

106TH CONGRESS  
1ST SESSION

# H. R. 1928

To simplify certain provisions of the Internal Revenue Code of 1986.

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## IN THE HOUSE OF REPRESENTATIVES

MAY 25, 1999

Mr. HOUGHTON (for himself, Mrs. JOHNSON of Connecticut, and Mr. ENGLISH) introduced the following bill; which was referred to the Committee on Ways and Means

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## A BILL

To simplify certain provisions of the Internal Revenue Code  
of 1986.

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

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

4 (a) **SHORT TITLE.**—This Act may be cited as the  
5 “Tax Simplification and Burden Reduction Act”.

6 (b) **AMENDMENT OF 1986 CODE.**—Except as other-  
7 wise expressly provided, whenever in this Act an amend-  
8 ment or repeal is expressed in terms of an amendment  
9 to, or repeal of, a section or other provision, the reference

1 shall be considered to be made to a section or other provi-  
2 sion of the Internal Revenue Code of 1986.

3 **TITLE I—ALTERNATIVE**  
4 **MINIMUM TAX**

5 **SEC. 101. NONREFUNDABLE PERSONAL CREDITS ALLOWED**  
6 **AGAINST ALTERNATIVE MINIMUM TAX.**

7 (a) IN GENERAL.—Subsection (a) of section 26 (re-  
8 lating to limitation based on tax liability; definition of tax  
9 liability) is amended to read as follows:

10 “(a) LIMITATION BASED ON AMOUNT OF TAX.—The  
11 aggregate amount of credits allowed by this subpart for  
12 the taxable year shall not exceed the sum of—

13 “(1) the taxpayer’s regular tax liability for the  
14 taxable year, and

15 “(2) the tax imposed for the taxable year by  
16 section 55(a).”.

17 (b) CONFORMING AMENDMENTS.—

18 (1) Subsection (d) of section 24 is amended by  
19 striking paragraph (2) and by redesignating para-  
20 graph (3) as paragraph (2).

21 (2) Section 32 is amended by striking sub-  
22 section (h).

23 (3) Section 904 is amended by striking sub-  
24 section (h) and by redesignating subsections (i), (j),  
25 and (k) as subsections (h), (i), and (j), respectively.

1 (c) EFFECTIVE DATE.—The amendments made by  
2 this section shall apply to taxable years beginning after  
3 December 31, 1999.

4 **SEC. 102. EXEMPTION FROM ALTERNATIVE MINIMUM TAX**  
5 **FOR INDIVIDUALS WHOSE MODIFIED AD-**  
6 **JUSTED GROSS INCOME IS LESS THAN A**  
7 **THRESHOLD AMOUNT.**

8 (a) IN GENERAL.—Section 55 (relating to alternative  
9 minimum tax imposed) is amended by adding at the end  
10 the following new subsection:

11 “(f) EXEMPTION FOR INDIVIDUALS.—

12 “(1) IN GENERAL.—The tentative minimum tax  
13 of any taxpayer (other than a corporation) shall be  
14 zero for any taxable year if the modified adjusted  
15 gross income of the taxpayer for such year does not  
16 exceed the threshold amount.

17 “(2) THRESHOLD AMOUNT.—For purposes of  
18 paragraph (1), the threshold amount is—

19 “(A) \$120,000 in the case of a joint re-  
20 turn,

21 “(B) \$85,000 in the case of an individual  
22 who is not married, and

23 “(C) one-half of the amount applicable  
24 under subparagraph (A) in the case of a mar-  
25 ried individual filing a separate return.

1           “(3) MODIFIED ADJUSTED GROSS INCOME.—  
2           For purposes of paragraph (1), the term ‘modified  
3           adjusted gross income’ means adjusted gross income  
4           increased by any amount excluded from gross in-  
5           come under section 911, 931, or 933.

6           “(4) MARITAL STATUS.—For purposes of para-  
7           graph (2), marital status shall be determined under  
8           section 7703.

9           “(5) ADJUSTMENT FOR INFLATION.—

10           “(A) IN GENERAL.—In the case of any  
11           taxable year beginning in a calendar year after  
12           2000, each dollar amount contained in para-  
13           graph (2) shall be increased by an amount  
14           equal to—

15                   “(i) such dollar amount, multiplied by

16                           “(ii) the cost-of-living adjustment de-  
17                           termined under section 1(f)(3) for the cal-  
18                           endar year in which the taxable year be-  
19                           gins by substituting ‘calendar year 1999’  
20                           for ‘calendar year 1992’ in subparagraph  
21                           (B) thereof.

22           “(B) ROUNDING.—If any increase deter-  
23           mined under subparagraph (A) is not a multiple  
24           of \$50, such increase shall be rounded to the  
25           next lowest multiple of \$50.”.

1 (b) EFFECTIVE DATE.—The amendment made by  
2 this section shall apply to taxable years beginning after  
3 December 31, 1999.

4 **SEC. 103. INCREASE IN AMOUNT OF GROSS RECEIPTS TEST**  
5 **FOR EXEMPTION FOR SMALL CORPORA-**  
6 **TIONS.**

7 (a) IN GENERAL.—Paragraph (1) of section 55(e)  
8 (relating to general rule for exemption for small corpora-  
9 tions) is amended—

10 (1) in subparagraph (A) by striking  
11 “\$7,500,000” each place it appears in the text and  
12 heading and inserting “\$10,000,000”, and

13 (2) by striking subparagraph (B) and redesignig-  
14 nating subparagraphs (C) and (D) as subparagraphs  
15 (B) and (C), respectively.

16 (b) EFFECTIVE DATE.—The amendments made by  
17 this section shall apply to taxable years beginning after  
18 December 31, 1999.

19 **TITLE II—PROVISIONS**  
20 **RELATING TO INDIVIDUALS**

21 **SEC. 201. SIMPLIFICATION OF CAPITAL GAINS TAX.**

22 (a) IN GENERAL.—Part I of subchapter P of chapter  
23 1 (relating to treatment of capital gains) is amended by  
24 adding at the end the following new section:

1 **“SEC. 1203. CAPITAL GAINS DEDUCTION.**

2 “If for any taxable year a taxpayer other than a cor-  
3 poration has a net capital gain, 50 percent of such gain  
4 shall be a deduction from gross income.”.

5 (b) DEDUCTION ALLOWABLE WHETHER OR NOT  
6 TAXPAYER ITEMIZES OTHER DEDUCTIONS.—

7 (1) Subsection (b) of section 63 is amended by  
8 striking “and” at the end of paragraph (1), by strik-  
9 ing the period at the end of paragraph (2) and in-  
10 sserting “, and”, and by adding at the end the fol-  
11 lowing new paragraph:

12 “(3) the deduction allowed by section 1203.”.

13 (2) Subsection (d) of section 63 is amended by  
14 striking “and” at the end of paragraph (1), by strik-  
15 ing the period at the end of paragraph (2) and in-  
16 sserting “, and”, and by adding at the end the fol-  
17 lowing new paragraph:

18 “(3) the deduction allowed by section 1203.”.

19 (c) MINIMUM TAX TREATMENT.—

20 (1) Paragraph (1) of section 56(b) is amended  
21 by adding at the end the following new subpara-  
22 graph:

23 “(G) CAPITAL GAIN DEDUCTION NOT AP-  
24 PPLICABLE.—Section 1203 shall not apply.”.

1           (2) Subsection (b) of section 55 is amended by  
2 striking paragraph (3) and inserting the following  
3 new paragraphs:

4           “(3) MAXIMUM TAX ON NET CAPITAL GAIN.—  
5 The amount of tax determined under the first sen-  
6 tence of paragraph (1)(A)(i) shall not exceed the  
7 sum of—

8           “(A) the amount determined under such  
9 first sentence computed at the rates and in the  
10 same manner as if this paragraph had not been  
11 enacted on the taxable excess reduced by the  
12 net capital gain, plus

13           “(B) a tax on the net capital gain deter-  
14 mined by using the regular tax capital gains tax  
15 rates.

16           “(4) REGULAR TAX ON NET CAPITAL GAIN.—  
17 For purposes of paragraph (3), the tax on the net  
18 capital gain determined by using the regular tax  
19 capital gains tax rates is the excess of—

20           “(A) the tax that would be computed  
21 under section 1 if net capital gain were deter-  
22 mined with the adjustments under this part,  
23 over

24           “(B) the tax that would be so computed  
25 under section 1 if the taxable income were re-

1           duced by 50 percent of the net capital gain as  
2           so determined.”.

3           (d) REPEAL OF TAX PREFERENCE FOR EXCLUSION  
4 ON SMALL BUSINESS STOCK.—

5           (1) Subsection (a) of section 57 is amended by  
6 striking paragraph (7).

7           (2) Subclause (II) of section 53(d)(1)(B)(ii) is  
8 amended by striking “, (5), and (7)” and inserting  
9 “and (5)”.

10          (e) TREATMENT OF COLLECTIBLES.—

11          (1) IN GENERAL.—Section 1222 is amended by  
12 inserting after paragraph (11) the following new  
13 paragraph:

14           “(12) SPECIAL RULE FOR COLLECTIBLES.—

15           “(A) IN GENERAL.—Any gain or loss from  
16 the sale or exchange of a collectible shall be  
17 treated as a short-term capital gain or loss (as  
18 the case may be), without regard to the period  
19 such asset was held. The preceding sentence  
20 shall apply only to the extent the gain or loss  
21 is taken into account in computing taxable in-  
22 come.

23           “(B) TREATMENT OF CERTAIN SALES OF  
24 INTERESTS IN PARTNERSHIPS, ETC.—For pur-  
25 poses of subparagraph (A), any gain from the

1 sale or exchange of an interest in a partnership,  
2 S corporation, or trust which is attributable to  
3 unrealized appreciation in the value of collect-  
4 ibles held by such entity shall be treated as gain  
5 from the sale or exchange of a collectible. Rules  
6 similar to the rules of section 751(f) shall apply  
7 for purposes of the preceding sentence.

8 “(C) COLLECTIBLE.—For purposes of this  
9 paragraph, the term ‘collectible’ means any cap-  
10 ital asset which is a collectible (as defined in  
11 section 408(m) without regard to paragraph (3)  
12 thereof).”.

13 (2) CHARITABLE DEDUCTION NOT AF-  
14 FECTED.—

15 (A) Paragraph (1) of section 170(e) is  
16 amended by adding at the end thereof the fol-  
17 lowing new sentence: “For purposes of this  
18 paragraph, section 1222 shall be applied with-  
19 out regard to paragraph (12) thereof (relating  
20 to special rule for collectibles).”.

21 (B) Clause (iv) of section 170(b)(1)(C) is  
22 amended by inserting before the period at the  
23 end thereof the following: “and section 1222  
24 shall be applied without regard to paragraph

1           (12) thereof (relating to special rule for collect-  
2           ibles)”.

3           (f) TECHNICAL AND CONFORMING AMENDMENTS.—

4           (1) Section 1 is amended by striking subsection  
5           (h).

6           (2) Subparagraph (E) of section 163(d)(4) is  
7           amended to read as follows:

8                   “(E) COORDINATION WITH CAPITAL GAINS  
9           DEDUCTION.—The net capital gain taken into  
10          account under section 1203 for any taxable  
11          year shall be reduced (but not below zero) by  
12          the amount which the taxpayer takes into ac-  
13          count as investment income under subpara-  
14          graph (B)(iii) for such year.”.

15          (3) Paragraph (1) of section 170(e) is amended  
16          by striking “the amount of gain” in the material fol-  
17          lowing subparagraph (B)(ii) and inserting “50 per-  
18          cent (100 percent in the case of a corporation) of  
19          the amount of gain”.

20          (4) Subparagraph (B) of section 172(d)(2) is  
21          amended to read as follows:

22                   “(B) the exclusion under section 1202 and  
23          the deduction under section 1203 shall not be  
24          allowed.”.

1           (5) The last sentence of section 453A(c)(3) is  
2           amended by striking all that follows “long-term cap-  
3           ital gain,” and inserting “the maximum rate on net  
4           capital gain under section 1201 or the deduction  
5           under section 1203 (whichever is appropriate) shall  
6           be taken into account.”.

7           (6)(A) Section 641(c)(2)(A) is amended by  
8           striking “Except as provided in section 1(h), the”  
9           and inserting “The”.

10           (B) Section 641(c)(2)(C) is amended by insert-  
11           ing after clause (iii) the following new clause:

12                           “(iv) The deduction under section  
13                           1203.”.

14           (7) Paragraph (4) of section 642(c) is amended  
15           to read as follows:

16                           “(4) ADJUSTMENTS.—To the extent that the  
17                           amount otherwise allowable as a deduction under  
18                           this subsection consists of gain from the sale or ex-  
19                           change of capital assets held for more than 1 year,  
20                           proper adjustment shall be made for any exclusion  
21                           allowable under section 1202 and any deduction al-  
22                           lowable under section 1203 to the estate or trust. In  
23                           the case of a trust, the deduction allowed by this  
24                           subsection shall be subject to section 681 (relating  
25                           to unrelated business income).”.

1           (8) Section 642 is amended by adding at the  
2           end the following new subsection:

3           “(j) CAPITAL GAINS DEDUCTION.—The deduction  
4           under section 1203 to an estate or trust shall be computed  
5           by excluding the portion (if any) of the gains for the tax-  
6           able year which is includible by the income beneficiaries  
7           under sections 652 and 662 (relating to inclusions of  
8           amounts in gross income of beneficiaries of trusts) as gain  
9           derived from the sale or exchange of capital assets.”.

10           (9) The last sentence of section 643(a)(3) is  
11           amended to read as follows: “The exclusion under  
12           section 1202 and the deduction under section 1203  
13           shall not be taken into account.”.

14           (10) Subparagraph (C) of section 643(a)(6) is  
15           amended by inserting “(i)” before “there shall” and  
16           by inserting before the period “, and (ii) the deduc-  
17           tion under section 1203 (relating to capital gains de-  
18           duction) shall not be taken into account”.

19           (11) Paragraph (4) of section 691(c) is amend-  
20           ed by striking “1(h),” and by inserting “1203,”  
21           after “1202,”.

22           (12) The second sentence of paragraph (2) of  
23           section 871(a) is amended by striking “section  
24           1202” and inserting “sections 1202 and 1203”.

1           (13)(A) Paragraph (2) of section 904(b) is  
2           amended by striking subparagraphs (A) and (C), by  
3           redesignating subparagraph (B) as subparagraph  
4           (A), and by inserting after subparagraph (A) (as so  
5           redesignated) the following new subparagraph:

6                   “(B) OTHER TAXPAYERS.—In the case of  
7                   a taxpayer other than a corporation, taxable in-  
8                   come from sources outside the United States  
9                   shall include gain from the sale or exchange of  
10                  capital assets only to the extent of foreign  
11                  source capital gain net income.”.

12          (B) Subparagraph (A) of section 904(b)(2), as  
13          so redesignated, is amended—

14                  (i) by striking all that precedes clause (i)  
15                  and inserting the following:

16                   “(A) CORPORATIONS.—In the case of a  
17                   corporation—”, and

18                  (ii) by striking in clause (i) “in lieu of ap-  
19                  plying subparagraph (A),”.

20          (C) Paragraph (3) of section 904(b) is amended  
21          by striking subparagraphs (D) and (E) and inserting  
22          the following new subparagraph:

23                   “(D) RATE DIFFERENTIAL PORTION.—The  
24                   rate differential portion of foreign source net  
25                   capital gain, net capital gain, or the excess of

1 net capital gain from sources within the United  
2 States over net capital gain, as the case may  
3 be, is the same proportion of such amount as  
4 the excess of the highest rate of tax specified in  
5 section 11(b) over the alternative rate of tax  
6 under section 1201(a) bears to the highest rate  
7 of tax specified in section 11(b).”.

8 (14) Paragraph (1) of section 1402(i) is amend-  
9 ed by inserting “, and the deduction provided by sec-  
10 tion 1203 shall not apply” before the period at the  
11 end thereof.

12 (15) Paragraph (1) of section 1445(e) is  
13 amended by striking “20 percent” and inserting  
14 “19.8 percent”.

15 (16)(A) The second sentence of section  
16 7518(g)(6)(A) is amended—

17 (i) by striking “during a taxable year to  
18 which section 1(h) or 1201(a) applies”, and

19 (ii) by striking “20 percent” and inserting  
20 “19.8 percent”.

21 (B) The second sentence of section  
22 607(h)(6)(A) of the Merchant Marine Act, 1936, is  
23 amended—

1 (i) by striking “during a taxable year to  
2 which section 1(h) or 1201(a) of such Code ap-  
3 plies”, and

4 (ii) by striking “20 percent” and inserting  
5 “19.8 percent”.

6 (g) CLERICAL AMENDMENT.—The table of sections  
7 for part I of subchapter P of chapter 1 is amended by  
8 adding at the end the following new item:

“Sec. 1203. Capital gains deduction.”.

9 (h) EFFECTIVE DATES.—

10 (1) IN GENERAL.—Except as otherwise pro-  
11 vided in this subsection, the amendments made by  
12 this section shall apply to taxable years beginning  
13 after December 31, 1999.

14 (2) WITHHOLDING.—The amendments made by  
15 subsection (f)(15) shall apply only to amounts paid  
16 after December 31, 1999.

17 (3) REPEAL OF ELECTION.—Section 311 of the  
18 Taxpayer Relief Act of 1997 is amended by striking  
19 subsection (e).

20 (4) COORDINATION WITH PRIOR TRANSITION  
21 RULE.—Any amount treated as long-term capital  
22 gain by reason of paragraph (3) of section 1122(h)  
23 of the Tax Reform Act of 1986 shall not be taken  
24 into account for purposes of applying section 1203

1 of the Internal Revenue Code of 1986 (as added by  
2 this section).

3 **SEC. 202. SIMPLIFICATION OF DEDUCTION FOR POINTS ON**  
4 **HOME MORTGAGE.**

5 (a) IN GENERAL.—Paragraph (2) of section 461(g)  
6 (relating to prepaid interest) is amended by adding at the  
7 end the following new sentence: “This subsection also shall  
8 not apply to points paid in respect of indebtedness secured  
9 by such residence resulting from the refinancing of indebt-  
10 edness meeting the requirements of the preceding sentence  
11 (or this sentence), but only to the extent the amount of  
12 the indebtedness resulting from such refinancing does not  
13 exceed the amount of the refinanced indebtedness.”.

14 (b) EFFECTIVE DATE.—The amendment made by  
15 this section shall apply to taxable years beginning after  
16 December 31, 1999.

17 **SEC. 203. INCREASE IN EXCLUSION FOR GROUP-TERM LIFE**  
18 **INSURANCE PURCHASED FOR EMPLOYEES.**

19 (a) IN GENERAL.—Paragraph (1) of section 79(a)  
20 (relating to group-term life insurance purchased for em-  
21 ployees) is amended by striking “\$50,000” and inserting  
22 “\$100,000”.

23 (b) EFFECTIVE DATE.—The amendment made by  
24 this section shall apply to taxable years beginning after  
25 December 31, 1999.

1 **SEC. 204. REPEAL OF PERCENTAGE LIMITATION ON CON-**  
2 **TRIBUTIONS TO DEFINED CONTRIBUTION**  
3 **PLANS.**

4 (a) **IN GENERAL.**—Subparagraph (B) of section  
5 415(c)(1) (relating to limitation for defined contribution  
6 plans) is amended by striking “25 percent of”.

7 (b) **EFFECTIVE DATE.**—The amendment made by  
8 this section shall apply to years beginning after December  
9 31, 1999.

10 **SEC. 205. REPEAL OF REQUIRED USE OF GRADUATED PER-**  
11 **CENTAGE OF PRECEDING YEAR’S TAX TO DE-**  
12 **TERMINE INSTALLMENTS OF ESTIMATED IN-**  
13 **COME TAX DUE FOR CERTAIN TAXPAYERS.**

14 (a) **IN GENERAL.**—Paragraph (1) of section 6654(d)  
15 (relating to amount of installments) is amended by strik-  
16 ing subparagraph (C).

17 (b) **CONFORMING AMENDMENT.**—Subparagraph (C)  
18 of section 6654(i)(1) is amended by striking “and without  
19 regard to subparagraph (C) of subsection (d)(1)”.

20 (c) **EFFECTIVE DATE.**—The amendments made by  
21 this section shall apply to taxable years beginning after  
22 December 31, 1999.

1 **SEC. 206. STUDY ON RATIONALE FOR AND SIMPLIFICATION**  
2 **OF HEAD OF HOUSEHOLD AND SURVIVING**  
3 **SPOUSE FILING STATUSES.**

4 (a) IN GENERAL.—The Secretary of the Treasury  
5 shall conduct a study on whether the original rationale for  
6 providing tax benefits through the filing statuses of head  
7 of household and surviving spouse continues to apply, and,  
8 if so, whether such benefits can be more simply provided  
9 through other mechanisms.

10 (b) REPORT.—Not later than 1 year after the date  
11 of the enactment of this Act, the Secretary shall submit  
12 a report on the study conducted under subsection (a), to-  
13 gether with recommendations thereon, to the Committee  
14 on Ways and Means of the House of Representatives and  
15 the Committee on Finance of the Senate.

16 **TITLE III—PROVISIONS**  
17 **RELATING TO BUSINESSES**  
18 **Subtitle A—General Provisions**

19 **SEC. 301. EXPENSING OF CERTAIN DEPRECIABLE BUSINESS**  
20 **ASSETS.**

21 (a) CERTAIN COMPUTER SOFTWARE ELIGIBLE FOR  
22 EXPENSING.—Paragraph (1) of section 179(d) (relating  
23 to section 179 property) is amended to read as follows:

24 “(1) SECTION 179 PROPERTY.—For purposes of  
25 this section, the term ‘section 179 property’ means  
26 property—

1           “(A) which is—  
 2                   “(i) tangible property (to which sec-  
 3           tion 168 applies), or  
 4                   “(ii) computer software described in  
 5           section 197(e)(3)(A)(i),  
 6           “(B) which is section 1245 property (as  
 7           defined in section 1245(a)(3)), and  
 8           “(C) which is acquired by purchase for use  
 9           in the active conduct of a trade or business.

10       Such term shall not include any property described  
 11       in section 50(b) and shall not include air condi-  
 12       tioning or heating units.”.

13       (b) PERSONAL PROPERTY USED IN RENTAL PROP-  
 14       PERTY.—Paragraph (1) of section 179(d) (relating to sec-  
 15       tion 179 property), as amended by subsection (a), is  
 16       amended by inserting “(other than paragraph (2) there-  
 17       of)” after “section 50(b)”.

18       (c) ADJUSTMENT FOR INFLATION.—Subsection (b)  
 19       of section 179 (relating to limitations) is amended by add-  
 20       ing at the end the following new paragraph:

21           “(5) ADJUSTMENT FOR INFLATION.—  
 22                   “(A) IN GENERAL.—In the case of any  
 23           taxable year beginning in a calendar year after  
 24           2003, the dollar amount contained in the table

1 in paragraph (1) applicable to such taxable year  
2 shall be increased by an amount equal to—

3 “(i) such dollar amount, multiplied by

4 “(ii) the cost-of-living adjustment de-  
5 termined under section 1(f)(3) for the cal-  
6 endar year in which the taxable year be-  
7 gins by substituting ‘calendar year 2002’  
8 for ‘calendar year 1992’ in subparagraph  
9 (B) thereof.

10 “(B) ROUNDING.—If any increase deter-  
11 mined under subparagraph (A) is not a multiple  
12 of \$50, such increase shall be rounded to the  
13 next lowest multiple of \$50.”.

14 (d) EFFECTIVE DATE.—The amendments made by  
15 subsections (a) and (b) shall apply to property placed in  
16 service after December 31, 1999.

17 **SEC. 302. CASH METHOD OF ACCOUNTING.**

18 (a) PERSONAL SERVICE CORPORATIONS.—Sub-  
19 section (b) of section 448 (relating to exception to general  
20 rule on limitation on use of cash method of accounting)  
21 is amended—

22 (1) by striking paragraph (2), and

23 (2) by redesignating paragraph (3) as para-  
24 graph (2).

25 (b) INCREASE IN GROSS RECEIPTS TEST AMOUNT.—

1           (1) IN GENERAL.—Paragraph (2) of section  
2           448(a) (relating to entities with gross receipts of not  
3           more than \$5,000,000), as redesignated by sub-  
4           section (a)(2), is amended—

5                   (A) by striking “\$5,000,000” in the heading  
6                   and inserting “\$10,000,000”, and

7                   (B) by striking “\$5,000,000” in the text.

8           (2) GROSS RECEIPTS TEST DEFINED.—Sub-  
9           section (c) of section 448 (relating to \$5,000,000  
10          gross receipts test) is amended—

11                   (A) by striking “\$5,000,000” in the head-  
12                   ing and the first place it appears in paragraph  
13                   (1), and

14                   (B) by striking “\$5,000,000” the second  
15                   place it appears in paragraph (1) and inserting  
16                   “\$10,000,000”.

17          (c) EFFECTIVE DATES.—

18           (1) PERSONAL SERVICE CORPORATIONS.—The  
19           amendments made by subsection (a) shall apply to  
20           taxable years beginning after December 31, 1999.

21           (2) GROSS RECEIPTS TEST.—The amendments  
22           made by subsection (b) shall apply to determinations  
23           of whether the requirement of section 448(b)(2) of  
24           the Internal Revenue Code of 1986 (as amended by

1 this section) is met for any taxable year beginning  
2 after December 31, 1999.

3 **SEC. 303. GROSS RECEIPTS EXCEPTION TO INVENTORY**  
4 **COST CAPITALIZATION RULES EXTENDED TO**  
5 **PROPERTY PRODUCED BY THE TAXPAYER.**

6 (a) IN GENERAL.—Subsection (b) of section 263A  
7 (relating to property to which section applies) is amended  
8 to read as follows:

9 “(b) PROPERTY TO WHICH SECTION APPLIES.—

10 “(1) IN GENERAL.—Except as otherwise pro-  
11 vided in this section—

12 “(A) PROPERTY PRODUCED BY TAX-  
13 PAYER.—This section shall apply to—

14 “(i) IN GENERAL.—Real or tangible  
15 personal property produced by the tax-  
16 payer.

17 “(ii) TANGIBLE PERSONAL PROP-  
18 erty.—For purposes of clause (i), the  
19 term ‘tangible personal property’ shall in-  
20 clude a film, sound recording, video tape,  
21 book, or similar property.

22 “(B) PROPERTY ACQUIRED FOR RESALE.—  
23 This section shall apply to real or personal  
24 property described in section 1221(1) which is  
25 acquired by the taxpayer for resale.

1           “(2) EXCEPTION FOR TAXPAYER WITH GROSS  
2 RECEIPTS OF \$10,000,000 OR LESS.—

3           “(A) IN GENERAL.—Paragraph (1) shall  
4 not apply to any personal property produced  
5 during any taxable year by the taxpayer or ac-  
6 quired during any taxable year by the taxpayer  
7 for resale if the average annual gross receipts  
8 of the taxpayer (or any predecessor) for the 3-  
9 taxable year period ending with the taxable year  
10 preceding such taxable year do not exceed  
11 \$10,000,000.

12           “(B) AGGREGATION RULES, ETC.—For  
13 purposes of subparagraph (A), rules similar to  
14 the rules of paragraphs (2) and (3) of section  
15 448(c) shall apply.”.

16           (b) EFFECTIVE DATE.—The amendment made by  
17 this section shall apply to taxable years beginning after  
18 December 31, 1999.

## 19           **Subtitle B—S Corporations**

20           **SEC. 311. REPEAL OF LIMITATION ON NUMBER OF SHARE-**  
21                           **HOLDERS OF S CORPORATION SO LONG AS**  
22                           **SUCH CORPORATION IS NOT PUBLICLY TRAD-**  
23                           **ED.**

24           (a) IN GENERAL.—Paragraph (1) of section 1361(b)  
25 (relating to small business corporation) is amended by

1 striking subparagraph (A) and redesignating subpara-  
2 graphs (B), (C), and (D) as subparagraphs (A), (B), and  
3 (C), respectively.

4 (b) NOT PUBLICLY TRADED REQUIREMENT.—

5 (1) IN GENERAL.—Paragraph (2) of section  
6 1361(b) (defining ineligible corporation) is amended  
7 by striking “or” at the end of subparagraph (C), by  
8 striking the period at the end of subparagraph (D)  
9 and inserting “, or” and by inserting after subpara-  
10 graph (D) the following new subparagraph:

11 “(E) a publicly traded corporation.”.

12 (2) PUBLICLY TRADED CORPORATION DE-  
13 FINED.—Subsection (b) of section 1361 (relating to  
14 small business corporation) is amended by adding at  
15 the end the following new paragraph:

16 “(4) PUBLICLY TRADED CORPORATION.—For  
17 purposes of paragraph (2)(E), a corporation is a  
18 publicly traded corporation if the stock of such cor-  
19 poration is readily tradable on an established securi-  
20 ties market.”.

21 (c) CONFORMING AMENDMENTS.—

22 (1) Subsection (c) of section 1361 is amended  
23 by striking paragraph (1) and redesignating para-  
24 graphs (2) through (6) as paragraphs (1) through  
25 (5), respectively.

1           (2) Paragraphs (1), (2), and (5) of section  
2           1361(c) (as so redesignated) are each amended by  
3           striking “subsection (b)(1)(B)” each place it appears  
4           and inserting “subsection (b)(1)(A)”.

5           (3) Paragraphs (3) and (4) of section 1361(c)  
6           (as so redesignated) are each amended by striking  
7           “subsection (b)(1)(D)” both places it appears and  
8           inserting “subsection (b)(1)(C)”.

9           (4) Subparagraph (A) of section 1361(d)(1) is  
10          amended by striking “subsection (c)(2)(A)(i)” and  
11          inserting “subsection (c)(1)(A)(i)”.

12          (5) Clause (i) of section 280G(b)(5)(A) is  
13          amended by striking “paragraph (1)(C)” and insert-  
14          ing “paragraph (1)(B)”.

15          (6) Paragraph (1) of section 512(e) is amended  
16          by striking “section 1361(c)(6)” and inserting “sec-  
17          tion 1361(c)(5)”.

18 **SEC. 312. ISSUANCE OF PREFERRED STOCK BY S CORPORA-**  
19 **TIONS PERMITTED.**

20          (a) IN GENERAL.—Section 1361 (defining S corpora-  
21          tion) is amended by adding at the end the following new  
22          subsection:

23          “(f) TREATMENT OF QUALIFIED PREFERRED  
24          STOCK.—

1           “(1) IN GENERAL.—For purposes of this  
2 subchapter—

3           “(A) qualified preferred stock shall not be  
4 treated as a second class of stock, and

5           “(B) no person shall be treated as a share-  
6 holder of the corporation by reason of holding  
7 qualified preferred stock.

8           “(2) QUALIFIED PREFERRED STOCK DE-  
9 FINED.—For purposes of this subsection, the term  
10 ‘qualified preferred stock’ means stock which meets  
11 the requirements of subparagraphs (A), (B), and (C)  
12 of section 1504(a)(4). Stock shall not fail to be  
13 treated as qualified preferred stock merely because  
14 it is convertible into other stock.

15           “(3) DISTRIBUTIONS.—A distribution (not in  
16 part or full payment in exchange for stock) made by  
17 the corporation with respect to qualified preferred  
18 stock shall be includible as ordinary income of the  
19 holder and deductible to the corporation as an ex-  
20 pense in computing taxable income under section  
21 1363(b) in the year such distribution is received.”.

22 (b) CONFORMING AMENDMENTS.—

23           (1) Paragraph (1) of section 1361(b) is amend-  
24 ed by inserting ”, except as provided in subsection  
25 (f),” before “which does not”.

1           (2) Subsection (a) of section 1366 is amended  
2 by adding at the end the following new paragraph:

3           “(3) ALLOCATION WITH RESPECT TO QUALI-  
4 FIED PREFERRED STOCK.—The holders of qualified  
5 preferred stock (as defined in section 1361(f)) shall  
6 not, with respect to such stock, be allocated any of  
7 the items described in paragraph (1).”.

8           (3) So much of clause (ii) of section  
9 354(a)(2)(C) as precedes subclause (II) is amended  
10 to read as follows:

11                   “(ii) RECAPITALIZATION OF FAMILY-  
12 OWNED CORPORATIONS AND S CORPORA-  
13 TIONS.—

14                           “(I) IN GENERAL.—Clause (i)  
15 shall not apply in the case of a recapi-  
16 talization under section 368(a)(I)(E)  
17 of a family-owned corporation or S  
18 corporation.”.

19           (4) Subsection (a) of section 1373 is amended  
20 by striking “and” at the end of paragraph (1), by  
21 striking the period at the end of paragraph (2) and  
22 inserting “, and”, and by adding at the end the fol-  
23 lowing new paragraph:

1           “(3) no amount of an expense deductible under  
2           this subchapter by reason of section 1361(f)(3) shall  
3           be apportioned or allocated to such income.”.

4 **SEC. 313. ELECTION TO BECOME S CORPORATION EX-**  
5 **TENDED TO DATE RETURN IS FILED.**

6           (a) IN GENERAL.—Subsection (b) of section 1362  
7 (relating to when election made) is amended to read as  
8 follows:

9           “(b) WHEN MADE.—An election under subsection (a)  
10 may be made by a small business corporation for any tax-  
11 able year on or before the due date (including extensions)  
12 for filing the return of tax for such taxable year.”.

13           (b) CONFORMING AMENDMENT.—Subparagraph (A)  
14 of section 1362(f)(1) is amended by striking “(determined  
15 without regard to subsection (b)(2))”.

16           (c) EFFECTIVE DATE.—The amendment made by  
17 this section shall apply with respect to elections for taxable  
18 years beginning after December 31, 1999.

19 **TITLE IV—PROVISIONS RELAT-**  
20 **ING TO INFORMATION RE-**  
21 **PORTING AND FILING**

22 **SEC. 401. INCREASE IN REPORTING THRESHOLD FOR DIVI-**  
23 **DEND AND INTEREST PAYMENTS.**

24           (a) DIVIDEND PAYMENTS.—Subsection (a) of section  
25 6042 (relating to requirements for reporting) is amended

1 by striking “\$10” each place it appears and inserting  
2 “\$25”.

3 (b) INTEREST PAYMENTS.—Subsections (a) and  
4 (d)(5)(C) of section 6049 (relating to requirements for re-  
5 porting) are each amended by striking “\$10” each place  
6 it appears in the text and headings and inserting “\$25”.

7 (c) EFFECTIVE DATE.—The amendments made by  
8 this section shall apply to payments made after December  
9 31, 1999.

10 **SEC. 402. POSTMARK DATE TREATED AS FILING DATE FOR**  
11 **PURPOSES OF ALL FILINGS.**

12 (a) IN GENERAL.—Paragraph (2) of section 7502(a)  
13 (relating to mailing requirements with respect to date of  
14 delivery) is amended to read as follows:

15 “(2) MAILING REQUIREMENTS.—This sub-  
16 section shall apply only if the return, claim, state-  
17 ment, or other document, or payment was deposited  
18 in the mail in the United States in an envelope or  
19 other appropriate wrapper, postage prepaid, properly  
20 addressed to the agency, officer, or office with which  
21 the return, claim, statement, or other document is  
22 required to be filed, or to which such payment is re-  
23 quired to be made.”.

1 (b) MAILING OF DEPOSITS.—Paragraph (2) of sec-  
2 tion 7502(e) (relating to mailing requirements with re-  
3 spect to mailing of deposits) is amended to read as follows:

4 “(2) MAILING REQUIREMENTS.—Paragraph (1)  
5 shall apply only if the person required to make the  
6 deposit establishes that the deposit was mailed in  
7 the United States in an envelope or other appro-  
8 priate wrapper, postage prepaid, properly addressed  
9 to the bank, trust company, domestic building and  
10 loan association, or credit union authorized to re-  
11 ceive such deposit. In applying subsection (c) for  
12 purposes of this subsection, the term ‘payment’ in-  
13 cludes ‘deposit’, and the reference to the postmark  
14 date refers to the date of mailing.”

15 (c) EFFECTIVE DATE.—The amendments made by  
16 this section shall apply to returns, claims, statements, and  
17 other documents required to be filed and payments and  
18 deposits required to be made after the date of the enact-  
19 ment of this Act.

20 **SEC. 403. REDUCTION OF RECORDKEEPING BURDEN.**

21 (a) IN GENERAL.—Section 6001 (relating to notice  
22 or regulations requiring records, statements, and special  
23 returns) is amended—

24 (1) by striking “Every” and inserting “(a) IN  
25 GENERAL.—Every”, and

1           (2) by adding at the end the following new sub-  
2 section:

3           “(b) PERIOD FOR WHICH RECORDS MUST BE  
4 KEPT.—

5           “(1) IN GENERAL.—Except as provided in para-  
6 graphs (2) and (3), in the case of a trade or busi-  
7 ness, records required to be kept under subsection  
8 (a) for a taxable year need not be kept after the 6th  
9 year after the return of tax is filed for such taxable  
10 year.

11           “(2) EXCEPTION FOR TYPES OF RECORDS.—  
12 Paragraph (1) shall not apply to—

13           “(A) records which are general ledgers,  
14 journals or books of original entry, financial  
15 statements, and year-end adjustments to gen-  
16 eral ledgers, whether in paper or electronic  
17 form,

18           “(B) records from which the records de-  
19 scribed in subparagraph (A) are derived if the  
20 records described in subparagraph (A) are not  
21 prepared in accordance with generally accepted  
22 accounting principles, and

23           “(C) records which are unique to the in-  
24 dustry in which the taxpayer is engaged.

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

3           “(A) records relating to a taxable year  
4 with respect to which section 6501(c) applies,

5           “(B) records relating to a taxable year  
6 with respect to which the period of limitations  
7 is suspended for as long as such period is sus-  
8 pended,

9           “(C) records relating to a taxable year of  
10 a taxpayer with respect to which the Secretary  
11 is conducting an audit or other investigation,  
12 and

13           “(D) records relating to a taxable year  
14 with respect to which a case is pending in Fed-  
15 eral or State court.

16           “(4) FAILURE TO KEEP RECORDS NOT A DE-  
17 FENSE IN CERTAIN CASES.—Paragraph (1) shall not  
18 be a defense in the case of failure to keep records  
19 for a year in connection with—

20           “(A) a false or fraudulent return with the  
21 intent to evade tax,

22           “(B) a willful attempt in any manner to  
23 defeat or evade tax imposed by this title, or

24           “(C) failure to file a return.”.

1           (b) EFFECTIVE DATE.—The amendments made by  
2 this section shall take effect on the date of the enactment  
3 of this Act.

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