3)(C)) by reason of failing to meet any requirement of subsection (b) or (c) of section 1397B. The preceding sentence shall not apply to any business which is not a qualified business by reason of paragraph (1), (4), or (5) of section 1397B(d).

''(e) APPLICATION OF SECTION.—This section shall apply to bonds issued after the date of the enactment of this section and before January 1, 2003.

''SEC. 1400D. CREDIT FOR EQUITY INVESTMENTS IN AND LOANS TO DISTRICT OF COLUMBIA BUSINESSES.

''(a) GENERAL RULE.—For purposes of section 38, the District investment credit determined under this section for any taxable year is—

''(1) the qualified lender credit for such year, and

''(2) the qualified equity investment credit for such year.

''(b) QUALIFIED LENDER CREDIT.—For purposes of this section—

''(1) IN GENERAL.—The qualified lender credit for any taxable year is the amount of credit specified for such year by the Economic Development Corporation with respect to qualified District loans made by the taxpayer.

''(2) LIMITATION.—In no event may the qualified lender credit with respect to any loan exceed 25 percent of the cost of the property purchased with the proceeds of the loan.

''(3) QUALIFIED DISTRICT LOAN.—For purposes of paragraph (1), the term 'qualified district loan' means any loan for the purchase (as defined in section 179(d)(2)) of property to which section 168 applies (or would apply but for section 179) (or land which is functionally related and subordinate to such property) and substantially all of the use of which is in the District of Columbia and is in the active conduct of a trade or business in the District of Columbia. A rule similar to the rule of section 1397C(a)(2) shall apply for purposes of the preceding sentence.

''(c) QUALIFIED EQUITY INVESTMENT CREDIT.—

''(1) IN GENERAL.—For purposes of this section, the qualified equity investment credit determined under this section for any taxable year is an amount equal to the percentage specified by the Economic Development Corporation (but not greater than 25 percent) of the aggregate amount paid in cash by the taxpayer during the taxable year for the purchase of District business investments.

''(2) DISTRICT BUSINESS INVESTMENT.—For purposes of this subsection, the term 'District business investment' means—

''(A) any District business stock, and

''(B) any District partnership interest.

''(3) DISTRICT BUSINESS STOCK.—For purposes of this subsection—

''(A) IN GENERAL.—Except as provided in subparagraph (B), the term 'District business stock' means any stock in a domestic corporation if—

''(i) such stock is acquired by the taxpayer at its original issue (directly or through an underwriter) in exchange for cash, and

''(ii) as of the time such stock was issued, such corporation was engaged in a trade or business in the District of Columbia (or, in the case of a new corporation, such corporation was being organized for purposes of engaging in such a trade or business).

''(B) REDEMPTIONS.—A rule similar to the rule of section 1202(c)(3) shall apply for purposes of this paragraph.

''(4) QUALIFIED DISTRICT PARTNERSHIP INTEREST.—For purposes of this subsection, the term 'qualified District partnership interest' means any interest in a partnership if—

''(A) such interest is acquired by the taxpayer from the partnership solely in exchange for cash, and

''(B) as of the time such interest was acquired, such partnership was engaging in a trade or business in the District of Columbia (or, in the case of a new partnership, such partnership was being organized for purposes of engaging in such a trade or business).

''(5) DISPOSITIONS OF DISTRICT BUSINESS INVESTMENTS.—

''(A) IN GENERAL.—If a taxpayer disposes of any District business investment (or any other property the basis of which is determined in whole or in part by reference to the adjusted basis of such investment) before the end of the 5-year period beginning on the date such investment was acquired by the taxpayer, the taxpayer's tax imposed by this chapter for the taxable year in which such distribution occurs shall be increased by the aggregate decrease in the credits allowed under section 38 for all prior taxable years which would have resulted solely from reducing to zero any credit determined under this section with respect to such investment.

''(B) EXCEPTIONS.—Subparagraph (A) shall not apply to any gift, transfer, or transaction described in paragraph (1), (2), or (3) of section 1245(b).

''(C) SPECIAL RULE.—Any increase in tax under subparagraph (A) shall not be treated as a tax imposed by this chapter for purposes of—

''(i) determining the amount of any credit allowable under this chapter, and

''(ii) determining the amount of the tax imposed by section 55.

''(6) BASIS REDUCTION.—For purposes of this title, the basis of any District business investment shall be reduced by the amount of the credit determined under this section with respect to such investment.

''(d) LIMITATION ON AMOUNT OF CREDIT.—

''(1) IN GENERAL.—The amount of the District investment credit determined under this section with respect to any taxpayer for any taxable year shall not exceed the credit amount allocated to such taxpayer for such taxable year by the Economic Development Corporation.

''(2) OVERALL LIMITATION.—The aggregate credit amount which may be allocated by the Economic Development Corporation under this section shall not exceed $95,000,000.

''(3) CRITERIA FOR ALLOCATING CREDIT AMOUNTS.—The allocation of credit amounts under this section shall be made in accordance with criteria established by the Economic Development Corporation. In establishing such criteria, such Corporation shall take into account—

''(A) the degree to which the business receiving the loan or investment will provide job opportunities for low and moderate income residents of the District of Columbia, and

''(B) whether such business is within a population census tract in the District of Columbia having a poverty rate of at least 15 percent.

''(e) REGULATIONS.—The Secretary shall prescribe such regulations as may be appropriate to carry out this section.

''(f) APPLICATION OF SECTION.—This section shall apply to any credit amount allocated

for taxable years beginning after December 31, 1997, and before January 1, 2003.

"SEC. 1400E. DEFINITIONS.

''(a) QUALIFIED DISTRICT BUSINESS.—For purposes of this subchapter, the term 'qualified District business' means a corporation, partnership, or proprietorship which would be a qualified business entity (as defined in section 1397B) or a qualified proprietorship (as defined in such section) if—

''(1) the District of Columbia were an empowerment zone (and there were no other empowerment zones or enterprise communities), and

''(2) section 1397B(b)(1) did not apply.

''(b) QUALIFIED DISTRICT PROPERTY.—For purposes of this subchapter, the term 'qualified District property' means any property which would be qualified zone property (as defined in section 1397C) if—

''(1) the District of Columbia were an empowerment zone (and there were no other empowerment zones or enterprise communities),

''(2) paragraph (1)(A) of section 1397C(a) referred to the date of the enactment of this section,

''(3) paragraph (1)(B) of section 1397C(a) did not apply, and

''(4) paragraph (2) of section 1397C(a) were applied by substituting 'an amount equal to 15 percent of the adjusted basis' for 'an amount equal to the adjusted basis'.

''(c) ECONOMIC DEVELOPMENT CORPORATION.—For purposes of this subchapter, the term 'Economic Development Corporation' means the Economic Development Corporation hereafter established by law for the District of Columbia.

"SEC. 1400F. STATUS OF ECONOMIC DEVELOPMENT CORPORATION FOR DISTRICT OF COLUMBIA.

''(a) IN GENERAL.—For purposes of this title and the Social Security Act, the Economic Development Corporation is an agency of the District of Columbia.

''(b) BOND AUTHORITY.—The Economic Development Corporation shall be allocated 50 percent of the private activity bond volume cap allocated to the District of Columbia under section 146. Notwithstanding section 146(e), the District of Columbia may not alter the allocation under the preceding sentence.''

(b) CREDITS MADE PART OF GENERAL BUSINESS CREDIT.—

(1) Subsection (b) of section 38 is amended by striking ''plus'' at the end of paragraph (12), by striking the period at the end of paragraph (13) and inserting a comma, and by adding at the end the following new paragraphs:

''(14) the District of Columbia employment credit determined under section 1400A(a), plus

''(15) the District investment credit determined under section 1400D(a).''

(2) Subsection (d) of section 39 is amended by adding at the end the following new paragraph:

''(10) NO CARRYBACK OF DISTRICT OF COLUMBIA EMPLOYMENT AND INVESTMENT CREDITS BEFORE EFFECTIVE DATE.—No portion of the unused business credit for any taxable year which is attributable to the credit under section 1400A or 1400D may be carried back to a taxable year ending before the date of the enactment of such sections.''

(3) Subsection (c) of section 196 is amended by striking ''and'' at the end of paragraph (7), by striking the period at the end of paragraph (8) and inserting a comma, and by adding at the end the following new paragraphs:

''(9) the District of Columbia employment credit determined under section 1400A(a), and

''(10) the District investment credit determined under section 1400D(a).''

(c) CLERICAL AMENDMENT.—The table of subchapters for chapter 1 is amended by adding at the end the following new item:

''Subchapter W. Incentives for revitalization of the District of Columbia.''

(d) EFFECTIVE DATE.—This section shall take effect on the date of the enactment of this Act.

TITLE X—REVENUES

Subtitle A—Financial Products

SEC. 1001. CONSTRUCTIVE SALES TREATMENT FOR APPRECIATED FINANCIAL POSITIONS.

(a) IN GENERAL.—Part IV of subchapter P of chapter 1 is amended by adding at the end the following new section:

"SEC. 1259. CONSTRUCTIVE SALES TREATMENT FOR APPRECIATED FINANCIAL POSITIONS.

''(a) IN GENERAL.—If there is a constructive sale of an appreciated financial position—

''(1) the taxpayer shall recognize gain as if such position were sold, assigned, or otherwise terminated at its fair market value on the date of such constructive sale (and any gain shall be taken into account for the taxable year which includes such date), and

''(2) for purposes of applying this title for periods after the constructive sale—

''(A) proper adjustment shall be made in the amount of any gain or loss subsequently realized with respect to such position for any gain taken into account by reason of paragraph (1), and

''(B) the holding period of such position shall be determined as if such position were originally acquired on the date of such constructive sale.

''(b) APPRECIATED FINANCIAL POSITION.—For purposes of this section—

''(1) IN GENERAL.—Except as provided in paragraph (2), the term 'appreciated financial position' means any position with respect to any stock, debt instrument, or partnership interest if there would be gain were such position sold, assigned, or otherwise terminated at its fair market value.

''(2) EXCEPTIONS.—The term 'appreciated financial position' shall not include—

''(A) any position with respect to straight debt (as defined in section 1361(c)(5)(B) without regard to clause (iii) thereof), and

''(B) any position which is marked to market under any provision of this title or the regulations thereunder.

''(3) POSITION.—The term 'position' means an interest, including a futures or forward contract, short sale, or option.

''(c) CONSTRUCTIVE SALE.—For purposes of this section—

''(1) IN GENERAL.—A taxpayer shall be treated as having made a constructive sale of an appreciated financial position if the taxpayer (or a related person)—

''(A) enters into a short sale of the same or substantially identical property,

''(B) enters into an offsetting notional principal contract with respect to the same or substantially identical property,

''(C) enters into a futures or forward contract to deliver the same or substantially identical property,

''(D) in the case of an appreciated financial position that is a short sale or a contract described in subparagraph (B) or (C) with respect to any property, acquires the same or substantially identical property, or

''(E) to the extent prescribed by the Secretary in regulations, enters into 1 or more other transactions (or acquires 1 or more positions) that have substantially the same effect as a transaction described in any of the preceding subparagraphs.

''(2) EXCEPTION FOR SALES OF NONPUBLICLY TRADED PROPERTY.—The term 'constructive sale' shall not include any contract for sale of any stock, debt instrument, or partnership interest which is not a marketable security (as defined in section 453(f)) if the contract settles within 1 year after the date such contract is entered into.

''(3) EXCEPTION FOR CERTAIN CLOSED TRANSACTIONS.—In applying this section, there shall be disregarded any transaction (which would otherwise be treated as a constructive sale) during the taxable year if—

''(A) such transaction is closed before the end of the 30th day after the close of such taxable year, and

''(B) in the case of a transaction which is closed during the 90-day period ending on such 30th day—

''(i) the taxpayer holds the appreciated financial position throughout the 60-day period beginning on the date such transaction is closed, and

''(ii) at no time during such 60-day period is the taxpayer's risk of loss with respect to such position reduced by reason of a circumstance which would be described in section 246(c)(4) if references to stock included references to such position.

''(4) RELATED PERSON.—A person is related to another person with respect to a transaction if—

''(A) the relationship is described in section 267 or 707(b), and

''(B) such transaction is entered into with a view toward avoiding the purposes of this section.

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

''(1) FORWARD CONTRACT.—The term 'forward contract' means a contract to deliver a substantially fixed amount of property for a substantially fixed price.

''(2) OFFSETTING NOTIONAL PRINCIPAL CONTRACT.—The term 'offsetting notional principal contract' means, with respect to any property, an agreement which includes—

''(A) a requirement to pay (or provide credit for) all or substantially all of the investment yield (including appreciation) on such property for a specified period, and

''(B) a right to be reimbursed for (or receive credit for) all or substantially all of any decline in the value of such property.

''(e) SPECIAL RULES.—

''(1) TREATMENT OF SUBSEQUENT SALE OF POSITION WHICH WAS DEEMED SOLD.—If—

''(A) there is a constructive sale of any appreciated financial position,

''(B) such position is subsequently disposed of, and

''(C) at the time of such disposition, the transaction resulting in the constructive sale of such position is open with respect to the taxpayer or any related person,

solely for purposes of determining whether the taxpayer has entered into a constructive sale of any other appreciated financial position held by the taxpayer, the taxpayer shall be treated as entering into such transaction immediately after such disposition. For purposes of the preceding sentence, an assignment or other termination shall be treated as a disposition.

''(2) CERTAIN TRUST INSTRUMENTS TREATED AS STOCK.—For purposes of this section, an interest in a trust which is actively traded (within the meaning of section 1092(d)(1)) shall be treated as stock.

''(3) MULTIPLE POSITIONS IN PROPERTY.—If a taxpayer holds multiple positions in property, the determination of whether a specific transaction is a constructive sale and, if so, which appreciated financial position is deemed sold shall be made in the same manner as actual sales.

''(f) REGULATIONS.—The Secretary shall prescribe such regulations as may be necessary or appropriate to carry out the purposes of this section.''

(b) ELECTION OF MARK TO MARKET FOR SECURITIES TRADERS AND FOR TRADERS AND DEALERS IN COMMODITIES.—Subsection (d) of section 475 (relating to mark to market accounting method for dealers in securities) is amended by adding at the end the following new paragraph:

''(4) ELECTION OF MARK TO MARKET FOR SECURITIES TRADERS AND FOR TRADERS AND DEALERS IN COMMODITIES.—

''(A) IN GENERAL.—In the case of a person—

''(i) who is engaged in a trade or business to which this paragraph applies, and

''(ii) who elects to be treated as a dealer in securities for purposes of this section with respect to such trade or business,

subsections (a), (b)(3), (c)(3), and (e) and the preceding provisions of this subsection (or, in the case of a dealer in commodities, this section) shall apply to all commodities and securities held by such person in any trade or business with respect to which such election is in effect in the same manner as if such person were a dealer in securities and all references to securities included references to commodities.

''(B) APPLICATION OF PARAGRAPH.—This paragraph shall apply to any active trade or business—

''(i) as a trader in securities, or

''(ii) as a trader or dealer in commodities.

''(C) EXCEPTION FOR CERTAIN HOLDINGS OF TRADERS.—In the case of a trader in securities or commodities, subsection (a) shall not apply to any security or commodity (to which subsection (a) would otherwise apply solely by reason of this paragraph) if such security or commodity is clearly identified in the trader's records (before the close of the day applicable under subsection (b)(2)) as being held other than in a trade or business to which the election under subparagraph (A) is in effect. A security or commodity so identified shall be treated as described in subsection (b)(1).

''(D) COMMODITY.—For purposes of this paragraph, the term 'commodities' includes only commodities of a kind customarily dealt in on an organized commodity exchange.

''(E) ELECTION.—An election under this paragraph may be made separately for each trade or business and without the consent of the Secretary. Such an election, once made, shall apply to the taxable year for which made and all subsequent taxable years unless revoked with the consent of the Secretary.''

(c) CLERICAL AMENDMENT.—The table of sections for part IV of subchapter P of chapter 1 is amended by adding at the end the following new item:

''Sec. 1259. Constructive sales treatment for appreciated financial positions.''

(d) EFFECTIVE DATES.—

(1) IN GENERAL.—Except as otherwise provided in this subsection, the amendments made by this section shall apply to any constructive sale after June 8, 1997.

(2) EXCEPTION FOR SALES OF POSITIONS, ETC. HELD BEFORE JUNE 9, 1997.—A constructive sale before June 9, 1997, and the property to which the position involved in the transaction relates, shall not be taken into account in determining whether any other constructive sale after June 8, 1997, has occurred if, within before the close of the 30-day period beginning on the date of the enactment of this Act, such position and property are clearly identified in the taxpayer's records as offsetting. The preceding sentence shall cease to apply as of the date the taxpayer ceases to hold such position or property.

(3) SPECIAL RULE.—In the case of a decedent dying after June 8, 1997, if—

(A) there was a constructive sale on or before such date of any appreciated financial position,

(B) the transaction resulting in such constructive sale of such position remains open (with respect to the decedent or any related person) for not less than 2 years after the date of such transaction (whether such period is before or after such date), and

(C) such transaction is not closed within the 30-day period beginning on the date of the enactment of this Act,

then, for purposes of such Code, such position (and any property related thereto, as determined under the principles of section 1259(d)(1) of such Code (as so added)) shall be treated as property constituting rights to receive an item of income in respect of a decedent under section 691 of such Code.

(4) ELECTION OF SECURITIES TRADERS, AND FOR TRADERS AND DEALERS IN COMMODITIES, TO BE TREATED AS DEALERS IN SECURITIES.—

(A) IN GENERAL.—The amendment made by subsection (b) shall apply to taxable years ending after the date of the enactment of this Act.

(B) 4-YEAR SPREAD OF ADJUSTMENTS.—In the case of a taxpayer who elects under section 475(d)(4) of the Internal Revenue Code of 1986 (as added by this section) to change its method of accounting for its first taxable year ending after the date of the enactment of this Act, the net amount of the adjustments required to be taken into account by the taxpayer under section 481 of the Internal Revenue Code of 1986 shall be taken into account ratably over the 4-taxable year period beginning with such first taxable year.

SEC. 1002. LIMITATION ON EXCEPTION FOR INVESTMENT COMPANIES UNDER SECTION 351.

(a) IN GENERAL.—Paragraph (1) of section 351(e) (relating to exceptions) is amended by adding at the end the following: ''For purposes of the preceding sentence, the term 'investment company' includes any company if more than 80 percent of the value of the assets of such company (other than assets held in the ordinary course of a trade or business for sale to customers) is attributable to—

''(A) money,

''(B) any financial instrument (as defined in section 731(c)(2)(C)),

''(C) any foreign currency,

''(D) any interest in a real estate investment trust, a common trust fund, a regulated investment company, or a publicly traded partnership (as defined in section 7704(b)),

''(E) any interest described in clause (iv), (v), or (vi) of section 731(c)(2)(B) (or which would be so described without regard to any reference to active trading or marketability),

''(F) any other asset specified in regulations prescribed by the Secretary, or

''(G) any combination of the foregoing.''

(b) EFFECTIVE DATE.—

(1) IN GENERAL.—The amendment made by subsection (a) shall apply to transfers after June 8, 1997, in taxable years ending after such date.

(2) BINDING CONTRACTS.—The amendment made by subsection (a) shall not apply to any transfer pursuant to a written binding contract in effect on June 8, 1997, that provides for the transfer of a fixed amount of property, and at all times thereafter before such transfer.

SEC. 1003. MODIFICATION OF RULES FOR ALLOCATING INTEREST EXPENSE TO TAX-EXEMPT INTEREST.

(a) PRO RATA ALLOCATION RULES APPLICABLE TO CORPORATIONS.—

(1) IN GENERAL.—Paragraph (1) of section 265(b) is amended by striking ''In the case of a financial institution'' and inserting ''In the case of a corporation''.

(2) ONLY OBLIGATIONS ACQUIRED AFTER JUNE 8, 1997, TAKEN INTO ACCOUNT.—Subparagraph (A) of section 265(b)(2) is amended by striking ''August 7, 1986'' and inserting ''June 8, 1997 (August 7, 1986, in the case of a financial institution)''.

(3) SMALL ISSUER EXCEPTION NOT TO APPLY.—Subparagraph (A) of section 265(b)(3) is amended by striking ''Any qualified'' and inserting ''In the case of a financial institution, any qualified''.

(4) EXCEPTION FOR CERTAIN BONDS ACQUIRED ON SALE OF GOODS OR SERVICES.—Subparagraph (B) of section 265(b)(4) is amended by adding at the end the following new sentence: ''In the case of a taxpayer other than a financial institution, such term shall not include a nonsaleable obligation acquired by such taxpayer in the ordinary course of business as payment for goods or services provided by such taxpayer to any State or local government.''

(5) LOOK-THRU RULES FOR PARTNERSHIPS.—Paragraph (6) of section 265(b) is amended by adding at the end the following new subparagraph:

''(C) LOOK-THRU RULES FOR PARTNERSHIPS.—In the case of a corporation which is a partner in a partnership, such corporation shall be treated for purposes of this subsection as holding directly its allocable share of the assets of the partnership.''

(6) APPLICATION OF PRO RATA DISALLOWANCE ON AFFILIATED GROUP BASIS.—Subsection (b) of section 265 is amended by adding at the end the following new paragraph:

''(7) APPLICATION OF DISALLOWANCE ON AFFILIATED GROUP BASIS.—

''(A) IN GENERAL.—For purposes of this subsection, all members of an affiliated group filing a consolidated return under section 1501 shall be treated as 1 taxpayer.

''(B) TREATMENT OF INSURANCE COMPANIES.—This subsection shall not apply to an insurance company, and subparagraph (A) shall be applied without regard to any member of an affiliated group which is an insurance company.''

(6) DE MINIMIS EXCEPTION FOR NONFINANCIAL INSTITUTIONS.—Subsection (b) of section 265 is amended by adding at the end the following new paragraph:

''(8) DE MINIMIS EXCEPTION FOR NONFINANCIAL INSTITUTIONS.—In the case of a corporation, paragraph (1) shall not apply for any taxable year if the amount described in paragraph (2)(A) with respect to such corporation does not exceed the lesser of—

''(A) 2 percent of the amount described in paragraph (2)(B), or

''(B) $1,000,000.

The preceding sentence shall not apply to a financial institution or to a dealer in tax-exempt obligations.''

(7) CLERICAL AMENDMENT.—The subsection heading for section 265(b) is amended by striking ''FINANCIAL INSTITUTIONS'' and inserting ''CORPORATIONS''.

(b) APPLICATION OF SECTION 265(a)(2) WITH RESPECT TO CONTROLLED GROUPS.—Paragraph (2) of section 265(a) is amended after ''obligations'' by inserting ''held by the taxpayer (or any corporation which is a member of a controlled group (as defined in section 267(f)(1)) which includes the taxpayer)''.

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

SEC. 1004. GAINS AND LOSSES FROM CERTAIN TERMINATIONS WITH RESPECT TO PROPERTY.

(a) APPLICATION OF CAPITAL TREATMENT TO PROPERTY OTHER THAN PERSONAL PROPERTY.—

(1) IN GENERAL.—Paragraph (1) of section 1234A (relating to gains and losses from certain terminations) is amended by striking

''personal property (as defined in section 1092(d)(1))'' and inserting ''property''.

(2) EFFECTIVE DATE.—The amendment made by paragraph (1) shall apply to terminations more than 30 days after the date of the enactment of this Act.

(b) APPLICATION OF CAPITAL TREATMENT, ETC. TO OBLIGATIONS ISSUED BY NATURAL PERSONS.—

(1) IN GENERAL.—Section 1271(b) is amended to read as follows:

''(b) EXCEPTION FOR CERTAIN OBLIGATIONS.—

''(1) IN GENERAL.—This section shall not apply to—

''(A) any obligation issued by a natural person before June 9, 1997, and

''(B) any obligation issued before July 2, 1982, by an issuer which is not a corporation and is not a government or political subdivision thereof.

''(2) TERMINATION.—Paragraph (1) shall not apply to any obligation purchased (within the meaning of section 179(d)(2)) after June 8, 1997.''

(2) EFFECTIVE DATE.—The amendment made by paragraph (1) shall take effect on the date of enactment of this Act.

SEC. 1005. DETERMINATION OF ORIGINAL ISSUE DISCOUNT WHERE POOLED DEBT OBLIGATIONS SUBJECT TO ACCELERATION.

(a) IN GENERAL.—Subparagraph (C) of section 1272(a)(6) (relating to debt instruments to which the paragraph applies) is amended by striking ''or'' at the end of clause (i), by striking the period at the end of clause (ii) and inserting '', or'', and by inserting after clause (i) the following:

''(iii) any pool of debt instruments the yield on which may be reduced by reason of prepayments (or to the extent provided in regulations, by reason of other events).

To the extent provided in regulations prescribed by the Secretary, in the case of a small business engaged in the trade or business of selling tangible personal property at retail, clause (iii) shall not apply to debt instruments incurred in the ordinary course of such trade or business while held by such business.''

(b) EFFECTIVE DATES.—

(1) IN GENERAL.—The amendment made by this section shall apply to taxable years beginning after the date of the enactment of this Act.

(2) CHANGE IN METHOD OF ACCOUNTING.—In the case of any taxpayer required by this section to change its method of accounting for its first taxable year beginning after the date of the enactment of this Act—

(A) such change shall be treated as initiated by the taxpayer,

(B) such change shall be treated as made with the consent of the Secretary, and

(C) the net amount of the adjustments required to be taken into account by the taxpayer under section 481 of the Internal Revenue Code of 1986 shall be taken into account ratably over the 4-taxable year period beginning with such first taxable year.

SEC. 1006. DENIAL OF INTEREST DEDUCTIONS ON CERTAIN DEBT INSTRUMENTS.

(a) IN GENERAL.—Section 163 (relating to deduction for interest) is amended by redesignating subsection (k) as subsection (l) and by inserting after subsection (j) the following new subsection:

''(k) DISALLOWANCE OF DEDUCTION ON CERTAIN DEBT INSTRUMENTS OF CORPORATIONS.—

''(1) IN GENERAL.—No deduction shall be allowed under this chapter for any interest paid or accrued on a disqualified debt instrument.

''(2) DISQUALIFIED DEBT INSTRUMENT.—For purposes of this subsection, the term 'disqualified debt instrument' means any indebtedness of a corporation which is payable in equity of the issuer or a related party.

''(3) SPECIAL RULES FOR AMOUNTS PAYABLE IN EQUITY.—For purposes of paragraph (2), indebtedness shall be treated as payable in equity of the issuer or a related party only if—

''(A) a substantial amount of the principal or interest is required to be paid or converted, or at the option of the issuer or a related party is payable in, or convertible into, such equity,

''(B) a substantial amount of the principal or interest is required to be determined, or at the option of the issuer or a related party is determined, by reference to the value of such equity, or

''(C) the indebtedness is part of an arrangement which is reasonably expected to result in a transaction described in subparagraph (A) or (B).

For purposes of subparagraphs (A) and (B), principal or interest shall be treated as required to be so paid, converted, or determined if it may be required at the option of the holder or a related party and there is a substantial certainty the option will be exercised.

''(4) RELATED PARTY.—For purposes of this subsection, a person is a related party with respect to another person if such person bears a relationship to such other person described in section 267(b) or 707(b).

''(5) REGULATIONS.—The Secretary shall prescribe such regulations as may be necessary or appropriate to carry out the purposes of this subsection, including regulations preventing avoidance of this subsection through the use of an issuer other than a corporation.''

(b) EFFECTIVE DATE.—

(1) IN GENERAL.—The amendment made by this section shall apply to disqualified debt instruments issued after June 8, 1997.

(2) TRANSITION RULE.—The amendment made by this section shall not apply to any instrument issued after June 8, 1997, if such instrument is—

(A) issued pursuant to a written agreement which was binding on such date and at all times thereafter,

(B) described in a ruling request submitted to the Internal Revenue Service on or before such date, or

(C) described on or before such date in a public announcement or in a filing with the Securities and Exchange Commission required solely by reason of the distribution.

Subtitle B—Corporate Organizations and Reorganizations

SEC. 1011. TAX TREATMENT OF CERTAIN EXTRAORDINARY DIVIDENDS.

(a) TREATMENT OF EXTRAORDINARY DIVIDENDS IN EXCESS OF BASIS.—Paragraph (2) of section 1059(a) (relating to corporate shareholder's recognition of gain attributable to nontaxed portion of extraordinary dividends) is amended to read as follows:

''(2) AMOUNTS IN EXCESS OF BASIS.—If the nontaxed portion of such dividends exceeds such basis, such excess shall be treated as gain from the sale or exchange of such stock for the taxable year in which the extraordinary dividend is received.''

(b) TREATMENT OF REDEMPTIONS WHERE OPTIONS INVOLVED.—Paragraph (1) of section 1059(e) (relating to treatment of partial liquidations and non-pro rata redemptions) is amended to read as follows:

''(1) TREATMENT OF PARTIAL LIQUIDATIONS AND CERTAIN REDEMPTIONS.—Except as otherwise provided in regulations—

''(A) REDEMPTIONS.—In the case of any redemption of stock—

''(i) which is part of a partial liquidation (within the meaning of section 302(e)) of the redeeming corporation,

''(ii) which is not pro rata as to all shareholders, or

''(iii) which would not have been treated (in whole or in part) as a dividend if any options had not been taken into account under section 318(a)(4),

any amount treated as a dividend with respect to such redemption shall be treated as an extraordinary dividend to which paragraphs (1) and (2) of subsection (a) apply without regard to the period the taxpayer held such stock. In the case of a redemption described in clause (iii), only the basis in the stock redeemed shall be taken into account under subsection (a).

''(B) REORGANIZATIONS, ETC.—An exchange described in section 356(a)(1) which is treated as a dividend under section 356(a)(2) shall be treated as a redemption of stock for purposes of applying subparagraph (A).''

(c) TIME FOR REDUCTION.—Paragraph (1) of section 1059(d) is amended to read as follows:

''(1) TIME FOR REDUCTION.—Any reduction in basis under subsection (a)(1) shall be treated as occurring at the beginning of the ex-dividend date of the extraordinary dividend to which the reduction relates.''

(d) EFFECTIVE DATES.—

(1) IN GENERAL.—The amendments made by this section shall apply to distributions after May 3, 1995.

(2) TRANSITION RULE.—The amendments made by this section shall not apply to any distribution made pursuant to the terms of—

(A) a written binding contract in effect on May 3, 1995, and at all times thereafter before such distribution, or

(B) a tender offer outstanding on May 3, 1995.

(3) CERTAIN DIVIDENDS NOT PURSUANT TO CERTAIN REDEMPTIONS.—In determining whether the amendment made by subsection (a) applies to any extraordinary dividend other than a dividend treated as an extraordinary dividend under section 1059(e)(1) of the Internal Revenue Code of 1986 (as amended by this Act), paragraphs (1) and (2) shall be applied by substituting ''September 13, 1995'' for ''May 3, 1995''.

SEC. 1012. APPLICATION OF SECTION 355 TO DISTRIBUTIONS FOLLOWED BY ACQUISITIONS AND TO INTRAGROUP TRANSACTIONS.

(a) DISTRIBUTIONS FOLLOWED BY ACQUISITIONS.—Section 355 (relating to distribution of stock and securities of a controlled corporation) is amended by adding at the end the following new subsection:

''(e) RECOGNITION OF GAIN WHERE CERTAIN DISTRIBUTIONS OF STOCK OR SECURITIES ARE FOLLOWED BY ACQUISITION.—

''(1) GENERAL RULE.—If there is a distribution to which this subsection applies, the following rules shall apply:

''(A) ACQUISITION OF CONTROLLED CORPORATION.—If there is an acquisition described in paragraph (2)(A)(ii) with respect to any controlled corporation, any stock or securities in the controlled corporation shall not be treated as qualified property for purposes of subsection (c)(2) of this section or section 361(c)(2).

''(B) ACQUISITION OF DISTRIBUTING CORPORATION.—If there is an acquisition described in paragraph (2)(A)(ii) with respect to the distributing corporation, the controlled corporation shall recognize gain in an amount equal to the amount of net gain which would be recognized if all the assets of the distributing corporation (immediately after the distribution) were sold (at such time) for fair market value. Any gain recognized under the preceding sentence shall be treated as long-term capital gain and shall be taken into account for the taxable year which includes the day after the date of such distribution.

''(2) DISTRIBUTIONS TO WHICH SUBSECTION APPLIES.—

''(A) IN GENERAL.—This subsection shall apply to any distribution—

''(i) to which this section (or so much of section 356 as relates to this section) applies, and

''(ii) which is part of a plan (or series of related transactions) pursuant to which 1 or more persons acquire directly or indirectly stock representing a 50-percent or greater interest in the distributing corporation or any controlled corporation.

''(B) PLAN PRESUMED TO EXIST IN CERTAIN CASES.—If 1 or more persons acquire directly or indirectly stock representing a 50-percent or greater interest in the distributing corporation or any controlled corporation during the 4-year period beginning on the date which is 2 years before the date of the distribution, such acquisition shall be treated as pursuant to a plan described in subparagraph (A)(ii) unless it is established that the distribution and the acquisition are not pursuant to a plan or series of related transactions.

''(C) COORDINATION WITH SUBSECTION (d).—This subsection shall not apply to any distribution to which subsection (d) applies.

''(3) SPECIAL RULES RELATING TO ACQUISITIONS.—

''(A) CERTAIN ACQUISITIONS NOT TAKEN INTO ACCOUNT.—Except as provided in regulations, the following acquisitions shall not be treated as described in paragraph (2)(A)(ii):

''(i) The acquisition of stock in any controlled corporation by the distributing corporation.

''(ii) The acquisition by a person of stock in any controlled corporation by reason of holding stock in the distributing corporation.

''(iii) The acquisition by a person of stock in any successor corporation of the distributing corporation or any controlled corporation by reason of holding stock in such distributing or controlled corporation.

''(iv) The acquisition of stock in a corporation if shareholders owning directly or indirectly a 50-percent or greater interest in the distributing corporation or any controlled corporation before such acquisition own indirectly a 50-percent or greater interest in such distributing or controlled corporation after such acquisition.

This subparagraph shall not apply to any acquisition if the stock held before the acquisition was acquired pursuant to a plan described in subparagraph (A)(ii).

''(B) ASSET ACQUISITIONS.—Except as provided in regulations, for purposes of this subsection, if the assets of the distributing corporation or any controlled corporation are acquired by a successor corporation in a transaction described in subparagraph (A), (C), or (D) of section 368(a)(1) or any other transaction specified in regulations by the Secretary, the shareholders (immediately before the acquisition) of the corporation acquiring such assets shall be treated as acquiring stock in the corporation from which the assets were acquired.

''(4) DEFINITION AND SPECIAL RULES.—For purposes of this subsection—

''(A) 50-PERCENT OR GREATER INTEREST.—The term '50-percent or greater interest' has the meaning given such term by subsection (d)(4).

''(B) DISTRIBUTIONS IN TITLE 11 OR SIMILAR CASE.—Paragraph (1) shall not apply to any distribution made in a title 11 or similar case (as defined in section 368(a)(3)).

''(C) AGGREGATION AND ATTRIBUTION RULES.—

''(i) AGGREGATION.—The rules of paragraph (7)(A) of subsection (d) shall apply.

''(ii) ATTRIBUTION.—Section 355(d)(8)(A) shall apply in determining whether a person holds stock or securities in any corporation.

''(D) SUCCESSORS AND PREDECESSORS.—For purposes of this subsection, any reference to a controlled corporation or a distributing corporation shall include a reference to any predecessor or successor of such corporation.

''(E) STATUTE OF LIMITATIONS.—If there is an acquisition to which paragraph (1) (A) or (B) applies—

''(i) the statutory period for the assessment of any deficiency attributable to any part of the gain recognized under this subsection by reason of such acquisition shall not expire before the expiration of 3 years from the date the Secretary is notified by the taxpayer (in such manner as the Secretary may by regulations prescribe) that such acquisition occurred, and

''(ii) such deficiency may be assessed before the expiration of such 3-year period notwithstanding the provisions of any other law or rule of law which would otherwise prevent such assessment.

''(5) REGULATIONS.—The Secretary shall prescribe such regulations as may be necessary to carry out the purposes of this subsection, including regulations—

''(A) providing for the application of this subsection where there is more than 1 controlled corporation,

''(B) treating 2 or more distributions as 1 distribution where necessary to prevent the avoidance of such purposes, and

''(C) providing for the application of rules similar to the rules of subsection (d)(6) where appropriate for purposes of paragraph (2)(B).''

(b) SECTION 355 NOT TO APPLY TO CERTAIN INTRAGROUP TRANSACTIONS.—Section 355, as amended by subsection (a), is amended by adding at the end the following new subsection:

''(f) SECTION NOT TO APPLY TO CERTAIN INTRAGROUP TRANSACTIONS.—Except as provided in regulations, this section shall not apply to the distribution of stock from 1 member of an affiliated group filing a consolidated return to another member of such group, and the Secretary shall provide proper adjustments for the treatment of such distribution, including (if necessary) adjustments to—

''(1) the adjusted basis of any stock which—

''(A) is in a corporation which is a member of such group, and

''(B) is held by another member of such group, and

''(2) the earnings and profits of any member of such group.''

(c) DETERMINATION OF CONTROL IN CERTAIN DIVISIVE TRANSACTIONS.—

(1) SECTION 351 TRANSACTIONS.—Section 351(c) (relating to special rule) is amended to read as follows:

''(c) SPECIAL RULES WHERE DISTRIBUTION TO SHAREHOLDERS.—

''(1) IN GENERAL.—In determining control for purposes of this section—

''(A) the fact that any corporate transferor distributes part or all of the stock in the corporation which it receives in the exchange to its shareholders shall not be taken into account, and

''(B) if the requirements of section 355 are met with respect to such distribution, the shareholders shall be treated as in control of such corporation immediately after the exchange if the shareholders hold at least a 50-percent interest in such corporation immediately after the distribution.

''(2) 50-PERCENT INTEREST.—For purposes of this subsection, the term '50-percent interest' means stock possessing 50 percent of the total combined voting power of all classes of stock entitled to vote and 50 percent of the total value of shares of all classes of stock.''

(2) D REORGANIZATIONS.—Section 368(a)(2)(H) (relating to special rule for determining whether certain transactions are qualified under paragraph (1)(D)) is amended to read as follows:

''(H) SPECIAL RULES FOR DETERMINING WHETHER CERTAIN TRANSACTIONS ARE QUALIFIED UNDER PARAGRAPH (1)(D).—For purposes of determining whether a transaction qualifies under paragraph (1)(D)—

''(i) in the case of a transaction with respect to which the requirements of subparagraphs (A) and (B) of section 354(b)(1) are met, the term 'control' has the meaning given such term by section 304(c), and

''(ii) in the case of a transaction with respect to which the requirements of section 355 are met, the shareholders described in paragraph (1)(D) shall be treated as having control of the corporation to which the assets are transferred if such shareholders hold a 50-percent or greater interest (as defined in section 351(c)(2)) in such corporation immediately after the transfer.''

(d) EFFECTIVE DATES.—

(1) SECTION 355 RULES.—The amendments made by subsections (a) and (b) shall apply to distributions after April 16, 1997.

(2) DIVISIVE TRANSACTIONS.—The amendments made by subsection (c) shall apply to transfers after the date of the enactment of this Act.

(3) TRANSITION RULE.—The amendments made by this section shall not apply to any distribution after April 16, 1997, if such distribution is—

(A) made pursuant to a written agreement which was binding on such date and at all times thereafter,

(B) described in a ruling request submitted to the Internal Revenue Service on or before such date, or

(C) described on or before such date in a public announcement or in a filing with the Securities and Exchange Commission required solely by reason of the distribution.

This subparagraph shall not apply to any written agreement, ruling request, or public announcement or filing unless it identifies the unrelated acquirer of the distributing corporation or of any controlled corporation, whichever is applicable.

SEC. 1013. TAX TREATMENT OF REDEMPTIONS INVOLVING RELATED CORPORATIONS.

(a) STOCK PURCHASES BY RELATED CORPORATIONS.—The last sentence of section 304(a)(1) (relating to acquisition by related corporation other than subsidiary) is amended to read as follows: ''To the extent that such distribution is treated as a distribution to which section 301 applies, the transferor and the acquiring corporation shall be treated in the same manner as if the transferor had transferred the stock so acquired to the acquiring corporation in exchange for stock of the acquiring corporation in a transaction to which section 351(a) applies, and then the acquiring corporation had redeemed the stock it was treated as issuing in such transaction.''

(b) COORDINATION WITH SECTION 1059.—Clause (iii) of section 1059(e)(1)(A), as amended by this title, is amended to read as follows:

''(iii) which would not have been treated (in whole or in part) as a dividend if—

''(I) any options had not been taken into account under section 318(a)(4), or

''(II) section 304(a) had not applied,''.

(c) SPECIAL RULE FOR ACQUISITIONS BY FOREIGN CORPORATIONS.—Section 304(b) (relating to special rules for application of subsection (a)) is amended by adding at the end the following new paragraph:

''(5) ACQUISITIONS BY FOREIGN CORPORATIONS.—

''(A) IN GENERAL.—In the case of any acquisition to which subsection (a) applies in which the acquiring corporation is a foreign corporation, the only earnings and profits

taken into account under paragraph (2)(A) shall be those earnings and profits—

''(i) which are attributable (under regulations prescribed by the Secretary) to stock of the acquiring corporation owned (within the meaning of section 958(a)) by a corporation or individual which is—

''(I) a United States shareholder (within the meaning of section 951(b)) of the acquiring corporation, and

''(II) the transferor or a person who bears a relationship to the transferor described in section 267(b) or 707(b), and

''(ii) which were accumulated during the period or periods such stock was owned by such person while the acquiring corporation was a controlled foreign corporation.

''(B) APPLICATION OF SECTION 1248.—For purposes of subparagraph (A), the rules of section 1248(d) shall apply except to the extent otherwise provided by the Secretary.

''(C) REGULATIONS.—The Secretary shall prescribe such regulations as are appropriate to carry out the purposes of this paragraph.''

(d) EFFECTIVE DATE.—

(1) IN GENERAL.—The amendments made by this section shall apply to distributions and acquisitions after June 8, 1997.

(2) TRANSITION RULE.—The amendments made by this section shall not apply to any distribution or acquisition after June 8, 1997, if such distribution or acquisition is—

(A) made pursuant to a written agreement which was binding on such date and at all times thereafter,

(B) described in a ruling request submitted to the Internal Revenue Service on or before such date, or

(C) described in a public announcement or filing with the Securities and Exchange Commission on or before such date.

SEC. 1014. MODIFICATION OF HOLDING PERIOD APPLICABLE TO DIVIDENDS RECEIVED DEDUCTION.

(a) IN GENERAL.—Subparagraph (A) of section 246(c)(1) is amended to read as follows:

''(A) which is held by the taxpayer for 45 days or less during the 90-day period beginning on the date which is 45 days before the date on which such share becomes ex-dividend with respect to such dividend, or''.

(b) CONFORMING AMENDMENTS.—

(1) Paragraph (2) of section 246(c) is amended to read as follows:

''(2) 90-DAY RULE IN THE CASE OF CERTAIN PREFERENCE DIVIDENDS.—In the case of stock having preference in dividends, if the taxpayer receives dividends with respect to such stock which are attributable to a period or periods aggregating in excess of 366 days, paragraph (1)(A) shall be applied—

''(A) by substituting '90 days' for '45 days' each place it appears, and

''(B) by substituting '180-day period' for '90-day period'.''

(2) Paragraph (3) of section 246(c) is amended by adding ''and'' at the end of subparagraph (A), by striking subparagraph (B), and by redesignating subparagraph (C) as subparagraph (B).

(c) EFFECTIVE DATE.—The amendments made by this section shall apply to dividends received or accrued after the 30th day after the date of the enactment of this Act.

Subtitle C—Other Corporate Provisions

SEC. 1021. REGISTRATION AND OTHER PROVISIONS RELATING TO CONFIDENTIAL CORPORATE TAX SHELTERS.

(a) IN GENERAL.—Section 6111 (relating to registration of tax shelters) is amended by redesignating subsections (d) and (e) as subsections (e) and (f), respectively, and by inserting after subsection (c) the following new subsection:

''(d) CERTAIN CONFIDENTIAL ARRANGEMENTS TREATED AS TAX SHELTERS.—

''(1) IN GENERAL.—For purposes of this section, the term 'tax shelter' includes any entity, plan, arrangement, or transaction—

''(A) a significant purpose of the structure of which is the avoidance or evasion of Federal income tax for a direct or indirect participant which is a corporation,

''(B) which is offered to any potential participant under conditions of confidentiality, and

''(C) for which the tax shelter promoters may receive fees in excess of $100,000 in the aggregate.

''(2) CONDITIONS OF CONFIDENTIALITY.—For purposes of paragraph (1)(B), an offer is under conditions of confidentiality if—

''(A) the potential participant to whom the offer is made (or any other person acting on behalf of such participant) has an understanding or agreement with or for the benefit of any promoter of the tax shelter that such participant (or such other person) will limit disclosure of the tax shelter or any significant tax features of the tax shelter, or

''(B) any promoter of the tax shelter—

''(i) claims, knows, or has reason to know,

''(ii) knows or has reason to know that any other person (other than the potential participant) claims, or

''(iii) causes another person to claim,

that the tax shelter (or any aspect thereof) is proprietary to any person other than the potential participant or is otherwise protected from disclosure to or use by others.

For purposes of this subsection, the term 'promoter' means any person or any related person (within the meaning of section 267 or 707) who participates in the organization, management, or sale of the tax shelter.

''(3) PERSONS OTHER THAN PROMOTER REQUIRED TO REGISTER IN CERTAIN CASES.—

''(A) IN GENERAL.—If—

''(i) the requirements of subsection (a) are not met with respect to any tax shelter (as defined in paragraph (1)) by any tax shelter promoter, and

''(ii) no tax shelter promoter is a United States person,

then each United States person who discussed participation in such shelter shall register such shelter under subsection (a).

''(B) EXCEPTION.—Subparagraph (A) shall not apply to a United States person who discussed participation in a tax shelter if—

''(i) such person notified the promoter in writing (not later than the close of the 90th day after the day on which such discussions began) that such person would not participate in such shelter, and

''(ii) such person does not participate in such shelter.

''(4) OFFER TO PARTICIPATE TREATED AS OFFER FOR SALE.—For purposes of subsections (a) and (b), an offer to participate in a tax shelter (as defined in paragraph (1)) shall be treated as an offer for sale.''

(b) PENALTY.—Subsection (a) of section 6707 (relating to failure to furnish information regarding tax shelters) is amended by adding at the end the following new paragraph:

''(3) CONFIDENTIAL ARRANGEMENTS.—

''(A) IN GENERAL.—In the case of a tax shelter (as defined in section 6111(d)), the penalty imposed under paragraph (1) shall be an amount equal to the greater of—

''(i) 50 percent of the fees paid to all promoters of the tax shelter with respect to offerings made before the date such shelter is registered under section 6111, or

''(ii) $10,000.

Clause (i) shall be applied by substituting '75 percent' for '50 percent' in the case of an intentional failure or act described in paragraph (1).

''(B) SPECIAL RULE FOR PARTICIPANTS REQUIRED TO REGISTER SHELTER.—In the case of a person required to register such a tax shelter by reason of section 6111(d)(3)—

''(i) such person shall be required to pay the penalty under paragraph (1) only if such person actually participated in such shelter,

''(ii) the amount of such penalty shall be determined by taking into account under subparagraph (A)(i) only the fees paid by such person, and

''(iii) such penalty shall be in addition to the penalty imposed on any other person for failing to register such shelter.''

(c) MODIFICATIONS TO SUBSTANTIAL UNDERSTATEMENT PENALTY.—

(1) RESTRICTION ON REASONABLE BASIS FOR CORPORATE UNDERSTATEMENT OF INCOME TAX.—Subparagraph (B) of section 6662(d)(2) is amended by adding at the end the following new flush sentence:

''For purposes of clause (ii)(II), in no event shall a corporation be treated as having a reasonable basis for its tax treatment of an item attributable to a multiple-party financing transaction if such treatment does not clearly reflect the income of the corporation.''

(2) MODIFICATION TO DEFINITION OF TAX SHELTER.—Clause (iii) of section 6662(d)(2)(C) is amended by striking ''the principal purpose'' and inserting ''a significant purpose''.

(d) CONFORMING AMENDMENTS.—

(1) Paragraph (2) of section 6707(a) is amended by striking ''The penalty'' and inserting ''Except as provided in paragraph (3), the penalty''.

(2) Subparagraph (A) of section 6707(a)(1) is amended by striking ''paragraph (2)'' and inserting ''paragraph (2) or (3), as the case may be''.

(e) EFFECTIVE DATE.—

(1) IN GENERAL.—Except as provided in paragraph (2), the amendments made by this section shall apply to any tax shelter (as defined in section 6111(d) of the Internal Revenue Code of 1986, as amended by this section) interests in which are offered to potential participants after the Secretary of the Treasury prescribes guidance with respect to meeting requirements added by such amendments.

(2) MODIFICATIONS TO SUBSTANTIAL UNDERSTATEMENT PENALTY.—The amendments made by subsection (c) shall apply to items with respect to transactions entered into after the date of the enactment of this Act.

SEC. 1022. CERTAIN PREFERRED STOCK TREATED AS BOOT.

(a) SECTION 351.—Section 351 (relating to transfer to corporation controlled by transferor) is amended by redesignating subsection (g) as subsection (h) and by inserting after subsection (f) the following new subsection:

''(g) NONQUALIFIED PREFERRED STOCK NOT TREATED AS STOCK.—

''(1) IN GENERAL.—For purposes of subsections (a) and (b), the term 'stock' shall not include nonqualified preferred stock.

''(2) NONQUALIFIED PREFERRED STOCK.—For purposes of paragraph (1)—

''(A) IN GENERAL.—The term 'nonqualified preferred stock' means preferred stock if—

''(i) the holder of such stock has the right to require the issuer or a related person to redeem or purchase the stock,

''(ii) the issuer or a related person is required to redeem or purchase such stock,

''(iii) the issuer or a related person has the right to redeem or purchase the stock and, as of the issue date, it is more likely than not that such right will be exercised, or

''(iv) the dividend rate on such stock varies in whole or in part (directly or indirectly) with reference to interest rates, commodity prices, or other similar indices.

''(B) LIMITATIONS.—Clauses (i), (ii), and (iii) of subparagraph (A) shall apply only if the

right or obligation referred to therein may be exercised within the 20-year period beginning on the issue date of such stock and such right or obligation is not subject to a contingency which, as of the issue date, makes remote the likelihood of the redemption or purchase.

''(C) EXCEPTIONS FOR CERTAIN RIGHTS OR OBLIGATIONS.—

''(i) IN GENERAL.—A right or obligation shall not be treated as described in clause (i), (ii), or (iii) of subparagraph (A) if—

''(I) it may be exercised only upon the death, disability, or mental incompetency of the holder, or

''(II) in the case of a right or obligation to redeem or purchase stock transferred in connection with the performance of services for the issuer or a related person (and which represents reasonable compensation), it may be exercised only upon the holder's separation from service from the issuer or a related person.

''(ii) EXCEPTION.—Clause (i)(I) shall not apply if the stock relinquished in the exchange, or the stock acquired in the exchange is in—

''(I) a corporation if any class of stock in such corporation or a related party is readily tradable on an established securities market or otherwise, or

''(II) any other corporation if such exchange is part of a transaction or series of transactions in which such corporation is to become a corporation described in subclause (I).

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

''(A) PREFERRED STOCK.—The term 'preferred stock' means stock which is limited and preferred as to dividends and does not participate (including through a conversion privilege) in corporate growth to any significant extent.

''(B) RELATED PERSON.—A person shall be treated as related to another person if they bear a relationship to such other person described in section 267(b) or 707(b).

''(4) REGULATIONS.—The Secretary may prescribe such regulations as may be necessary or appropriate to carry out the purposes of this subsection and sections 354(a)(2)(C), 355(a)(3)(D), and 356(e). The Secretary may also prescribe regulations, consistent with the treatment under this subsection and such sections, for the treatment of nonqualified preferred stock under other provisions of this title.''

(b) SECTION 354.—Paragraph (2) of section 354(a) (relating to exchanges of stock and securities in certain reorganizations) is amended by adding at the end the following new subparagraph:

''(C) NONQUALIFIED PREFERRED STOCK.—

''(i) IN GENERAL.—Nonqualified preferred stock (as defined in section 351(g)(2)) received in exchange for stock other than nonqualified preferred stock (as so defined) shall not be treated as stock or securities.

''(ii) RECAPITALIZATIONS OF FAMILY-OWNED CORPORATIONS.—

''(I) IN GENERAL.—Clause (i) shall not apply in the case of a recapitalization under section 368(a)(1)(E) of a family-owned corporation.

''(II) FAMILY-OWNED CORPORATION.—For purposes of this clause, except as provided in regulations, the term 'family-owned corporation' means any corporation which is described in clause (i) of section 447(d)(2)(C) throughout the 8-year period beginning on the date which is 5 years before the date of the recapitalization. For purposes of the preceding sentence, stock shall not be treated as owned by a family member during any period described in section 355(d)(6)(B).''

(c) SECTION 355.—Paragraph (3) of section 355(a) is amended by adding at the end the following new subparagraph:

''(D) NON QUALIFIED PREFERRED STOCK.—Nonqualified preferred stock (as defined in section 351(g)(2)) received in a distribution with respect to stock other than nonqualified preferred stock (as so defined) shall not be treated as stock or securities.''

(d) SECTION 356.—Section 356 is amended by redesignating subsections (e) and (f) as subsections (f) and (g), respectively, and by inserting after subsection (d) the following new subsection:

''(e) NONQUALIFIED PREFERRED STOCK TREATED AS OTHER PROPERTY.—For purposes of this section—

''(1) IN GENERAL.—Except as provided in paragraph (2), the term 'other property' includes nonqualified preferred stock (as defined in section 351(g)(2)).

''(2) EXCEPTION.—The term 'other property' does not include nonqualified preferred stock (as so defined) to the extent that, under section 354 or 355, such preferred stock would be permitted to be received without the recognition of gain.''

(e) CONFORMING AMENDMENTS.—

(1) Subparagraph (B) of section 354(a)(2) and subparagraph (C) of section 355(a)(3)(C) are each amended by inserting ''(including nonqualified preferred stock, as defined in section 351(g)(2))'' after ''stock''.

(2) Subparagraph (A) of section 354(a)(3) and subparagraph (A) of section 355(a)(4) are each amended by inserting ''nonqualified preferred stock and'' after ''including''.

(3) Section 1036 is amended by redesignating subsection (b) as subsection (c) and by inserting after subsection (a) the following new subsection:

''(b) NONQUALIFIED PREFERRED STOCK NOT TREATED AS STOCK.—For purposes of this section, nonqualified preferred stock (as defined in section 351(g)(2)) shall be treated as property other than stock.''

(f) EFFECTIVE DATE.—

(1) IN GENERAL.—The amendments made by this section shall apply to transactions after June 8, 1997.

(2) TRANSITION RULE.—The amendments made by this section shall not apply to any transaction after June 8, 1997, if such transaction is—

(A) made pursuant to a written agreement which was binding on such date and at all times thereafter,

(B) described in a ruling request submitted to the Internal Revenue Service on or before such date, or

(C) described on or before such date in a public announcement or in a filing with the Securities and Exchange Commission required solely by reason of the distribution.

Subtitle D—Administrative Provisions

SEC. 1031. REPORTING OF CERTAIN PAYMENTS MADE TO ATTORNEYS.

(a) IN GENERAL.—Section 6045 (relating to returns of brokers) is amended by adding at the end the following new subsection:

''(f) RETURN REQUIRED IN THE CASE OF PAYMENTS TO ATTORNEYS.—

''(1) IN GENERAL.—Any person engaged in a trade or business and making a payment (in the course of such trade or business) to which this subsection applies shall file a return under subsection (a) and a statement under subsection (b) with respect to such payment.

''(2) APPLICATION OF SUBSECTION.—

''(A) IN GENERAL.—This subsection shall apply to any payment to an attorney in connection with legal services (whether or not such services are performed for the payor).

''(B) EXCEPTION.—This subsection shall not apply to the portion of any payment which is required to be reported under section 6041(a) (or would be so required but for the dollar limitation contained therein) or section 6051.''

(b) REPORTING OF ATTORNEYS' FEES PAYABLE TO CORPORATIONS.—The regulations providing an exception under section 6041 of the Internal Revenue Code of 1986 for payments made to corporations shall not apply to payments of attorneys' fees.

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

SEC. 1032. DECREASE OF THRESHOLD FOR REPORTING PAYMENTS TO CORPORATIONS PERFORMING SERVICES FOR FEDERAL AGENCIES.

(a) IN GENERAL.—Subsection (d) of section 6041A (relating to returns regarding payments of remuneration for services and direct sales) is amended by adding at the end the following new paragraph:

''(3) PAYMENTS TO CORPORATIONS BY FEDERAL EXECUTIVE AGENCIES.—

''(A) IN GENERAL.—Notwithstanding any regulation prescribed by the Secretary before the date of the enactment of this paragraph, subsection (a) shall apply to remuneration paid to a corporation by any Federal executive agency (as defined in section 6050M(b)).

''(B) EXCEPTION.—Subparagraph (A) shall not apply to—

''(i) services under contracts described in section 6050M(e)(3) with respect to which the requirements of section 6050M(e)(2) are met, and

''(ii) such other services as the Secretary may specify in regulations prescribed after the date of the enactment of this paragraph.''

(b) EFFECTIVE DATE.—The amendment made by this section shall apply to returns the due date for which (determined without regard to any extension) is more than 90 days after the date of the enactment of this Act.

SEC. 1033. DISCLOSURE OF RETURN INFORMATION FOR ADMINISTRATION OF CERTAIN VETERANS PROGRAMS.

(a) GENERAL RULE.—Subparagraph (D) of section 6103(l)(7) (relating to disclosure of return information to Federal, State, and local agencies administering certain programs) is amended by striking ''Clause (viii) shall not apply after September 30, 1998.''

(b) EFFECTIVE DATE.—The amendment made by subsection (a) shall take effect on the date of the enactment of this Act.

SEC. 1034. CONTINUOUS LEVY ON CERTAIN PAYMENTS.

(a) IN GENERAL.—Section 6331 (relating to levy and distraint) is amended—

(1) by redesignating subsection (h) as subsection (i), and

(2) by inserting after subsection (g) the following new subsection:

''(h) CONTINUING LEVY ON CERTAIN PAYMENTS.—

''(1) IN GENERAL.—The effect of a levy on specified payments to or received by a taxpayer shall be continuous from the date such levy is first made until such levy is released. Notwithstanding section 6334, such levy shall attach up to 15 percent of any salary or pension payment due to the taxpayer.

''(2) SPECIFIED PAYMENTS.—For the purposes of paragraph (1), the term 'specified payments' means—

''(A) Federal payments other than payments for which eligibility is based on the income or assets (or both) of a payee,

''(B) payments described in subsection (a)(4) (relating to unemployment benefits), and

''(C) payments described in subsection (a)(11) (relating to certain public assistance payments).''

(b) EFFECTIVE DATE.—The amendment made by subsection (a) shall apply to levies

issued after the date of the enactment of this Act.

SEC. 1035. RETURNS OF BENEFICIARIES OF ESTATES AND TRUSTS REQUIRED TO FILE RETURNS CONSISTENT WITH ESTATE OR TRUST RETURN OR TO NOTIFY SECRETARY OF INCONSISTENCY.

(a) DOMESTIC ESTATES AND TRUSTS.—Section 6034A (relating to information to beneficiaries of estates and trusts) is amended by adding at the end the following new subsection:

''(c) BENEFICIARY'S RETURN MUST BE CONSISTENT WITH ESTATE OR TRUST RETURN OR SECRETARY NOTIFIED OF INCONSISTENCY.—

''(1) IN GENERAL.—A beneficiary of any estate or trust to which subsection (a) applies shall, on such beneficiary's return, treat any reported item in a manner which is consistent with the treatment of such item on the applicable entity's return.

''(2) NOTIFICATION OF INCONSISTENT TREATMENT.—

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

''(i)(I) the applicable entity has filed a return but the beneficiary's treatment on such beneficiary's return is (or may be) inconsistent with the treatment of the item on the applicable entity's return, or

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

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

paragraph (1) shall not apply to such item.

''(B) BENEFICIARY RECEIVING INCORRECT INFORMATION.—A beneficiary shall be treated as having complied with clause (ii) of subparagraph (A) with respect to a reported item if the beneficiary—

''(i) demonstrates to the satisfaction of the Secretary that the treatment of the reported item on the beneficiary's return is consistent with the treatment of the item on the statement furnished under subsection (a) to the beneficiary by the applicable entity, 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 beneficiary does not comply with subparagraph (A)(ii) of paragraph (2),

any adjustment required to make the treatment of the items by such beneficiary consistent with the treatment of the items on the applicable entity's 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) DEFINITIONS.—For purposes of this subsection—

''(A) REPORTED ITEM.—The term 'reported item' means any item for which information is required to be furnished under subsection (a).

''(B) APPLICABLE ENTITY.—The term 'applicable entity' means the estate or trust of which the taxpayer is the beneficiary.

''(5) ADDITION TO TAX FOR FAILURE TO COMPLY WITH SECTION.—For addition to tax in the case of a beneficiary's negligence in connection with, or disregard of, the requirements of this section, see part II of subchapter A of chapter 68.''

(b) FOREIGN TRUSTS.—Subsection (d) of section 6048 (relating to information with respect to certain foreign trusts) is amended by adding at the end the following new paragraph:

''(5) UNITED STATES PERSON'S RETURN MUST BE CONSISTENT WITH TRUST RETURN OR SECRETARY NOTIFIED OF INCONSISTENCY.—Rules similar to the rules of section 6034A(c) shall apply to items reported by a trust under subsection (b)(1)(B) and to United States persons referred to in such subsection.''

(c) EFFECTIVE DATE.—The amendments made by this section shall apply to returns of beneficiaries and owners filed after the date of the enactment of this Act.

Subtitle E—Excise and Employment Tax Provisions

SEC. 1041. EXTENSION AND MODIFICATION OF AIRPORT AND AIRWAY TRUST FUND TAXES.

(a) FUEL TAXES.—

(1) AVIATION FUEL.—Clause (ii) of section 4091(b)(3)(A) is amended by striking ''September 30, 1997'' and inserting ''September 30, 2007''.

(2) AVIATION GASOLINE.—Subparagraph (B) of section 4081(d)(2) is amended by striking ''September 30, 1997'' and inserting ''September 30, 2007''.

(3) NONCOMMERCIAL AVIATION.—Subparagraph (B) of section 4041(c)(3) is amended by striking ''September 30, 1997'' and inserting ''September 30, 2007''.

(b) TICKET TAXES.—

(1) PERSONS.—Clause (ii) of section 4261(g)(1)(A) is amended by striking ''September 30, 1997'' and inserting ''September 30, 2007''.

(2) PROPERTY.—Clause (ii) of section 4271(d)(1)(A) is amended by striking ''September 30, 1997'' and inserting ''September 30, 2007''.

(c) MODIFICATIONS TO TAX ON TRANSPORTATION OF PERSONS BY AIR.—Subsection (c) of section 4261 (relating to use of international travel facilities) is amended to read as follows:

''(c) USE OF INTERNATIONAL TRAVEL FACILITIES.—

''(1) IN GENERAL.—There is hereby imposed a tax of $10 on any amount paid (whether within or without the United States) for any transportation of any person by air, if such transportation begins or ends in the United States.

''(2) EXCEPTION FOR TRANSPORTATION ENTIRELY TAXABLE UNDER SUBSECTION (a).—This subsection shall not apply to any transportation all of which is taxable under subsection (a) (determined without regard to sections 4281 and 4282).

''(3) SPECIAL RULE FOR ALASKA AND HAWAII.—In any case in which the tax imposed by paragraph (1) applies to a domestic segment, such tax shall apply only on departure.

''(4) INFLATION ADJUSTMENT.—

''(A) IN GENERAL.—In the case of transportation beginning in a calendar year after 1998, the dollar amount contained in paragraph (1) shall be increased by an amount equal to—

''(i) such dollar amount, multiplied by

''(ii) the cost-of-living adjustment determined under section 1(f)(3) for such calendar year by substituting 'calendar year 1997' for 'calendar year 1992' in subparagraph (B) thereof.

''(B) ROUNDING.—If any increase determined under subparagraph (A) is not a multiple of 10 cents, such increase shall be rounded to the nearest multiple of 10 cents.''

(d) EFFECTIVE DATES.—

(1) FUEL TAXES.—The amendment made by subsection (a) shall apply take effect on October 1, 1997.

(2) TICKET TAXES.—

(A) IN GENERAL.—The amendments made by subsections (b) and (c) shall apply to transportation beginning on or after October 1, 1997.

(B) TREATMENT OF AMOUNTS PAID FOR TICKETS PURCHASED BEFORE DATE OF ENACTMENT.—The amendments made by subsection (c) shall not apply to amounts paid for a ticket purchased before the date of the enactment of this Act for a specified flight beginning on or after October 1, 1997.

SEC. 1042. CREDIT FOR TIRE TAX IN LIEU OF EXCLUSION OF VALUE OF TIRES IN COMPUTING PRICE.

(a) IN GENERAL.—Subsection (e) of section 4051 is amended to read as follows:

''(e) CREDIT AGAINST TAX FOR TIRE TAX.—If—

''(1) tires are sold on or in connection with the sale of any article, and

''(2) tax is imposed by this subchapter on the sale of such tires,

there shall be allowed as a credit against the tax imposed by this subchapter an amount equal to the tax (if any) imposed by section 4071 on such tires.''

(b) CONFORMING AMENDMENT.—Subparagraph (B) of section 4052(b)(1) is amended by striking clause (iii), by adding ''and'' at the end of clause (ii), and by redesignating clause (iv) as clause (iii).

(c) EFFECTIVE DATE.—The amendments made by this section shall take effect on January 1, 1998.

SEC. 1043. RESTORATION OF LEAKING UNDERGROUND STORAGE TANK TRUST FUND TAXES.

Paragraph (3) of section 4081(d) is amended by inserting before the period '', and before the date of the enactment of the Revenue Reconciliation Act of 1997''.

SEC. 1044. REINSTATEMENT OF OIL SPILL LIABILITY TRUST FUND TAX.

(a) IN GENERAL.—Paragraph (1) of section 4611(f) is amended by striking ''December 31, 1989, and before January 1, 1995'' and inserting ''December 31, 1997''. Paragraph (2) of section 4611(f) is hereby repealed.

(b) EFFECTIVE DATE.—The amendment made by subsection (a) shall take effect on January 1, 1998.

SEC. 1045. EXTENSION OF FEDERAL UNEMPLOYMENT SURTAX.

(a) IN GENERAL.—Section 3301 is amended by striking ''equal to—'' and all that follows through ''thereafter;'' and inserting ''6.2 percent in the case of calendar year 1998 and each calendar year thereafter''.

(b) EFFECTIVE DATE.—The amendment made by subsection (a) shall apply to calendar years beginning after December 31, 1997.

Subtitle F—Provisions Relating to Tax-Exempt Entities

SEC. 1051. EXPANSION OF LOOK-THRU RULE FOR INTEREST, ANNUITIES, ROYALTIES, AND RENTS DERIVED BY SUBSIDIARIES OF TAX-EXEMPT ORGANIZATIONS.

(a) IN GENERAL.—Paragraph (13) of section 512(b) is amended to read as follows:

''(13) SPECIAL RULES FOR CERTAIN AMOUNTS RECEIVED FROM CONTROLLED ENTITIES.—

''(A) IN GENERAL.—If an organization (in this paragraph referred to as the 'controlling organization') receives (directly or indirectly) a specified payment from another entity which it controls (in this paragraph referred to as the 'controlled entity'), notwithstanding paragraphs (1), (2), and (3), the controlling organization shall include such payment as an item of gross income derived from an unrelated trade or business to the extent such payment reduces the net unrelated income of the controlled entity (or increases any net unrelated loss of the controlled entity). There shall be allowed all deductions of the controlling organization directly connected with amounts treated as derived from an unrelated trade or business under the preceding sentence.

''(B) NET UNRELATED INCOME OR LOSS.—For purposes of this paragraph—

''(i) NET UNRELATED INCOME.—The term 'net unrelated income' means—

''(I) in the case of a controlled entity which is not exempt from tax under section 501(a), the portion of such entity's taxable income which would be unrelated business taxable income if such entity were exempt from tax under section 501(a) and had the same exempt purposes (as defined in section 513A(a)(5)(A)) as the controlling organization, or

''(II) in the case of a controlled entity which is exempt from tax under section 501(a), the amount of the unrelated business taxable income of the controlled entity.

''(ii) NET UNRELATED LOSS.—the term 'net unrelated loss' means the net operating loss adjusted under rules similar to the rules of clause (i).

''(C) SPECIFIED PAYMENT.—For purposes of this paragraph, the term 'specified payment' means any interest, annuity, royalty, or rent.

''(D) DEFINITION OF CONTROL.—For purposes of this paragraph—

''(i) CONTROL.—The term 'control' means—

''(I) in the case of a corporation, ownership (by vote or value) of more than 50 percent of the stock in such corporation,

''(II) in the case of a partnership, ownership of more than 50 percent of the profits interests or capital interests in such partnership, or

''(III) in any other case, ownership of more than 50 percent of the beneficial interests in the entity.

''(ii) CONSTRUCTIVE OWNERSHIP.—Section 318 (relating to constructive ownership of stock) shall apply for purposes of determining ownership of stock in a corporation. Similar principles shall apply for purposes of determining ownership of interests in any other entity.

''(E) RELATED PERSONS.—The Secretary shall prescribe such rules as may be necessary or appropriate to prevent avoidance of the purposes of this paragraph through the use of related persons.''

(b) EFFECTIVE DATE.—

(1) IN GENERAL.—Except as provided in paragraph (2), the amendments made by this section shall apply to taxable years beginning after the date of the enactment of this Act.

(2) CONTROL TEST.—In the case of taxable years beginning before January 1, 1999, an organization shall be treated as controlling another organization for purposes of section 512(b)(13) of the Internal Revenue Code of 1986 (as amended by this section) only if it controls such organization within the meaning of such section, determined by substituting ''80 percent'' for ''50 percent'' each place it appears in subparagraph (D) thereof.

Subtitle G—Foreign-Related Provisions

SEC. 1061. DEFINITION OF FOREIGN PERSONAL HOLDING COMPANY INCOME.

(a) INCOME FROM NOTIONAL PRINCIPAL CONTRACTS AND PAYMENTS IN LIEU OF DIVIDENDS.—

(1) IN GENERAL.—Paragraph (1) of section 954(c) (defining foreign personal holding company income) is amended by adding at the end the following new subparagraph:

''(F) INCOME FROM NOTIONAL PRINCIPAL CONTRACTS.—Net income from notional principal contracts. Any item of income, gain, deduction, or loss from a notional principal contract entered into for purposes of hedging any item described in any preceding subparagraph shall not be taken into account for purposes of this subparagraph but shall be taken into account under such other subparagraph.

''(G) PAYMENTS IN LIEU OF DIVIDENDS.—Payments in lieu of dividends which are made pursuant to an agreement to which section 1058 applies.''

(2) CONFORMING AMENDMENT.—Subparagraph (B) of section 954(c)(1) is amended—

(A) by striking the second sentence, and

(B) by striking ''also'' in the last sentence.

(b) EXCEPTION FOR DEALERS.—Paragraph (2) of section 954(c) is amended by adding at the end the following new subparagraph:

''(C) EXCEPTION FOR DEALERS.—Except as provided in subparagraph (A), (E), or (G) of paragraph (1) or by regulations, in the case of a regular dealer in property (within the meaning of paragraph (1)(B)), forward contracts, option contracts, or similar financial instruments (including notional principal contracts and all instruments referenced to commodities), there shall not be taken into account in computing foreign personal holding income any item of income, gain, deduction, or loss from any transaction (including hedging transactions) entered into in the ordinary course of such dealer's trade or business as such a dealer.''

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

SEC. 1062. PERSONAL PROPERTY USED PREDOMINANTLY IN THE UNITED STATES TREATED AS NOT PROPERTY OF A LIKE KIND WITH RESPECT TO PROPERTY USED PREDOMINANTLY OUTSIDE THE UNITED STATES.

(a) IN GENERAL.—Subsection (h) of section 1031 (relating to exchange of property held for productive use or investment) is amended to read as follows:

''(h) SPECIAL RULES FOR FOREIGN REAL AND PERSONAL PROPERTY.—For purposes of this section—

''(1) REAL PROPERTY.—Real property located in the United States and real property located outside the United States are not property of a like kind.

''(2) PERSONAL PROPERTY.—

''(A) IN GENERAL.—Personal property used predominantly within the United States and personal property used predominantly outside the United States are not property of a like kind.

''(B) PREDOMINANT USE.—Except as provided in subparagraph (C) and (D), the predominant use of any property shall be determined based on—

''(i) in the case of the property relinquished in the exchange, the 2-year period ending on the date of such relinquishment, and

''(ii) in the case of the property acquired in the exchange, the 2-year period beginning on the date of such acquisition.

''(C) PROPERTY HELD FOR LESS THAN 2 YEARS.—Except in the case of an exchange which is part of a transaction (or series of transactions) structured to avoid the purposes of this subsection—

''(i) only the periods the property was held by the person relinquishing the property (or any related person) shall be taken into account under subparagraph (B)(i), and

''(ii) only the periods the property was held by the person acquiring the property (or any related person) shall be taken into account under subparagraph (B)(ii).

''(D) SPECIAL RULE FOR CERTAIN PROPERTY.—Property described in any subparagraph of section 168(g)(4) shall be treated as used predominantly in the United States.''

(b) EFFECTIVE DATE.—

(1) IN GENERAL.—The amendment made by this section shall apply to transfers after June 8, 1997, in taxable years ending after such date.

(2) BINDING CONTRACTS.—The amendment made by this section shall not apply to any transfer pursuant to a written binding contract in effect on June 8, 1997, and at all times thereafter before the disposition of property. A contract shall not fail to meet the requirements of the preceding sentence solely because—

(A) it provides for a sale in lieu of an exchange, or

(B) the property to be acquired as replacement property was not identified under such contract before June 9, 1997.

SEC. 1063. HOLDING PERIOD REQUIREMENT FOR CERTAIN FOREIGN TAXES.

(a) IN GENERAL.—Section 901 is amended by redesignating subsection (k) as subsection (l) and by inserting after subsection (j) the following new subsection:

''(k) MINIMUM HOLDING PERIOD FOR CERTAIN TAXES.—

''(1) IN GENERAL.—No credit shall be allowed to the taxpayer under subsection (a) for any income, war profits, or excess profits tax by reason of a dividend or other inclusion with respect to stock in a foreign corporation or a regulated investment company if—

''(A) such stock is held by the taxpayer for 15 days or less during the 30-day period beginning on the date which is 15 days before the date on which such share becomes ex-dividend with respect to such dividend, or

''(B) to the extent that the taxpayer is under an obligation (whether pursuant to a short sale or otherwise) to make related payments with respect to positions in substantially similar or related property.

''(2) LOWER TIER CORPORATIONS.—To the extent that the credit otherwise allowable under subsection (a) is for taxes deemed paid under section 853, 902, or 960 through a chain of ownership of stock in 1 or more other foreign corporations, no credit shall be allowed under subsection (a) for such taxes to the extent—

''(A) attributable to stock held by any corporation in such chain for less than the period described in paragraph (1)(A), or

''(B) that such corporation is under an obligation referred to in paragraph (1)(B).

''(3) 45-DAY RULE IN THE CASE OF CERTAIN PREFERENCE DIVIDENDS.—In the case of stock having preference in dividends, if the taxpayer receives dividends with respect to such stock which are attributable to a period or periods aggregating in excess of 366 days, paragraph (1)(A) shall be applied—

''(A) by substituting '45 days' for '15 days' each place it appears, and

''(B) by substituting '90-day period' for '30-day period'.

''(4) EXCEPTION FOR CERTAIN TAXES PAID BY SECURITIES DEALERS.—

''(A) IN GENERAL.—Paragraphs (1) and (2) shall not apply to any qualified tax with respect to any security held in the active conduct in a foreign country of a securities business of any person—

''(i) who is registered as a securities broker or dealer under section 15(a) of the Securities Exchange Act of 1934,

''(ii) who is registered as a Government securities broker or dealer under section 15C(a) of such Act, or

''(iii) who is licensed or authorized in such foreign country to conduct securities activities in such country and is subject to bona fide regulation by a securities regulating authority of such country.

''(B) QUALIFIED TAX.—For purposes of subparagraph (A), the term 'qualified tax' means a tax paid to a foreign country (other than the foreign country referred to in subparagraph (A)) if—

''(i) the dividend to which such tax is attributable is subject to taxation on a net basis by the country referred to in subparagraph (A), and

''(ii) such country allows a credit against its net basis tax for the full amount of the tax paid to such other foreign country.

''(C) REGULATIONS.—The Secretary may prescribe such regulations as may be appropriate to prevent the abuse of the exception provided by this paragraph.

''(5) CERTAIN RULES TO APPLY.—For purposes of this subsection, the rules of paragraphs (3) and (4) of section 246(c) shall apply.

''(6) TAXES ALLOWED AS DEDUCTION, ETC.—Sections 275 and 78 shall not apply to any tax which is not allowable as a credit under subsection (a) by reason of this subsection.''

(b) NOTICE OF WITHHOLDING TAXES PAID BY REGULATED INVESTMENT COMPANY.—Subsection (c) of section 853 (relating to foreign tax credit allowed to shareholders) is amended by adding at the end the following new sentence: ''Such notice shall also include the amount of such taxes which (without regard to the election under this section) would not be allowable as a credit under section 901(a) to the regulated investment company by reason of section 901(k).''

(c) EFFECTIVE DATE.—The amendments made by this section shall apply to dividends paid or accrued more than 30 days after the date of the enactment of this Act.

SEC. 1064. PENALTIES FOR FAILURE TO DISCLOSE POSITION THAT CERTAIN INTERNATIONAL TRANSPORTATION INCOME IS NOT INCLUDIBLE IN GROSS INCOME.

(a) IN GENERAL.—Section 883 is amended by adding at the end the following new subsection:

''(d) PENALTIES FOR FAILURE TO DISCLOSE POSITION THAT CERTAIN INTERNATIONAL TRANSPORTATION INCOME IS NOT INCLUDIBLE IN GROSS INCOME.—

''(1) IN GENERAL.—A taxpayer who, with respect to any tax imposed by this title, takes the position that any of its gross income derived from the international operation of 1 or more ships or aircraft is not includible in gross income by reason of paragraph (1) or (2) of subsection (a) or paragraph (1) or (2) of section 872(b) (or by reason of any applicable treaty) shall be entitled to such treatment only if such position is disclosed (in such manner as the Secretary may prescribe) on the return of tax for such tax (or any statement attached to such return).

''(2) ADDITIONAL PENALTIES FOR FAILING TO DISCLOSE POSITION.—If a taxpayer fails to meet the requirement of paragraph (1) for any taxable year with respect to the international operation of 1 or more ships or one or more aircraft—

''(A) the amount of the income from the international operation to which such failure relates—

''(i) which is from sources without the United States, and

''(ii) which is attributable to a fixed place of business in the United States,

shall be treated for purposes of this title as effectively connected with the conduct of a trade or business within the United States, and

''(B) no deductions or credits shall be allowed which are attributable to income from the international operation to which the failure relates.

''(3) REASONABLE CAUSE EXCEPTION.—This subsection shall not apply to a failure to disclose a position if it is shown that such failure is due to reasonable cause and not due to willful neglect.''

(b) CONFORMING AMENDMENTS.—Paragraphs (1) and (2) of section 872(b), and paragraph (1) and (2) of 883(a), are each amended by striking ''Gross income'' each place it appears and inserting ''Except as provided in section 883(d), gross income''.

(c) EFFECTIVE DATE.—

(1) IN GENERAL.—The amendments made by this section shall apply to taxable years beginning after December 31, 1997.

(2) COORDINATION WITH TREATIES.—The amendments made by this section shall not apply in any case where their application would be contrary to any treaty obligation of the United States.

(d) INFORMATION TO BE PROVIDED BY CUSTOMS SERVICE.—The United States Custom Service shall provide the Secretary of the Treasury or his delegate with such information as may be specified by such Secretary in order to enable such Secretary to determine whether ships which are not registered in the United States are engaged in transportation to or from the United States.

SEC. 1065. INTEREST ON UNDERPAYMENTS NOT REDUCED BY FOREIGN TAX CREDIT CARRYBACKS.

(a) IN GENERAL.—Subsection (d) of section 6601 is amended by redesignating paragraphs (2) and (3) as paragraphs (3) and (4), respectively, and by inserting after paragraph (1) the following new paragraph:

''(2) FOREIGN TAX CREDIT CARRYBACKS.—If any credit allowed for any taxable year is increased by reason of a carryback of tax paid or accrued to foreign countries or possessions of the United States, such increase shall not affect the computation of interest under this section for the period ending with the filing date for the taxable year in which such taxes were in fact paid or accrued, or, with respect to any portion of such credit carryback from a taxable year attributable to a net operating loss carryback or a capital loss carryback from a subsequent taxable year, such increase shall not affect the computation of interest under this section for the period ending with the filing date for such subsequent taxable year.''

(b) CONFORMING AMENDMENT TO REFUNDS ATTRIBUTABLE TO FOREIGN TAX CREDIT CARRYBACKS.—

(1) IN GENERAL.—Subsection (f) of section 6611 is amended by redesignating paragraphs (2) and (3) as paragraphs (3) and (4), respectively, and by inserting after paragraph (1) the following new paragraph:

''(2) FOREIGN TAX CREDIT CARRYBACKS.—For purposes of subsection (a), if any overpayment of tax imposed by subtitle A results from a carryback of tax paid or accrued to foreign countries or possessions of the United States, such overpayment shall be deemed not to have been made before the filing date for the taxable year in which such taxes were in fact paid or accrued, or, with respect to any portion of such credit carryback from a taxable year attributable to a net operating loss carryback or a capital loss carryback from a subsequent taxable year, such overpayment shall be deemed not to have been made before the filing date for such subsequent taxable year.''

(2) CONFORMING AMENDMENTS.—

(A) Paragraph (4) of section 6611(f) (as so redesignated) is amended—

(i) by striking ''PARAGRAPHS (1) AND (2)'' and inserting ''PARAGRAPHS (1), (2), AND (3)'', and

(ii) by striking ''paragraph (1) or (2)'' each place it appears and inserting ''paragraph (1), (2), or (3)''.

(B) Clause (ii) of section 6611(f)(4)(B) (as so redesignated) is amended by striking ''and'' at the end of subclause (I), by redesignating subclause (II) as subclause (III), and by inserting after subclause (I) the following new subclause:

''(II) in the case of a carryback of taxes paid or accrued to foreign countries or possessions of the United States, the taxable year in which such taxes were in fact paid or accrued (or, with respect to any portion of such carryback from a taxable year attributable to a net operating loss carryback or a capital loss carryback from a subsequent taxable year, such subsequent taxable year), and''.

(C) Subclause (III) of section 6611(f)(4)(B)(ii) (as so redesignated) is amended by inserting ''(as defined in paragraph (3)(B))'' after ''credit carryback'' the first place it appears.

(D) Section 6611 is amended by striking subsection (g) and by redesignating subsections (h) and (i) as subsections (g) and (h), respectively.

(c) EFFECTIVE DATE.—The amendments made by this section shall apply to carrybacks arising in taxable years beginning after the date of the enactment of this Act.

Subtitle H—Other Revenue Provisions

SEC. 1071. TERMINATION OF SUSPENSE ACCOUNTS FOR FAMILY CORPORATIONS REQUIRED TO USE ACCRUAL METHOD OF ACCOUNTING.

(a) IN GENERAL.—Subsection (i) of section 447 (relating to method of accounting for corporations engaged in farming) is amended by adding at the end the following new paragraph:

''(7) TERMINATION.—

''(A) IN GENERAL.—No suspense account may be established under this subsection by any corporation required by this section to change its method of accounting for any taxable year ending after June 8, 1997.

''(B) PHASEOUT OF EXISTING SUSPENSE ACCOUNTS.—

''(i) IN GENERAL.—Each suspense account under this subsection shall be reduced (but not below zero) for each taxable year beginning after June 8, 1997, by an amount equal to the lesser of—

''(I) the applicable portion of such account, or

''(II) 50 percent of the taxable income of the corporation for the taxable year, or, if the corporation has no taxable income for such year, the amount of any net operating loss (as defined in section 172(c)) for such taxable year.

For purposes of the preceding sentence, the amount of taxable income and net operating loss shall be determined without regard to this paragraph.

''(ii) COORDINATION WITH OTHER REDUCTIONS.—The amount of the applicable portion for any taxable year shall be reduced (but not below zero) by the amount of any reduction required for such taxable year under any other provision of this subsection.

''(iv) INCLUSION IN INCOME.—Any reduction in a suspense account under this paragraph shall be included in gross income for the taxable year of the reduction.

''(C) APPLICABLE PORTION.—For purposes of subparagraph (B), the term 'applicable portion' means, for any taxable year, the amount which would ratably reduce the amount in the account (after taking into account prior reductions) to zero over the period consisting of such taxable year and the remaining taxable years in such first 20 taxable years.

''(D) AMOUNTS AFTER 20TH YEAR.—Any amount in the account as of the close of the 20th year referred to in subparagraph (C) shall be treated as the applicable portion for each succeeding year thereafter to the extent not reduced under this paragraph for any prior taxable year after such 20th year.''

(b) EFFECTIVE DATE.—The amendments made by this section shall apply to taxable years ending after June 8, 1997.

SEC. 1072. ALLOCATION OF BASIS AMONG PROPERTIES DISTRIBUTED BY PARTNERSHIP.

(a) IN GENERAL.—Subsection (c) of section 732 is amended to read as follows:

''(c) ALLOCATION OF BASIS.—

''(1) IN GENERAL.—The basis of distributed properties to which subsection (a)(2) or (b) is applicable shall be allocated—

''(A) first to any unrealized receivables (as defined in section 751(c)) and inventory items (as defined in section 751(d)(2)) in an amount equal to the adjusted basis of each such property to the partnership (or if the basis to be allocated is less than the sum of the adjusted bases of such properties to the partnership, in the manner provided in paragraph (3)), and

''(B) to the extent of any remaining basis, to other distributed properties—

''(i) first to the extent of each such property's adjusted basis to the partnership, and

''(ii) then, to the extent any increase or decrease in basis is required in order to have the adjusted bases of such other distributed properties equal such remaining basis, in the manner provided in paragraph (2) or (3), whichever is appropriate.

''(2) METHOD OF ALLOCATING INCREASE.—Any increase required under paragraph (1)(B) shall be allocated among the properties—

''(A) first to properties with unrealized appreciation in proportion to their respective amounts of unrealized appreciation before such increase (but only to the extent of each property's unrealized appreciation), and

''(B) then, to the extent such increase is not allocated under subparagraph (A), in proportion to their respective fair market values.

''(3) METHOD OF ALLOCATING DECREASE.—Any decrease required under paragraph (1)(A) or (1)(B) shall be allocated—

''(A) first to properties with unrealized depreciation in proportion to their respective amounts of unrealized depreciation before such decrease (but only to the extent of each property's unrealized depreciation), and

''(B) then, to the extent such decrease is not allocated under subparagraph (A), in proportion to their respective adjusted bases (as adjusted under subparagraph (A)).''

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

SEC. 1073. REPEAL OF REQUIREMENT THAT INVENTORY BE SUBSTANTIALLY APPRECIATED.

(a) IN GENERAL.—Paragraph (2) of section 751(a) is amended to read as follows:

''(2) inventory items of the partnership,''.

(b) CONFORMING AMENDMENTS.—

(1) Subsection (d) of section 751 is amended to read as follows:

''(d) INVENTORY ITEMS.—For purposes of this subchapter, the term 'inventory items' means—

''(1) property of the partnership of the kind described in section 1221(1),

''(2) any other property of the partnership which, on sale or exchange by the partnership, would be considered property other than a capital asset and other than property described in section 1231,

''(3) any other property of the partnership which, if sold or exchanged by the partnership, would result in a gain taxable under subsection (a) of section 1246 (relating to gain on foreign investment company stock), and

''(4) any other property held by the partnership which, if held by the selling or distributee partner, would be considered property of the type described in paragraph (1), (2), or (3).''

(2) Sections 724(d)(2), 731(a)(2)(B), 731(c)(6), 732(c)(1)(A) (as amended by the preceding section), 735(a)(2), and 735(c)(1) are each amended by striking ''section 751(d)(2)'' and inserting ''section 751(d)''.

(c) EFFECTIVE DATE.—The amendments made by this section shall apply to sales, exchanges, and distributions after the date of the enactment of this Act.

SEC. 1074. EXTENSION OF TIME FOR TAXING PRECONTRIBUTION GAIN.

(a) IN GENERAL.—Sections 704(c)(1)(B) and 737(b)(1) are each amended by striking ''5 years'' and inserting ''10 years''.

(b) EFFECTIVE DATE.—The amendment made by subsection (a) shall apply to property contributed to a partnership after June 8, 1997.

SEC. 1075. LIMITATION ON PROPERTY FOR WHICH INCOME FORECAST METHOD MAY BE USED.

(a) LIMITATION.—Subsection (g) of section 167 is amended by adding at the end the following new paragraph:

''(6) LIMITATION ON PROPERTY FOR WHICH INCOME FORECAST METHOD MAY BE USED.—The depreciation deduction allowable under this section may be determined under the income forecast method or any similar method only with respect to—

''(A) property described in paragraph (3) or (4) of section 168(f),

''(B) copyrights,

''(C) books,

''(D) patents, and

''(E) other property specified in regulations.

Such methods may not be used with respect to any amortizable section 197 intangible (as defined in section 197(c)).''

(b) DEPRECIATION PERIOD FOR RENT-TO-OWN PROPERTY.—

(1) IN GENERAL.—Subparagraph (A) of section 168(e)(3) (relating to 3-year property) is amended by striking ''and'' at the end of clause (i), by striking the period at the end of clause (ii) and inserting '', and'', and by adding at the end the following new clause:

''(iii) any qualified rent-to-own property.''

(2) 4-YEAR CLASS LIFE.—The table contained in section 168(g)(3)(B) is amended by inserting before the first item the following new item:

''(A)(iii) ..... 4 ''

(3) DEFINITION OF QUALIFIED RENT-TO-OWN PROPERTY.—Subsection (i) of section 168 is amended by adding at the end the following new paragraph:

''(14) QUALIFIED RENT-TO-OWN PROPERTY.—

''(A) IN GENERAL.—The term 'qualified rent-to-own property' means property held by a rent-to-own dealer for purposes of being subject to a rent-to-own contract.

''(B) RENT-TO-OWN DEALER.—The term 'rent-to-own dealer' means a person that, in the ordinary course of business, regularly enters into rent-to-own contracts with customers for the use of consumer property, if a substantial portion of those contracts terminate and the property is returned to such person before the receipt of all payments required to transfer ownership of the property from such person to the customer.

''(C) CONSUMER PROPERTY.—The term 'consumer property' means tangible personal property of a type generally used within the home. Such term shall not include cellular telephones and any computer or peripheral equipment (as defined in section 168(i)).

''(D) RENT-TO-OWN CONTRACT.—The term 'rent-to-own contract' means any lease for the use of consumer property between a rent-to-own dealer and a customer who is an individual which—

''(i) is titled 'Rent-to-Own Agreement' or 'Lease Agreement with Ownership Option,' or uses other similar language,

''(ii) provides for level, regular periodic payments (for a payment period which is a week or month),

''(iii) provides that legal title to such property remains with the rent-to-own dealer until the customer makes all the payments described in clause (ii) or early purchase payments required under the contract to acquire legal title to the item of property,

''(iv) provides a beginning date and a maximum period of time for which the contract may be in effect that does not exceed 156 weeks or 36 months from such beginning date (including renewals or options to extend),

''(v) provides for level payments within the 156-week or 36-month period that, in the aggregate, generally exceed the normal retail price of the consumer property plus interest,

''(vi) provides for payments under the contract that, in the aggregate, do not exceed $10,000 per item of consumer property,

''(vii) provides that the customer does not have any legal obligation to make all the payments referred to in clause (ii) set forth under the contract, and that at the end of each payment period the customer may either continue to use the consumer property by making the payment for the next payment period or return such property to the rent-to-own dealer in good working order, in which case the customer does not incur any further obligations under the contract and is not entitled to a return of any payments previously made under the contract, and

''(viii) provides that the customer has no right to sell, sublease, mortgage, pawn, pledge, encumber, or otherwise dispose of the consumer property until all the payments stated in the contract have been made.''

(c) EFFECTIVE DATE.—The amendment made by this section shall apply to property placed in service after the date of the enactment of this Act.

SEC. 1076. REPEAL OF SPECIAL RULE FOR RENTAL USE OF VACATION HOMES, ETC., FOR LESS THAN 15 DAYS.

(a) IN GENERAL.—Section 280A (relating to disallowance of certain expenses in connection with business use of home, rental of vacation homes, etc.) is amended by striking subsection (g).

(b) NO BASIS REDUCTION UNLESS DEPRECIATION CLAIMED.—Section 1016 is amended by redesignating subsection (e) as subsection (f) and by inserting after subsection (d) the following new subsection:

''(e) SPECIAL RULE WHERE RENTAL USE OF VACATION HOME, ETC., FOR LESS THAN 15 DAYS.—If a dwelling unit is used during the taxable year by the taxpayer as a residence and such dwelling unit is actually rented for less than 15 days during the taxable year, the reduction under subsection (a)(2) by reason of such rental use in any taxable year beginning after December 31, 1997, shall not exceed the depreciation deduction allowed for such rental use.''

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

SEC. 1077. EXPANSION OF REQUIREMENT THAT INVOLUNTARILY CONVERTED PROPERTY BE REPLACED WITH PROPERTY ACQUIRED FROM AN UNRELATED PERSON.

(a) IN GENERAL.—Subsection (i) of section 1033 is amended to read as follows:

''(i) REPLACEMENT PROPERTY MUST BE ACQUIRED FROM UNRELATED PERSON IN CERTAIN CASES.—

''(1) IN GENERAL.—If the property which is involuntarily converted is held by a taxpayer to which this subsection applies, subsection (a) shall not apply if the replacement property or stock is acquired from a related person. The preceding sentence shall not apply to the extent that the related person acquired the replacement property or stock from an unrelated person during the period applicable under subsection (a)(2)(B).

''(2) TAXPAYERS TO WHICH SUBSECTION APPLIES.—This subsection shall apply to—

''(A) a C corporation,

''(B) a partnership in which 1 or more C corporations own, directly or indirectly (determined in accordance with section 707(b)(3)), more than 50 percent of the capital

interest, or profits interest, in such partnership at the time of the involuntary conversion, and

''(C) any other taxpayer if, with respect to property which is involuntarily converted during the taxable year, the aggregate of the amount of realized gain on such property on which there is realized gain exceeds $100,000. In the case of a partnership, subparagraph (C) shall apply with respect to the partnership and with respect to each partner. A similar rule shall apply in the case of an S corporation and its shareholders.

''(3) RELATED PERSON.—For purposes of this subsection, a person is related to another person if the person bears a relationship to the other person described in section 267(b) or 707(b)(1).''

(b) EFFECTIVE DATE.—The amendment made by this section shall apply to involuntary conversions occurring after June 8, 1997.

SEC. 1078. TREATMENT OF EXCEPTION FROM INSTALLMENT SALES RULES FOR SALES OF PROPERTY BY A MANUFACTURER TO A DEALER.

(a) IN GENERAL.—Paragraph (2) of section 811(c) of the Tax Reform Act of 1986 is hereby repealed.

(b) EFFECTIVE DATE.—

(1) IN GENERAL.—The amendment made by this section shall apply to taxable years beginning after the date of the enactment of this Act.

(2) COORDINATION WITH SECTION 481.—In the case of any taxpayer required by this section to change its method of accounting for any taxable year—

(A) such changes shall be treated as initiated by the taxpayer,

(B) such changes shall be treated as made with the consent of the Secretary, and

(C) the net amount of the adjustments required to be taken into account under section 481(a) of the Internal Revenue Code of 1986 shall be taken into account ratably over the 4 taxable year period beginning with the first taxable year beginning after the date of the enactment of this Act.

The CHAIRMAN pro tempore. Pursuant to House Resolution 174, the gentleman from New York [Mr. RANGEL] and a Member opposed each will control 30 minutes.

Does the gentleman from Texas [Mr. ARCHER] wish to control the time in opposition?

Mr. ARCHER. Yes, Mr. Chairman, I do.

The CHAIRMAN pro tempore. The gentleman from Texas [Mr. ARCHER] will be recognized for 30 minutes in opposition.

The Chair recognizes the gentleman from New York [Mr. RANGEL].

Mr. RANGEL. Mr. Chairman, I yield myself such time as I may consume.

Mr. Chairman, the President of the United States, as I pointed out, made an effort to get a bipartisan bill. It is still referred to by the chairman of the Committee on Ways and Means as a bipartisan bill. The President has reviewed that bill, the President has, the Secretary of the Treasury has. They think that it is very difficult for them to see the goals and objectives that they wanted to have.

One of the classic examples would be in the area of education. The President sees the dream of an America, that our economic growth would be based on productivity, and he knows so well that in this area of education is where we are lacking. We have one of the biggest imports into China, American education. Those people are going there, picking up our technology, and through 1½ billion people, they are able to be more productive.

Which area are we going in America? We have the prison population growing, not our education population. We have 1.5 million people in jail, not only not productive, but hundreds of billions of dollars is being paid just to keep them incarcerated.

In the Democratic alternative that we are talking about, we take it even further than the President's plan, and say, start in our public school systems, but do not try to do it alone. Bring in our private sector. What will be the jobs demanded in 10 years, in 20 years, in 30 years? Formulate that in a partnership with the schools so that the employees will be able to come from the communities in which they live, and when they graduate from high school, when they graduate from college, they not only would have the pomp, the circumstance, and the diploma, but they would have a job, so they will not be dependent on society.

Clearly we have seen a division in our way of thinking. We have an opportunity now to have a bill that is fair for Americans. The President is not going to tolerate that the other party dictate who are working Americans. You can use your formulas, make up your charts, but if you are working, the President of the United States insists that you get the child credit to assist you with some of the problems that you face.

The President is not going to accept the capital gains tax indexing. We went out of our way to make certain that we can make it freer for the small business person, the farmer, those people that have special needs. But we cannot afford to have, in the next 5, 10, 15, 20 years, revenue losses that our budget cannot carry.

So since we know that the President says that the Republican bill is not bipartisan, it is born politically dead on arrival, it is going to be defeated, let us pick up what we can to make certain that we have an alternative that can go into conference, and invite our Republican friends to learn what bipartisanship is about.

We have swallowed a lot on our side. We ask you to really work with us so we can take to the American people not a battle based on class but a bipartisan effort to show that we can work together, liberals and conservatives, Democrats and Republicans, with the President of the United States for a better America.

Mr. Chairman, I reserve the balance of my time.

Mr. ARCHER. Mr. Chairman, I yield myself such time as I may consume.

Mr. Chairman, I welcome the remarks of the gentleman from New York [Mr. RANGEL]. I certainly work to achieve bipartisanship. I would say to the gentleman, since we have worked so hard in plowing this ground for tax relief for middle-income Americans, beginning with the Contract With America in 1994, that I would welcome his joining us in a bipartisan effort to pass this bill.

While my proposal offers tax relief for life, the Democrat substitute provides tax relief for a portion of life. It is helpful to parents with children but it does not help the children once they grow up to become taxpayers. The Democrat substitute contains provisions that actually hurt the taxpayer. The manner in which they stack the child credit and the EITC represents a back-door increase in welfare spending. The substitute has a $300-per-child tax credit through the year 2001, not $500, which hard-hit families need; takes money away from middle-income parents who pay income taxes and gives it to people who do not pay income taxes or who already receive a large check from the Government.

Republicans think income tax relief should be reserved for people who pay income taxes. They have waited 16 years for this relief. And it should be devoted to them. And, yes, we do not give the tax credit, which is an income tax credit, to those who pay no income tax.

The substitute actually raises taxes because it cancels the scheduled drop in the FUTA tax, the Federal unemployment tax, which is a tax on payroll, a tax on work and is a discouragement for job creation.

Their education provisions, just like the President's, risk driving up college costs for all Americans, thanks to their inflationary nature.

Finally, the capital gains provision is way too limited to protect domestic savings and to increase risk-taking in the development of more business opportunities and greater job creation.

Mr. Chairman, I believe clearly that although the Democrats are trying and trying very hard, and I applaud them for that, that they should rather join us in a program that really gives relief, which has been too long in coming, creates the opportunity for job expansion, economic growth, and greater jobs for Americans who are now finally trying to get off welfare and to break the cycle of dependency. I urge a vote against the substitute.

Mr. Chairman, I reserve the balance of my time.

Mr. RANGEL. Mr. Chairman, I yield 1 minute and 30 seconds to the gentleman from Texas [Mr. DOGGETT].

Mr. DOGGETT. Mr. Chairman, one of the many good reasons to oppose this Republican tax bill is the fact that it actually increases taxes on some Americans, a tax on educational opportunity.

There are universities all across this country who assist their graduate students who work as teaching assistants, as research assistants, by reducing their tuition and lowering their cost of education. Under the current law, when graduate students get that help, their

tuition assistance is not taxable. But under this bill, as proposed by the Republicans, those students who represent our future will face a significant tax increase while at the same time the Republican bill will give many tax breaks to the rich and famous of America.

These teaching and research assistants are providing assistance with over 40 percent of the courses at many of our largest universities. They get by on $12,000 to $15,000 a year at the same time they are trying to get an education and help others get an education.

At the University of Texas in Austin, we have more of these graduate students than any other college in the country. To Joe and Sheryl Schaefer, this is not just some arcane print in the Tax Code. Rather, these two neuroscientists who represent our future and who also happen to be the parents of a young baby while they maintain a near perfect 4-point average at the University of Texas, they will not get a dime from the child tax credit under this Republican bill.

But they will face such a substantial increase in their taxes under this bill that they have told me that one or both of them will have to drop out of graduate school.

I have heard the same thing from other graduate students across this country. Hiking taxes on young Americans like this, which the Democratic substitute does not do but the Republican tax bill does do, is a tax on education. It is in the wrong direction. Let us live up to our commitment on education and reject the tax increase.

Mr. ARCHER. Mr. Chairman, I yield 3 minutes to the gentleman from California [Mr. THOMAS], respected member of the Committee on Ways and Means, chairman of the Subcommittee on Health.

(Mr. THOMAS asked and was given permission to revise and extend his remarks.)

Mr. THOMAS. Mr. Chairman, I thank my chairman for yielding me the time.

I talked earlier about the fact that the Democrats are just loath to have the myth of Republicans only cutting taxes for the rich and so they have had to create a ridiculous explanation of how much someone has to argue that this is for the wealthy. But I now realize that they have another problem; that is, they have tax package envy.

It is amazing to listen to the Democrats put together a tax package. Is it not interesting in their tax package they have a child credit? We have a child credit; they have a child credit. But it is a whole lot like Hollywood, when you walk down the movie sets, they are a facade. It looks like a house but it is really just a fake front. They do not give $500 to families until 2001.

We have capital gains. They have capital gains. There is that front, looks like capital gains. Walk through the door. It is not available to people who trade in public securities. There is a lifetime cap of $600,000, but they need that section for their tax bill.

Education, there is no incentive here to save and to grow and to teach people that education is valuable, and we have a structure that will allow you to nurture growth for education. It is a 100 percent pass-through.

Let me tell my colleagues, as soon as those institutions out there, in my background as a teacher, once you have a $10,000 checkoff spot on your income tax, do you know how much tuition is going to go up? Do you know what the argument is going to be? Just pass it through. Where is quality? Where is growth? Where is incentive?

But they have got that facade. Estate tax, have to have the estate tax facade. It is there not for individuals, just small businesses. Expiring provision, got to have a section on expiring provisions. Read the fine print. It is only for 1 year. Why bother? Because they have tax package envy. We have expiring provisions. They have to have expiring provisions.

And then to really show you the game, all day the gentleman from New York has been talking about giving hardworking people relief, not just those who pay income taxes, but those people who pay other taxes as well. Well, one of the biggest taxes that are paid are payroll taxes. If an employer pays a payroll tax, that is money not available to go to the worker.

Guess what, in the fine print of their tax package is the perpetuation of a payroll tax, $6.3 billion over 5 years. While they are saying we ought to give some relief to those who pay payroll taxes, they are perpetuating a tax which guarantees workers will get less.

Tax package envy, I am really surprised. It looks pretty good. It looks a lot like ours, but beware, it is a Hollywood set.

Mr. RANGEL. Mr. Chairman, I yield 1 minute to the gentleman from Wisconsin [Mr. OBEY].

Mr. OBEY. Mr. Chairman, the issue is not whether there is going to be a tax cut. It is who going to get most of it. Under the Republican tax bill, you have the biggest transfer of wealth out of the pockets of low- and middle-income families to the most well-off families in this country that we have had since 1981. The Republican package does not contribute to long-term deficit reduction. It threatens it.

The Democratic bill, by contrast, provides far more help to families who make less than $75,000 a year. It does not penalize working mothers who need child care because they are concerned about their children. It helps Main Street rather than Wall Street.

I am not envious at all of the Republican package. I am appalled by the fact that it once again, as they have done continuously in this Congress, tried to use virtually every other piece of the tax package as a Trojan horse to drive through this place a giant bonanza for the wealthiest 100,000 or 200,000 tax-paying families in this country. That is wrong and the Democratic package tries to correct it.

Mr. ARCHER. Mr. Chairman, I yield 3 minutes to a respected member of the Committee on Ways and Means, the gentleman from Arizona [Mr. HAYWORTH].

Mr. HAYWORTH. Mr. Chairman, I listened with great interest to the ranking member of the Committee on Appropriations. I have a great deal of respect for the gentleman from Wisconsin. But I think this points out the fundamental difference between our two major parties. Indeed, to echo the comments of my colleague from California, sadly, sadly so many of our friends on the other side are unalterably opposed to the American people hanging onto more of their own money and sending less of it here to Washington that they would try to nitpick an agreement broadly arrived at with the President of the United States.

Mr. Chairman, all we need do is listen to the hardworking American people. One of my constituents, via telefax, a small business owner, Jon Cramer, points out the wisdom of those who live far beyond the Beltway in the great State of Arizona, when he says, ''JD, you cannot give an income tax break to those who do not pay income taxes.''

It is a very simple thought. Not fraught with cruelty, as some would suggest, but a commonsense compassion. And again it is important to note the reality of the evaluation by the nonpartisan Joint Tax Commission that tells us that fully, fully 76 percent of the tax relief in the Republican plan goes to families earning between $20 and $75,000 a year.

Indeed, for those who lament and would claim the greatest tax breaks go to the wealthy, well, it is interesting to evaluate who they believe is wealthy. Mr. Chairman, I do not believe anyone here who is a homeowner pays rent to himself, and yet that is the twisted evaluation that comes from the highly partisan report from the Treasury Department.

No, I believe that the majority tax plan is the best and I believe that, sadly, though our friends on the other side rhetorically come here to the well and say that, yes, they have now embraced tax cuts, history is an incredible teacher. It shows us, Mr. Chairman, that for the first time in 16 years, the first time in over a decade and a half, a new majority is finally about the business of giving Americans, working Americans, much-needed tax relief.

My colleague from California said it well, and I do not impugn the motives of those on the other side who are trying to catch up and proffer some sort of tax relief. Indeed, in a sense, Mr. Chairman, it is a measure of how far we have come, but sadly the minority substitute has miles and miles and dollars and dollars to go before it is credible.

Mr. RANGEL. Mr. Chairman, I yield myself such time as I may consume to

say that I am a member of this bipartisan Joint Committee on Taxation. I have not hired any staff. I have not seen any reports. I know it is bipartisan because the chairman said it was. But if we would be kind enough to release this bipartisan statement so we would know what is in it, I think the American people will have a better idea about our differences.

Mr. Chairman, I yield such time as he may consume to the gentleman from Texas [Mr. BENTSEN].

(Mr. BENTSEN asked and was given permission to revise and extend his remarks.)

Mr. BENTSEN. Mr. Chairman, I rise in opposition to H.R. 2014 and in support of the substitute of gentleman from New York.

Mr. Chairman, I support the bipartisan balanced budget agreement and I support responsible tax relief, but I cannot support the legislation before us today because it is unfair and fiscally irresponsible. This legislation does not do enough to help middle-income families. What it does is set off a tax time bomb that will drain revenue from the Treasury and cause budget deficits to explode again and completely undermine our efforts to balance the budget for the first time since 1969.

Mr. Chairman, I support responsible tax relief. I have introduced legislation to reduce the capital gains tax on a sliding scale based on how long an asset is held, which I believe would be both economically productive and fiscally responsible. But this legislation makes no distinction between productive and unproductive investments and will do little to spur economic growth. Even worse, it includes inflation indexing that would cause revenue losses to explode after it fully takes effect.

This bill is also unfair in many ways. It gives more than half its benefits to the wealthiest 5 percent of Americans, people making an average of $250,000 a year. It denies the full $500 per child tax credit to 15 million working, taxpaying, wage-earning parents because it doesn't let them count the credit against their payroll taxes. It limits tax breaks on college for those most in need of this assistance by providing only half of the $1,500 tuition tax credit originally proposed by the President. And it penalizes working families by cutting back on their child tax credit if they have child care expenses.

Even worse, Mr. Chairman, middle-income families will be penalized again in the future when the costs of this tax legislation explode and cause massive budget deficits to build up again. Then we would face the choice of either increasing taxes or cutting vital programs such as Medicare, Medicaid, and education to pay for these exploding tax cuts.

And explode they will. This tax bill is full of gimmicks to limit the costs of the tax cuts in the first 5 years and to hide their true long-term costs. The size of the net tax cuts grows rapidly after the first 5 years. In the second 5 years, net tax cuts grow at 15 percent per year, much faster than inflation or growth in the size of the economy. The explosion will be even worse outside the 10-year horizon.

We need responsible tax relief that helps our families and keeps the Federal budget in balance. That is what the Democratic substitute will provide. The majority of the tax cuts in the substitute benefit middle-income Americans. It provides a full $1,500 tuition tax credit for each of the first 2 years of college and a credit of 20 percent of tuition costs after the first 2 years. This is a vital investment because, in today's global, high technology economy, higher levels of education are required than ever before. While the capital gains tax reduction in the substitute does not conform with that which I believe is most productive, it is more responsible than that contained in H.R. 2014. This substitute also provides tax relief to families who are selling their home, the biggest investment for most middle-income families; it helps families struggling to keep the family business and the family farm in the family; and it does not contain back loaded provisions that explode the deficit.

The Democratic substitute is more fair and more responsible. I urge a ''no'' vote on the bill and a ''yes'' vote on the Democratic substitute.

Mr. RANGEL. Mr. Chairman, I yield 3 minutes to the gentleman from Massachusetts [Mr. NEAL].

Mr. NEAL of Massachusetts. Mr. Chairman, what we have here is a continuation of the argument that began in 1993. Late in the evening hour, without one Republican vote, the Democratic Members of this House voted for a deficit reduction plan that worked. That is what has brought us here today to the position of where we can discuss tax cuts for the American people.

I recall that evening because of the hand wringing that we heard from the other side. I remember the doomsday prophets who took on the well on the other side and predicted that the modern American economy would be wrecked because of what the President and the Democratic majority at that time were doing here in the House. What has been the result? Four years of unparalleled economic prosperity and economic growth where each quarter seems almost to get better than the previous quarter. It has almost defied modern imagination because the Democrats had the courage to take on the issue of deficit reduction in a real way. So today this is a continuation of that argument. This is not an argument about tax cuts.

□ 1600

We all agree that this is the time for tax cuts. What we honestly bicker about today in this institution is simply this: Who is to get these tax cuts?

Now, we can believe the people that gave us our Social Security and Medicare and the 8-hour workday and the notion that everybody in America ought to be able to try their hand at college, people like me, who went to college because of Social Security, or we can accept the arguments of those on the other side that now they are the champions of middle-class Americans because they favor tax cuts for the people who reside on Wall Street.

The simple truth is that the Democratic substitute that we have today is not tax cut envy; it speaks to middle America. It assists 12 million Americans who are struggling with the costs of tuition. It does address the issue of estate tax relief. It speaks to capital gains.

And we forced the issue of capital gains in this simple sense: We believe that for middle-income Americans the most capital asset they are ever going to have is their home. We argue on their behalf today that they need relief.

We address the issue of middle-income tax relief in our Democratic alternative. Offer an affirmative vote. Vote for the Democratic alternative.

Mr. ARCHER. Mr. Chairman, I yield 1½ minutes to the gentleman from Ohio [Mr. CHABOT].

Mr. CHABOT. Mr. Chairman, I think we all know when a big government liberal gets his hands on your money, he is going to be very reluctant to give it back. Today we are hearing from a lot of our liberal friends on the other side of the aisle who are facing that very dilemma.

In 1993 this Congress, then under control of the liberal Democrats and joined by President Clinton, engineered the largest single peacetime tax increase in American history. Shortly thereafter, the taxpayers decided to elect a Republican Congress; and today that Republican Congress is attempting to cut taxes.

Mr. Chairman, the howling has started. Our liberal friends have come to the well, one after another, waging what amounts to class warfare, trying to convince us that tax cuts for working families are somehow unfair.

Like it or not, Mr. Chairman, we are going to pass a bill today that cuts taxes for American families, that cuts taxes for those who sell their homes, that cuts the death tax. Hopefully the President will not stand in our way.

We keep hearing ''tax cuts for the rich, tax cuts for the rich.'' Seventy-five percent of the tax cuts that we are talking about go to people who make less than $75,000. Let me repeat that. Seventy-five percent of the tax cuts that we are talking about go to people who make less than $75,000.

So what is the liberal Democrats' definition of the rich? I guess it is anybody who has got a job. So let us pass the tax cuts. Let us get away from all this ''tax cuts for the rich.'' Let us do something for the American people.

Mr. RANGEL. Mr. Chairman, I yield 2½ minutes to the gentleman from Maryland [Mr. HOYER].

(Mr. HOYER asked and was given permission to revise and extend his remarks.)

Mr. HOYER. Mr. Chairman, working Americans are in need of tax relief. They are also in need of their country balancing its budget. The Republican bill fails average, hard-working Americans on both counts.

Al Hunt of the Wall Street Journal says of the Gingrich-Archer plan that it is, and I quote, ''a bonanza for the affluent, crumbs for the working class, and eventually costly.'' In fact, it will likely cost over $600 billion in the second 10-year period from 2008 through

2017. The capital gains, IRA, and estate tax provisions alone are more expensive in the year 2007 than they are in the entire first 5 years.

Look at this chart. On the far right here is the first 5 years of their tax cut where, lo and behold, the capital gains brings us money. That is the bait. The switch, in 2007 alone the capital gains explode into the loss of revenue. Who is going to pay for that?

Last weekend's NBC-Wall Street Journal poll said that two-thirds of Americans reject the Republicans' bonanza for the affluent and support the Democratic tax cut for mainstream working Americans who need relief from the burden they bear from income taxes but also, as the chairman surely knows, those half of Americans who pay more in FICA than they do in income taxes.

Hunt's characterization of the Republicans' failure to give relief to most working Americans who need it is an effort which, and I quote, ''shamefully shortchanges the working poor,'' that is what the other bill does, and I am not envious at all of that bill, I say to the gentleman from Arizona [Mr. HAYWORTH].

In 1993 Republicans led the Nation into deep debt, a course not reversed until President Clinton's budget was adopted in 1993, as has been pointed out, without one Republican vote. That resulted in five straight years of deficit reduction, the first time that has happened in this century.

We Democrats are for giving tax cuts to working Americans, small businessmen and family farmers, and our alternative does just that. We should reject the Republican's repeat of the 1981 disaster. We should give real cuts to those most pressed in our society Americans who are going to work daily, staying off welfare and raising their children, making America stronger for their efforts.

Mr. ARCHER. Mr. Chairman. I yield 3 minutes to the gentleman from Louisiana [Mr. MCCRERY], another well-respected member of the Committee on Ways and Means.

Mr. MCCRERY. Mr. Chairman, I thank the gentleman from Texas [Mr. ARCHER] for yielding. I just want to talk for a couple minutes about their question of children in working families that will not receive the tax credit.

I think what everybody should know is that those children or at least the families of those children already receive a tax credit, the earned income tax credit. Even though those families do not have any income tax liability, in other words, even though those families pay zero in income taxes, we provide them with a tax credit. We send money back to them from Washington, even though they do not send any income taxes to Washington, so we already give those families a tax credit.

Our bill provides some income tax relief through an income tax credit to families with children who pay income taxes. Now, having talked to a lot of folks down in my district on the street about this, that kind of makes sense to them. If you pay income taxes, you need a tax break, you need the child tax credit. If you do not pay income taxes, you should not get an income tax credit. I think that probably makes sense to most Americans, and that is what we are trying to do in our bill. If we want to talk about increasing welfare benefits, which is what the earned income tax credit is, then we can do that.

I happen to like the earned income tax credit. I think it is sound policy. It does encourage people to get off welfare and into work. But that is a different subject from giving hard-working, tax-paying Americans a tax break. So I hope that the public will not be confused by the continual harangue from the other side that we are not giving the families of certain numbers of children this tax break. We already give them a tax break. We already give them money back when they pay no taxes.

So the bill that the Democrats have proposed is, in effect, an increase on welfare benefits, not a true income tax credit for folks who pay income tax.

Mr. RANGEL. Mr. Chairman, I yield myself such time as I may consume, and I would just like to say to the gentleman that it is a hurting thing when you are talking about working Americans with children asking for welfare, whether they all are asking for the dignity to continue to work, and sever the benefits that other working families would get.

Mr. RANGEL. Mr. Chairman, I yield 1½ minutes to the gentleman from Maine [Mr. ALLEN].

Mr. ALLEN. Mr. Chairman, I thank the gentleman from New York [Mr. RANGEL] for yielding.

In the course of this debate there has been a lot of reference by the other side to the fact that 76 percent of the benefits of this tax cut will go to families earning $75,000 a year or less. We have heard that number over and over again, 75 percent, 76 percent.

It is a bogus number because it does not include, when they measure family income they do not include interest, they do not include dividends, they do not include investment income in municipal bonds, they do not include money from other investments. If you have someone earning $200,000 in dividends and interest, they are listed on the records of the Joint Committee on Taxation here as earning nothing unless they have income of $30,000 or so. The 76 percent is a bogus number.

If we look at the Treasury figures, those numbers measure dividends, they measure all sorts of investment income. When we look at those numbers, only 22 percent of the benefits of this tax cut go to families earning $75,000 or less. Twenty-two percent is the real number, not 76 percent.

Now, by contrast, the Democratic substitute provides 58 percent of its benefits to families earning less than $75,000. That is the truth. There is a huge difference between 22 percent and 58 percent. The Democratic substitute provides tax relief for working families because, let us face it, those families who get $200,000 in dividend income are earning more than $75,000.

Mr. ARCHER. Mr. Chairman, I yield 3 minutes to the gentleman from Texas [Mr. DELAY], the majority whip of the House of Representatives.

Mr. DELAY. Mr. Chairman, I appreciate the chairman yielding me this time. I rise in opposition to this substitute and in support of the Taxpayers Relief Act of 1997.

It has been 16 years since the taxpayers of America have had tax relief from the Federal Government, and today's bill is long overdue. But instead of embracing tax relief, the Democrat minority embraces class warfare.

America's working families are forced to pay over 50 percent of their salaries to the government because of high taxes and costly regulations. No wonder it takes one parent to work for the Government while the other parent works for the family. Instead of working with us to ease that tax burden, the minority leadership offers in their substitute more welfare.

It should come as no surprise that the members of the minority oppose this bill. Asking liberals to go support tax relief is like asking aliens to come back to Roswell. If it has not happened in the last 50 years, it probably will not happen in the next 50 years.

The liberals oppose tax cuts but they choose to cloak their opposition in the rhetoric of class warfare. Frankly, this rhetoric is giving me a headache. It is like listening to my daughter Mandy's favorite music. The beat is simple, the volume is loud, but the ultimate contribution to society is meaningless.

Mr. Chairman, we need less rhetoric for the Democrats regarding taxes and more illumination. Our tax cuts help working families in all stages of life, from those who have children to those who are grandparents, from those who want to save for a retirement to those who want to invest in the future of America. Working families are not necessarily rich in wealth, but they are rich in spirit.

The liberals believe that these people do not deserve tax relief, and I think that is pretty sad. So I just urge my colleagues to reject this weak substitute and vote for America's first tax cut in 17 years.

□ 1645

Mr. RANGEL. Mr. Chairman, I yield such time as he may consume to the gentleman from Louisiana [Mr. JEFFERSON].

(Mr. JEFFERSON asked and was given permission to revise and extend his remarks.)

Mr. JEFFERSON. Mr. Chairman, I rise in opposition to the Republican's so-called Taxpayer Relief Act and in support of the Democratic substitute. We are all for tax cuts, Democrats and Republicans. But, the question

is, will middle-income families, the working families of our country, get any relief from the Republican's capital gains tax cut? The answer is very, very little, if at all. This is necessarily true because middle-class working families own very little of the capital assets that are taxed at capital gains rates today. If your family made between zero and $25,000 last year, you were in an income group that paid 2.2 percent of the capital gains taxes. Those who made between $25,000 and $50,000 paid another 8 percent of the capital gains taxes. And, if you made between $100,000 and $200,000, you paid 16 percent of the capital gains taxes.

The fact is that 60 percent of all capital gains taxes paid in 1996 were paid by taxpayers who made more than $200,000. These super rich taxpayers, make up only 1 percent of all the taxpayers in America; only 110,000 tax filers out of more than 110 million taxpayers, and they get a tax break of roughly $7 billion a year. So how do we make capital gains tax breaks fair to working families?

The Democratic substitute does it by targeting the capital gains tax relief to small businesses, family farms, and homeowners. It leaves out most families that make more than $100,000 a year, and gives 76 percent of its tax relief to families that make less than $100,000 a year.

The Democratic substitute targets family farm owners and small business owners for its estate tax relief, assets that keep families together and that usually represents a lifetime of work and investment.

The Republican's bill gets worse still on capital gains. Not only do more than half of the capital gains tax breaks in this bill go to the top 1 percent, it is going to open the door to an old stripe of shenanigan that only the super rich taxpayer can play. It will reintroduce the opportunity for clever new tax shelters. This is because there will now be under the Republican bill a 20 percent differential between the top marginal rate of 39 percent that high-income earners will have to pay on salaries and the 20 percent capital gains rate that Republicans are pushing on the floor.

If you were a high-income taxpayer making more than $100,000 a year, wouldn't you rather pay a 20 percent rate on your earnings that a 39 percent rate? Of course you would. So what you would do, with your lawyer or your tax accountant, is devise ways to re-characterize your income from income from a salary to income from a capital asset. Thus, by changing the name of your income, or as a tax lawyer would say, by recharacterizing your income, you could save 20 percent of the taxes that you otherwise would have to pay. It's a great deal if you can get. But you can only get it if you are one of the super rich in our country. This is a back to the future tax bill. It's the same old story all over again—if you are a working stiff, you work and pay your taxes; and if you are a high-income taxpayer, you find a loophole to get out of paying. This Republican bill provides loopholes big enough to drive a Brink's truck through, and that's exactly what the high-income taxpayers of this country are going to do. the Republican bill is an unfair, unprogressive, inefficient, complex tax proposal. The Democratic substitute solves these problems.

Like we used to say in the Louisiana legislature, the Republican tax bill is a snake and we ought to kill it. Then pass the Democratic substitute.

Mr. RANGEL. Mr. Chairman, I yield 8 minutes to the gentleman from California [Mr. BECERRA].

Mr. BECERRA. Mr. Chairman, I thank the gentleman from New York for yielding the time, and if I could, just in taking in all this debate, and we are now discussing the Democratic alternative, it strikes me that there are two provisions that really make it clear why the Democratic alternative is so much better than the bill we have before us from the Republican majority.

First, when my colleagues talk about the child tax credit, when any working American comes home with that pay stub and that American looks down the list of taxes paid, I do not think the American says, well, that was excise tax, that was payroll tax, that was income tax. She knows she paid taxes. And for those here in this Chamber to say that those taxes paid by that individual making $20,000, $23,000, $28,000 do not count verges on being un-American to me because that is a tax paid to provide for the operation of this government and the programs that we all use.

Second, the average cost of a community college education, a public community college education, is about $1,200. Under the Republican tax bill, they will get a credit, but only half of that, $600.

In our bill we try to reflect what the President agreed or thought he agreed to do with the Republicans when he negotiated a budget deal, and that was to give them a $1,200 tax credit for education.

Two ways that the deal was broken. There are other ways the deal was broken. The gentleman from Texas [Mr. DOGGETT] mentioned one, that we are going to be taxing graduate students. That seems to me to be so unfair, and I see the gentlewoman from Michigan [Ms. STABENOW] here.

Ms. STABENOW. Mr. Chairman, will the gentleman yield?

Mr. BECERRA. I yield to the gentlewoman from Michigan to make some remarks.

Ms. STABENOW. Mr. Chairman, I appreciate my friend from California yielding to me regarding the issue of graduate students because there is an important difference between the Democratic and Republican plan. As we know, in the Republican plan they take away what is now tuition tax relief. If someone is a graduate student, and I received a number of letters from Michigan State University graduate students in my district indicating that they are receiving right now about $15,000 in salary for teaching graduate courses, and that is in addition to some relief that they get by being given tuition, free tuition, in order to be able to go to school, the Republican plan would now tax that tuition that they are given as part of their salaries. And so my $15,000 graduate student that is working their way through school will add $1,000 to their tax bill. That is a huge tax cut, $1,000 on a $15,000 salary. The other piece that is so important about the Democratic plan——

Mr. BECERRA. Reclaiming my time, they are taxing graduate students and they are collecting $430 million in taxes as a result of doing that, and at the same time they are giving corporations a tax windfall and not asking them to pay any taxes. Does that seem fair?

Ms. STABENOW. It is not fair, and one of the reasons I am proud to support the Democrat plan is that we fulfill the commitment of giving over $35 billion; I believe it is over $40 billion, to education-related tax relief so anyone going to school can further their education to get a good job, and that graduate student will not actually see a tax increase.

It is amazing to me that as we are talking about tax cuts today that for too many of my constituents they are going to see an actual tax increase, and I am not going to support a tax increase on those folks.

Mr. BECERRA. Mr. Chairman, I yield to the gentleman from Louisiana [Mr. JEFFERSON].

Mr. JEFFERSON. Mr. Chairman, I think what is really important is that the Republicans are using gimmicks in this whole operation. Just as they are in the education tax credit area, so they are doing it in the capital gains area. When they tell us that 75 percent of the capital gains taxes go to ordinary folks who are middle-income taxpayers, what they are saying in the first 5 years when they use this idea of induced sales, this gimmick of induced sales, but when we look past the first 5 years there is a huge windfall for those high-income taxpayers, and this is, after all, a 10-year window we are dealing with here, not the first 5 years.

So we need to tell the whole story that this Democratic substitute does it quite differently. We come up front with what we are talking about here, we give the capital gains tax to people who need it, the small business owners, those people who are small farmers and folks who are homeowners. These are the folks who make up the heart of America, and these are the people who are hard-working folks who need the help, and we concentrate our capital gains relief to them, and this is no gimmick, this is real relief for those people.

Ms. STABENOW. Mr. Chairman, will the gentleman yield?

Mr. BECERRA. I yield to the gentlewoman from Michigan.

Ms. STABENOW. Mr. Chairman, I came to Congress in January representing middle-Michigan, middle-class working men and women in Michigan who want to receive tax relief directly in their pockets. What I see is a basic philosophical difference about how to create jobs and grow the economy in this country. Republicans say give it to those at the top, it trickles down. We say put it directly in the pockets, money directly in the pockets of middle-income working people,

whether it is their house, sending their children to college, their children, their small business, their farm, put it in their pocket; they will turn around, buy cars, buy houses, take care of their children. That is how we create jobs and that is why I support this proposal.

Mr. BECERRA. Mr. Chairman, I see one of the gentlewoman's colleagues is also interested and I will recognize the gentlewoman from Michigan [Ms. KILPATRICK] in a second. If I can just mention this child tax credit we have been talking about all day, 73 million children in this country under the age of 18. Under the Democratic alternative, 60 million children will be provided with a tax credit. Under the Republican plan, 39 million children; 21 million children will not.

Ms. STABENOW. Would the gentleman from California say that again, please, for us?

Mr. BECERRA. Sixty million children under the Democratic alternative will qualify for the child tax credit. Under the Republican plan, 39 million. Twenty-one million children in America will not qualify under the Republican plan that will under the Democratic plan.

Ms. KILPATRICK. Mr. Chairman, will the gentleman yield?

Mr. BECERRA. I yield to the gentlewoman from Michigan.

Ms. KILPATRICK. Mr. Chairman, for those reasons we need to support this tax plan. The Democratic plan takes care of more American families, it offers more opportunities for America's children, and it offers the tax cuts to those families who need the tax cuts, hardworking families who pay taxes.

So I thank the gentleman from California for yielding, and I hope and encourage my colleagues to vote for the Democratic plan, the tax plan that does offer tax cuts to America's working families.

The Republican tax bill would deny tax credits for another 4 million lower middle income children. Forty percent—2 out of every 5 children—would be ineligible for the credit because their family's incomes are not high enough. The total number of children denied this credit because their families do not make enough money would be 28 million. The Republican's highly touted $500 tax credit that is nonrefundable allegedly gives tax relief to families. While corporations will reap a $22 billion windfall in this bill, 28 million children would get nothing.

The Republican tax bill denies tax credits to working families. For example, a family of four with two children with no child care expenses would not receive any credit unless its income exceeded $24,385. Moreover, if the family had child care expenses, it could earn as much as $27,180 and fail to qualify for the credit. Also, families that have more than two children, or have high mortgage or health care costs and itemize their deductions, could make close to $30,000 and still not qualify for the credit.

The Democratic tax bill has real child credit tax credits. The Democratic bill does not compute a family's child care tax credit after the earned income tax credit [EITC] is figured. This is a significant difference—millions of lower- to middle-income families owe income tax before EITC is calculated, but have little or no income tax obligation remaining after EITC is calculated. Under the Democratic bill, these families would be covered.

The Republican tax bill's largest tax cuts—capital gains, Individual Retirement Accounts, estate, and corporate taxes—provide most of their benefits to the rich. The richest 1 percent get more of the overall tax break than the bottom 60 percent combined. According to the Center on Budget and Policy Priorities, the Joint Tax Committee's distribution tables do not reflect any of the benefits that taxpayers would receive from these four provisions.

The Democratic tax bill makes the benefits in these four areas, especially for working people, fair. It provides 71 percent of the tax breaks to families earning $100,000 or less. It provides a capital gains tax cut, an estate tax cut, and tax cuts for small businesses, family farms, and homeowners. The only way that you are eligible for these tax breaks is if you work and pay taxes.

Mr. BECERRA. Reclaiming my time, Mr. Chairman, just in closing because I know we are going to run out of time, is just mention the reason there is a difference of 21 million children is because we do what we can to provide a tax break for those families that are earning $30,000 and under. The Republicans unfortunately say it is not worth it because they do not believe that that tax that we are imposing on those families is worth counting.

So it is a difference of opinion. There is a difference in values here.

Ms. STABENOW. Mr. Chairman, will the gentleman yield?

Mr. BECERRA. I yield to the gentlewoman from Michigan.

Ms. STABENOW. Mr. Chairman, we have talked a lot today about a police officer in Georgia. I would like to just like to share with my colleague my police officers' starting salary in Lansing, MI, as well as my firefighters.' They start at $26,800, working hard. These are folks with families, protecting my community whether it is for fires or from crime. Under the proposal the Republicans have, they will not receive the full $500 child tax credit because they get another tax credit. Under the Democratic plan my firefighters and police officers will receive the total amount of tax credits and deductions that they ought to receive to be able to help take care of their families. Folks with higher incomes get lots of different tax credits. I want my firefighters and my police officers to be able to get what they have now in tax credits and be able to get the full value of the $500-per-child tax credit.

Mr. BECERRA. I do not know what the gentlewoman from Michigan did but she is bringing out all her colleagues from Michigan.

Mr. LEVIN. Mr. Chairman, will the gentleman yield?

Mr. BECERRA. I yield to the gentleman from Michigan.

Mr. LEVIN. Mr. Chairman, just quickly I want to say again about this 76 percent figure that the Republicans have used. It is at best a 5-year figure.

One of the benefits of going to conference would be that the Republicans here will have to face up to the consequences of their bill over 10 years. What it means in terms of exploding the deficit and what it means in terms of fairness, the Democratic alternative is fiscally responsible and fair. The Republican proposal is irresponsible fiscally and unfair both in education and the child credit among others.

I urge that we support the Democratic alternative.

Mr. ARCHER. Mr. Chairman, I yield such time as he may consume to the gentleman from Missouri [Mr. BLUNT].

(MR. BLUNT asked and was given permission to revise and extend his remarks.)

Mr. BLUNT. Mr. Chairman, I have some concerns about this bill that I think could be handled in conference. I will be supporting the Republican bill that gives relief to American families today.

Mr. Chairman, while I intend to support this tax relief bill today, I want the record to reflect my concern about two provisions of the bill that I strongly oppose. One is the limited renewal of employer provided continuing undergraduate education reimbursement. While the Senate tax bill extends the current law section 127 exemption permanently, the House bill extends sec. 127 until December 31, 1997.

Nearly two-thirds of major employers in southwest Missouri offer this benefit, affecting over 60,000 workers in Springfield and Joplin alone. These employers include a chicken processor, a fan belt manufacturer, a paper goods processor, and a ball bearings producer. Without a long-term extension of section 127, many of these companies will discontinue this benefit, denying their employees the help they need to improve their skills.

The second provision I oppose is the elimination of tax exempt treatment of tuition reduction provided to employees of educational institutions. Again, the Senate bill maintains the current law. The majority of people who take this benefit are staff members, not faculty.

The person who cleans toilets for $7 an hour so that both of her children can attend college at the same time would have to pay taxes on a tuition benefit that far exceeds her income. Graduate teaching assistants at an institution like Tulane would pay taxes on a tuition benefit of $20,930 per year with an income stipend that is far lower than the tuition benefit.

Let me be clear that I am not concerned about the president of Harvard or the person who heads up the medical program at Johns Hopkins. What I object to is raising taxes on people who clean chickens for a living or work as security guards at colleges. It is simply unthinkable that we would make it harder for people who make fan belts or work at a college to go to school, get a graduate degree, or work at a job that makes higher education affordable for their kids.

While I do intend to vote for the bill today, I do so only because I have been assured by the Republican leadership that they will work to address my concerns before the final version of this legislation comes back before the House next month. The American people have long deserved the tax relief we are considering today, and I look forward to working with

Chairman ARCHER and our leadership as the bill goes to conference.

Mr. ARCHER. Mr. Chairman, I yield 30 seconds to the gentleman from Louisiana [Mr. MCCRERY].

Mr. MCCRERY. Mr. Chairman, I just wanted 30 seconds to respond to my good friend from California. Nobody on this side of the aisle said that payroll taxes were not taxes. Certainly they are taxes. We recognize that and we created the earned income tax credit specifically for that purpose, to give those families some tax relief against the burden of those payroll taxes. But they do not pay any income taxes so we are not going to give them income tax relief.

So I just wanted to make that point crystal clear. They are taxes, we believe they are taxes, we already give them a credit against those taxes.

Mr. ARCHER. Mr. Chairman, I yield such time as he may consume to the gentleman from Minnesota [Mr. RAMSTAD], a respected member of the Committee on Ways and Means.

(Mr. RAMSTAD asked and was given permission to revise and extend his remarks.)

Mr. RAMSTAD. Mr. Chairman, I thank my distinguished chairman for yielding this time to me and for his strong leadership in bringing this Taxpayers Relief Act to the floor to provide hardworking Americans with the most substantial tax relief since 1981, Mr. Chairman. This tax relief bill here today truly does cover people at all stages of life, from the childhood years through the education years to the savings years and into the retirement years.

But in addition to the five major provisions in this tax bill which have been debated most extensively here today, the child tax credit, the education tax incentives, the capital gains tax relief, the extension of IRAs and reduction in death taxes, I would like to focus on three provisions which have not gotten much attention today but are very, very important to help victims of the recent flooding in the Red River Valley, and I would like to thank the chairman and the other members of the Committee on Ways and Means who worked together in a bipartisan way, who listened to those flood victims when we were there in the Red River Valley at those town meetings, particularly the gentleman from North Dakota [Mr. POMEROY] and the gentleman from Minnesota [Mr. PETERSON] on the other side of the aisle who worked to help craft these provisions.

This bill today, this tax relief bill, includes special mortgage revenue bond rules for those people to rebuild their homes, their apartment buildings and houses in the flood areas. It includes extensions of IRS deadlines for flood area taxpayers. And it also includes special IRS rules for sales of livestock caused by the horrible historic flooding in the Red River Valley.

Mr. Chairman, this bill will help real people right away. This bill will not only help all taxpayers at all stages of their life, but particularly right now those people in the Red River Valley who have been devastated, devastated by the horrible flooding. This Congress has listened to those people at those town meetings elsewhere, when the mayors came out here. The Committee on Ways and Means has responded. I strongly urge my colleagues to pass this important bill.

Mr. ARCHER. Mr. Chairman, I yield 1 minute to the gentleman from Illinois [Mr. SHIMKUS].

(Mr. SHIMKUS asked and was given permission to revise and extend his remarks.)

Mr. SHIMKUS. Mr. Chairman, this debate speaks highly in support of tax reform, a fairer, flatter, simpler Tax Code, but as a new Member this debate has also been very disheartening.

As a West Point cadet I lived by a motto: I will not lie, cheat or steal nor tolerate those who do. As an Army officer we said an officer's word is his bond. I am here to tell my colleagues 75 percent of these tax cuts go to those who make $75,000 or less.

Let us reject the Democratic proposal and continue the work that the American people sent us here to do.

□ 1630

Mr. ARCHER. Mr. Chairman, I yield 1 minute to the gentleman from Pennsylvania [Mr. FOX].

Mr. FOX of Pennsylvania. Mr. Chairman, I thank the gentleman for his leadership on this bill.

The majority bill, Mr. Chairman, will give the hard-working Americans their first tax cut in 16 years. It will allow millions of hard-working American families the opportunity to keep more of their own money and make their own decisions about what they do with it.

I am especially pleased with provisions that deal with assistance in education. The House tax relief plan provides millions of college-age students and their parents with a $1,500 tax credit that provides 15 percent of expenses for the first 2 years of college, vocational training, or other postsecondary education program.

Moreover, parents and students are also provided with a $10,000 deduction per student per year for expenses with State prepaid tuition plans for education investment accounts and families making penalty-free withdrawals from any IRA to help further cover the cost of college, vocational training, or other postsecondary education program.

This House Republican plan will also allow families to make contributions to non-State-operated education investment accounts to encourage savings for college, and I would ask support for the majority proposal from the Committee on Ways and Means.

Mr. ARCHER. Mr. Chairman, I reserve the balance of my time.

Mr. RANGEL. Mr. Chairman, I yield 2 minutes to the gentlewoman from California [Ms. SANCHEZ].

Ms. SANCHEZ. Mr. Chairman, tonight I wanted to be in my hometown with my constituents, the people who worked hard to get me here. But they recognize the historic importance of the vote we are about to take on this bill. As we are casting our votes, I urge my colleagues to carefully consider every American who will be affected by our actions today.

This is a monumental day. Before us we have the opportunity to vote on a bill which will affect the life of every single American. But before we take that vote, we must really think about whether or not every hard-working American is being treated equally. Will all Americans, including single parents, workers who are struggling to get by on the minimum wage, and families with schoolchildren receive the benefits promised from this tax bill?

I am a fiscal conservative. I agree with my colleagues on both sides of the aisle that we must balance the budget, that we should cut taxes, and that we must cut spending. Today's proposed tax bill has big problems. However, the Democratic substitute addresses the capital gains tax, the child tax credit, and the education tax credit in a more equitable fashion than the proposed Republican tax bill.

Working-class Americans should not be excluded from the majority of the tax cuts. Working-class Americans should not continue to carry the burden of taxes without sufficient relief, and working-class Americans deserve fair tax relief from this Congress.

If this bill does pass and go to conference, I hope the conferees will remember the pledge that we made for equality of tax relief. Fairness in taxation is what we pledged to the American people. Fairness is what we must deliver in our actions here today.

Yesterday, it was with much hesitation that I voted in favor of the spending bill. Although this bill may not follow through on all of the promises of the balanced budget agreement, it is an important first step as the budget moves to conference.

Mr. ARCHER. Mr. Chairman, I have no further requests for time, and I will close, so I would encourage the gentleman from New York [Mr. RANGEL] to use the balance of his time.

Mr. RANGEL. Mr. Chairman, I yield 30 seconds to the gentlewoman from Texas [Ms. JACKSON-LEE].

Ms. JACKSON-LEE of Texas. Mr. Chairman, I thank the gentleman for yielding to me.

Let me briefly say that I rise in strong support of the Democratic alternative on two counts. One, just take as an example the chairman of Microsoft who would get capital gains and estate tax reductions and even a new IRA provision under the Republican plan that would also let him take a $4,000 tax break for educational expenses, while at the same time a working police officer in my district in Houston and a working police officer in the Speaker's district would not be allowed to get a tax credit for their children, or to benefit from this particular Republican

bill. The bill on the Democratic side allows for working Americans to receive tax cuts.

Mr. Chairman, I rise today in support of the Democratic alternative to H.R. 2014. The Democratic plan authored by the distinguished ranking member of the Ways and Means Committee, Representative CHARLES RANGEL, is the fairer tax plan. It is the plan that gives tax relief to those who need it—to hard-working tax-paying families. The Democratic substitute provides 71 percent of tax cuts to families earning less than $100,000.

The Republican plan, in striking contrast, overwhelmingly benefits the wealthiest at the expense of working families. A recent analysis by the Center for Budget and Policy Priorities highlighted this disparity and revealed that between the Republican tax bill and spending bill voted on yesterday, the very wealthiest 1 percent of families will have their incomes boosted by an average of $27,000 a year, while struggling families in the bottom 20 percent of the economic ladder actually end up losing $63 a year. According to an analysis of the Republican bill by the Treasury Department, the richest 1 percent get more of the overall tax breaks than the bottom 60 percent combined.

The disparities between the Democratic and Republican plans are most obvious in the areas of education and child care tax credits. The differences illustrate clearly the lack of concern in the Republican plan for our Nation's working families.

The Democratic alternative would make the $500 child credit available to families who work and pay taxes—and who earn less than $75,000. This ensures that millions more children would qualify for the tax credit than do under the Republican bill. The Republican bill denies adequate tax relief to 15 million working, tax-paying families by refusing to give them the full $500 child tax credit for the earned income tax credit. This would mean that a working family with two children earning $25,000 would not receive the $500 child credit.

Democrats understand that college affordability is a priority for American families and so the Democratic substitute provides the full $1,500 HOPE scholarship tuition tax credit for the first 2 years of postsecondary education including vocational and 2-year educational programs, as well as a credit of 20 percent of tuition costs after the first 2 years. The Republican bill, however, skimps on tax breaks for college by providing only half of the $1,500 HOPE tuition tax credit and only for the first 2 years of college illustrating that the Democratic plan is the one that protects and provides for the concerns of working families.

Additionally, the Democratic alternative provides immediate and targeted tax relief to small businesses and family farms. It does not give capital gains tax breaks to wealthy people whose principal assets are stocks, bonds, and collectibles as the Republican plan does.

Finally, the Republican bill gives large corporations a $22 billion windfall by scaling back the corporate minimum tax. The Democratic alternative contains no such provision.

Mr. Chairman, it is abundantly clear that H.R. 2014, the Republican tax plan, is one that is designed to benefit the wealthy in our Nation. It is for this reason that I stand resolutely behind the Democratic alternative—a balanced tax package that is good for working families and good for America.

Mr. RANGEL. Mr. Chairman, I yield 30 seconds to the gentlewoman from California [Ms. WOOLSEY].

(Ms. WOOLSEY asked and was given permission to revise and extend her remarks.)

Ms. WOOLSEY. Mr. Chairman, it is absolutely certain that we knew when we passed the balanced budget that the devil would be in the details. Well, this bill is full of devils. I would urge everyone who really wants to help working families and to support educational opportunities to vote it down.

Mr. RANGEL. Mr. Chairman, I yield the remainder of the time for closing purposes to the gentleman from Missouri [Mr. GEPHARDT], the Democratic minority leader.

(Mr. GEPHARDT asked and was given permission to revise and extend his remarks.)

Mr. GEPHARDT. Mr. Chairman, I rise tonight in favor of the Rangel Democratic bill and to speak in favor of it over the Republican bill.

I rise to raise a simple question, which is who should be getting the lion's share of the benefit from this tax cut bill. Everybody is for tax cuts. I am, the Republicans are, I think every Member of the House is happy tonight that we are here on the floor talking about tax cuts. The reason we are here, in my view, is that the Democratic Party in 1993 produced this deficit dividend as a result of courageous votes cast by Democrats, all Democrats in 1993. Now we are very near to balancing the budget. Some say we might even balance the budget next year as a result of that action.

So the question is, who gets the tax cut? I believe, and I think Democrats believe, that this tax cut should go to hard-working, middle-income families and families struggling to get into the middle class.

I refer the Members to these charts. The Republican bill gives 19 million families the lion's share of their tax cut, about 70 percent, to families earning over $100,000 a year. They only give about 30 percent of their tax cut to families earning less than $100,000, whereas with the Democratic tax bill we give the lion's share of our tax cut to families earning below $100,000 a year, 91 million families. We give a tax cut to families earning over $100,000 a year, but it is less of a tax cut. We want everybody to have a tax cut, we just want the lion's share of it to go to hard-working middle income families and families trying to get into the middle class.

My colleagues may say why? Why do we insist that the tax cut go to people in the middle and trying to get into the middle? There is a simple reason. The people at the top, the 19 million families that are the top earners in the country have seen their income over the last 20 years go up by about 50 percent. We are thrilled that their income has gone up. God bless them. I wish everybody in this country would have their income go up by 50 percent. But the truth is, the people below $100,000 a year in income over the last 20 years has seen their income stay in place, or they have even fallen behind. It is that central fact that leads us to the conclusion that the people under $100,000 a year are the people that ought to claim the lion's share of this tax cut.

Now, our tax cut is a families first tax cut. Let us talk about the child credit for a minute. A lot has been made of the fact that in the Republican bill families earning $20,000 and $25,000 a year do not get the full child credit because we, together, Republicans and Democrats, decided to cut these families' taxes by the earned income credit on a couple of occasions over the last 10 years, trying to help those hard-working families do well. Now we are being told that we cannot give them the child credit because they are on welfare.

How dare anyone say that someone is on welfare who goes to work every day earning $17,000 and $20,000 and $25,000 a year. They are paying taxes. They are paying the Social Security tax. They are paying Federal excise taxes, they are paying State taxes, they are paying local taxes, they are paying lots of taxes, and they need help. And they above everyone need the child credit.

Now, let us talk about education. What is more important in today's world than getting an education? We are in a global economy. We have to have highly productive workers. We all know that mental capability is the most important thing, the currency of the world economy. And we are saying, let us make sure every young person in this country, no matter what their income, gets a chance to go to college. The President has talked about it now for 5 years.

Ben Naes lives in my district in Barnhart, MO. He is 21 years old. He just came through community college. He is trying now to go to State university. If our tax bill had been in place last year, he would have gotten an $1,100 tax credit or his family would have so he could go to college. Under the Republican bill, he would have gotten about a $700 credit. More importantly, next year when these bills might be in place, he is going on to State university. He could get $600 out of our bill to go to State university; under the Republican bill, not a red cent of help for Ben Naes. Ben Naes got a 3.9 in community college. He wants to be a biochemist. He could be a biochemist and would not come out with a mountain of debt if the Democratic bill were in place.

Mr. Chairman, I remember when I wanted to go to college. My dad was a milk truck driver and we did not have a lot of money. And my mother took me down to the church that we went to, Third Baptist Church in St. Louis and we sat down across from the pastor and we asked if we could have a loan from the church. I am old enough, we did not have Pell grants, we did not have loans, we did not have tax bills

that gave credits, and the minister of our church had a little scholarship fund and he gave us $500, which helped toward the $1,500 tuition at my college. Ben Naes maybe can go to the church and get that kind of a loan, but he needs more than that to get to the State university today. He needs the Democratic tax bill to help him go to college.

Now, let me end by saying this: As my colleagues go to vote on these two bills, put out of your mind everything you have heard from every lobbyist, put out of your mind everything that you have seen in ads put in by special interest groups in the newspapers, put out of your mind everything that you have been told by the people who have had the ability to approach you in the halls or call you up; put out of your mind what people at fundraising events have told you about what should happen in this tax bill, and put in your mind the people that you represent in your district and remember that the median household income in this country is $35,000 a year. Put them in your mind. Put Ben Naes in your mind and vote for a tax bill that in good conscience helps the hard-working middle-income families of this country. Let us pass the Democratic tax bill, the Rangel bill, which is the best bill.

Mr. ARCHER. Mr. Chairman, I yield myself the balance of my time.

Mr. Chairman, as I have listened to this debate, I have been struck by the philosophical difference that still exists between some in the Democrat Party and the rest of us who are trying to change the way Washington works.

As Republicans and some Democrats move forward to balance the budget and reduce the tax burden on the American people, we have made our governing philosophy clear. We believe that the strength of this great Nation lies not with the Government, but with its people. Left to their own, without Government interference, red tape or excessive taxation, there is no problem that the people cannot solve. We have proved that over and over again in our history. We also believe that the great social experiment of the last 30 years has led to an unparalleled expansion of the Federal Government. It is clear, it is in the books. But sadly, it has failed to solve our Nation's most difficult problems, whether they be education or drugs, or family breakdown. They have gotten worse, not better.

The Government we inherited along with the bankruptcy on whose brink we have been left has overextended its reach and has made promises that no government can actually fill. This is, after all, only a government. It cannot take the tax dollars that are earned by one citizen, hand them to another citizen, and then believe that it has improved the lot of either. For 30 years we tried that. It is called tax and spend.

Mr. Chairman, the time has come to admit that tax and spend has failed. It is time to reduce the size of Government to stop wasteful Washington spending and give the tax dollars back to the people who earn them. It is time we stopped punishing the successful. Instead, we must help more Americans so that everyone can become successful, so that that ladder of upward mobility is available to all of us. We do not stay in one income category in the United States; we take advantage of our opportunities.

My father was broke in 1932. He lost his job. He was in default on his home mortgage. He started from scratch on borrowed money. He took the risk. He spent the work hours. Yes, he earned, but he came back, and ultimately he achieved the American dream of a small businessman, yes, a small businessman who was successful.

When we listen to the economic class warfare in this country, we would think everyone stays in the same income category throughout their entire life. We would think that people who save for a lifetime for an asset and sell it one time in their life, perhaps for $150,000, or $200,000 is rich. But they did not have that income in every year. But those are the kinds of statistics that distort the rhetoric on these tax bills.

□ 1645

It is time to bring the American people together. It is time to put economic class warfare aside. We all share in this opportunity in this great country.

I would like to have heard the debate rhetoric in 1961, when President John F. Kennedy proposed the first major reduction in capital gains taxes, the first major across-the-board tax relief. How would that have disturbed you, I say to my colleagues over here on the Democrat side? What would your rhetoric have been to the John F. Kennedy tax relief bill that spurred economic growth in this country?

And he spoke to that to the American people. He did not indulge in economic class warfare. He spoke about what is right for the country to generate jobs, to generate growth, to generate more opportunity for all Americans. It is clear from this debate that the Democrat caucus remains a liberal caucus. The overwhelming majority of the Democrat party, the party I once belonged to, insists that the Government in Washington remains the only solution and represents the best hope of how to solve our problems.

Yes, if we could only spend more money, my friends on the other side of the aisle argue, we could make our Nation's problems go away. While the world has changed, the Democrat leadership has not. They still cling to the notion that an ever-expanding Federal Government, one that requires more taxes from its citizens, is the best hope we have to solve our problems.

While the heart of the Democrats may sound as if they are in the right place, their fingers surely are in the wrong place, because their fingers remain stuck deep in the wallets of middle-income working income tax-paying Americans, trying to take from one citizen in order to give to another.

Yet, it is true that this bill is limited to tax relief for middle-income families who pay income taxes. We will not take away from those families and their children to give to families who pay no income tax. That is not what this particular bill is all about. Other bills in the past have done that. There is time to address those problems. This, as President Clinton said when he campaigned in 1992, should be a tax relief bill for middle-income Americans who pay income taxes.

To my friends across the aisle I have a simple message: Let it go, let it go, let it go. We have tried your way. For 30 years we raised taxes and we increased spending. It is now our turn. It is the turn of silent, hard-working Americans who have paid and paid and paid to see their earnings redistributed to others.

And to my friends across the aisle, hear my plea: vote for your constituents, not your leadership. Exercise your judgment. Show your independence. Do what you know is right. Vote for the taxpayer, and vote for the majority Taxpayer Relief Act.

Mr. CLAY. Mr. Chairman, few issues that we will debate this Congress better illustrate the gulf that exists between Democratic and Republican priorities for working families. The measure before us launches an unprecedented transfer of wealth from the poor and middle class to the wealthy. According to the Citizens for Tax Justice, 41 percent of the tax cuts in this plan go to the top 1 percent of taxpayers.

By contrast, taxpayers with incomes in the lower 40 percent would see no benefits, and some would get a tax hike.

The education related tax credits shortchange lower-income families as well. It provides a nonrefundable tax credit equal to half the college expenses up to $3,000 a year. The credit will be unavailable to most low-income families because it is not refundable. It significantly disadvantages students who attend lower tuition institutions such as community colleges, because the credit only includes tuition, not living expenses.

The proposal also discriminates against low-income families by reducing the amount of tax credit by the amount of any Pell grant award.

By contrast the Democratic alternative tax proposal provides a $1,500 tax credit that will be accessible to middle income and poor families. The credit will be refundable, thus benefiting low- and middle-income students, and does not have a Pell grant offset.

The Democratic alternative allows the credit to be used for all college expenses and includes a 20-percent tax credit for the remaining years of college.

The Republican plan has been totally repudiated by the Clinton administration. In a letter to Chairman ARCHER this week, Secretary Rubin concluded that education package falls nearly $13 billion short of the agreed goal of $35 billion in tax cuts for education directs more benefits toward upper-income families while reducing the benefits to lower-income families.

I urge my colleagues to reject this flawed, unjust tax scheme and adopt the Democratic alternative plan.

Mr. DOYLE. Mr. Chairman, I am in strong support of the Democratic substitute. My constituents in western Pennsylvania and I believe that the budget deficit is one of the most important issues facing our country. Consequently, it is absolutely crucial that this reconciliation legislation provides for a budget which is brought into balance and then stays in balance. Unfortunately, this Republican revenue bill, which has been crafted by Chairman ARCHER, is riddled with gimmicks, back loaded tax expenditures, and false assumptions which will explode the deficit after 2002. The Democratic alternative, on the other hand, will provide tax relief for middle-class families that can really use it and is still compatible with real, long-term deficit reduction.

The Republican estate tax provisions are a prime example of the short-sighted nature of their plan. Like the Democratic alternative, the archer bill doubles the estate tax exemption from $600,000 to $1 million. However, the chairman's plan implements this change over the course of an entire decade. In doing so, Chairman ARCHER is able to mask the real costs of his proposal, which will not be felt until well after 2002.

Because the Democratic estate tax provisions are more clearly focused, the costs are manageable and affordable, even when fully implemented. As a result, the Democratic alternative provides for nearly immediate reform of estate taxes. Rather than waiting until 2007, the small business people and farmers, who desperately need estate tax relief, would be able to utilize the $1 million exemption next year. This nearly immediate phase-in could help thousands more family owned businesses than the Archer plan.

In addition, I believe that we can spur economic growth and empower millions of middle-class investors by reducing the capital gains tax rates in an economically conservative manner. However, the Archer capital gains plan is not only socially inequitable, it is fiscally irresponsible. In fact, it is timed to provide a fleeting increase in revenues, which helps bring the budget into balance in 2002. But then, in the following years, the costs of this program sky rocket.

This gimmick is part of the chairman's proposal to index capital gains for inflation after 2002. In order to qualify for the indexing on assets held before 2001 investors will have to pay between $10 and $12 billion in taxes, as part of a one time mark-to-market levy. With the help of this one time infusion, the Archer capital gains plan will actually result in an overall revenue increase of $2.7 billion from 1997 to 2002. However, in the 5 years following the 2002 target date, the capital gains provisions will cost $37.5 billion, and they will continue to increase steadily for years to come.

I am troubled by these tax cuts which will explode in the out years because, for some time, I have subscribed to the view that we should balance the budget first, and then consider tax cuts. However, this bipartisan budget agreement demands that tax cuts be enacted this year. I recognize this compromise is perhaps our best chance to balance the budget, and I do not wish to risk scuttling the process by fighting such a substantial component. I believe it is crucial that we all work within the defined parameters, so I will support prudent, responsible tax relief for middle-class families which adheres to the budget agreement.

The Democratic substitute provides such relief. Because it abides by the budget accord, it advances capital gains tax cuts, estate tax relief, and a per-child tax credit. But, it is a stronger measure than the Archer plan in that it goes further in helping middle-class families cope with the costs of owning a home and paying for their kids' college education. Similarly, it contains initiatives not included in the Republican plan which I strongly support, such as incentives for environmental cleanups, economic development, and local school construction.

However, the biggest difference is the fact that the alternative is more economically responsible and fair. It does not lay the groundwork for decades more of mounting debt, and it gives relief to the working, middle-class families who have been struggling to get by. While over 71 percent of the benefits in the alternative go to families earning under $100,000 a year, these same families receive only around one-third of the benefits under the Republican plan, when fully phased-in. In light of this, I think it is safe to say that this Democratic substitute is the real middle-class tax cut.

The Archer tax proposal would cause the deficit to behave like a rubber ball that is dropped from high in the air. Rather than hitting the ground with a dull thud, the Archer cuts will cause the deficit to bounce right back, out of control once again. It seems to me that if the leadership were serious about holding the deficit down, they would include strict deficit enforcement provisions that go beyond an exentison of the pay-as-you-go requirements. As a cosponsor of the Budget Enforcement Act, a bill that would lock in deficit reduction, I have been working with Members from both sides of the aisle to have this measure attached to this reconciliation legislation. The Republican leadership has said that the Budget Enforcement Act will be brought to the floor next month. While I am disappointed they would not allow us to offer it as an amendment to there conciliation legislation, I am pleased it will be considered. However, the Rules Committee chairman has indicated that the bill may be altered before coming to the floor. I believe it would be a grave mistake for the leadership to weaken the Budget Enforcement Act in any way.

Given the structure of the Archer plan a return to deficit spending appears nearly inevitable, and if we allow the deficit to bounce up again after 2002, we will have accomplished nothing. Actually, we will have done something worse than nothing. We will have cynically brought the budget into check for one passing moment just to reap political rewards.

Mr. Chairman, this would be unconscionable. We must balance the budget and keep it balanced. If we are going to have tax relief, we must be fiscally responsible and we must target those truly in need of relief. The Democratic alternative meets these criteria. The Archer plan does not. I urge my colleagues make a vote for the long-term economic health of this country and support the Democratic substitute.

Mr. POSHARD. Mr. Chairman, I rise today in opposition to this bill and in support of the substitute offered by my Democratic colleagues. I have worked hard for many years toward the goal of a balanced Federal budget, because I felt I owed that to my constituents, and to all hard working American taxpayers and their children. And while I am proud of this Congress and the administration for beginning the balancing process by working together and making some of the tough choices we are all going to be required to make, I will not blindly support whatever reconciliation bill comes to the floor, simply because it carries the label of a balanced budget agreement.

As I have said, I believe that balancing the budget is our obligation to working families and the children who eventually must bear the financial burdens of the choices we make today. But a balanced budget is not worth supporting if, in the final analysis, it actually hurts the people we claim to have been working for all along. The tax package before us today ignores those to whom I feel we owe a duty, and it rewards those who are least in need of relief. Why work so hard to balance our budget, to finally arrive at a place where we can afford to offer tax cuts, only to have the vast majority of cuts go to the wealthiest 20 percent of Americans? This not why I have toiled for so many years, promoting fiscal responsibility, supporting a balanced budget amendment, opposing wasteful spending. No, Mr. Speaker, I have worked in pursuit of a different goal: to provide security, stability, and relief to the most vulnerable among us.

The balanced budget plan crafted by President Clinton and congressional leaders called for a fair distribution of tax cuts, and I voted in support of that agreement. If I thought that mandate was carried out in the bill before us, I would vote for it as well. Unfortunately, somewhere along the way, fairness and equity have fallen by the wayside, and we are left with a dramatically uneven plan which not only prematurely provides our wealthiest citizens, with the benefits of a balanced budget, it also deprives low-income and middle-class citizens—the same people who will be forced to bear much of the burden associated with new spending cuts—of similar benefits. This plan is unjust and unjustifiable, and I urge my colleagues to oppose the Republican bill and vote instead for the Democratic substitute. No plan is perfect, and we all recognize how much work remains to be done in conference and beyond. But that should not be an excuse for complacency today. We have an opportunity to send a better bill to the conferees, and that is what I plan to do by supporting the substitute.

Only half of America's children would be covered under the highly touted child tax credits in the Republican tax bill. A shocking 49.9 percent of children nationwide would be completely ineligible for the $500 child credit under the House plan because the credit would not be available to many moderate- and low-income families. In contrast, the child credit in the Democratic substitute would cover 71 percent of American children, including 91 percent of those children whose families' incomes are in the lowest 20 percent. Likewise, the education credits, the capital gains cuts and the alternative minimum tax provisions in the Democratic substitute are the ones that truly live up to the promises of the budget agreement.

We must also think about the years beyond 2002 and take care to ensure that what we do now in the name of short-term gain does not cause new hardships in the decades to follow. Too many of the Republican tax cuts are poised to explode in the 5 years after balance is reached, erasing whatever benefits we may

have realized and creating the likelihood of additional cuts in the very programs upon which our neediest citizens depend. My conscience will not allow me to force such burdens on our children and grandchildren, and I have not waited patiently and worked diligently for so long to achieve balance, only to see it disappear in a cloud of smoke in just a few short years.

Mr. Chairman, the process of balancing the budget requires us all to make difficult choices, and I have made yet another today. I will support the Democratic substitute tax bill because I believe it is the right thing to do for my constituents, for our children, and for all hard-working Americans who have already been asked to sacrifice so much. The substitute provides a fair alternative, it lives up to the promises made in the budget agreement, it does not sacrifice long-term stability for short-term gain, and it is a plan that we can be proud to present to the American people.

Ms. EDDIE BERNICE JOHNSON of Texas. Mr. Chairman, the tax plan presented by my Republican colleagues ventures far from the best interest of the average American citizen. However, the Democratic alternative runs parallel to the needs of middle income families.

Mr. Chairman, the Republican tax plan is designed to benefit those who are in the least need of a break. Analysis shows that 50 percent of the benefits from the bill will benefit the wealthiest 5 percent of American citizens. The Democrats propose an alternative plan that citizens for tax justice estimates will deliver three-fourths of tax benefits to middle- and lower-income Americans. The bill will give a tax break to those individuals who own and sell stock bonds, leaving the average middle- to low-income American without tax relief.

The Democratic alternative will give the tax break to homeowners, small business owners, and farmers, those who need it most. In addition, the alternative will give some form of tax break to every middle- to low-income working family. The Republican tax bill, however, denies a $500 tax break to 15 million families by not extending breaks to those who qualify under the earned income tax credit [EITC].

The future of America rests on the education of our children. I am sure both Republicans and Democrats alike will agree to this statement. The Republicans respond by giving a narrow $1,500 hope scholarship to the few attending certain colleges. Of course this will only apply to those attending private expensive colleges. Colleges that low-income Americans cannot afford. In contrast, the Democratic alternative will give scholarships to students of working families attending community colleges.

The Republican tax plan does not answer the Nation's plea for higher educational opportunity for all its children when their plan gives the wealthiest individuals $16,000 within a 4-year span. This is more than the amount given to lower-income families through a Pell grant. The message from such actions is that the education of the few is more important than the education of lower income children. We do not agree. The education of all children is vital to the growth and development of our country. Therefore the Democratic alternative plan will concentrate most of its resources toward the education of children from families with limited incomes that are struggling to pay for college.

The conclusion is clear. Reject the Republican tax plan just for the wealthy and support the Democratic alternative plan that includes hard-working average Americans. Are we a government just for the rich or a government for all of its people?

Mr. POMEROY. Mr. Chairman, Republicans and Democrats have agreed on a bipartisan budget plan that includes $85 billion in net tax relief over the next 5 years and $250 billion over the next 10 years. There is no disagreement between the parties over the amount of tax cuts to be provided. However, there is a sharp difference of opinion over how those resources should be allocated.

I believe there are two important principles that Congress should follow in delivering tax relief for American families: First tax cuts should not explode the deficit in future years which would increase the debt and tax burden on our children, and second, the majority of the tax cut benefits should flow to those who need it most, working and middle-income families. In my view, the Democratic alternative to the Ways and Means tax bill far better upholds these principles.

Mr. Chairman, the Ways and Means bill loses sight of the most important objective of the bipartisan budget agreement—a sustainable balanced budget. Although the revenue loss in this bill is nearly within the 10-year limits established by the budget agreement, it contains several provisions that will trigger exploding revenue loss in future years and throw the budget out of balance. For instance, the revenue loss from the back-loaded IRA provision that allows wealthy individuals to shelter their income from taxation grows at 73 percent per year. The revenue loss from the repeal of the alternative minimum tax [AMT] that ensures that America's large corporations pay their fair share of taxes grows at 49 percent per year. As a result of these provisions and others, the cost of this bill over the second 10 years skyrockets to $650–$750 billion and endangers the future fiscal health of our Nation.

Second, given the limited resources that are available to cut taxes while still balancing the budget, I believe it is critical that those resources be targeted to those who need it most—working and middle-income families. The Democratic alternative is far superior to the Ways and Means bill in this regard. The committee bill provides two-thirds of the tax benefits to the top 20 percent of income earners whereas the alternative give two-thirds of the tax benefit to families on the bottom 80 percent of the income scale.

Mr. Chairman, the alternative tax bill is also superior to the committee bill in delivering estate and capital gains tax relief to family farmers and small business. The committee bill slowly increases the estate tax exemption from the current $600,000 to $1 million over the next 10 years. The alternative, on the other hand, raises the exemption to $1 million on January 1 next year for family-owned farms and businesses. The committee bill would reduce the capital gains tax from 28 to 20 percent whereas the alternative reduces the tax rate to 18 percent without exploding the deficit by limiting the rate reduction to farm, business, and real estate assets.

In summary, Mr. Chairman, the Democratic tax alternative delivers tax relief to those who need it while better protecting the prospects for a sustainable balanced budget over the long-term. I sincerely hope the tax bill that emerges from the House-Senate conference committee will fulfill these objective so that it can be enacted with strong bipartisan support.

Ms. WATERS. Mr. Chairman, I rise today in support of the Democratic alternative tax bill. The Democratic Caucus finally came to the realization that Republican style tax-relief for the rich is not the kind of tax relief that should be adopted by this Congress.

Not all tax relief is bad. But, Republican style tax relief is immoral. The Republican tax plan benefits the rich plain and simple. The Democratic Caucus has finally defined, shaped and organized sensible tax relief for the people who need it and deserve it—the low-wage and middle-income workers of America.

The Republicans denied tax cuts to the poorest, hardest working Americans. Waitresses, drug store clerks, janitors, maids, busboys, hospital attendants, garment workers, receptionists, aides, elevator operators, farm workers, dishwashers, department store clerks, and bank tellers—these hardest-working, poorest-paid Americans are the ones who really deserve a tax break. What is in the Republican tax plan for them? Nothing, nothing, and nothing.

In the Democratic alternative, nearly three-quarters of the tax benefits go to middle- and lower-income families making less than $58,000 a year. The Republicans give the majority of their tax breaks to the wealthiest 5 percent of Americans—those making an average of $250,000 a year.

The Democratic family tax credit covers 20 million more low-income children than the Republican plan. The Republicans want to deny the family credit to 28 million children from families making less than $20,000 per year.

The Democratic alternative would also stimulate economic investment in economically distressed urban communities across the country—including my own district—by honoring the commitment made as part of the budget agreement to authorize a second round of the Empowerment Zone and Enterprise Community Program.

The Democratic alternative values working families over increasing corporate profits and tax breaks for the wealthy. I urge my colleagues to help working America. Support the Democratic plan.

The CHAIRMAN pro tempore (Mr. LATOURETTE). All time has expired.

The question is on the amendment in the nature of a substitute offered by the gentleman from New York [Mr. RANGEL].

The question was taken; and the Chairman pro tempore announced that the noes appeared to have it.

RECORDed vote

Mr. RANGEL. Mr. Chairman, I demand a recorded vote.

A recorded vote was ordered.

The vote was taken by electronic device, and there were—ayes 197, noes 235, not voting 3, as follows:

[Roll No. 243]

AYES—197

Abercrombie	Berry	Brown (OH)
Ackerman	Bishop	Capps
Allen	Blagojevich	Cardin
Andrews	Blumenauer	Carson
Baesler	Bonior	Clay
Baldacci	Borski	Clayton
Barcia	Boswell	Clement
Barrett (WI)	Boucher	Clyburn
Becerra	Boyd	Condit
Bentsen	Brown (CA)	Conyers
Berman	Brown (FL)	Costello

Coyne
Cramer
Cummings
Danner
Davis (FL)
Davis (IL)
DeGette
Delahunt
DeLauro
Dellums
Dicks
Dingell
Dixon
Doggett
Dooley
Doyle
Edwards
Engel
Eshoo
Etheridge
Evans
Farr
Fattah
Fazio
Filner
Flake
Foglietta
Ford
Frank (MA)
Frost
Furse
Gejdenson
Gephardt
Gonzalez
Goode
Gordon
Green
Gutierrez
Hall (OH)
Hamilton
Harman
Hastings (FL)
Hefner
Hilliard
Hinchey
Hinojosa
Holden
Hooley
Hoyer
Jackson (IL)
Jackson-Lee (TX)
Jefferson
John
Johnson (WI)
Johnson, E. B.
Kanjorski
Kaptur
Kennedy (MA)
Kennedy (RI)
Kennelly
Kildee
Kilpatrick
Kind (WI)
Kleczka
Klink
Kucinich
LaFalce
Lampson
Lantos
Levin
Lewis (GA)
Lofgren
Lowey
Luther
Maloney (CT)
Maloney (NY)
Manton
Markey
Martinez
Mascara
Matsui
McCarthy (MO)
McCarthy (NY)
McDermott
McGovern
McHale
McIntyre
McKinney
McNulty
Meek
Menendez
Millender-McDonald
Miller (CA)
Minge
Mink
Moakley
Mollohan
Nadler
Neal
Oberstar
Obey
Olver
Ortiz
Owens
Pallone
Pascrell
Pastor
Payne
Pelosi
Peterson (MN)
Pickett
Pomeroy
Poshard
Price (NC)
Rahall
Rangel
Reyes
Rivers
Rodriguez
Roemer
Rothman
Roybal-Allard
Rush
Sabo
Sanchez
Sanders
Sandlin
Sawyer
Schumer
Scott
Serrano
Sherman
Sisisky
Skaggs
Skelton
Slaughter
Smith, Adam
Snyder
Spratt
Stabenow
Stark
Stenholm
Stokes
Strickland
Stupak
Tanner
Tauscher
Taylor (MS)
Thompson
Thurman
Tierney
Torres
Towns
Turner
Velazquez
Vento
Waters
Watt (NC)
Waxman
Wexler
Weygand
Wise
Woolsey
Wynn

NOES—235

Aderholt
Archer
Armey
Bachus
Baker
Ballenger
Barr
Barrett (NE)
Bartlett
Barton
Bass
Bateman
Bereuter
Bilbray
Bilirakis
Bliley
Blunt
Boehlert
Boehner
Bonilla
Bono
Brady
Bryant
Bunning
Burr
Burton
Buyer
Callahan
Calvert
Camp
Campbell
Canady
Cannon
Castle
Chabot
Chambliss
Chenoweth
Christensen
Coble
Coburn
Collins
Combest
Cook
Cooksey
Cox
Crane
Crapo
Cubin
Cunningham
Davis (VA)
Deal
DeFazio
DeLay
Deutsch
Diaz-Balart
Dickey
Doolittle
Dreier
Duncan
Dunn
Ehlers
Ehrlich
Emerson
English
Ensign
Everett
Ewing
Fawell
Foley
Forbes
Fowler
Fox
Franks (NJ)
Frelinghuysen
Gallegly
Ganske
Gekas
Gibbons
Gilchrest
Gillmor
Gilman
Gingrich
Goodlatte
Goodling
Goss
Graham
Granger
Greenwood
Gutknecht
Hall (TX)
Hansen
Hastert
Hastings (WA)
Hayworth
Hefley
Herger
Hill
Hilleary
Hobson
Hoekstra
Horn
Hostettler
Houghton
Hulshof
Hunter
Hutchinson
Hyde
Inglis
Istook
Jenkins
Johnson (CT)
Johnson, Sam
Jones
Kasich
Kelly
Kim
King (NY)
Kingston
Klug
Knollenberg
Kolbe
LaHood
Largent
Latham
LaTourette
Lazio
Leach
Lewis (CA)
Lewis (KY)
Linder
Lipinski
Livingston
LoBiondo
Lucas
Manzullo
McCollum
McCrery
McDade
McHugh
McInnis
McIntosh
McKeon
Metcalf
Mica
Miller (FL)
Molinari
Moran (KS)
Moran (VA)
Morella
Murtha
Myrick
Nethercutt
Neumann
Ney
Northup
Norwood
Nussle
Oxley
Packard
Pappas
Parker
Paul
Paxon
Pease
Peterson (PA)
Petri
Pickering
Pitts
Pombo
Porter
Portman
Pryce (OH)
Quinn
Radanovich
Ramstad
Redmond
Regula
Riggs
Riley
Rogan
Rogers
Rohrabacher
Ros-Lehtinen
Roukema
Royce
Ryun
Salmon
Sanford
Saxton
Scarborough
Schaefer, Dan
Schaffer, Bob
Sensenbrenner
Sessions
Shadegg
Shaw
Shays
Shimkus
Shuster
Skeen
Smith (MI)
Smith (NJ)
Smith (OR)
Smith (TX)
Smith, Linda
Snowbarger
Solomon
Souder
Spence
Stearns
Stump
Sununu
Talent
Tauzin
Taylor (NC)
Thomas
Thornberry
Thune
Tiahrt
Traficant
Upton
Visclosky
Walsh
Wamp
Watkins
Watts (OK)
Weldon (FL)
Weldon (PA)
Weller
White
Whitfield
Wicker
Wolf
Young (AK)
Young (FL)

NOT VOTING—3

Meehan
Schiff
Yates

□ 1710

Messrs. PEASE, YOUNG of Alaska, SHADEGG, and Mrs. SMITH of Washington changed their vote from ''aye'' to ''no.''

Mr. DELAHUNT and Mr. DOGGETT changed their vote from ''no'' to ''aye.''

So the amendment in the nature of a substitute was rejected.

The result of the vote was announced as above recorded.

The CHAIRMAN pro tempore (Mr. LATOURETTE). Under the rule, the Committee rises.

Accordingly, the Committee rose; and the Speaker pro tempore (Mr. LAHOOD) having assumed the chair, Mr. LATOURETTE, Chairman pro tempore of the Committee of the Whole House on the State of the Union, reported that that Committee, having had under consideration the bill (H.R. 2014) to provide for reconciliation pursuant to subsections (b)(2) and (d) of section 105 of the concurrent resolution on the budget for fiscal year 1998, pursuant to House Resolution 174, he reported the bill, as amended pursuant to that rule, back to the House.

The SPEAKER pro tempore. Under the rule, the previous question is ordered and the amendment is agreed to.

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.

MOTION TO RECOMMIT OFFERED BY MR. PETERSON OF MINNESOTA

Mr. PETERSON of Minnesota. Mr. Speaker, I offer a motion to recommit.

The SPEAKER pro tempore. Is the gentleman opposed to the bill?

Mr. PETERSON of Minnesota. I am opposed to the bill in its current form, Mr. Speaker.

The SPEAKER pro tempore. The Clerk will report the motion to recommit.

The Clerk read as follows:

Mr. PETERSON of Minnesota moves to recommit the bill H.R. 2014 to the Committee on the Budget with instructions to report the same back to the House forthwith with the following amendments:

Strike subsection (c) of section 1 and titles I, II, III, IV, V, VI, VII, VIII, IX, XI, XII, XIII, XIV, and XV.

Redesignate title X (relating to revenues), and each of the sections contained therein, as title I, and sections of title I, as appropriate.

Add at the end of the bill the following new title:

TITLE II—ADDITIONAL PROVISIONS

SEC. 201. ADDITIONAL PROVISIONS.

It is the sense of the House of Representatives that additional provisions should be added to the Internal Revenue Code of 1986 so that:

(1) CAPITAL GAINS REDUCTIONS.—

(A) REDUCTION IN CAPITAL GAINS TAX FOR NONCORPORATE TAXPAYERS.—Effective as of May 7, 1997, there is excluded from gross income of noncorporate taxpayers the following percentages of capital gains from the sale or exchange of assets:

(i) 10 percent for assets held at least 1 year.

(ii) 20 percent for assets held at least 2 years.

(iii) 30 percent for assets held at least 3 years.

(iv) 40 percent for assets held at least 4 years.

(v) 50 percent for assets held five or more years.

(B) GAINS ON SALE OF PRINCIPAL RESIDENCE.—Up to $250,000 in gain realized on the sale or exchange of a principal residence is excluded from taxation.

(2) ESTATE AND GIFT TAXES.—

(A) AMOUNTS EXCLUDED BY UNIFIED CREDIT.—The unified credit allowed to the estate of every decedent is increased, resulting in the following amounts being excluded from the estate tax:

(i) $700,000 in the case of decedents dying in 1998.

(ii) $800,000 in the case of decedents dying in 1999.

(iii) $850,000 in the case of decedents dying in 2000.

(iv) $900,000 in the case of decedents dying in 2001.

(v) $1,000,000 in the case of decedents dying in 2002.

(vi) $1,100,000 in the case of decedents dying in 2003.

(vii) $1,200,000 in the case of decedents dying in 2004 and thereafter.

(B) FAMILY FARMS AND BUSINESSES.—In addition to subparagraph (A), family farms and businesses are allowed to exclude from the gross estate up to $1,000,000, beginning in calendar year 1998.

(3) CHILD TAX CREDIT.—There is allowed against the income tax of an individual a nonrefundable credit for dependents under age 17 in the following amounts:

(A) $300 in taxable years beginning in 1997, 1998, and 1999, and

(B) $500 thereafter.

The credit is phased out for taxpayers whose adjusted gross income is between $60,000 and $75,000.

(4) TAX REDUCTIONS RELATED TO EDUCATIONAL EXPENSES.—There is allowed against the income tax of an individual—

(A) a credit of $1,500 per year for up to two years for higher education expenses, which credit—

(i) beginning with adjusted gross income of $50,000 ($80,000 in the case of a joint return),

is phased out ratably over a range of $20,000; and

(ii) is phased in by substituting—

(I) '$1,100' for '$1,500' in taxable years beginning in 1997, 1998, and 1999, and

(II) '$1,200' for '$1,500' in the taxable year beginning in 2000; and

(B) a deduction of $10,000 ($5,000 in 1997 and 1998) for higher education fees and tuition, which amount is phased out ratably over a range of $20,000, beginning with adjusted gross income of $50,000 ($80,000 in the case of a joint return).

Mr. PETERSON of Minnesota (during the reading). Mr. Speaker, I ask unanimous consent that the motion to recommit be considered as read and printed in the RECORD.

The SPEAKER pro tempore. Is there objection to the request of the gentleman from Minnesota?

There was no objection.

□ 1715

Mr. PETERSON of Minnesota. Mr. Speaker, I offer a motion to recommit, on behalf of my colleagues in the Blue Dog Coalition, that provides tax relief to mainstream America, small businesses, farmers, and working families, and does all of that in a fiscally responsible way.

First of all, I want to thank our leadership for allowing us to offer this. I also want to thank my Blue Dog colleagues for their hard work and determination in developing this alternative tax bill. And finally, I want to thank the gentleman from New York [Mr. RANGEL] and his staff for all of their assistance.

First of all, Mr. Speaker, we are going to hear about a chart that I just received when I walked in from Joint Tax that says we are $4.7 billion over in the first 5 years. This is the first I have seen of this. We do not agree with this, and we cannot really respond because we do not know the basis for these numbers. Clearly, this can fit within the $85 billion. It also says we are at $230 billion over the 10 years. So I just want to make that clear, and this will fit within the terms of the budget agreement.

A lot of Democrats in this body, Mr. Speaker, support tax cuts, and we always have, just as President Clinton has supported tax relief for American families. But if we are going to provide tax relief and balance the budget at the same time, tax relief must be well-constructed and targeted to working families and it must not bust the budget.

Mr. Speaker, the tax bill before us today is deficient in many respects and should be defeated. It is overly complicated. It is not targeted. It may send the budget deficit up once again outside the 10-year budget window.

The capital gains provisions in this bill are overly complicated. It will be difficult to use in the real world, and the indexation of capital gains will require so much record keeping that it is going to cause taxpayers out there a real problem to use. And this is probably going to cause us more fiscal problems in the future because of indexation.

The children's tax credit is more costly than we need to do because it includes families going up to $110,000 income. The estate tax relief income in this bill is phased in over too long a period and is less than many of us on both sides of the aisle want to do. And the backloaded IRAs in the committee bill are a bad idea that cost over $13 billion in 10 years and explode the deficit out into the future.

The alternative minimum tax provisions in the committee bill that will cost $40 billion over 10 years are also troublesome to many of us and, like other provisions in this bill, are likely to send the deficit up in the future.

What we did in this motion is really very simple. We are recommending that the Committee on Ways and Means develop a better, fairer tax bill that rewards the people who make our country work. Small businesses create 85 percent of the new jobs in this country, farmers and the working people that work on those farms and small businesses.

This bill contains a capital gains tax provision that is simple, that provides for capital gains relief like the old way we did it, that rewards long-term investment, economic growth, and job development. Our capital gains provision is simple. It provides for an exclusion from income of 10 percent per year, up to 50 percent at 5 years. So you get 10 percent; at 5 years you get a 50-percent exclusion from income.

The motion also contains immediate estate tax relief for small businesses and farmers. An exemption for closely held businesses and ranches and family farms is immediately increased to $1 million next year. It also increases the unified credit to $1 million in 2002 and $1.2 million in 2004, the first increase in this unified credit since 1976.

My motion to recommit also includes a family tax credit that provides a $500 credit for children under 17 because we believe that this will strengthen families, and this is phased out between $60,000 and $75,000 of income, not $110,000 like the committee bill.

The motion also includes the President's $1,500 HOPE scholarship, $10,000 tuition tax deductions, tax breaks that the President proposed.

It is that simple: Real capital gains relief that rewards long-term investment, immediate estate tax relief, a family tax credit, and education tax breaks for American families, real sustained immediate tax relief for American families, farms, and businesses.

Mr. Speaker, we provide these tax breaks without breaking the bank because we do not backload our provisions. This motion will not explode the deficit. This motion is responsible tax policy. And what is more, this motion provides more capital gains relief, more estate tax relief, a better, more family-friendly children's tax cut, and the important education tax breaks that most of us support.

Mr. Speaker, if this motion passes the Committee on Ways and Means, then the Committee on the Budget, can quickly return to the floor with a better tax bill, a tax bill that reflects our values, that is fair, that is good for families, good for farms, good for small businesses.

Mr. Speaker, I urge my colleagues to support this motion to recommit.

Mr. GINGRICH. Mr. Speaker, I rise in opposition to the motion to recommit.

The SPEAKER pro tempore (Mr. LAHOOD). The gentleman from Georgia [Mr. GINGRICH], the Speaker, is recognized for 5 minutes.

Mr. GINGRICH. Mr. Speaker, let me begin, if I might, with the comment by my friend over there who referred to the recent Presidential message, asking ''Is that a veto?'' Because I think one of the things that makes today so exciting is that in fact this is a bill that the President is going to sign; that in fact yesterday the President sent up a letter supporting the bill that came up yesterday.

I am not sure whether our friend who had that comment voted with the President yesterday or voted against him. But the fact is, there is a bipartisan effort to balance the budget, to save Medicare, and to cut taxes.

This is a hard, difficult thing. It has involved much rhetoric, much negotiating, and it does not come easily, and yet it is very, very important for the American people on three levels. It is very important for rebuilding their trust in the institutions of government. It is very important for the future of their country's economy. And it is very important, at a personal level, for individuals to have a chance to have a little more take-home pay, a little more money for their children, a little more money to go to college or vocational-technical school, a little better chance to keep their family farm or family business, a little better chance to invest and create jobs and save.

These are not small things. And the fact is, we have worked with the President. It is our full expectation, as the White House said again, I think as recently as this morning, that when the negotiations are done both of these bills will be signed. That is very good for the American people.

Now my friend, the gentleman from Minnesota [Mr. PETERSON] offered a motion to recommit, and that certainly is a process that is legitimate. We frankly cannot comment on the detail because the version we had earlier has been changed so much, so I do not want to spend a lot of time. I understand that we go through these exercises.

I would point out that that motion, if we understand it based on the material we got 4 minutes ago, does increase the deficit in 1998 by $7 billion, does increase the deficit in 1999 by $11 billion. Over 5 years, it is our best estimate, having only looked at it for 4 minutes, that it is a $50 billion tax cut, not an $85 billion tax cut. But the truth is, we do not fully know because this was a

political gesture offered for political reasons so that my friend could vote for something a little different.

What I can report is that the Farm Bureau, having looked at all of our efforts, is endorsing the Archer bill. I can report that the National Federation of Independent Business, the leading small business group in America, having looked at the opportunities, is endorsing the Taxpayer Relief Act that the gentleman from Texas [Mr. ARCHER] has offered.

I can report that again and again groups that care about children, groups that care about families, groups that care about personal take-home pay, groups that care about small business, groups that care about family farms, groups that care about saving and investment and job creation have endorsed the Archer bill.

Why have they done that? Because it is a bill that was designed seriously with serious study, that evolved over a period of time, that was accurately scored, that was out in the open, that everybody had a chance to see, that did not change in the last 5 minutes before a vote.

So I would say to all of my colleagues, the only legitimate serious vote on the motion to recommit is ''no'' because the fact is, no one knows what is in the motion to recommit. No one knows how it would score. No one knows the implications. It is a nice, brief political publicity gesture. And then we should all vote ''yes''.

I would say even to my friends on the left who find it hard, if they voted for the 1993 tax increase, this is their chance to do a little bit to return some of it back to the American people.

Let me just say that for too many years this city raised taxes, increased spending, created a big deficit, and did not care about the future. It took care of this year's political needs at the expense of our children's future. The leadership from the gentleman from Ohio [Mr. KASICH] and the gentleman from Texas [Mr. ARCHER] and from so many people working with President Clinton, we have pulled together a real effort to balance the budget, to save Medicare, to cut taxes, and to give our children and our country a better future. That is why we should all vote ''yes'' on final passage.

The SPEAKER pro tempore. Without objection, the previous question is ordered on the motion to recommit.

There was no objection.

The SPEAKER pro tempore. The question is on the motion to recommit.

The question was taken; and the Speaker pro tempore announced that the noes appeared to have it.

RECORDED VOTE

Ms. PETERSON of Minnesota. Mr. Speaker, I demand a recorded vote.

A recorded vote was ordered.

The vote was taken by electronic device, and there were—ayes 164, noes 268, not voting 3, as follows:

[Roll No. 244]

AYES—164

Abercrombie
Ackerman
Allen
Andrews
Baesler
Baldacci
Barcia
Bentsen
Berman
Berry
Bishop
Blagojevich
Blumenauer
Boswell
Boucher
Boyd
Brown (CA)
Brown (OH)
Capps
Cardin
Carson
Clay
Clayton
Clement
Clyburn
Condit
Conyers
Costello
Coyne
Cramer
Cummings
Danner
Davis (FL)
Davis (IL)
DeGette
Delahunt
Deutsch
Dicks
Dingell
Dixon
Doggett
Dooley
Doyle
Edwards
Engel
Eshoo
Etheridge
Evans
Farr
Fattah
Fazio
Filner
Flake
Ford
Frost
Furse
Gejdenson
Gonzalez
Goode
Green
Hall (OH)
Hall (TX)
Hamilton
Harman
Hastings (FL)
Hefner
Hilliard
Hinchey
Hinojosa
Holden
Hooley
Hoyer
Jackson-Lee (TX)
Jefferson
John
Johnson (WI)
Johnson, E. B.
Kaptur
Kennedy (MA)
Kennelly
Kildee
Kind (WI)
Kleczka
Klink
LaFalce
Lampson
Lantos
Levin
Lofgren
Lowey
Luther
Maloney (CT)
Maloney (NY)
Manton
Markey
Martinez
Mascara
Matsui
McCarthy (MO)
McCarthy (NY)
McDermott
McHale
McIntyre
McKinney
McNulty
Menendez
Millender-McDonald
Minge
Mink
Moakley
Mollohan
Nadler
Neal
Oberstar
Obey
Olver
Ortiz
Owens
Pallone
Pascrell
Pastor
Peterson (MN)
Pickett
Pomeroy
Poshard
Price (NC)
Rahall
Rangel
Reyes
Rodriguez
Roemer
Rothman
Rush
Sabo
Sanchez
Sandlin
Sawyer
Schumer
Serrano
Sisisky
Skaggs
Skelton
Slaughter
Smith, Adam
Snyder
Spratt
Stabenow
Stenholm
Stokes
Stupak
Tanner
Tauscher
Taylor (MS)
Thompson
Thurman
Towns
Turner
Vento
Watt (NC)
Wexler
Weygand
Wise
Woolsey
Wynn

NOES—268

Aderholt
Archer
Armey
Bachus
Baker
Ballenger
Barr
Barrett (NE)
Barrett (WI)
Bartlett
Barton
Bass
Bateman
Becerra
Bereuter
Bilbray
Bilirakis
Bliley
Blunt
Boehlert
Boehner
Bonilla
Bonior
Bono
Borski
Brady
Brown (FL)
Bryant
Bunning
Burr
Burton
Buyer
Callahan
Calvert
Camp
Campbell
Canady
Cannon
Castle
Chabot
Chambliss
Chenoweth
Christensen
Coble
Coburn
Collins
Combest
Cook
Cooksey
Cox
Crane
Crapo
Cubin
Cunningham
Davis (VA)
Deal
DeFazio
DeLauro
DeLay
Dellums
Diaz-Balart
Dickey
Doolittle
Dreier
Duncan
Dunn
Ehlers
Ehrlich
Emerson
English
Ensign
Everett
Ewing
Fawell
Foglietta
Foley
Forbes
Fowler
Fox
Frank (MA)
Franks (NJ)
Frelinghuysen
Gallegly
Ganske
Gekas
Gephardt
Gibbons
Gilchrest
Gillmor
Gilman
Gingrich
Goodlatte
Goodling
Gordon
Goss
Graham
Granger
Greenwood
Gutierrez
Gutknecht
Hansen
Hastert
Hastings (WA)
Hayworth
Hefley
Herger
Hill
Hilleary
Hobson
Hoekstra
Horn
Hostettler
Houghton
Hulshof
Hunter
Hutchinson
Hyde
Inglis
Istook
Jackson (IL)
Jenkins
Johnson (CT)
Johnson, Sam
Jones
Kanjorski
Kasich
Kelly
Kennedy (RI)
Kilpatrick
Kim
King (NY)
Kingston
Klug
Knollenberg
Kolbe
Kucinich
LaHood
Largent
Latham
LaTourette
Lazio
Leach
Lewis (CA)
Lewis (GA)
Lewis (KY)
Linder
Lipinski
Livingston
LoBiondo
Lucas
Manzullo
McCollum
McCrery
McDade
McGovern
McHugh
McInnis
McIntosh
McKeon
Meek
Metcalf
Mica
Miller (CA)
Miller (FL)
Molinari
Moran (KS)
Moran (VA)
Morella
Murtha
Myrick
Nethercutt
Neumann
Ney
Northup
Norwood
Nussle
Oxley
Packard
Pappas
Parker
Paul
Paxon
Payne
Pease
Pelosi
Peterson (PA)
Petri
Pickering
Pitts
Pombo
Porter
Portman
Pryce (OH)
Quinn
Radanovich
Ramstad
Redmond
Regula
Riggs
Riley
Rivers
Rogan
Rogers
Rohrabacher
Ros-Lehtinen
Roukema
Roybal-Allard
Royce
Ryun
Salmon
Sanders
Sanford
Saxton
Scarborough
Schaefer, Dan
Schaffer, Bob
Scott
Sensenbrenner
Sessions
Shadegg
Shaw
Shays
Sherman
Shimkus
Shuster
Skeen
Smith (MI)
Smith (NJ)
Smith (OR)
Smith (TX)
Smith, Linda
Snowbarger
Solomon
Souder
Spence
Stark
Stearns
Strickland
Stump
Sununu
Talent
Tauzin
Taylor (NC)
Thomas
Thornberry
Thune
Tiahrt
Tierney
Torres
Traficant
Upton
Velazquez
Visclosky
Walsh
Wamp
Waters
Watkins
Watts (OK)
Waxman
Weldon (FL)
Weldon (PA)
Weller
White
Whitfield
Wicker
Wolf
Young (AK)
Young (FL)

NOT VOTING—3

Meehan
Schiff
Yates

☐ 1742

Mr. DELLUMS and Mr. KENNEDY of Rhode Island changed their vote from ''aye'' to ''no.''

Mr. NADLER and Mr. MOLLOHAN changed their vote from ''no'' to ''aye.''

So the motion to recommit was rejected.

The result of the vote was announced as above recorded.

The SPEAKER pro tempore (Mr. LAHOOD). The question is on the final passage of the bill.

The question was taken; and the Speaker pro tempore announced that the ayes appeared to have it.

RECORDED VOTE

Mr. ARCHER. Mr. Speaker, I demand a recorded vote.

A recorded vote was ordered.

The vote was taken by electronic device, and there were—ayes 253, noes 179, not voting 3, as follows:

[Roll No. 245]

AYES—253

Aderholt
Archer
Armey
Bachus
Baesler
Baker
Ballenger
Barr
Barrett (NE)
Bartlett
Barton
Bass
Bateman
Bereuter
Bilbray
Bilirakis
Bliley
Blunt
Boehlert
Boehner
Bonilla
Bono
Boswell
Brady
Bryant
Bunning
Burr
Burton
Buyer
Callahan

Calvert
Camp
Canady
Cannon
Castle
Chabot
Chambliss
Chenoweth
Christensen
Clement
Coble
Coburn
Collins
Combest
Condit
Cook
Cooksey
Cox
Cramer
Crane
Crapo
Cubin
Cunningham
Danner
Davis (VA)
Deal
DeLay
Diaz-Balart
Dickey
Dicks
Dooley
Doolittle
Dreier
Duncan
Dunn
Ehlers
Ehrlich
Emerson
English
Ensign
Everett
Ewing
Fawell
Foley
Forbes
Fowler
Fox
Franks (NJ)
Frelinghuysen
Gallegly
Ganske
Gekas
Gibbons
Gilchrest
Gillmor
Gilman
Gingrich
Goode
Goodlatte
Goodling
Gordon
Goss
Graham
Granger
Greenwood
Gutknecht
Hall (TX)
Hansen
Harman
Hastert
Hastings (WA)
Hayworth
Hefley
Herger
Hill
Hilleary
Hobson
Hoekstra
Horn
Hostettler
Houghton
Hulshof
Hunter
Hutchinson
Hyde
Inglis
Istook
Jenkins
John
Johnson (CT)
Johnson, Sam
Jones
Kasich
Kelly
Kim
King (NY)
Kingston
Klug
Knollenberg
Kolbe
LaHood
Largent
Latham
LaTourette
Lazio
Leach
Lewis (CA)
Lewis (KY)
Linder
Lipinski
Livingston
LoBiondo
Lucas
Maloney (CT)
Manzullo
McCarthy (NY)
McCollum
McCrery
McDade
McHugh
McInnis
McIntosh
McIntyre
McKeon
Metcalf
Mica
Miller (FL)
Molinari
Moran (KS)
Morella
Myrick
Nethercutt
Neumann
Ney
Northup
Norwood
Nussle
Oxley
Packard
Pappas
Parker
Paul
Paxon
Pease
Peterson (PA)
Petri
Pickering
Pickett
Pitts
Pombo
Porter
Portman
Pryce (OH)
Quinn
Radanovich
Ramstad
Redmond
Regula
Riggs
Riley
Roemer
Rogan
Rogers
Rohrabacher
Ros-Lehtinen
Roukema
Royce
Ryun
Salmon
Sanchez
Sandlin
Sanford
Saxton
Scarborough
Schaefer, Dan
Schaffer, Bob
Sensenbrenner
Sessions
Shadegg
Shaw
Shays
Sherman
Shimkus
Shuster
Sisisky
Skeen
Skelton
Smith (MI)
Smith (NJ)
Smith (OR)
Smith (TX)
Smith, Linda
Snowbarger
Solomon
Souder
Spence
Stearns
Stump
Sununu
Talent
Tauzin
Taylor (MS)
Taylor (NC)
Thomas
Thornberry
Thune
Tiahrt
Traficant
Turner
Upton
Walsh
Wamp
Watkins
Watts (OK)
Weldon (FL)
Weldon (PA)
Weller
White
Whitfield
Wicker
Wolf
Young (AK)
Young (FL)

NOES—179

Abercrombie
Ackerman
Allen
Andrews
Baldacci
Barcia
Barrett (WI)
Becerra
Bentsen
Berman
Berry
Bishop
Blagojevich
Blumenauer
Bonior
Borski
Boucher
Boyd
Brown (CA)
Brown (FL)
Brown (OH)
Campbell
Capps
Cardin
Carson
Clay
Clayton
Clyburn
Conyers
Costello
Coyne
Cummings
Davis (FL)
Davis (IL)
DeFazio
DeGette
Delahunt
DeLauro
Dellums
Deutsch
Dingell
Dixon
Doggett
Doyle
Edwards
Engel
Eshoo
Etheridge
Evans
Farr
Fattah
Fazio
Filner
Flake
Foglietta
Ford
Frank (MA)
Frost
Furse
Gejdenson
Gephardt
Gonzalez
Green
Gutierrez
Hall (OH)
Hamilton
Hastings (FL)
Hefner
Hilliard
Hinchey
Hinojosa
Holden
Hooley
Hoyer
Jackson (IL)
Jackson-Lee (TX)
Jefferson
Johnson (WI)
Johnson, E.B.
Kanjorski
Kaptur
Kennedy (MA)
Kennedy (RI)
Kennelly
Kildee
Kilpatrick
Kind (WI)
Kleczka
Klink
Kucinich
LaFalce
Lampson
Lantos
Levin
Lewis (GA)
Lofgren
Lowey
Luther
Maloney (NY)
Manton
Markey
Martinez
Mascara
Matsui
McCarthy (MO)
McDermott
McGovern
McHale
McKinney
McNulty
Meek
Menendez
Millender-McDonald
Miller (CA)
Minge
Mink
Moakley
Mollohan
Moran (VA)
Murtha
Nadler
Neal
Oberstar
Obey
Olver
Ortiz
Owens
Pallone
Pascrell
Pastor
Payne
Pelosi
Peterson (MN)
Pomeroy
Poshard
Price (NC)
Rahall
Rangel
Reyes
Rivers
Rodriguez
Rothman
Roybal-Allard
Rush
Sabo
Sanders
Sawyer
Schumer
Scott
Serrano
Skaggs
Slaughter
Smith, Adam
Snyder
Spratt
Stabenow
Stark
Stenholm
Stokes
Strickland
Stupak
Tanner
Tauscher
Thompson
Thurman
Tierney
Torres
Towns
Velazquez
Vento
Visclosky
Waters
Watt (NC)
Waxman
Wexler
Weygand
Wise
Woolsey
Wynn

NOT VOTING—3

Meehan
Schiff
Yates

☐ 1800

The Clerk announced the following pair:

On this vote:

Mr. Schiff for, with Mr. Yates against.

Mr. SHERMAN changed his vote from ''no'' to ''aye.''

So the bill was passed.

The result of the vote was announced as above recorded.

A motion to reconsider was laid on the table.

REPORT ON RESOLUTION PROVIDING FOR CONSIDERATION OF H.R. 2016, MILITARY CONSTRUCTION APPROPRIATIONS ACT, 1998

Mrs. MYRICK, from the Committee on Rules, submitted a privileged report (Rept. No. 105–156) on the resolution (H. Res. 178) providing for consideration of the bill (H.R. 2016) making appropriations for military construction, family housing, and base realignment and closure for the Department of Defense for the fiscal year ending September 30, 1998, and for other purposes, which was referred to the House Calendar and ordered to be printed.

PERMISSION FOR COMMITTEE ON APPROPRIATIONS TO HAVE UNTIL MIDNIGHT TUESDAY, JULY 1, 1997, TO FILE REPORT ON BILL MAKING APPROPRIATIONS FOR DEPARTMENT OF INTERIOR AND RELATED AGENCIES, FISCAL YEAR 1998

Mr. REGULA. Mr. Speaker, I ask unanimous consent that the Committee on Appropriations may have until midnight Tuesday, July 1, 1997, to file a privileged report on a bill making appropriations for the Department of the Interior and related agencies for the fiscal year ending September 30, 1998, and for other purposes.

The SPEAKER pro tempore (Mr. LAHOOD). Is there objection to the request of the gentleman from Ohio?

There was no objection.

The SPEAKER pro tempore. All points of order are reserved on the bill.

SUNDRY MESSAGES FROM THE PRESIDENT

Sundry messages in writing from the President of the United States were communicated to the House by Mr. Sherman Williams, one of his secretaries.

EXPRESSING THE SENSE OF CONGRESS RELATING TO ELECTIONS IN ALBANIA SCHEDULED FOR JUNE 29, 1997

Mr. GILMAN. Mr. Speaker, I ask unanimous consent that the Committee on International Relations be discharged from further consideration of the concurrent resolution (H. Con. Res. 105) expressing the sense of the Congress relating to the elections in Albania scheduled for June 29, 1997, and ask for its immediate consideration in the House.

The Clerk read the title of the concurrent resolution.

The SPEAKER pro tempore. Is there objection to the request of the gentleman from New York?

Mr. TRAFICANT. Reserving the right to object, Mr. Speaker, I do not plan to object, but I would like to yield now to the distinguished chairman for an explanation.

Mr. GILMAN. Mr. Speaker, will the gentleman yield?

Mr. TRAFICANT. I yield to the gentleman from New York.

Mr. GILMAN. Mr. Speaker, I thank the gentleman for yielding.

At this time, Mr. Speaker, as Albanian democracy is at a crossroads, our thoughts and prayers are with the people of Albania struggling to safeguard the progress they have made toward democracy and a market-based economy.

The Albanian people have suffered enormous hardships throughout this century. We have always been hopeful that, having expelled their former Communist overlords, the way would be open for Albania's citizens to enjoy the true benefits of economic and political progress.

The events that unfolded late last year with the insolvency and the collapse of several major investment houses came as a deep disappointment. The violence that erupted earlier this year was a true shock to most Members of the Congress, including myself. Those forces or individuals who seek to reap profit or political gain from the unrest are to be condemned, and they should have no place in Albania's future.