

106TH CONGRESS
1ST SESSION

H. R. 3081

To increase the Federal minimum wage and to amend the Internal Revenue Code of 1986 to provide tax benefits for small businesses, and for other purposes.

IN THE HOUSE OF REPRESENTATIVES

OCTOBER 14, 1999

Mr. LAZIO (for himself, Mr. CONDIT, Mr. SHIMKUS, Mr. CRAMER, Mr. SHERWOOD, Mr. BISHOP, Mr. WELLER, Ms. HOOLEY of Oregon, Mr. PICKERING, and Mr. PETERSON of Minnesota) introduced the following bill; which was referred to the Committee on Ways and Means, and in addition to the Committee on Education and the Workforce, for a period to be subsequently determined by the Speaker, in each case for consideration of such provisions as fall within the jurisdiction of the committee concerned

A BILL

To increase the Federal minimum wage and to amend the Internal Revenue Code of 1986 to provide tax benefits for small businesses, and for other purposes.

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; REFERENCES; TABLE OF CON-**
4 **TENTS.**

5 (a) SHORT TITLE.—This Act may be cited as the
6 “Wage and Employment Growth Act of 1999”.

1 (b) AMENDMENT OF 1986 CODE.—Except as other-
 2 wise expressly provided, whenever in this Act an amend-
 3 ment or repeal is expressed in terms of an amendment
 4 to, or repeal of, a section or other provision, the reference
 5 shall be considered to be made to a section or other provi-
 6 sion of the Internal Revenue Code of 1986.

7 (c) TABLE OF CONTENTS.—

Sec. 1. Short title; references; table of contents.

TITLE I—AMENDMENTS TO FAIR LABOR STANDARDS ACT OF
1938

- Sec. 101. Minimum wage.
- Sec. 102. Exemption for computer professionals.
- Sec. 103. Exemption for certain sales employees.
- Sec. 104. Exemption for funeral directors.

TITLE II—SMALL BUSINESS PROVISIONS

- Sec. 201. Deduction for 100 percent of health insurance costs of self-employed individuals.
- Sec. 202. Increase in expense treatment for small businesses.
- Sec. 203. Small businesses allowed increased deduction for meal expenses.
- Sec. 204. Increased deductibility of business meal expenses for individuals subject to Federal limitations on hours of service.
- Sec. 205. Repeal of occupational taxes relating to distilled spirits, wine, and beer.

TITLE III—PENSION PROVISIONS

Subtitle A—Expanding Coverage

- Sec. 301. Increase in benefit and contribution limits.
- Sec. 302. Plan loans for subchapter S owners, partners, and sole proprietors.
- Sec. 303. Modification of top-heavy rules.
- Sec. 304. Elective deferrals not taken into account for purposes of deduction limits.
- Sec. 305. Repeal of coordination requirements for deferred compensation plans of State and local governments and tax-exempt organizations.
- Sec. 306. Elimination of user fee for requests to IRS regarding pension plans.
- Sec. 307. Deduction limits.
- Sec. 308. Option to treat elective deferrals as after-tax contributions.
- Sec. 309. Reduced PBGC premium for new plans of small employers.
- Sec. 310. Reduction of additional PBGC premium for new and small plans.

Subtitle B—Enhancing Fairness for Women

- Sec. 321. Catchup contributions for individuals age 50 or over.

- Sec. 322. Equitable treatment for contributions of employees to defined contribution plans.
- Sec. 323. Faster vesting of certain employer matching contributions.
- Sec. 324. Simplify and update the minimum distribution rules.
- Sec. 325. Clarification of tax treatment of division of section 457 plan benefits upon divorce.
- Sec. 326. Modification of safe harbor relief for hardship withdrawals from cash or deferred arrangements.

Subtitle C—Increasing Portability for Participants

- Sec. 331. Rollovers allowed among various types of plans.
- Sec. 332. Rollovers of IRAs into workplace retirement plans.
- Sec. 333. Rollovers of after-tax contributions.
- Sec. 334. Hardship exception to 60-day rule.
- Sec. 335. Treatment of forms of distribution.
- Sec. 336. Rationalization of restrictions on distributions.
- Sec. 337. Purchase of service credit in governmental defined benefit plans.
- Sec. 338. Employers may disregard rollovers for purposes of cash-out amounts.
- Sec. 339. Minimum distribution and inclusion requirements for section 457 plans.

Subtitle D—Strengthening Pension Security and Enforcement

- Sec. 341. Repeal of 150 percent of current liability funding limit.
- Sec. 342. Maximum contribution deduction rules modified and applied to all defined benefit plans.
- Sec. 343. Missing participants.
- Sec. 344. Periodic pension benefits statements.
- Sec. 345. Civil penalties for breach of fiduciary responsibility.
- Sec. 346. Excise tax relief for sound pension funding.
- Sec. 347. Excise tax on failure to provide notice by defined benefit plans significantly reducing future benefit accruals.
- Sec. 348. Protection of investment of employee contributions to 401(k) plans.
- Sec. 349. Treatment of multiemployer plans under section 415.
- Sec. 350. Technical corrections to Saver Act.
- Sec. 351. Model spousal consent language and qualified domestic relations order.
- Sec. 352. Elimination of ERISA double jeopardy.

Subtitle E—Reducing Regulatory Burdens

- Sec. 361. Modification of timing of plan valuations.
- Sec. 362. ESOP dividends may be reinvested without loss of dividend deduction.
- Sec. 363. Repeal of transition rule relating to certain highly compensated employees.
- Sec. 364. Employees of tax-exempt entities.
- Sec. 365. Clarification of treatment of employer-provided retirement advice.
- Sec. 366. Reporting simplification.
- Sec. 367. Improvement of employee plans compliance resolution system.
- Sec. 368. Substantial owner benefits in terminated plans.
- Sec. 369. Modification of exclusion for employer provided transit passes.
- Sec. 370. Repeal of the multiple use test.
- Sec. 371. Flexibility in nondiscrimination, coverage, and line of business rules.

- Sec. 372. Extension to international organizations of moratorium on application of certain nondiscrimination rules applicable to State and local plans.
- Sec. 373. Notice and consent period regarding distributions.
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- Sec. 377. Clarification of church welfare plan status under State insurance law.

Subtitle F—Plan Amendments

- Sec. 381. Provisions relating to plan amendments.

TITLE IV—EXTENSION OF WORK OPPORTUNITY CREDIT AND WELFARE-TO-WORK CREDIT

- Sec. 401. Work opportunity credit and welfare-to-work credit.

TITLE V—ESTATE TAX RELIEF

Subtitle A—Reductions of Estate and Gift Tax Rates

- Sec. 501. Reductions of estate and gift tax rates.

Subtitle B—Unified Credit Replaced With Unified Exemption Amount

- Sec. 511. Unified credit against estate and gift taxes replaced with unified exemption amount.

Subtitle C—Modifications of Generation-skipping Transfer Tax

- Sec. 521. Deemed allocation of GST exemption to lifetime transfers to trusts; retroactive allocations.
- Sec. 522. Severing of trusts.
- Sec. 523. Modification of certain valuation rules.
- Sec. 524. Relief provisions.

Subtitle D—Conservation Easements

- Sec. 531. Expansion of estate tax rule for conservation easements.

TITLE VI—TAX RELIEF FOR DISTRESSED COMMUNITIES AND INDUSTRIES

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- Sec. 601. Short title.
- Sec. 602. Designation of and tax incentives for renewal communities.
- Sec. 603. Extension of expensing of environmental remediation costs to renewal communities.
- Sec. 604. Extension of work opportunity tax credit for renewal communities.
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Subtitle B—Timber Incentives

- Sec. 611. Temporary suspension of maximum amount of amortizable reforestation expenditures.

TITLE VII—REAL ESTATE PROVISIONS

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- Sec. 701. Modification of State ceiling on low-income housing credit.
- Sec. 702. Modification of criteria for allocating housing credits among projects.
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PART I—TREATMENT OF INCOME AND SERVICES PROVIDED BY TAXABLE REIT SUBSIDIARIES

- Sec. 711. Modifications to asset diversification test.
- Sec. 712. Treatment of income and services provided by taxable REIT subsidiaries.
- Sec. 713. Taxable REIT subsidiary.
- Sec. 714. Limitation on earnings stripping.
- Sec. 715. 100 percent tax on improperly allocated amounts.
- Sec. 716. Effective date.

PART II—HEALTH CARE REITS

- Sec. 721. Health care REITs.

PART III—CONFORMITY WITH REGULATED INVESTMENT COMPANY RULES

- Sec. 731. Conformity with regulated investment company rules.

PART IV—CLARIFICATION OF EXCEPTION FROM IMPERMISSIBLE TENANT SERVICE INCOME

- Sec. 741. Clarification of exception for independent operators.

PART V—MODIFICATION OF EARNINGS AND PROFITS RULES

- Sec. 751. Modification of earnings and profits rules.

Subtitle C—Private Activity Bond Volume Cap

- Sec. 761. Acceleration of phase-in of increase in volume cap on private activity bonds.

Subtitle D—Exclusion From Gross Income for Certain Forgiven Mortgage Obligations.

- Sec. 771. Exclusion from gross income for certain forgiven mortgage obligations.

TITLE VIII—MISCELLANEOUS PROVISIONS

- Sec. 801. Credit for modifications to inter-city buses required under the Americans with Disabilities Act of 1990.
- Sec. 802. Certain educational benefits provided by an employer to children of employees excludable from gross income as a scholarship.

Sec. 803. Tax incentives for qualified United States independent film and television production.

1 **TITLE I—AMENDMENTS TO FAIR**
 2 **LABOR STANDARDS ACT OF 1938**

3 **SEC. 101. MINIMUM WAGE.**

4 (a) INCREASE.—Section 6(a)(1) of the Fair Labor
 5 Standards Act of 1938 (29 U.S.C. 206(a)(1)) is amended
 6 to read as follows:

7 “(1) except as otherwise provided in this sec-
 8 tion, not less than—

9 “(A) \$5.15 an hour beginning September
 10 1, 1997,

11 “(B) \$5.48 an hour during the year begin-
 12 ning April 1, 2000,

13 “(C) \$5.81 an hour during the year begin-
 14 ning April 1, 2001, and

15 “(D) \$6.15 an hour during the year begin-
 16 ning April 1, 2002.”.

17 (b) OVERTIME.—Section 7(e) of such Act (29 U.S.C.
 18 207(e)) is amended by striking paragraph (1).

19 **SEC. 102. EXEMPTION FOR COMPUTER PROFESSIONALS.**

20 Section 13(a) of the Fair Labor Standards Act of
 21 1938 (29 U.S.C. 213(a)) is amended by amending para-
 22 graph (17) to read as follows:

23 “(17) any employee who is a computer systems,
 24 network, or database analyst, designer, developer,

1 programmer, software engineer, or other similarly
2 skilled worker—

3 “(A) whose primary duty is—

4 “(i) the application of systems or net-
5 work or database analysis techniques and
6 procedures, including consulting with
7 users, to determine hardware, software,
8 systems, network, or database specifica-
9 tions (including functional specifications);

10 “(ii) the design, configuration, devel-
11 opment, integration, documentation, anal-
12 ysis, creation, testing, securing, or modi-
13 fication of, or problem resolution for, com-
14 puter systems, networks, databases, or pro-
15 grams, including prototypes, based on and
16 related to user, system, network, or data-
17 base specifications, including design speci-
18 fications and machine operating systems;

19 “(iii) the management or training of
20 employees performing duties described in
21 clause (i) or (ii); or

22 “(iv) a combination of duties de-
23 scribed in clauses (i), (ii), or (iii) the per-
24 formance of which requires the same level
25 of skills; and

1 “(B) who, in the case of an employee who
2 is compensated on an hourly basis, is com-
3 pensated at a rate of not less than \$27.63 an
4 hour.

5 For purposes of paragraph (17), the term ‘network’
6 includes the Internet and intranet networks and the
7 world wide web. An employee who meets the exemp-
8 tion provided by paragraph (17) shall be considered
9 an employee in a professional capacity pursuant to
10 paragraph (1).”.

11 **SEC. 103. EXEMPTION FOR CERTAIN SALES EMPLOYEES.**

12 (a) AMENDMENT.—Section 13(a) of the Fair Labor
13 Standards Act of 1938 (29 U.S.C. 213(a)) is amended by
14 striking the period at the end of paragraph (17) and in-
15 serting a semicolon and by adding at the end the following:

16 “(18) any employee employed in a sales position
17 if—

18 “(A) the employee has specialized or tech-
19 nical knowledge related to products or services
20 being sold;

21 “(B) the employee’s—

22 “(i) sales are predominantly to per-
23 sons or entities to whom the employee’s
24 position has made previous sales; or

1 “(ii) position does not involve initi-
2 ating sales contacts;

3 “(C) the employee has a detailed under-
4 standing of the needs of those to whom the em-
5 ployee is selling;

6 “(D) the employee exercises discretion in
7 offering a variety of products and services;

8 “(E) the employee receives—

9 “(i) base compensation, determined
10 without regard to the number of hours
11 worked by the employee, of not less than
12 an amount equal to one and one-half times
13 the minimum wage in effect under section
14 6(a)(1) multiplied by 2,080; and

15 “(ii) in addition to the employee’s
16 base compensation, compensation based
17 upon each sale attributable to the em-
18 ployee;

19 “(F) the employee’s aggregate compensa-
20 tion based upon sales attributable to the em-
21 ployee is not less than 40 percent of one and
22 one-half times the minimum wage multiplied by
23 2,080;

24 “(G) the employee receives a rate of com-
25 pensation based upon each sale attributable to

1 the employee which is beyond sales required to
2 reach the compensation required by subpara-
3 graph (F) which rate is not less than the rate
4 on which the compensation required by sub-
5 paragraph (F) is determined; and

6 “(H) the rate of annual compensation or
7 base compensation for any employee who did
8 not work for an employer for an entire calendar
9 year is prorated to reflect annual compensation
10 which would have been earned if the employee
11 had been compensated at the same rate for the
12 entire calendar year.”.

13 (b) CONSTRUCTION.—The amendment made by sub-
14 section (a) may not be construed to apply to individuals
15 who are employed as route sales drivers.

16 **SEC. 104. EXEMPTION FOR FUNERAL DIRECTORS.**

17 Section 13(a) of the Fair Labor Standards Act of
18 1938 (29 U.S.C. 213(a)) is amended by striking the pe-
19 riod at the end of paragraph (18) and inserting “; or”
20 and by adding after paragraph (18) the following:

21 “(19) any employee employed as a licensed fu-
22 neral director or a licensed embalmer.”.

1 **TITLE II—SMALL BUSINESS**
2 **PROVISIONS**

3 **SEC. 201. DEDUCTION FOR 100 PERCENT OF HEALTH IN-**
4 **SURANCE COSTS OF SELF-EMPLOYED INDI-**
5 **VIDUALS.**

6 (a) IN GENERAL.—Paragraph (1) of section 162(l)
7 is amended to read as follows:

8 “(1) ALLOWANCE OF DEDUCTION.—In the case
9 of an individual who is an employee within the
10 meaning of section 401(c)(1), there shall be allowed
11 as a deduction under this section an amount equal
12 to 100 percent of the amount paid during the tax-
13 able year for insurance which constitutes medical
14 care for the taxpayer and the taxpayer’s spouse and
15 dependents.”.

16 (b) CLARIFICATION OF LIMITATIONS ON OTHER COV-
17 ERAGE.—The first sentence of section 162(l)(2)(B) is
18 amended to read as follows: “Paragraph (1) shall not
19 apply to any taxpayer for any calendar month for which
20 the taxpayer participates in any subsidized health plan
21 maintained by any employer (other than an employer de-
22 scribed in section 401(c)(4)) of the taxpayer or the spouse
23 of the taxpayer.”.

1 (c) EFFECTIVE DATE.—The amendments made by
2 this section shall apply to taxable years beginning after
3 December 31, 2000.

4 **SEC. 202. INCREASE IN EXPENSE TREATMENT FOR SMALL**
5 **BUSINESSES.**

6 (a) IN GENERAL.—Paragraph (1) of section 179(b)
7 (relating to dollar limitation) is amended to read as fol-
8 lows:

9 “(1) DOLLAR LIMITATION.—The aggregate cost
10 which may be taken into account under subsection
11 (a) for any taxable year shall not exceed \$30,000.”.

12 (b) EFFECTIVE DATE.—The amendment made by
13 this section shall apply to taxable years beginning after
14 December 31, 2000.

15 **SEC. 203. SMALL BUSINESSES ALLOWED INCREASED DE-**
16 **DUCTION FOR MEAL EXPENSES.**

17 (a) IN GENERAL.—Subsection (n) of section 274 (re-
18 lating to only 50 percent of meal and entertainment ex-
19 penses allowed as deduction) is amended by adding at the
20 end the following new paragraph:

21 “(4) SPECIAL RULE FOR SMALL BUSINESSES.—

22 “(A) IN GENERAL.—In the case of any
23 taxpayer which is a small business, paragraph
24 (1) shall be applied by substituting for ‘50 per-

1 cent' with respect to expenses for food or
2 beverages—

3 “(i) ‘55 percent’ in the case of taxable
4 years beginning in 2001, and

5 “(ii) ‘60 percent’ in the case of tax-
6 able years beginning after 2001.

7 “(B) SMALL BUSINESS.—For purposes of
8 this paragraph, the term ‘small business’
9 means, with respect to expenses paid or in-
10 curred during any taxable year—

11 “(i) any C corporation which meets
12 the requirements of section 55(e)(1) for
13 such year, and

14 “(ii) any S corporation, partnership,
15 or sole proprietorship which would meet
16 such requirements if it were a C corpora-
17 tion.”

18 (b) EFFECTIVE DATE.—The amendment made by
19 subsection (a) shall apply to taxable years beginning after
20 December 31, 2000.

1 **SEC. 204. INCREASED DEDUCTIBILITY OF BUSINESS MEAL**
2 **EXPENSES FOR INDIVIDUALS SUBJECT TO**
3 **FEDERAL LIMITATIONS ON HOURS OF SERV-**
4 **ICE.**

5 (a) IN GENERAL.—Paragraph (3) of section 274(n)
6 (relating to only 50 percent of meal and entertainment
7 expenses allowed as deduction) is amended to read as fol-
8 lows:

9 “(3) SPECIAL RULE FOR INDIVIDUALS SUBJECT
10 TO FEDERAL HOURS OF SERVICE.—In the case of
11 any expenses for food or beverages consumed while
12 away from home (within the meaning of section
13 162(a)(2)) by an individual during, or incident to,
14 the period of duty subject to the hours of service
15 limitations of the Department of Transportation,
16 paragraph (1) shall be applied by substituting ‘80
17 percent’ for ‘50 percent’.”

18 (b) EFFECTIVE DATE.—The amendment made by
19 subsection (a) shall apply to taxable years beginning after
20 December 31, 2000.

21 **SEC. 205. REPEAL OF OCCUPATIONAL TAXES RELATING TO**
22 **DISTILLED SPIRITS, WINE, AND BEER.**

23 (a) REPEAL OF OCCUPATIONAL TAXES.—

24 (1) IN GENERAL.—The following provisions of
25 part II of subchapter A of chapter 51 of the Internal

1 Revenue Code of 1986 (relating to occupational
2 taxes) are hereby repealed:

3 (A) Subpart A (relating to rectifier).

4 (B) Subpart B (relating to brewer).

5 (C) Subpart D (relating to wholesale deal-
6 ers) (other than sections 5114 and 5116).

7 (D) Subpart E (relating to retail dealers)
8 (other than section 5124).

9 (E) Subpart G (relating to general provi-
10 sions) (other than sections 5142, 5143, 5145,
11 and 5146).

12 (2) NONBEVERAGE DOMESTIC DRAWBACK.—
13 Section 5131 is amended by striking “, on payment
14 of a special tax per annum,”.

15 (3) INDUSTRIAL USE OF DISTILLED SPIRITS.—
16 Section 5276 is hereby repealed.

17 (b) CONFORMING AMENDMENTS.—

18 (1)(A) The heading for part II of subchapter A
19 of chapter 51 and the table of subparts for such
20 part are amended to read as follows:

21 **“PART II—MISCELLANEOUS PROVISIONS**

“Subpart A. Manufacturers of stills.

“Subpart B. Nonbeverage domestic drawback claimants.

“Subpart C. Recordkeeping by dealers.

“Subpart D. Other provisions.”

1 (B) The table of parts for such subchapter A
2 is amended by striking the item relating to part II
3 and inserting the following new item:

“Part II. Miscellaneous provisions.”

4 (2) Subpart C of part II of such subchapter
5 (relating to manufacturers of stills) is redesignated
6 as subpart A.

7 (3)(A) Subpart F of such part II (relating to
8 nonbeverage domestic drawback claimants) is redesi-
9 gnated as subpart B and sections 5131 through
10 5134 are redesignated as sections 5111 through
11 5114, respectively.

12 (B) The table of sections for such subpart B,
13 as so redesignated, is amended—

14 (i) by redesignating the items relating to
15 sections 5131 through 5134 as relating to sec-
16 tions 5111 through 5114, respectively, and

17 (ii) by striking “and rate of tax” in the
18 item relating to section 5111, as so redesi-
19 gnated.

20 (C) Section 5111, as redesignated by subpara-
21 graph (A), is amended—

22 (i) by striking “**AND RATE OF TAX**” in
23 the section heading,

24 (ii) by striking the subsection heading for
25 subsection (a), and

1 (iii) by striking subsection (b).

2 (4) Part II of subchapter A of chapter 51 is
3 amended by adding after subpart B, as redesignated
4 by paragraph (3), the following new subpart:

5 **“Subpart C. Recordkeeping by Dealers**

“Sec. 5121. Recordkeeping by wholesale dealers.

“Sec. 5122. Recordkeeping by retail dealers.

“Sec. 5123. Preservation and inspection of records, and entry of
premises for inspection.”

6 (5)(A) Section 5114 (relating to records) is
7 moved to subpart C of such part II and inserted
8 after the table of sections for such subpart.

9 (B) Section 5114 is amended—

10 (i) by striking the section heading and in-
11 serting the following new heading:

12 **“SEC. 5121. RECORDKEEPING BY WHOLESALE DEALERS.”,**

13 and

14 (ii) by redesignating subsection (c) as sub-
15 section (d) and by inserting after subsection (b)
16 the following new subsection:

17 **“(c) WHOLESALE DEALERS.—**For purposes of this
18 part—

19 **“(1) WHOLESALE DEALER IN LIQUORS.—**The
20 term ‘wholesale dealer in liquors’ means any dealer
21 (other than a wholesale dealer in beer) who sells, or
22 offers for sale, distilled spirits, wines, or beer, to an-
23 other dealer.

1 “(2) WHOLESALE DEALER IN BEER.—The term
2 ‘wholesale dealer in beer’ means any dealer who
3 sells, or offers for sale, beer, but not distilled spirits
4 or wines, to another dealer.

5 “(3) DEALER.—The term ‘dealer’ means any
6 person who sells, or offers for sale, any distilled spir-
7 its, wines, or beer.

8 “(4) PRESUMPTION IN CASE OF SALE OF 20
9 WINE GALLONS OR MORE.—The sale, or offer for
10 sale, of distilled spirits, wines, or beer, in quantities
11 of 20 wine gallons or more to the same person at
12 the same time, shall be presumptive evidence that
13 the person making such sale, or offer for sale, is en-
14 gaged in or carrying on the business of a wholesale
15 dealer in liquors or a wholesale dealer in beer, as the
16 case may be. Such presumption may be overcome by
17 evidence satisfactorily showing that such sale, or
18 offer for sale, was made to a person other than a
19 dealer.”

20 (C) Paragraph (3) of section 5121(d), as so re-
21 designated, is amended by striking “section 5146”
22 and inserting “section 5123”.

23 (6)(A) Section 5124 (relating to records) is
24 moved to subpart C of part II of subchapter A of
25 chapter 51 and inserted after section 5121.

1 (B) Section 5124 is amended—

2 (i) by striking the section heading and in-
3 serting the following new heading:

4 **“SEC. 5122. RECORDKEEPING BY RETAIL DEALERS.”,**

5 (ii) by striking “section 5146” in sub-
6 section (c) and inserting “section 5123”, and

7 (iii) by redesignating subsection (c) as sub-
8 section (d) and inserting after subsection (b)
9 the following new subsection:

10 “(c) RETAIL DEALERS.—For purposes of this
11 section—

12 “(1) RETAIL DEALER IN LIQUORS.—The term
13 ‘retail dealer in liquors’ means any dealer (other
14 than a retail dealer in beer) who sells, or offers for
15 sale, distilled spirits, wines, or beer, to any person
16 other than a dealer.

17 “(2) RETAIL DEALER IN BEER.—The term ‘re-
18 tail dealer in beer’ means any dealer who sells, or of-
19 fers for sale, beer, but not distilled spirits or wines,
20 to any person other than a dealer.

21 “(3) DEALER.—The term ‘dealer’ has the
22 meaning given such term by section 5121(c)(3).”

23 (7) Section 5146 is moved to subpart C of part
24 II of subchapter A of chapter 51, inserted after sec-
25 tion 5122, and redesignated as section 5123.

1 (8) Part II of subchapter A of chapter 51 is
 2 amended by inserting after subpart C the following
 3 new subpart:

4 **“Subpart D. Other Provisions**

“Sec. 5131. Packaging distilled spirits for industrial uses.
 “Sec. 5132. Prohibited purchases by dealers.”

5 (9) Section 5116 is moved to subpart D of part
 6 II of subchapter A of chapter 51, inserted after the
 7 table of sections, redesignated as section 5131, and
 8 amended by inserting “(as defined section 5121(c))”
 9 after “dealer” in subsection (a).

10 (10) Subpart D of part II of subchapter A of
 11 chapter 51 is amended by adding at the end thereof
 12 the following new section:

13 **“SEC. 5132. PROHIBITED PURCHASES BY DEALERS.**

14 “(a) IN GENERAL.—Except as provided in regula-
 15 tions prescribed by the Secretary, it shall be unlawful for
 16 a dealer to purchase distilled spirits from any person other
 17 than a wholesale dealer in liquors who is required to keep
 18 the records prescribed by section 5121.

19 “(b) PENALTY AND FORFEITURE.—

**“For penalty and forfeiture provisions applicable
 to violations of subsection (a), see sections 5687 and
 7302.”**

20 (11) Subsection (b) of section 5002 is
 21 amended—

1 (A) by striking “section 5112(a)” and in-
2 serting “section 5121(c)(3)”,

3 (B) by striking “section 5112” and insert-
4 ing “section 5121(c)”,

5 (C) by striking “section 5122” and insert-
6 ing “section 5122(c)”.

7 (12) Subparagraph (A) of section 5010(c)(2) is
8 amended by striking “section 5134” and inserting
9 “section 5114”.

10 (13) Subsection (d) of section 5052 is amended
11 to read as follows:

12 “(d) BREWER.—For purposes of this chapter, the
13 term ‘brewer’ means any person who brews beer or pro-
14 duces beer for sale. Such term shall not include any person
15 who produces only beer exempt from tax under section
16 5053(e).”

17 (14) The text of section 5182 is amended to
18 read as follows:

19 “For provisions requiring recordkeeping by
20 wholesale liquor dealers, see section 5112, and by re-
21 tail liquor dealers, see section 5122.”

22 (15) Subsection (b) of section 5402 is amended
23 by striking “section 5092” and inserting “section
24 5052(d)”.

1 (16) Section 5671 is amended by striking “or
2 5091”.

3 (17)(A) Part V of subchapter J of chapter 51
4 is hereby repealed.

5 (B) The table of parts for such subchapter J is
6 amended by striking the item relating to part V.

7 (18)(A) Sections 5142, 5143, and 5145 are
8 moved to subchapter D of chapter 52, inserted after
9 section 5731, redesignated as sections 5732, 5733,
10 and 5734, respectively, and amended by striking
11 “this part” each place it appears and inserting “this
12 subchapter”.

13 (B) Section 5732, as redesignated by
14 subparagraph (A), is amended by striking “(except
15 the tax imposed by section 5131)” each place it ap-
16 pears.

17 (C) Subsection (c) of section 5733, as redesi-
18 gnated by subparagraph (A), is amended by striking
19 paragraph (2) and by redesignating paragraph (3)
20 as paragraph (2).

21 (D) The table of sections for subchapter D of
22 chapter 52 is amended by adding at the end thereof
23 the following:

“Sec. 5732. Payment of tax.

“Sec. 5733. Provisions relating to liability for occupational taxes.

“Sec. 5734. Application of State laws.”

1 (E) Section 5731 is amended by striking sub-
2 section (e) and by redesignating subsection (d) as
3 subsection (e).

4 (19) Subsection (e) of section 6071 is amended
5 by striking “section 5142” and inserting “section
6 5732”.

7 (20) Paragraph (1) of section 7652(g) is
8 amended—

9 (A) by striking “subpart F” and inserting
10 “subpart B”, and

11 (B) by striking “section 5131(a)” and in-
12 serting “section 5111(a)”.

13 (c) EFFECTIVE DATE.—The amendments made by
14 this section shall take effect on the date of the enactment
15 of this Act, but shall not apply to taxes imposed for peri-
16 ods before such date.

17 **TITLE III—PENSION PROVISIONS**

18 **Subtitle A—Expanding Coverage**

19 **SEC. 301. INCREASE IN BENEFIT AND CONTRIBUTION LIM-** 20 **ITS.**

21 (a) DEFINED BENEFIT PLANS.—

22 (1) DOLLAR LIMIT.—

23 (A) Subparagraph (A) of section 415(b)(1)
24 (relating to limitation for defined benefit plans)

1 is amended by striking “\$90,000” and inserting
2 “\$160,000”.

3 (B) Subparagraphs (C) and (D) of section
4 415(b)(2) are each amended by striking
5 “\$90,000” each place it appears in the head-
6 ings and the text and inserting “\$160,000”.

7 (C) Paragraph (7) of section 415(b) (relat-
8 ing to benefits under certain collectively bar-
9 gained plans) is amended by striking “the
10 greater of \$68,212 or one-half the amount oth-
11 erwise applicable for such year under paragraph
12 (1)(A) for ‘\$90,000’” and inserting “one-half
13 the amount otherwise applicable for such year
14 under paragraph (1)(A) for ‘\$160,000’”.

15 (2) LIMIT REDUCED WHEN BENEFIT BEGINS
16 BEFORE AGE 62.—Subparagraph (C) of section
17 415(b)(2) is amended by striking “the social security
18 retirement age” each place it appears in the heading
19 and text and inserting “age 62”.

20 (3) LIMIT INCREASED WHEN BENEFIT BEGINS
21 AFTER AGE 65.—Subparagraph (D) of section
22 415(b)(2) is amended by striking “the social security
23 retirement age” each place it appears in the heading
24 and text and inserting “age 65”.

1 (4) COST-OF-LIVING ADJUSTMENTS.—Sub-
2 section (d) of section 415 (related to cost-of-living
3 adjustments) is amended—

4 (A) by striking “\$90,000” in paragraph
5 (1)(A) and inserting “\$160,000”, and

6 (B) in paragraph (3)(A)—

7 (i) by striking “\$90,000” in the head-
8 ing and inserting “\$160,000”, and

9 (ii) by striking “October 1, 1986” and
10 inserting “July 1, 2000”.

11 (5) CONFORMING AMENDMENT.—Section
12 415(b)(2) is amended by striking subparagraph (F).

13 (b) DEFINED CONTRIBUTION PLANS.—

14 (1) DOLLAR LIMIT.—Subparagraph (A) of sec-
15 tion 415(c)(1) (relating to limitation for defined con-
16 tribution plans) is amended by striking “\$30,000”
17 and inserting “\$40,000”.

18 (2) COST-OF-LIVING ADJUSTMENTS.—Sub-
19 section (d) of section 415 (related to cost-of-living
20 adjustments) is amended—

21 (A) by striking “\$30,000” in paragraph
22 (1)(C) and inserting “\$40,000”, and

23 (B) in paragraph (3)(D)—

24 (i) by striking “\$30,000” in the head-
25 ing and inserting “\$40,000”, and

1 (ii) by striking “October 1, 1993” and
2 inserting “July 1, 2000”.

3 (c) QUALIFIED TRUSTS.—

4 (1) COMPENSATION LIMIT.—Sections
5 401(a)(17), 404(l), 408(k), and 505(b)(7) are each
6 amended by striking “\$150,000” each place it ap-
7 pears and inserting “\$200,000”.

8 (2) BASE PERIOD AND ROUNDING OF COST-OF-
9 LIVING ADJUSTMENT.—Subparagraph (B) of section
10 401(a)(17) is amended—

11 (A) by striking “October 1, 1993” and in-
12 serting “July 1, 2000”, and

13 (B) by striking “\$10,000” both places it
14 appears and inserting “\$5,000”.

15 (d) ELECTIVE DEFERRALS.—

16 (1) IN GENERAL.—Paragraph (1) of section
17 402(g) (relating to limitation on exclusion for elec-
18 tive deferrals) is amended to read as follows:

19 “(1) IN GENERAL.—

20 “(A) LIMITATION.—Notwithstanding sub-
21 sections (e)(3) and (h)(1)(B), the elective defer-
22 rals of any individual for any taxable year shall
23 be included in such individual’s gross income to
24 the extent the amount of such deferrals for the

1 taxable year exceeds the applicable dollar
2 amount.

3 “(B) APPLICABLE DOLLAR AMOUNT.—For
4 purposes of subparagraph (A), the applicable
5 dollar amount shall be the amount determined
6 in accordance with the following table:

| “For taxable years beginning in calendar year: | The applicable dollar amount: |
|---|--|
| 2001 | \$11,000 |
| 2002 | \$12,000 |
| 2003 | \$13,000 |
| 2004 | \$14,000 |
| 2005 or thereafter | \$15,000.”. |

7 (2) COST-OF-LIVING ADJUSTMENT.—Paragraph
8 (5) of section 402(g) is amended to read as follows:

9 “(5) COST-OF-LIVING ADJUSTMENT.—In the
10 case of taxable years beginning after December 31,
11 2005, the Secretary shall adjust the \$15,000
12 amount under paragraph (1)(B) at the same time
13 and in the same manner as under section 415(d),
14 except that the base period shall be the calendar
15 quarter beginning July 1, 2004, and any increase
16 under this paragraph which is not a multiple of
17 \$500 shall be rounded to the next lowest multiple of
18 \$500.”.

19 (3) CONFORMING AMENDMENTS.—

20 (A) Section 402(g) (relating to limitation
21 on exclusion for elective deferrals), as amended

1 by paragraphs (1) and (2), is further amended
2 by striking paragraph (4) and redesignating
3 paragraphs (5), (6), (7), (8), and (9) as para-
4 graphs (4), (5), (6), (7), and (8), respectively.

5 (B) Paragraph (2) of section 457(c) is
6 amended by striking “402(g)(8)(A)(iii)” and in-
7 serting “402(g)(7)(A)(iii)”.

8 (C) Clause (iii) of section 501(c)(18)(D) is
9 amended by striking “(other than paragraph
10 (4) thereof)”.

11 (e) DEFERRED COMPENSATION PLANS OF STATE
12 AND LOCAL GOVERNMENTS AND TAX-EXEMPT ORGANI-
13 ZATIONS.—

14 (1) IN GENERAL.—Section 457 (relating to de-
15 ferred compensation plans of State and local govern-
16 ments and tax-exempt organizations) is amended—

17 (A) in subsections (b)(2)(A) and (c)(1) by
18 striking “\$7,500” each place it appears and in-
19 serting “the applicable dollar amount”, and

20 (B) in subsection (b)(3)(A) by striking
21 “\$15,000” and inserting “twice the dollar
22 amount in effect under subsection (b)(2)(A)”.

23 (2) APPLICABLE DOLLAR AMOUNT; COST-OF-
24 LIVING ADJUSTMENT.—Paragraph (15) of section
25 457(e) is amended to read as follows:

1 “(15) APPLICABLE DOLLAR AMOUNT.—

2 “(A) IN GENERAL.—The applicable dollar
 3 amount shall be the amount determined in ac-
 4 cordance with the following table:

| “For taxable years beginning in calendar year: | The applicable dollar amount: |
|---|--|
| 2001 | \$11,000 |
| 2002 | \$12,000 |
| 2003 | \$13,000 |
| 2004 | \$14,000 |
| 2005 or thereafter | \$15,000. |

5 “(B) COST-OF-LIVING ADJUSTMENTS.—In
 6 the case of taxable years beginning after De-
 7 cember 31, 2005, the Secretary shall adjust the
 8 \$15,000 amount specified in the table in sub-
 9 paragraph (A) at the same time and in the
 10 same manner as under section 415(d), except
 11 that the base period shall be the calendar quar-
 12 ter beginning July 1, 2004, and any increase
 13 under this paragraph which is not a multiple of
 14 \$500 shall be rounded to the next lowest mul-
 15 tiple of \$500.”.

16 (f) SIMPLE RETIREMENT ACCOUNTS.—

17 (1) LIMITATION.—Clause (ii) of section
 18 408(p)(2)(A) (relating to general rule for qualified
 19 salary reduction arrangement) is amended by strik-
 20 ing “\$6,000” and inserting “the applicable dollar
 21 amount”.

1 (2) APPLICABLE DOLLAR AMOUNT.—Subpara-
 2 graph (E) of 408(p)(2) is amended to read as fol-
 3 lows:

4 “(E) APPLICABLE DOLLAR AMOUNT; COST-
 5 OF-LIVING ADJUSTMENT.—

6 “(i) IN GENERAL.—For purposes of
 7 subparagraph (A)(ii), the applicable dollar
 8 amount shall be the amount determined in
 9 accordance with the following table:

| “For taxable years beginning in calendar year: | The applicable dollar amount: |
|---|--|
| 2001 | \$7,000 |
| 2002 | \$8,000 |
| 2003 | \$9,000 |
| 2004 or thereafter | \$10,000. |

10 “(ii) COST-OF-LIVING ADJUSTMENT.—
 11 In the case of a year beginning after De-
 12 cember 31, 2004, the Secretary shall ad-
 13 just the \$10,000 amount under clause (i)
 14 at the same time and in the same manner
 15 as under section 415(d), except that the
 16 base period taken into account shall be the
 17 calendar quarter beginning July 1, 2003,
 18 and any increase under this subparagraph
 19 which is not a multiple of \$500 shall be
 20 rounded to the next lower multiple of
 21 \$500.”.

22 (3) CONFORMING AMENDMENTS.—

1 (A) Clause (I) of section 401(k)(11)(B)(i)
2 is amended by striking “\$6,000” and inserting
3 “the amount in effect under section
4 408(p)(2)(A)(ii)”.

5 (B) Section 401(k)(11) is amended by
6 striking subparagraph (E).

7 (g) ROUNDING RULE RELATING TO DEFINED BEN-
8 EFIT PLANS AND DEFINED CONTRIBUTION PLANS.—
9 Paragraph (4) of section 415(d) is amended to read as
10 follows:

11 “(4) ROUNDING.—

12 “(A) \$160,000 AMOUNT.—Any increase
13 under subparagraph (A) of paragraph (1) which
14 is not a multiple of \$5,000 shall be rounded to
15 the next lowest multiple of \$5,000.

16 “(B) \$40,000 AMOUNT.—Any increase
17 under subparagraph (C) of paragraph (1) which
18 is not a multiple of \$1,000 shall be rounded to
19 the next lowest multiple of \$1,000.”.

20 (h) EFFECTIVE DATE.—The amendments made by
21 this section shall apply to years beginning after December
22 31, 2000.

1 **SEC. 302. PLAN LOANS FOR SUBCHAPTER S OWNERS, PART-**
2 **NERS, AND SOLE PROPRIETORS.**

3 (a) AMENDMENT TO 1986 CODE.—Subparagraph
4 (B) of section 4975(f)(6) (relating to exemptions not to
5 apply to certain transactions) is amended by adding at the
6 end the following new clause:

7 “(iii) LOAN EXCEPTION.—For pur-
8 poses of subparagraph (A)(i), the term
9 ‘owner-employee’ shall only include a per-
10 son described in subclause (II) or (III) of
11 clause (i).”.

12 (b) AMENDMENT TO ERISA.—Section 408(d)(2) of
13 the Employee Retirement Income Security Act of 1974
14 (29 U.S.C. 1108(d)(2)) is amended by adding at the end
15 the following new subparagraph:

16 “(C) For purposes of paragraph (1)(A), the term
17 ‘owner-employee’ shall only include a person described in
18 clause (ii) or (iii) of subparagraph (A).”.

19 (c) EFFECTIVE DATE.—The amendments made by
20 this section shall apply to loans made after December 31,
21 2000.

22 **SEC. 303. MODIFICATION OF TOP-HEAVY RULES.**

23 (a) SIMPLIFICATION OF DEFINITION OF KEY EM-
24 PLOYEE.—

25 (1) IN GENERAL.—Section 416(i)(1)(A) (defin-
26 ing key employee) is amended—

1 (A) by striking “or any of the 4 preceding
2 plan years” in the matter preceding clause (i),

3 (B) by striking clause (i) and inserting the
4 following:

5 “(i) an officer of the employer having
6 an annual compensation greater than
7 \$150,000,”

8 (C) by striking clause (ii) and redesignig-
9 nating clauses (iii) and (iv) as clauses (ii) and
10 (iii), respectively, and

11 (D) by striking the second sentence in the
12 matter following clause (iii), as redesignated by
13 subparagraph (C).

14 (2) CONFORMING AMENDMENT.—Section
15 416(i)(1)(B)(iii) is amended by striking “and sub-
16 paragraph (A)(ii)”.

17 (b) MATCHING CONTRIBUTIONS TAKEN INTO AC-
18 COUNT FOR MINIMUM CONTRIBUTION REQUIREMENTS.—
19 Section 416(c)(2)(A) (relating to defined contribution
20 plans) is amended by adding at the end the following:
21 “Employer matching contributions (as defined in section
22 401(m)(4)(A)) shall be taken into account for purposes
23 of this subparagraph.”.

24 (c) DISTRIBUTIONS DURING LAST YEAR BEFORE
25 DETERMINATION DATE TAKEN INTO ACCOUNT.—

1 (1) IN GENERAL.—Paragraph (3) of section
2 416(g) is amended to read as follows:

3 “(3) DISTRIBUTIONS DURING LAST YEAR BE-
4 FORE DETERMINATION DATE TAKEN INTO AC-
5 COUNT.—

6 “(A) IN GENERAL.—For purposes of
7 determining—

8 “(i) the present value of the cumu-
9 lative accrued benefit for any employee, or

10 “(ii) the amount of the account of any
11 employee,

12 such present value or amount shall be increased
13 by the aggregate distributions made with re-
14 spect to such employee under the plan during
15 the 1-year period ending on the determination
16 date. The preceding sentence shall also apply to
17 distributions under a terminated plan which if
18 it had not been terminated would have been re-
19 quired to be included in an aggregation group.

20 “(B) 5-YEAR PERIOD IN CASE OF IN-SERV-
21 ICE DISTRIBUTION.—In the case of any dis-
22 tribution made for a reason other than separa-
23 tion from service, death, or disability, subpara-
24 graph (A) shall be applied by substituting ‘5-
25 year period’ for ‘1-year period’.”.

1 (2) BENEFITS NOT TAKEN INTO ACCOUNT.—
2 Subparagraph (E) of section 416(g)(4) is
3 amended—

4 (A) by striking “LAST 5 YEARS” in the
5 heading and inserting “LAST YEAR BEFORE DE-
6 TERMINATION DATE”, and

7 (B) by striking “5-year period” and insert-
8 ing “1-year period”.

9 (d) DEFINITION OF TOP-HEAVY PLANS.—Paragraph
10 (4) of section 416(g) (relating to other special rules for
11 top-heavy plans) is amended by adding at the end the fol-
12 lowing new subparagraph:

13 “(H) CASH OR DEFERRED ARRANGEMENTS
14 USING ALTERNATIVE METHODS OF MEETING
15 NONDISCRIMINATION REQUIREMENTS.—The
16 term ‘top-heavy plan’ shall not include a plan
17 which consists solely of—

18 “(i) a cash or deferred arrangement
19 which meets the requirements of section
20 401(k)(12), and

21 “(ii) matching contributions with re-
22 spect to which the requirements of section
23 401(m)(11) are met.

24 If, but for this subparagraph, a plan would be
25 treated as a top-heavy plan because it is a

1 member of an aggregation group which is a top-
 2 heavy group, contributions under the plan may
 3 be taken into account in determining whether
 4 any other plan in the group meets the require-
 5 ments of subsection (c)(2).”.

6 (e) FROZEN PLAN EXEMPT FROM MINIMUM BEN-
 7 EFIT REQUIREMENT.—Subparagraph (C) of section
 8 416(c)(1) (relating to defined benefit plans) is amended—

9 (A) by striking “clause (ii)” in clause (i)
 10 and inserting “clause (ii) or (iii)”, and

11 (B) by adding at the end the following:

12 “(iii) EXCEPTION FOR FROZEN
 13 PLAN.—For purposes of determining an
 14 employee’s years of service with the em-
 15 ployer, any service with the employer shall
 16 be disregarded to the extent that such
 17 service occurs during a plan year when the
 18 plan benefits (within the meaning of sec-
 19 tion 410(b)) no employee or former em-
 20 ployee.”.

21 (f) ELIMINATION OF FAMILY CONTRIBUTION.—Sec-
 22 tion 416(i)(1)(B) (defining 5-percent owner) is amended
 23 by adding at the end the following new clause:

24 “(iv) FAMILY CONTRIBUTION DIS-
 25 REGARDED.—Solely for purposes of apply-

1 not be taken into account in applying any such limitation
2 to any other contributions.”.

3 (b) **EFFECTIVE DATE.**—The amendment made by
4 this section shall apply to years beginning after December
5 31, 2000.

6 **SEC. 305. REPEAL OF COORDINATION REQUIREMENTS FOR**
7 **DEFERRED COMPENSATION PLANS OF STATE**
8 **AND LOCAL GOVERNMENTS AND TAX-EX-**
9 **EMPT ORGANIZATIONS.**

10 (a) **IN GENERAL.**—Subsection (c) of section 457 (re-
11 lating to deferred compensation plans of State and local
12 governments and tax-exempt organizations), as amended
13 by section 211, is amended to read as follows:

14 “(c) **LIMITATION.**—The maximum amount of the
15 compensation of any one individual which may be deferred
16 under subsection (a) during any taxable year shall not ex-
17 ceed the amount in effect under subsection (b)(2)(A) (as
18 modified by any adjustment provided under subsection
19 (b)(3)).”.

20 (b) **EFFECTIVE DATE.**—The amendment made by
21 subsection (a) shall apply to years beginning after Decem-
22 ber 31, 2000.

1 **SEC. 306. ELIMINATION OF USER FEE FOR REQUESTS TO**
2 **IRS REGARDING PENSION PLANS.**

3 (a) **ELIMINATION OF CERTAIN USER FEES.**—The
4 Secretary of the Treasury or the Secretary’s delegate shall
5 not require payment of user fees under the program estab-
6 lished under section 7527 of the Internal Revenue Code
7 of 1986 for requests to the Internal Revenue Service for
8 determination letters with respect to the qualified status
9 of a pension benefit plan maintained solely by one or more
10 eligible employers or any trust which is part of the plan.

11 The preceding sentence shall not apply to any request—

12 (1) made after the 5th plan year the pension
13 benefit plan is in existence, or

14 (2) made by the sponsor of any prototype or
15 similar plan which the sponsor intends to market to
16 participating employers.

17 (b) **PENSION BENEFIT PLAN.**—For purposes of this
18 section, the term “pension benefit plan” means a pension,
19 profit-sharing, stock bonus, annuity, or employee stock
20 ownership plan.

21 (c) **ELIGIBLE EMPLOYER.**—For purposes of this sec-
22 tion, the term “eligible employer” has the same meaning
23 given such term in section 408(p)(2)(C)(i)(I) of the Inter-
24 nal Revenue Code of 1986. The determination of whether
25 an employer is an eligible employer under this section shall

1 be made as of the date of the request described in sub-
2 section (a).

3 (d) EFFECTIVE DATE.—The provisions of this sec-
4 tion shall apply with respect to requests made after De-
5 cember 31, 2000.

6 **SEC. 307. DEDUCTION LIMITS.**

7 (a) IN GENERAL.—Section 404(a) (relating to gen-
8 eral rule) is amended by adding at the end the following:

9 “(12) DEFINITION OF COMPENSATION.—For
10 purposes of paragraphs (3), (7), (8), and (9), the
11 term ‘compensation’ shall include amounts treated
12 as participant’s compensation under subparagraph
13 (C) or (D) of section 415(c)(3).”.

14 (b) CONFORMING AMENDMENT.—Subparagraph (B)
15 of section 404(a)(3) is amended by striking the last sen-
16 tence thereof.

17 (c) EFFECTIVE DATE.—The amendments made by
18 this section shall apply to years beginning after December
19 31, 2000.

20 **SEC. 308. OPTION TO TREAT ELECTIVE DEFERRALS AS**
21 **AFTER-TAX CONTRIBUTIONS.**

22 (a) IN GENERAL.—Subpart A of part I of subchapter
23 D of chapter 1 (relating to deferred compensation, etc.)
24 is amended by inserting after section 402 the following
25 new section:

1 **“SEC. 402A. OPTIONAL TREATMENT OF ELECTIVE DEFER-**
2 **RALS AS PLUS CONTRIBUTIONS.**

3 “(a) GENERAL RULE.—If an applicable retirement
4 plan includes a qualified plus contribution program—

5 “(1) any designated plus contribution made by
6 an employee pursuant to the program shall be treat-
7 ed as an elective deferral for purposes of this chap-
8 ter, except that such contribution shall not be ex-
9 cludable from gross income, and

10 “(2) such plan (and any arrangement which is
11 part of such plan) shall not be treated as failing to
12 meet any requirement of this chapter solely by rea-
13 son of including such program.

14 “(b) QUALIFIED PLUS CONTRIBUTION PROGRAM.—
15 For purposes of this section—

16 “(1) IN GENERAL.—The term ‘qualified plus
17 contribution program’ means a program under which
18 an employee may elect to make designated plus con-
19 tributions in lieu of all or a portion of elective defer-
20 rals the employee is otherwise eligible to make under
21 the applicable retirement plan.

22 “(2) SEPARATE ACCOUNTING REQUIRED.—A
23 program shall not be treated as a qualified plus con-
24 tribution program unless the applicable retirement
25 plan—

1 “(A) establishes separate accounts (‘des-
2 gnated plus accounts’) for the designated plus
3 contributions of each employee and any earn-
4 ings properly allocable to the contributions, and

5 “(B) maintains separate recordkeeping
6 with respect to each account.

7 “(c) DEFINITIONS AND RULES RELATING TO DES-
8 IGNATED PLUS CONTRIBUTIONS.—For purposes of this
9 section—

10 “(1) DESIGNATED PLUS CONTRIBUTION.—The
11 term ‘designated plus contribution’ means any elec-
12 tive deferral which—

13 “(A) is excludable from gross income of an
14 employee without regard to this section, and

15 “(B) the employee designates (at such time
16 and in such manner as the Secretary may pre-
17 scribe) as not being so excludable.

18 “(2) DESIGNATION LIMITS.—The amount of
19 elective deferrals which an employee may designate
20 under paragraph (1) shall not exceed the excess (if
21 any) of—

22 “(A) the maximum amount of elective de-
23 ferrals excludable from gross income of the em-
24 ployee for the taxable year (without regard to
25 this section), over

1 “(B) the aggregate amount of elective de-
2 ferrals of the employee for the taxable year
3 which the employee does not designate under
4 paragraph (1).

5 “(3) ROLLOVER CONTRIBUTIONS.—

6 “(A) IN GENERAL.—A rollover contribu-
7 tion of any payment or distribution from a des-
8 ignated plus account which is otherwise allow-
9 able under this chapter may be made only if the
10 contribution is to—

11 “(i) another designated plus account
12 of the individual from whose account the
13 payment or distribution was made, or

14 “(ii) a Roth IRA of such individual.

15 “(B) COORDINATION WITH LIMIT.—Any
16 rollover contribution to a designated plus ac-
17 count under subparagraph (A) shall not be
18 taken into account for purposes of paragraph
19 (1).

20 “(d) DISTRIBUTION RULES.—For purposes of this
21 title—

22 “(1) EXCLUSION.—Any qualified distribution
23 from a designated plus account shall not be includ-
24 ible in gross income.

1 “(2) QUALIFIED DISTRIBUTION.—For purposes
2 of this subsection—

3 “(A) IN GENERAL.—The term ‘qualified
4 distribution’ has the meaning given such term
5 by section 408A(d)(2)(A) (without regard to
6 clause (iv) thereof).

7 “(B) DISTRIBUTIONS WITHIN NONEXCLU-
8 SION PERIOD.—A payment or distribution from
9 a designated plus account shall not be treated
10 as a qualified distribution if such payment or
11 distribution is made within the 5-taxable-year
12 period beginning with the earlier of—

13 “(i) the first taxable year for which
14 the individual made a designated plus con-
15 tribution to any designated plus account
16 established for such individual under the
17 same applicable retirement plan, or

18 “(ii) if a rollover contribution was
19 made to such designated plus account from
20 a designated plus account previously estab-
21 lished for such individual under another
22 applicable retirement plan, the first taxable
23 year for which the individual made a des-
24 ignated plus contribution to such pre-
25 viously established account.

1 “(C) DISTRIBUTIONS OF EXCESS DEFER-
2 RALS AND EARNINGS.—The term ‘qualified dis-
3 tribution’ shall not include any distribution of
4 any excess deferral under section 402(g)(2) and
5 any income on the excess deferral.

6 “(3) AGGREGATION RULES.—Section 72 shall
7 be applied separately with respect to distributions
8 and payments from a designated plus account and
9 other distributions and payments from the plan.

10 “(e) OTHER DEFINITIONS.—For purposes of this
11 section—

12 “(1) APPLICABLE RETIREMENT PLAN.—The
13 term ‘applicable retirement plan’ means—

14 “(A) an employees’ trust described in sec-
15 tion 401(a) which is exempt from tax under
16 section 501(a), and

17 “(B) a plan under which amounts are con-
18 tributed by an individual’s employer for an an-
19 nuity contract described in section 403(b).

20 “(2) ELECTIVE DEFERRAL.—The term ‘elective
21 deferral’ means any elective deferral described in
22 subparagraph (A) or (C) of section 402(g)(3).”.

23 (b) EXCESS DEFERRALS.—Section 402(g) (relating
24 to limitation on exclusion for elective deferrals) is
25 amended—

1 (1) by adding at the end of paragraph (1) the
2 following new sentence: “The preceding sentence
3 shall not apply to so much of such excess as does
4 not exceed the designated plus contributions of the
5 individual for the taxable year.”, and

6 (2) by inserting “(or would be included but for
7 the last sentence thereof)” after “paragraph (1)” in
8 paragraph (2)(A).

9 (c) ROLLOVERS.—Subparagraph (B) of section
10 402(c)(8) is amended by adding at the end the following:

11 “If any portion of an eligible rollover distribu-
12 tion is attributable to payments or distributions
13 from a designated plus account (as defined in
14 section 402A), an eligible retirement plan with
15 respect to such portion shall include only an-
16 other designated plus account and a Roth
17 IRA.”.

18 (d) REPORTING REQUIREMENTS.—

19 (1) W-2 INFORMATION.—Section 6051(a)(8) is
20 amended by inserting “, including the amount of
21 designated plus contributions (as defined in section
22 402A)” before the comma at the end.

23 (2) INFORMATION.—Section 6047 is amended
24 by redesignating subsection (f) as subsection (g)

1 and by inserting after subsection (e) the following
2 new subsection:

3 “(f) DESIGNATED PLUS CONTRIBUTIONS.—The Sec-
4 retary shall require the plan administrator of each applica-
5 ble retirement plan (as defined in section 402A) to make
6 such returns and reports regarding designated plus con-
7 tributions (as so defined) to the Secretary, participants
8 and beneficiaries of the plan, and such other persons as
9 the Secretary may prescribe.”.

10 (e) CONFORMING AMENDMENTS.—

11 (1) Section 408A(e) is amended by adding after
12 the first sentence the following new sentence: “Such
13 term includes a rollover contribution described in
14 section 402A(c)(3)(A).”.

15 (2) The table of sections for subpart A of part
16 I of subchapter D of chapter 1 is amended by insert-
17 ing after the item relating to section 402 the fol-
18 lowing new item:

“Sec. 402A. Optional treatment of elective deferrals as plus con-
tributions.”.

19 (f) EFFECTIVE DATE.—The amendments made by
20 this section shall apply to taxable years beginning after
21 December 31, 2000.

1 **SEC. 309. REDUCED PBGC PREMIUM FOR NEW PLANS OF**
2 **SMALL EMPLOYERS.**

3 (a) IN GENERAL.—Subparagraph (A) of section
4 4006(a)(3) of the Employee Retirement Income Security
5 Act of 1974 (29 U.S.C. 1306(a)(3)(A)) is amended—

6 (1) in clause (i), by inserting “other than a new
7 single-employer plan (as defined in subparagraph
8 (F)) maintained by a small employer (as so de-
9 fined),” after “single-employer plan,”

10 (2) in clause (iii), by striking the period at the
11 end and inserting “, and”, and

12 (3) by adding at the end the following new
13 clause:

14 “(iv) in the case of a new single-employer plan
15 (as defined in subparagraph (F)) maintained by a
16 small employer (as so defined) for the plan year, \$5
17 for each individual who is a participant in such plan
18 during the plan year.”.

19 (b) DEFINITION OF NEW SINGLE-EMPLOYER
20 PLAN.—Section 4006(a)(3) of the Employee Retirement
21 Income Security Act of 1974 (29 U.S.C. 1306(a)(3)) is
22 amended by adding at the end the following new subpara-
23 graph:

24 “(F)(i) For purposes of this paragraph, a single-em-
25 ployer plan maintained by a contributing sponsor shall be
26 treated as a new single-employer plan for each of its first

1 5 plan years if, during the 36-month period ending on the
2 date of the adoption of such plan, the sponsor or any
3 member of such sponsor's controlled group (or any prede-
4 cessor of either) had not established or maintained a plan
5 to which this title applies with respect to which benefits
6 were accrued for substantially the same employees as are
7 in the new single-employer plan.

8 “(ii)(I) For purposes of this paragraph, the term
9 ‘small employer’ means an employer which on the first day
10 of any plan year has, in aggregation with all members of
11 the controlled group of such employer, 100 or fewer em-
12 ployees.

13 “(II) In the case of a plan maintained by two or more
14 contributing sponsors that are not part of the same con-
15 trolled group, the employees of all contributing sponsors
16 and controlled groups of such sponsors shall be aggregated
17 for purposes of determining whether any contributing
18 sponsor is a small employer.”.

19 (c) EFFECTIVE DATE.—The amendments made by
20 this section shall apply to plans established after Decem-
21 ber 31, 2000.

22 **SEC. 310. REDUCTION OF ADDITIONAL PBGC PREMIUM FOR**
23 **NEW AND SMALL PLANS.**

24 (a) NEW PLANS.—Subparagraph (E) of section
25 4006(a)(3) of the Employee Retirement Income Security

1 Act of 1974 (29 U.S.C. 1306(a)(3)(E)) is amended by
2 adding at the end the following new clause:

3 “(v) In the case of a new defined benefit plan, the
4 amount determined under clause (ii) for any plan year
5 shall be an amount equal to the product of the amount
6 determined under clause (ii) and the applicable percent-
7 age. For purposes of this clause, the term ‘applicable per-
8 centage’ means—

9 “(I) 0 percent, for the first plan year.

10 “(II) 20 percent, for the second plan year.

11 “(III) 40 percent, for the third plan year.

12 “(IV) 60 percent, for the fourth plan year.

13 “(V) 80 percent, for the fifth plan year.

14 For purposes of this clause, a defined benefit plan (as de-
15 fined in section 3(35)) maintained by a contributing spon-
16 sor shall be treated as a new defined benefit plan for its
17 first 5 plan years if, during the 36-month period ending
18 on the date of the adoption of the plan, the sponsor and
19 each member of any controlled group including the spon-
20 sor (or any predecessor of either) did not establish or
21 maintain a plan to which this title applies with respect
22 to which benefits were accrued for substantially the same
23 employees as are in the new plan.”.

1 (b) SMALL PLANS.—Paragraph (3) of section
2 4006(a) of the Employee Retirement Income Security Act
3 of 1974 (29 U.S.C. 1306(a)) is amended—

4 (1) by striking “The” in subparagraph (E)(i)
5 and inserting “Except as provided in subparagraph
6 (G), the”, and

7 (2) by inserting after subparagraph (F) the fol-
8 lowing new subparagraph:

9 “(G)(i) In the case of an employer who has 25 or
10 fewer employees on the first day of the plan year, the addi-
11 tional premium determined under subparagraph (E) for
12 each participant shall not exceed \$5 multiplied by the
13 number of participants in the plan as of the close of the
14 preceding plan year.

15 “(ii) For purposes of clause (i), whether an employer
16 has 25 or fewer employees on the first day of the plan
17 year is determined taking into consideration all of the em-
18 ployees of all members of the contributing sponsor’s con-
19 trolled group. In the case of a plan maintained by two
20 or more contributing sponsors, the employees of all con-
21 tributing sponsors and their controlled groups shall be ag-
22 gregated for purposes of determining whether 25-or-fewer-
23 employees limitation has been satisfied.”.

24 (c) EFFECTIVE DATES.—

1 graph (1) for any year in an amount greater
 2 than the lesser of—

3 “(i) the applicable percentage of the
 4 applicable dollar amount for such elective
 5 deferrals for such year, or

6 “(ii) the excess (if any) of—

7 “(I) the participant’s compensa-
 8 tion for the year, over

9 “(II) any other elective deferrals
 10 of the participant for such year which
 11 are made without regard to this sub-
 12 section.

13 “(B) APPLICABLE PERCENTAGE.—For
 14 purposes of this paragraph, the applicable per-
 15 centage shall be determined in accordance with
 16 the following table:

| “For taxable years beginning in: | The applicable percentage is: |
|---|--|
| 2001 | 10 percent |
| 2002 | 20 percent |
| 2003 | 30 percent |
| 2004 | 40 percent |
| 2005 and thereafter | 50 percent. |

17 “(3) TREATMENT OF CONTRIBUTIONS.—In the
 18 case of any contribution to a plan under paragraph
 19 (1)—

20 “(A) such contribution shall not, with re-
 21 spect to the year in which the contribution is
 22 made—

1 “(i) be subject to any otherwise appli-
2 cable limitation contained in section
3 402(g), 402(h), 403(b), 404(a), 404(h),
4 408, 415, or 457, or

5 “(ii) be taken into account in applying
6 such limitations to other contributions or
7 benefits under such plan or any other such
8 plan, and

9 “(B) such plan shall not be treated as fail-
10 ing to meet the requirements of section
11 401(a)(4), 401(a)(26), 401(k)(3), 401(k)(11),
12 401(k)(12), 401(m), 403(b)(12), 408(k),
13 408(p), 408B, 410(b), or 416 by reason of the
14 making of (or the right to make) such contribu-
15 tion.

16 “(4) ELIGIBLE PARTICIPANT.—For purposes of
17 this subsection, the term ‘eligible participant’ means,
18 with respect to any plan year, a participant in a
19 plan—

20 “(A) who has attained the age of 50 before
21 the close of the plan year, and

22 “(B) with respect to whom no other elec-
23 tive deferrals may (without regard to this sub-
24 section) be made to the plan for the plan year
25 by reason of the application of any limitation or

1 other restriction described in paragraph (3) or
2 contained in the terms of the plan.

3 “(5) OTHER DEFINITIONS AND RULES.—For
4 purposes of this subsection—

5 “(A) APPLICABLE DOLLAR AMOUNT.—The
6 term ‘applicable dollar amount’ means, with re-
7 spect to any year, the amount in effect under
8 section 402(g)(1)(B), 408(p)(2)(E)(i), or
9 457(e)(15)(A), whichever is applicable to an ap-
10 plicable employer plan, for such year.

11 “(B) APPLICABLE EMPLOYER PLAN.—The
12 term ‘applicable employer plan’ means—

13 “(i) an employees’ trust described in
14 section 401(a) which is exempt from tax
15 under section 501(a),

16 “(ii) a plan under which amounts are
17 contributed by an individual’s employer for
18 an annuity contract described in section
19 403(b),

20 “(iii) an eligible deferred compensa-
21 tion plan under section 457 of an eligible
22 employer as defined in section
23 457(e)(1)(A), and

24 “(iv) an arrangement meeting the re-
25 quirements of section 408 (k) or (p).

1 “(C) ELECTIVE DEFERRAL.—The term
2 ‘elective deferral’ has the meaning given such
3 term by subsection (u)(2)(C).

4 “(D) EXCEPTION FOR SECTION 457
5 PLANS.—This subsection shall not apply to an
6 applicable employer plan described in subpara-
7 graph (B)(iii) for any year to which section
8 457(b)(3) applies.”.

9 (b) EFFECTIVE DATE.—The amendment made by
10 this section shall apply to contributions in taxable years
11 beginning after December 31, 2000.

12 **SEC. 322. EQUITABLE TREATMENT FOR CONTRIBUTIONS OF**
13 **EMPLOYEES TO DEFINED CONTRIBUTION**
14 **PLANS.**

15 (a) EQUITABLE TREATMENT.—

16 (1) IN GENERAL.—Subparagraph (B) of section
17 415(c)(1) (relating to limitation for defined con-
18 tribution plans) is amended by striking “25 percent”
19 and inserting “100 percent”.

20 (2) APPLICATION TO SECTION 403(b).—Section
21 403(b) is amended—

22 (A) by striking “the exclusion allowance
23 for such taxable year” in paragraph (1) and in-
24 serting “the applicable limit under section
25 415”,

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

2 (C) by inserting “or any amount received
3 by a former employee after the 5th taxable year
4 following the taxable year in which such em-
5 ployee was terminated” before the period at the
6 end of the second sentence of paragraph (3).

7 (3) CONFORMING AMENDMENTS.—

8 (A) Subsection (f) of section 72 is amend-
9 ed by striking “section 403(b)(2)(D)(iii)” and
10 inserting “section 403(b)(2)(D)(iii), as in effect
11 before the enactment of the Wage and Employ-
12 ment Growth Act of 1999”.

13 (B) Section 404(a)(10)(B) is amended by
14 striking “, the exclusion allowance under sec-
15 tion 403(b)(2),”.

16 (C) Section 415(a)(2) is amended by strik-
17 ing “, and the amount of the contribution for
18 such portion shall reduce the exclusion allow-
19 ance as provided in section 403(b)(2)”.

20 (D) Section 415(c)(3) is amended by add-
21 ing at the end the following new subparagraph:

22 “(E) ANNUITY CONTRACTS.—In the case
23 of an annuity contract described in section
24 403(b), the term ‘participant’s compensation’

1 means the participant's includible compensation
2 determined under section 403(b)(3).”.

3 (E) Section 415(c) is amended by striking
4 paragraph (4).

5 (F) Section 415(c)(7) is amended to read
6 as follows:

7 “(7) CERTAIN CONTRIBUTIONS BY CHURCH
8 PLANS NOT TREATED AS EXCEEDING LIMIT.—

9 “(A) IN GENERAL.—Notwithstanding any
10 other provision of this subsection, at the elec-
11 tion of a participant who is an employee of a
12 church or a convention or association of church-
13 es, including an organization described in sec-
14 tion 414(e)(3)(B)(ii), contributions and other
15 additions for an annuity contract or retirement
16 income account described in section 403(b) with
17 respect to such participant, when expressed as
18 an annual addition to such participant's ac-
19 count, shall be treated as not exceeding the lim-
20 itation of paragraph (1) if such annual addition
21 is not in excess of \$10,000.

22 “(B) \$40,000 AGGREGATE LIMITATION.—
23 The total amount of additions with respect to
24 any participant which may be taken into ac-

1 count for purposes of this subparagraph for all
2 years may not exceed \$40,000.

3 “(C) ANNUAL ADDITION.—For purposes of
4 this paragraph, the term ‘annual addition’ has
5 the meaning given such term by paragraph
6 (2).”.

7 (G) Subparagraph (B) of section 402(g)(7)
8 (as redesignated by section 211) is amended by
9 inserting before the period at the end the fol-
10 lowing: “(as in effect before the enactment of
11 the Wage and Employment Growth Act of
12 1999)”.

13 (3) EFFECTIVE DATE.—The amendments made
14 by this subsection shall apply to years beginning
15 after December 31, 2000.

16 (b) SPECIAL RULES FOR SECTIONS 403(b) AND
17 408.—

18 (1) IN GENERAL.—Subsection (k) of section
19 415 is amended by adding at the end the following
20 new paragraph:

21 “(4) SPECIAL RULES FOR SECTIONS 403(b) AND
22 408.—For purposes of this section, any annuity con-
23 tract described in section 403(b) for the benefit of
24 a participant shall be treated as a defined contribu-
25 tion plan maintained by each employer with respect

1 to which the participant has the control required
2 under subsection (b) or (c) of section 414 (as modi-
3 fied by subsection (h)). For purposes of this section,
4 any contribution by an employer to a simplified em-
5 ployee pension plan for an individual for a taxable
6 year shall be treated as an employer contribution to
7 a defined contribution plan for such individual for
8 such year.”.

9 (2) EFFECTIVE DATE.—

10 (A) IN GENERAL.—The amendment made
11 by paragraph (1) shall apply to limitation years
12 beginning after December 31, 1999.

13 (B) EXCLUSION ALLOWANCE.—Effective
14 for limitation years beginning in 2000, in the
15 case of any annuity contract described in sec-
16 tion 403(b) of the Internal Revenue Code of
17 1986, the amount of the contribution disquali-
18 fied by reason of section 415(g) of such Code
19 shall reduce the exclusion allowance as provided
20 in section 403(b)(2) of such Code.

21 (3) MODIFICATION OF 403(b) EXCLUSION AL-
22 LOWANCE TO CONFORM TO 415 MODIFICATION.—The
23 Secretary of the Treasury shall modify the regula-
24 tions regarding the exclusion allowance under section
25 403(b)(2) of the Internal Revenue Code of 1986 to

1 render void the requirement that contributions to a
2 defined benefit pension plan be treated as previously
3 excluded amounts for purposes of the exclusion al-
4 lowance. For taxable years beginning after Decem-
5 ber 31, 1999, such regulations shall be applied as
6 if such requirement were void.

7 (c) DEFERRED COMPENSATION PLANS OF STATE
8 AND LOCAL GOVERNMENTS AND TAX-EXEMPT ORGANI-
9 ZATIONS.—

10 (1) IN GENERAL.—Subparagraph (B) of section
11 457(b)(2) (relating to salary limitation on eligible
12 deferred compensation plans) is amended by striking
13 “33 $\frac{1}{3}$ percent” and inserting “100 percent”.

14 (2) EFFECTIVE DATE.—The amendment made
15 by this subsection shall apply to years beginning
16 after December 31, 2000.

17 **SEC. 323. FASTER VESTING OF CERTAIN EMPLOYER**
18 **MATCHING CONTRIBUTIONS.**

19 (a) AMENDMENTS TO 1986 CODE.—Section 411(a)
20 (relating to minimum vesting standards) is amended—

21 (1) in paragraph (2), by striking “A plan” and
22 inserting “Except as provided in paragraph (12), a
23 plan”, and

24 (2) by adding at the end the following:

1 “(12) FASTER VESTING FOR MATCHING CON-
 2 TRIBUTIONS.—In the case of matching contributions
 3 (as defined in section 401(m)(4)(A)), paragraph (2)
 4 shall be applied—

5 “(A) by substituting ‘3 years’ for ‘5 years’
 6 in subparagraph (A), and

7 “(B) by substituting the following table for
 8 the table contained in subparagraph (B):

| “Years of service: | The nonforfeitable percentage is: |
|---------------------------|--|
| 2 | 20 |
| 3 | 40 |
| 4 | 60 |
| 5 | 80 |
| 6 | 100.”. |

9 (b) AMENDMENTS TO ERISA.—Section 203(a) of the
 10 Employee Retirement Income Security Act of 1974 (29
 11 U.S.C. 1053(a)) is amended—

12 (1) in paragraph (2), by striking “A plan” and
 13 inserting “Except as provided in paragraph (4), a
 14 plan”, and

15 (2) by adding at the end the following:

16 “(4) FASTER VESTING FOR MATCHING CON-
 17 TRIBUTIONS.—In the case of matching contributions
 18 (as defined in section 401(m)(4)(A) of the Internal
 19 Revenue Code of 1986), paragraph (2) shall be
 20 applied—

21 “(A) by substituting ‘3 years’ for ‘5 years’
 22 in subparagraph (A), and

1 “(B) by substituting the following table for
2 the table contained in subparagraph (B):

| “Years of service: | The nonforfeitable percentage is: |
|---------------------------|--|
| 2 | 20 |
| 3 | 40 |
| 4 | 60 |
| 5 | 80 |
| 6 | 100.”. |

3 (c) EFFECTIVE DATES.—

4 (1) IN GENERAL.—Except as provided in para-
5 graph (2), the amendments made by this section
6 shall apply to contributions for plan years beginning
7 after December 31, 2000.

8 (2) COLLECTIVE BARGAINING AGREEMENTS.—

9 In the case of a plan maintained pursuant to one or
10 more collective bargaining agreements between em-
11 ployee representatives and one or more employers
12 ratified by the date of the enactment of this Act, the
13 amendments made by this section shall not apply to
14 contributions on behalf of employees covered by any
15 such agreement for plan years beginning before the
16 earlier of—

17 (A) the later of—

18 (i) the date on which the last of such
19 collective bargaining agreements termi-
20 nates (determined without regard to any
21 extension thereof on or after such date of
22 the enactment), or

1 (ii) January 1, 2001, or

2 (B) January 1, 2005.

3 (3) SERVICE REQUIRED.—With respect to any
4 plan, the amendments made by this section shall not
5 apply to any employee before the date that such em-
6 ployee has 1 hour of service under such plan in any
7 plan year to which the amendments made by this
8 section apply.

9 **SEC. 324. SIMPLIFY AND UPDATE THE MINIMUM DISTRIBUTION RULES.**

10 (a) SIMPLIFICATION AND FINALIZATION OF MIN-
11 IMUM DISTRIBUTION REQUIREMENTS.—

12 (1) IN GENERAL.—The Secretary of the Treas-
13 ury shall—

14 (A) simplify and finalize the regulations re-
15 lating to minimum distribution requirements
16 under sections 401(a)(9), 408(a)(6) and (b)(3),
17 403(b)(10), and 457(d)(2) of the Internal Rev-
18 enue Code of 1986, and

19 (B) modify such regulations to—

20 (i) reflect current life expectancy, and

21 (ii) revise the required distribution
22 methods so that, under reasonable assump-
23 tions, the amount of the required minimum
24

1 distribution does not decrease over a par-
2 ticipant's life expectancy.

3 (2) FRESH START.—Notwithstanding subpara-
4 graph (D) of section 401(a)(9) of such Code, during
5 the first year that regulations are in effect under
6 this subsection, required distributions for future
7 years may be redetermined to reflect changes under
8 such regulations. Such redetermination shall include
9 the opportunity to choose a new designated bene-
10 ficiary and to elect a new method of calculating life
11 expectancy.

12 (3) EFFECTIVE DATE FOR REGULATIONS.—
13 Regulations referred to in paragraph (1) shall be ef-
14 fective for years beginning after December 31, 2000,
15 and shall apply in such years without regard to
16 whether an individual had previously begun receiving
17 minimum distributions.

18 (b) REPEAL OF RULE WHERE DISTRIBUTIONS HAD
19 BEGUN BEFORE DEATH OCCURS.—

20 (1) IN GENERAL.—Subparagraph (B) of section
21 401(a)(9) is amended by striking clause (i) and re-
22 designating clauses (ii), (iii), and (iv) as clauses (i),
23 (ii), and (iii), respectively.

24 (2) CONFORMING CHANGES.—

1 (A) Clause (i) of section 401(a)(9)(B) (as
2 so redesignated) is amended—

3 (i) by striking “FOR OTHER CASES” in
4 the heading, and

5 (ii) by striking “the distribution of the
6 employee’s interest has begun in accord-
7 ance with subparagraph (A)(ii)” and in-
8 sserting “his entire interest has been dis-
9 tributed to him,”.

10 (B) Clause (ii) of section 401(a)(9)(B) (as
11 so redesignated) is amended by striking “clause
12 (ii)” and inserting “clause (i)”.

13 (C) Clause (iii) of section 401(a)(9)(B) (as
14 so redesignated) is amended—

15 (i) by striking “clause (iii)(I)” and in-
16 sserting “clause (ii)(I)”,

17 (ii) by striking “clause (iii)(III)” in
18 subclause (I) and inserting “clause
19 (ii)(III)”,

20 (iii) by striking “the date on which
21 the employee would have attained the age
22 70 $\frac{1}{2}$,” in subclause (I) and inserting
23 “April 1 of the calendar year following the
24 calendar year in which the spouse attains
25 70 $\frac{1}{2}$,” and

1 (iv) by striking “the distributions to
2 such spouse begin,” in subclause (II) and
3 inserting “his entire interest has been dis-
4 tributed to him,”.

5 (3) EFFECTIVE DATE.—The amendments made
6 by this subsection shall apply to years beginning
7 after December 31, 2000.

8 (c) REDUCTION IN EXCISE TAX.—

9 (1) IN GENERAL.—Subsection (a) of section
10 4974 is amended by striking “50 percent” and in-
11 sserting “10 percent”.

12 (2) EFFECTIVE DATE.—The amendment made
13 by this subsection shall apply to years beginning
14 after December 31, 2000.

15 **SEC. 325. CLARIFICATION OF TAX TREATMENT OF DIVISION**
16 **OF SECTION 457 PLAN BENEFITS UPON DI-**
17 **VORCE.**

18 (a) IN GENERAL.—Section 414(p)(11) (relating to
19 application of rules to governmental and church plans) is
20 amended—

21 (1) by inserting “or an eligible deferred com-
22 pensation plan (within the meaning of section
23 457(b))” after “subsection (e))”, and

1 (2) in the heading, by striking “GOVERN-
2 MENTAL AND CHURCH PLANS” and inserting “CER-
3 TAIN OTHER PLANS”.

4 (b) WAIVER OF CERTAIN DISTRIBUTION REQUIRE-
5 MENTS.—Paragraph (10) of section 414(p) is amended by
6 striking “and section 409(d)” and inserting “section
7 409(d), and section 457(d)”.

8 (c) TAX TREATMENT OF PAYMENTS FROM A SEC-
9 TION 457 PLAN.—Subsection (p) of section 414 is amend-
10 ed by redesignating paragraph (12) as paragraph (13) and
11 inserting after paragraph (11) the following new para-
12 graph:

13 “(12) TAX TREATMENT OF PAYMENTS FROM A
14 SECTION 457 PLAN.—If a distribution or payment
15 from an eligible deferred compensation plan de-
16 scribed in section 457(b) is made pursuant to a
17 qualified domestic relations order, rules similar to
18 the rules of section 402(e)(1)(A) shall apply to such
19 distribution or payment.”.

20 (d) EFFECTIVE DATE.—The amendments made by
21 this section shall apply to transfers, distributions, and
22 payments made after December 31, 2000.

1 **SEC. 326. MODIFICATION OF SAFE HARBOR RELIEF FOR**
2 **HARDSHIP WITHDRAWALS FROM CASH OR**
3 **DEFERRED ARRANGEMENTS.**

4 (a) IN GENERAL.—The Secretary of the Treasury
5 shall revise the regulations relating to hardship distribu-
6 tions under section 401(k)(2)(B)(i)(IV) of the Internal
7 Revenue Code of 1986 to provide that the period an em-
8 ployee is prohibited from making elective and employee
9 contributions in order for a distribution to be deemed nec-
10 essary to satisfy financial need shall be equal to 6 months.

11 (b) EFFECTIVE DATE.—The revised regulations
12 under subsection (a) shall apply to years beginning after
13 December 31, 2000.

14 **Subtitle C—Increasing Portability**
15 **for Participants**

16 **SEC. 331. ROLLOVERS ALLOWED AMONG VARIOUS TYPES**
17 **OF PLANS.**

18 (a) ROLLOVERS FROM AND TO SECTION 457
19 PLANS.—

20 (1) ROLLOVERS FROM SECTION 457 PLANS.—

21 (A) IN GENERAL.—Section 457(e) (relat-
22 ing to other definitions and special rules) is
23 amended by adding at the end the following:

24 “(16) ROLLOVER AMOUNTS.—

25 “(A) GENERAL RULE.—In the case of an
26 eligible deferred compensation plan established

1 and maintained by an employer described in
2 subsection (e)(1)(A), if—

3 “(i) any portion of the balance to the
4 credit of an employee in such plan is paid
5 to such employee in an eligible rollover dis-
6 tribution (within the meaning of section
7 402(c)(4) without regard to subparagraph
8 (C) thereof),

9 “(ii) the employee transfers any por-
10 tion of the property such employee receives
11 in such distribution to an eligible retire-
12 ment plan described in section
13 402(c)(8)(B), and

14 “(iii) in the case of a distribution of
15 property other than money, the amount so
16 transferred consists of the property distrib-
17 uted,

18 then such distribution (to the extent so trans-
19 ferred) shall not be includible in gross income
20 for the taxable year in which paid.

21 “(B) CERTAIN RULES MADE APPLICA-
22 BLE.—The rules of paragraphs (2) through (7)
23 (other than paragraph (4)(C)) and (9) of sec-
24 tion 402(c) and section 402(f) shall apply for
25 purposes of subparagraph (A).

1 “(C) REPORTING.—Rollovers under this
2 paragraph shall be reported to the Secretary in
3 the same manner as rollovers from qualified re-
4 tirement plans (as defined in section
5 4974(c)).”.

6 (B) DEFERRAL LIMIT DETERMINED WITH-
7 OUT REGARD TO ROLLOVER AMOUNTS.—Section
8 457(b)(2) (defining eligible deferred compensa-
9 tion plan) is amended by inserting “(other than
10 rollover amounts)” after “taxable year”.

11 (C) DIRECT ROLLOVER.—Paragraph (1) of
12 section 457(d) is amended by striking “and” at
13 the end of subparagraph (A), by striking the
14 period at the end of subparagraph (B) and in-
15 serting “, and”, and by inserting after subpara-
16 graph (B) the following:

17 “(C) in the case of a plan maintained by
18 an employer described in subsection (e)(1)(A),
19 the plan meets requirements similar to the re-
20 quirements of section 401(a)(31).

21 Any amount transferred in a direct trustee-to-trust-
22 ee transfer in accordance with section 401(a)(31)
23 shall not be includible in gross income for the tax-
24 able year of transfer.”.

25 (D) WITHHOLDING.—

1 (i) Paragraph (12) of section 3401(a)
2 is amended by adding at the end the fol-
3 lowing:

4 “(E) under or to an eligible deferred com-
5 pensation plan which, at the time of such pay-
6 ment, is a plan described in section 457(b)
7 maintained by an employer described in section
8 457(e)(1)(A); or”.

9 (ii) Paragraph (3) of section 3405(c)
10 is amended to read as follows:

11 “(3) ELIGIBLE ROLLOVER DISTRIBUTION.—For
12 purposes of this subsection, the term ‘eligible roll-
13 over distribution’ has the meaning given such term
14 by section 402(f)(2)(A).”.

15 (iii) LIABILITY FOR WITHHOLDING.—
16 Subparagraph (B) of section 3405(d)(2) is
17 amended by striking “or” at the end of
18 clause (ii), by striking the period at the
19 end of clause (iii) and inserting “, or”, and
20 by adding at the end the following:

21 “(iv) section 457(b).”.

22 (2) ROLLOVERS TO SECTION 457 PLANS.—

23 (A) IN GENERAL.—Section 402(c)(8)(B)
24 (defining eligible retirement plan) is amended
25 by striking “and” at the end of clause (iii), by

1 striking the period at the end of clause (iv) and
2 inserting “, and”, and by inserting after clause
3 (iv) the following new clause:

4 “(v) an eligible deferred compensation
5 plan described in section 457(b) of an em-
6 ployer described in section 457(e)(1)(A).”.

7 (B) SEPARATE ACCOUNTING.—Section
8 402(c) is amended by adding at the end the fol-
9 lowing new paragraph:

10 “(11) SEPARATE ACCOUNTING.—Unless a plan
11 described in clause (v) of paragraph (8)(B) agrees to
12 separately account for amounts rolled into such plan
13 from eligible retirement plans not described in such
14 clause, the plan described in such clause may not ac-
15 cept transfers or rollovers from such retirement
16 plans.”.

17 (C) 10 PERCENT ADDITIONAL TAX.—Sub-
18 section (t) of section 72 (relating to 10-percent
19 additional tax on early distributions from quali-
20 fied retirement plans) is amended by adding at
21 the end the following new paragraph:

22 “(9) SPECIAL RULE FOR ROLLOVERS TO SEC-
23 TION 457 PLANS.—For purposes of this subsection,
24 a distribution from an eligible deferred compensation
25 plan (as defined in section 457(b)) of an employer

1 described in section 457(e)(1)(A) shall be treated as
2 a distribution from a qualified retirement plan de-
3 scribed in 4974(c)(1) to the extent that such dis-
4 tribution is attributable to an amount transferred to
5 an eligible deferred compensation plan from a quali-
6 fied retirement plan (as defined in section
7 4974(c)).”.

8 (b) ALLOWANCE OF ROLLOVERS FROM AND TO 403
9 (b) PLANS.—

10 (1) ROLLOVERS FROM SECTION 403 (b)
11 PLANS.—Section 403(b)(8)(A)(ii) (relating to roll-
12 over amounts) is amended by striking “such dis-
13 tribution” and all that follows and inserting “such
14 distribution to an eligible retirement plan described
15 in section 402(c)(8)(B), and”.

16 (2) ROLLOVERS TO SECTION 403 (b) PLANS.—
17 Section 402(c)(8)(B) (defining eligible retirement
18 plan), as amended by subsection (a), is amended by
19 striking “and” at the end of clause (iv), by striking
20 the period at the end of clause (v) and inserting “,
21 and”, and by inserting after clause (v) the following
22 new clause:

23 “(vi) an annuity contract described in
24 section 403(b).”.

1 (c) EXPANDED EXPLANATION TO RECIPIENTS OF
2 ROLLOVER DISTRIBUTIONS.—Paragraph (1) of section
3 402(f) (relating to written explanation to recipients of dis-
4 tributions eligible for rollover treatment) is amended by
5 striking “and” at the end of subparagraph (C), by striking
6 the period at the end of subparagraph (D) and inserting
7 “, and”, and by adding at the end the following new sub-
8 paragraph:

9 “(E) of the provisions under which dis-
10 tributions from the eligible retirement plan re-
11 ceiving the distribution may be subject to re-
12 strictions and tax consequences which are dif-
13 ferent from those applicable to distributions
14 from the plan making such distribution.”.

15 (d) SPOUSAL ROLLOVERS.—Section 402(c)(9) (relat-
16 ing to rollover where spouse receives distribution after
17 death of employee) is amended by striking “; except that”
18 and all that follows up to the end period.

19 (e) CONFORMING AMENDMENTS.—

20 (1) Section 72(o)(4) is amended by striking
21 “and 408(d)(3)” and inserting “403(b)(8),
22 408(d)(3), and 457(e)(16)”.

23 (2) Section 219(d)(2) is amended by striking
24 “or 408(d)(3)” and inserting “408(d)(3), or
25 457(e)(16)”.

1 (3) Section 401(a)(31)(B) is amended by strik-
2 ing “and 403(a)(4)” and inserting “, 403(a)(4),
3 403(b)(8), and 457(e)(16)”.

4 (4) Subparagraph (A) of section 402(f)(2) is
5 amended by striking “or paragraph (4) of section
6 403(a)” and inserting “, paragraph (4) of section
7 403(a), subparagraph (A) of section 403(b)(8), or
8 subparagraph (A) of section 457(e)(16)”.

9 (5) Paragraph (1) of section 402(f) is amended
10 by striking “from an eligible retirement plan”.

11 (6) Subparagraphs (A) and (B) of section
12 402(f)(1) are amended by striking “another eligible
13 retirement plan” and inserting “an eligible retire-
14 ment plan”.

15 (7) Subparagraph (B) of section 403(b)(8) is
16 amended to read as follows:

17 “(B) CERTAIN RULES MADE APPLICA-
18 BLE.—The rules of paragraphs (2) through (7)
19 and (9) of section 402(c) and section 402(f)
20 shall apply for purposes of subparagraph (A),
21 except that section 402(f) shall be applied to
22 the payor in lieu of the plan administrator.”.

23 (8) Section 408(a)(1) is amended by striking
24 “or 403(b)(8)” and inserting “, 403(b)(8), or
25 457(e)(16)”.

1 (9) Subparagraphs (A) and (B) of section
2 415(b)(2) are each amended by striking “and
3 408(d)(3)” and inserting “403(b)(8), 408(d)(3), and
4 457(e)(16)”.

5 (10) Section 415(c)(2) is amended by striking
6 “and 408(d)(3)” and inserting “408(d)(3), and
7 457(e)(16)”.

8 (11) Section 4973(b)(1)(A) is amended by
9 striking “or 408(d)(3)” and inserting “408(d)(3), or
10 457(e)(16)”.

11 (f) EFFECTIVE DATE; SPECIAL RULE.—

12 (1) EFFECTIVE DATE.—The amendments made
13 by this section shall apply to distributions after De-
14 cember 31, 2000.

15 (2) SPECIAL RULE.—Notwithstanding any other
16 provision of law, subsections (h)(3) and (h)(5) of
17 section 1122 of the Tax Reform Act of 1986 shall
18 not apply to any distribution from an eligible retire-
19 ment plan (as defined in clause (iii) or (iv) of section
20 402(c)(8)(B) of the Internal Revenue Code of 1986)
21 on behalf of an individual if there was a rollover to
22 such plan on behalf of such individual which is per-
23 mitted solely by reason of any amendment made by
24 this section.

1 **SEC. 332. ROLLOVERS OF IRAS INTO WORKPLACE RETIRE-**
2 **MENT PLANS.**

3 (a) IN GENERAL.—Subparagraph (A) of section
4 408(d)(3) (relating to rollover amounts) is amended by
5 adding “or” at the end of clause (i), by striking clauses
6 (ii) and (iii), and by adding at the end the following:

7 “(ii) the entire amount received (in-
8 cluding money and any other property) is
9 paid into an eligible retirement plan for
10 the benefit of such individual not later
11 than the 60th day after the date on which
12 the payment or distribution is received, ex-
13 cept that the maximum amount which may
14 be paid into such plan may not exceed the
15 portion of the amount received which is in-
16 cludible in gross income (determined with-
17 out regard to this paragraph).

18 For purposes of clause (ii), the term ‘eligible re-
19 tirement plan’ means an eligible retirement plan
20 described in clause (iii), (iv), (v), or (vi) of sec-
21 tion 402(c)(8)(B).”.

22 (b) CONFORMING AMENDMENTS.—

23 (1) Paragraph (1) of section 403(b) is amended
24 by striking “section 408(d)(3)(A)(iii)” and inserting
25 “section 408(d)(3)(A)(ii)”.

1 (2) Clause (i) of section 408(d)(3)(D) is amend-
2 ed by striking “(i), (ii), or (iii)” and inserting “(i)
3 or (ii)”.

4 (3) Subparagraph (G) of section 408(d)(3) is
5 amended to read as follows:

6 “(G) SIMPLE RETIREMENT ACCOUNTS.—In
7 the case of any payment or distribution out of
8 a simple retirement account (as defined in sub-
9 section (p)) to which section 72(t)(6) applies,
10 this paragraph shall not apply unless such pay-
11 ment or distribution is paid into another simple
12 retirement account.”.

13 (c) EFFECTIVE DATE; SPECIAL RULE.—

14 (1) EFFECTIVE DATE.—The amendments made
15 by this section shall apply to distributions after De-
16 cember 31, 2000.

17 (2) SPECIAL RULE.—Notwithstanding any other
18 provision of law, subsections (h)(3) and (h)(5) of
19 section 1122 of the Tax Reform Act of 1986 shall
20 not apply to any distribution from an eligible retire-
21 ment plan (as defined in clause (iii) or (iv) of section
22 402(c)(8)(B) of the Internal Revenue Code of 1986)
23 on behalf of an individual if there was a rollover to
24 such plan on behalf of such individual which is per-

1 mitted solely by reason of the amendments made by
2 this section.

3 **SEC. 333. ROLLOVERS OF AFTER-TAX CONTRIBUTIONS.**

4 (a) ROLLOVERS FROM EXEMPT TRUSTS.—Para-
5 graph (2) of section 402(e) (relating to maximum amount
6 which may be rolled over) is amended by adding at the
7 end the following: “The preceding sentence shall not apply
8 to such distribution to the extent—

9 “(A) such portion is transferred in a direct
10 trustee-to-trustee transfer to a qualified trust
11 which is part of a plan which is a defined con-
12 tribution plan and which agrees to separately
13 account for amounts so transferred, including
14 separately accounting for the portion of such
15 distribution which is includible in gross income
16 and the portion of such distribution which is
17 not so includible, or

18 “(B) such portion is transferred to an eli-
19 gible retirement plan described in clause (i) or
20 (ii) of paragraph (8)(B).”.

21 (b) OPTIONAL DIRECT TRANSFER OF ELIGIBLE
22 ROLLOVER DISTRIBUTIONS.—Subparagraph (B) of sec-
23 tion 401(a)(31) (relating to limitation) is amended by add-
24 ing at the end the following: “The preceding sentence shall

1 not apply to such distribution if the plan to which such
2 distribution is transferred—

3 “(i) agrees to separately account for
4 amounts so transferred, including sepa-
5 rately accounting for the portion of such
6 distribution which is includible in gross in-
7 come and the portion of such distribution
8 which is not so includible, or

9 “(ii) is an eligible retirement plan de-
10 scribed in clause (i) or (ii) of section
11 402(c)(8)(B).”.

12 (c) RULES FOR APPLYING SECTION 72 TO IRAS.—
13 Paragraph (3) of section 408(d) (relating to special rules
14 for applying section 72) is amended by inserting at the
15 end the following:

16 “(H) APPLICATION OF SECTION 72.—

17 “(i) IN GENERAL.—If—

18 “(I) a distribution is made from
19 an individual retirement plan, and

20 “(II) a rollover contribution is
21 made to an eligible retirement plan
22 described in section 402(c)(8)(B)(iii),
23 (iv), (v), or (vi) with respect to all or
24 part of such distribution,

1 then, notwithstanding paragraph (2), the
2 rules of clause (ii) shall apply for purposes
3 of applying section 72.

4 “(ii) APPLICABLE RULES.—In the
5 case of a distribution described in clause
6 (i)—

7 “(I) section 72 shall be applied
8 separately to such distribution,

9 “(II) notwithstanding the pro
10 rata allocation of income on, and in-
11 vestment in, the contract to distribu-
12 tions under section 72, the portion of
13 such distribution rolled over to an eli-
14 gible retirement plan described in
15 clause (i) shall be treated as from in-
16 come on the contract (to the extent of
17 the aggregate income on the contract
18 from all individual retirement plans of
19 the distributee), and

20 “(III) appropriate adjustments
21 shall be made in applying section 72
22 to other distributions in such taxable
23 year and subsequent taxable years.”.

1 (d) EFFECTIVE DATE.—The amendments made by
2 this section shall apply to distributions made after Decem-
3 ber 31, 2000.

4 **SEC. 334. HARDSHIP EXCEPTION TO 60-DAY RULE.**

5 (a) EXEMPT TRUSTS.—Paragraph (3) of section
6 402(c) (relating to transfer must be made within 60 days
7 of receipt) is amended to read as follows:

8 “(3) TRANSFER MUST BE MADE WITHIN 60
9 DAYS OF RECEIPT.—

10 “(A) IN GENERAL.—Except as provided in
11 subparagraph (B), paragraph (1) shall not
12 apply to any transfer of a distribution made
13 after the 60th day following the day on which
14 the distributee received the property distrib-
15 uted.

16 “(B) HARDSHIP EXCEPTION.—The Sec-
17 retary may waive the 60-day requirement under
18 subparagraph (A) where the failure to waive
19 such requirement would be against equity or
20 good conscience, including casualty, disaster, or
21 other events beyond the reasonable control of
22 the individual subject to such requirement.”.

23 (b) IRAS.—Paragraph (3) of section 408(d) (relating
24 to rollover contributions), as amended by section 229, is

1 amended by adding after subparagraph (H) the following
2 new subparagraph:

3 “(I) WAIVER OF 60-DAY REQUIREMENT.—
4 The Secretary may waive the 60-day require-
5 ment under subparagraphs (A) and (D) where
6 the failure to waive such requirement would be
7 against equity or good conscience, including
8 casualty, disaster, or other events beyond the
9 reasonable control of the individual subject to
10 such requirement.”.

11 (c) EFFECTIVE DATE.—The amendments made by
12 this section shall apply to distributions after December 31,
13 2000.

14 **SEC. 335. TREATMENT OF FORMS OF DISTRIBUTION.**

15 (a) PLAN TRANSFERS.—

16 (1) AMENDMENT TO INTERNAL REVENUE CODE
17 OF 1986.—Paragraph (6) of section 411(d) (relating
18 to accrued benefit not to be decreased by amend-
19 ment) is amended by adding at the end the fol-
20 lowing:

21 “(D) PLAN TRANSFERS.—

22 “(i) A defined contribution plan (in
23 this subparagraph referred to as the
24 ‘transferee plan’) shall not be treated as
25 failing to meet the requirements of this

1 subsection merely because the transferee
2 plan does not provide some or all of the
3 forms of distribution previously available
4 under another defined contribution plan
5 (in this subparagraph referred to as the
6 ‘transferor plan’) to the extent that—

7 “(I) the forms of distribution
8 previously available under the trans-
9 feror plan applied to the account of a
10 participant or beneficiary under the
11 transferor plan that was transferred
12 from the transferor plan to the trans-
13 feree plan pursuant to a direct trans-
14 fer rather than pursuant to a distribu-
15 tion from the transferor plan,

16 “(II) the terms of both the trans-
17 feror plan and the transferee plan au-
18 thorize the transfer described in sub-
19 clause (I),

20 “(III) the transfer described in
21 subclause (I) was made pursuant to a
22 voluntary election by the participant
23 or beneficiary whose account was
24 transferred to the transferee plan,

1 “(IV) the election described in
2 subclause (III) was made after the
3 participant or beneficiary received a
4 notice describing the consequences of
5 making the election,

6 “(V) if the transferor plan pro-
7 vides for an annuity as the normal
8 form of distribution under the plan in
9 accordance with section 417, the
10 transfer is made with the consent of
11 the participant’s spouse (if any), and
12 such consent meets requirements simi-
13 lar to the requirements imposed by
14 section 417(a)(2), and

15 “(VI) the transferee plan allows
16 the participant or beneficiary de-
17 scribed in clause (iii) to receive any
18 distribution to which the participant
19 or beneficiary is entitled under the
20 transferee plan in the form of a single
21 sum distribution.

22 “(ii) Clause (i) shall apply to plan
23 mergers and other transactions having the
24 effect of a direct transfer, including con-
25 solidations of benefits attributable to dif-

1 ferent employers within a multiple em-
2 ployer plan.

3 “(E) ELIMINATION OF FORM OF DISTRIBUTION.—Except to the extent provided in regula-
4 tion.—Except to the extent provided in regula-
5 tions, a defined contribution plan shall not be
6 treated as failing to meet the requirements of
7 this section merely because of the elimination of
8 a form of distribution previously available there-
9 under. This subparagraph shall not apply to the
10 elimination of a form of distribution with re-
11 spect to any participant unless—

12 “(i) a single sum payment is available
13 to such participant at the same time or
14 times as the form of distribution being
15 eliminated, and

16 “(ii) such single sum payment is
17 based on the same or greater portion of
18 the participant’s account as the form of
19 distribution being eliminated.”.

20 (2) AMENDMENT TO ERISA.—Section 204(g) of
21 the Employee Retirement Income Security Act of
22 1974 (29 U.S.C. 1054(g)) is amended by adding at
23 the end the following:

24 “(4)(A) A defined contribution plan (in this subpara-
25 graph referred to as the ‘transferee plan’) shall not be

1 treated as failing to meet the requirements of this sub-
2 section merely because the transferee plan does not pro-
3 vide some or all of the forms of distribution previously
4 available under another defined contribution plan (in this
5 subparagraph referred to as the ‘transferor plan’) to the
6 extent that—

7 “(i) the forms of distribution previously avail-
8 able under the transferor plan applied to the account
9 of a participant or beneficiary under the transferor
10 plan that was transferred from the transferor plan
11 to the transferee plan pursuant to a direct transfer
12 rather than pursuant to a distribution from the
13 transferor plan;

14 “(ii) the terms of both the transferor plan and
15 the transferee plan authorize the transfer described
16 in clause (i);

17 “(iii) the transfer described in clause (i) was
18 made pursuant to a voluntary election by the partici-
19 pant or beneficiary whose account was transferred to
20 the transferee plan;

21 “(iv) the election described in clause (iii) was
22 made after the participant or beneficiary received a
23 notice describing the consequences of making the
24 election;

1 “(v) if the transferor plan provides for an annu-
2 ity as the normal form of distribution under the plan
3 in accordance with section 205, the transfer is made
4 with the consent of the participant’s spouse (if any),
5 and such consent meets requirements similar to the
6 requirements imposed by section 205(c)(2); and

7 “(vi) the transferee plan allows the participant
8 or beneficiary described in clause (iii) to receive any
9 distribution to which the participant or beneficiary is
10 entitled under the transferee plan in the form of a
11 single sum distribution.

12 “(B) Subparagraph (A) shall apply to plan mergers
13 and other transactions having the effect of a direct trans-
14 fer, including consolidations of benefits attributable to dif-
15 ferent employers within a multiple employer plan.

16 “(5) ELIMINATION OF FORM OF DISTRIBUTION.—Ex-
17 cept to the extent provided in regulations, a defined con-
18 tribution plan shall not be treated as failing to meet the
19 requirements of this section merely because of the elimi-
20 nation of a form of distribution previously available there-
21 under. This paragraph shall not apply to the elimination
22 of a form of distribution with respect to any participant
23 unless—

1 “(A) a single sum payment is available to such
2 participant at the same time or times as the form
3 of distribution being eliminated; and

4 “(B) such single sum payment is based on the
5 same or greater portion of the participant’s account
6 as the form of distribution being eliminated.”.

7 (3) EFFECTIVE DATE.—The amendments made
8 by this subsection shall apply to years beginning
9 after December 31, 2000.

10 (b) REGULATIONS.—

11 (1) AMENDMENT TO INTERNAL REVENUE CODE
12 OF 1986.—The last sentence of paragraph (6)(B) of
13 section 411(d) (relating to accrued benefit not to be
14 decreased by amendment) is amended to read as fol-
15 lows: “The Secretary shall by regulations provide
16 that this subparagraph shall not apply to any plan
17 amendment that does not adversely affect the rights
18 of participants in a material manner.”.

19 (2) AMENDMENT TO ERISA.—The last sentence
20 of section 204(g)(2) of the Employee Retirement In-
21 come Security Act of 1974 (29 U.S.C. 1054(g)(2))
22 is amended to read as follows: “The Secretary of the
23 Treasury shall by regulations provide that this para-
24 graph shall not apply to any plan amendment that

1 does not adversely affect the rights of participants in
2 a material manner.”.

3 (3) SECRETARY DIRECTED.—Not later than
4 December 31, 2001, the Secretary of the Treasury
5 is directed to issue final regulations under section
6 411(d)(6) of the Internal Revenue Code of 1986 and
7 section 204(g) of the Employee Retirement Income
8 Security Act of 1974, including the regulations re-
9 quired by the amendments made by this subsection.
10 Such regulations shall apply to plan years beginning
11 after December 31, 2001, or such earlier date as is
12 specified by the Secretary of the Treasury.

13 **SEC. 336. RATIONALIZATION OF RESTRICTIONS ON DIS-**
14 **TRIBUTIONS.**

15 (a) MODIFICATION OF SAME DESK EXCEPTION.—

16 (1) SECTION 401(k).—

17 (A) Section 401(k)(2)(B)(i)(I) (relating to
18 qualified cash or deferred arrangements) is
19 amended by striking “separation from service”
20 and inserting “severance from employment”.

21 (B) Subparagraph (A) of section
22 401(k)(10) (relating to distributions upon ter-
23 mination of plan or disposition of assets or sub-
24 subsidiary) is amended to read as follows:

1 “(A) IN GENERAL.—An event described in
2 this subparagraph is the termination of the
3 plan without establishment or maintenance of
4 another defined contribution plan (other than
5 an employee stock ownership plan as defined in
6 section 4975(e)(7)).”.

7 (C) Section 401(k)(10) is amended—

8 (i) in subparagraph (B)—

9 (I) by striking “An event” in
10 clause (i) and inserting “A termi-
11 nation”, and

12 (II) by striking “the event” in
13 clause (i) and inserting “the termi-
14 nation”,

15 (ii) by striking subparagraph (C), and

16 (iii) by striking “OR DISPOSITION OF
17 ASSETS OR SUBSIDIARY” in the heading.

18 (2) SECTION 403(b).—

19 (A) Paragraphs (7)(A)(ii) and (11)(A) of
20 section 403(b) are each amended by striking
21 “separates from service” and inserting “has a
22 severance from employment”.

23 (B) The heading for paragraph (11) of
24 section 403(b) is amended by striking “SEPARA-

1 TION FROM SERVICE” and inserting “SEVER-
2 ANCE FROM EMPLOYMENT”.

3 (3) SECTION 457.—Clause (ii) of section
4 457(d)(1)(A) is amended by striking “is separated
5 from service” and inserting “has a severance from
6 employment”.

7 (b) EFFECTIVE DATE.—The amendments made by
8 this section shall apply to distributions after December 31,
9 2000.

10 **SEC. 337. PURCHASE OF SERVICE CREDIT IN GOVERN-**
11 **MENTAL DEFINED BENEFIT PLANS.**

12 (a) 403(b) PLANS.—Subsection (b) of section 403 is
13 amended by adding at the end the following new para-
14 graph:

15 “(13) TRUSTEE-TO-TRUSTEE TRANSFERS TO
16 PURCHASE PERMISSIVE SERVICE CREDIT.—No
17 amount shall be includible in gross income by reason
18 of a direct trustee-to-trustee transfer to a defined
19 benefit governmental plan (as defined in section
20 414(d)) if such transfer is—

21 “(A) for the purchase of permissive service
22 credit (as defined in section 415(n)(3)(A))
23 under such plan, or

1 “(B) a repayment to which section 415
2 does not apply by reason of subsection (k)(3)
3 thereof.”.

4 (b) 457 PLANS.—

5 (1) Subsection (e) of section 457 is amended by
6 adding after paragraph (16) the following new para-
7 graph:

8 “(17) TRUSTEE-TO-TRUSTEE TRANSFERS TO
9 PURCHASE PERMISSIVE SERVICE CREDIT.—No
10 amount shall be includible in gross income by reason
11 of a direct trustee-to-trustee transfer to a defined
12 benefit governmental plan (as defined in section
13 414(d)) if such transfer is—

14 “(A) for the purchase of permissive service
15 credit (as defined in section 415(n)(3)(A))
16 under such plan, or

17 “(B) a repayment to which section 415
18 does not apply by reason of subsection (k)(3)
19 thereof.”.

20 (2) Section 457(b)(2) is amended by striking
21 “(other than rollover amounts)” and inserting
22 “(other than rollover amounts and amounts received
23 in a transfer referred to in subsection (e)(17))”.

1 (c) EFFECTIVE DATE.—The amendments made by
2 this section shall apply to trustee-to-trustee transfers after
3 December 31, 2000.

4 **SEC. 338. EMPLOYERS MAY DISREGARD ROLLOVERS FOR**
5 **PURPOSES OF CASH-OUT AMOUNTS.**

6 (a) QUALIFIED PLANS.—

7 (1) AMENDMENT TO INTERNAL REVENUE CODE
8 OF 1986.—Section 411(a)(11) (relating to restric-
9 tions on certain mandatory distributions) is amended
10 by adding at the end the following:

11 “(D) SPECIAL RULE FOR ROLLOVER CON-
12 TRIBUTIONS.—A plan shall not fail to meet the
13 requirements of this paragraph if, under the
14 terms of the plan, the present value of the non-
15 forfeitable accrued benefit is determined with-
16 out regard to that portion of such benefit which
17 is attributable to rollover contributions (and
18 earnings allocable thereto). For purposes of this
19 subparagraph, the term ‘rollover contributions’
20 means any rollover contribution under sections
21 402(c), 403(a)(4), 403(b)(8), 408(d)(3)(A)(ii),
22 and 457(e)(16).”.

23 (2) AMENDMENT TO ERISA.—Section 203(e) of
24 the Employee Retirement Income Security Act of

1 “(2) MINIMUM DISTRIBUTION REQUIRE-
2 MENTS.—A plan meets the minimum distribution re-
3 quirements of this paragraph if such plan meets the
4 requirements of section 401(a)(9).”.

5 (b) INCLUSION IN GROSS INCOME.—

6 (1) YEAR OF INCLUSION.—Subsection (a) of
7 section 457 (relating to year of inclusion in gross in-
8 come) is amended to read as follows:

9 “(a) YEAR OF INCLUSION IN GROSS INCOME.—

10 “(1) IN GENERAL.—Any amount of compensa-
11 tion deferred under an eligible deferred compensa-
12 tion plan, and any income attributable to the
13 amounts so deferred, shall be includible in gross in-
14 come only for the taxable year in which such com-
15 pensation or other income—

16 “(A) is paid to the participant or other
17 beneficiary, in the case of a plan of an eligible
18 employer described in subsection (e)(1)(A), and

19 “(B) is paid or otherwise made available to
20 the participant or other beneficiary, in the case
21 of a plan of an eligible employer described in
22 subsection (e)(1)(B).

23 “(2) SPECIAL RULE FOR ROLLOVER
24 AMOUNTS.—To the extent provided in section

1 72(t)(9), section 72(t) shall apply to any amount in-
2 cludible in gross income under this subsection.”.

3 (2) CONFORMING AMENDMENTS.—

4 (A) So much of paragraph (9) of section
5 457(e) as precedes subparagraph (A) is amend-
6 ed to read as follows:

7 “(9) BENEFITS OF TAX EXEMPT ORGANIZATION
8 PLANS NOT TREATED AS MADE AVAILABLE BY REA-
9 SON OF CERTAIN ELECTIONS, ETC.—In the case of
10 an eligible deferred compensation plan of an em-
11 ployer described in subsection (e)(1)(B)—”.

12 (B) Section 457(d) is amended by adding
13 at the end the following new paragraph:

14 “(3) SPECIAL RULE FOR GOVERNMENT PLAN.—
15 An eligible deferred compensation plan of an em-
16 ployer described in subsection (e)(1)(A) shall not be
17 treated as failing to meet the requirements of this
18 subsection solely by reason of making a distribution
19 described in subsection (e)(9)(A).”.

20 (c) EFFECTIVE DATE.—The amendments made by
21 this section shall apply to distributions after December 31,
22 2000.

1 **Subtitle D—Strengthening Pension**
 2 **Security and Enforcement**

3 **SEC. 341. REPEAL OF 150 PERCENT OF CURRENT LIABILITY**
 4 **FUNDING LIMIT.**

5 (a) AMENDMENT TO INTERNAL REVENUE CODE OF
 6 1986.—Section 412(c)(7) (relating to full-funding limita-
 7 tion) is amended—

8 (1) by striking “the applicable percentage” in
 9 subparagraph (A)(i)(I) and inserting “in the case of
 10 plan years beginning before January 1, 2004, the
 11 applicable percentage”, and

12 (2) by amending subparagraph (F) to read as
 13 follows:

14 “(F) APPLICABLE PERCENTAGE.—For
 15 purposes of subparagraph (A)(i)(I), the applica-
 16 ble percentage shall be determined in accord-
 17 ance with the following table:

| “In the case of any plan year beginning in— | The applicable percentage is— |
|--|--|
| 2001 | 160 |
| 2002 | 165 |
| 2003 | 170.”. |

18 (b) AMENDMENT TO ERISA.—Section 302(c)(7) of
 19 the Employee Retirement Income Security Act of 1974
 20 (29 U.S.C. 1082(c)(7)) is amended—

21 (1) by striking “the applicable percentage” in
 22 subparagraph (A)(i)(I) and inserting “in the case of

1 plan years beginning before January 1, 2004, the
 2 applicable percentage”, and

3 (2) by amending subparagraph (F) to read as
 4 follows:

5 “(F) APPLICABLE PERCENTAGE.—For
 6 purposes of subparagraph (A)(i)(I), the applica-
 7 ble percentage shall be determined in accord-
 8 ance with the following table:

| “In the case of any plan year beginning in— | The applicable percentage is— |
|--|--|
| 2001 | 160 |
| 2002 | 165 |
| 2003 | 170.”. |

9 (c) EFFECTIVE DATE.—The amendments made by
 10 this section shall apply to plan years beginning after De-
 11 cember 31, 2000.

12 **SEC. 342. MAXIMUM CONTRIBUTION DEDUCTION RULES**
 13 **MODIFIED AND APPLIED TO ALL DEFINED**
 14 **BENEFIT PLANS.**

15 (a) IN GENERAL.—Subparagraph (D) of section
 16 404(a)(1) (relating to special rule in case of certain plans)
 17 is amended to read as follows:

18 “(D) SPECIAL RULE IN CASE OF CERTAIN
 19 PLANS.—

20 “(i) IN GENERAL.—In the case of any
 21 defined benefit plan, except as provided in
 22 regulations, the maximum amount deduct-
 23 ible under the limitations of this paragraph

1 shall not be less than the unfunded termi-
2 nation liability (determined as if the pro-
3 posed termination date referred to in sec-
4 tion 4041(b)(2)(A)(i)(II) of the Employee
5 Retirement Income Security Act of 1974
6 were the last day of the plan year).

7 “(ii) PLANS WITH LESS THAN 100
8 PARTICIPANTS.—For purposes of this sub-
9 paragraph, in the case of a plan which has
10 less than 100 participants for the plan
11 year, termination liability shall not include
12 the liability attributable to benefit in-
13 creases for highly compensated employees
14 (as defined in section 414(q)) resulting
15 from a plan amendment which is made or
16 becomes effective, whichever is later, within
17 the last 2 years before the termination
18 date.

19 “(iii) RULE FOR DETERMINING NUM-
20 BER OF PARTICIPANTS.—For purposes of
21 determining whether a plan has more than
22 100 participants, all defined benefit plans
23 maintained by the same employer (or any
24 member of such employer’s controlled
25 group (within the meaning of section

1 412(l)(8)(C))) shall be treated as one plan,
2 but only employees of such member or em-
3 ployer shall be taken into account.

4 “(iv) PLANS ESTABLISHED AND MAIN-
5 TAINED BY PROFESSIONAL SERVICE EM-
6 PLOYERS.—Clause (i) shall not apply to a
7 plan described in section 4021(b)(13) of
8 the Employee Retirement Income Security
9 Act of 1974.”.

10 (b) CONFORMING AMENDMENT.—Paragraph (6) of
11 section 4972(c) is amended to read as follows:

12 “(6) EXCEPTIONS.—In determining the amount
13 of nondeductible contributions for any taxable year,
14 there shall not be taken into account so much of the
15 contributions to one or more defined contribution
16 plans which are not deductible when contributed
17 solely because of section 404(a)(7) as does not ex-
18 ceed the greater of—

19 “(A) the amount of contributions not in
20 excess of 6 percent of compensation (within the
21 meaning of section 404(a)) paid or accrued
22 (during the taxable year for which the contribu-
23 tions were made) to beneficiaries under the
24 plans, or

25 “(B) the sum of—

1 “(i) the amount of contributions de-
2 scribed in section 401(m)(4)(A), plus

3 “(ii) the amount of contributions de-
4 scribed in section 402(g)(3)(A).

5 For purposes of this paragraph, the deductible limits
6 under section 404(a)(7) shall first be applied to
7 amounts contributed to a defined benefit plan and
8 then to amounts described in subparagraph (B).”.

9 (c) EFFECTIVE DATE.—The amendments made by
10 this section shall apply to plan years beginning after De-
11 cember 31, 2000.

12 **SEC. 343. MISSING PARTICIPANTS.**

13 (a) IN GENERAL.—Section 4050 of the Employee Re-
14 tirement Income Security Act of 1974 (29 U.S.C. 1350)
15 is amended by redesignating subsection (c) as subsection
16 (e) and by inserting after subsection (b) the following:

17 “(c) MULTIEMPLOYER PLANS.—The corporation
18 shall prescribe rules similar to the rules in subsection (a)
19 for multiemployer plans covered by this title that termi-
20 nate under section 4041A.

21 “(d) PLANS NOT OTHERWISE SUBJECT TO TITLE.—

22 “(1) TRANSFER TO CORPORATION.—The plan
23 administrator of a plan described in paragraph (4)
24 may elect to transfer a missing participant’s benefits
25 to the corporation upon termination of the plan.

1 “(2) INFORMATION TO THE CORPORATION.—To
2 the extent provided in regulations, the plan adminis-
3 trator of a plan described in paragraph (4) shall,
4 upon termination of the plan, provide the corpora-
5 tion information with respect to benefits of a miss-
6 ing participant if the plan transfers such benefits—

7 “(A) to the corporation, or

8 “(B) to an entity other than the corpora-
9 tion or a plan described in paragraph (4)(B)(ii).

10 “(3) PAYMENT BY THE CORPORATION.—If ben-
11 efits of a missing participant were transferred to the
12 corporation under paragraph (1), the corporation
13 shall, upon location of the participant or beneficiary,
14 pay to the participant or beneficiary the amount
15 transferred (or the appropriate survivor benefit)
16 either—

17 “(A) in a single sum (plus interest), or

18 “(B) in such other form as is specified in
19 regulations of the corporation.

20 “(4) PLANS DESCRIBED.—A plan is described
21 in this paragraph if—

22 “(A) the plan is a pension plan (within the
23 meaning of section 3(2))—

1 “(i) to which the provisions of this
2 section do not apply (without regard to
3 this subsection), and

4 “(ii) which is not a plan described in
5 paragraphs (2) through (11) of section
6 4021(b), and

7 “(B) at the time the assets are to be dis-
8 tributed upon termination, the plan—

9 “(i) has missing participants, and

10 “(ii) has not provided for the transfer
11 of assets to pay the benefits of all missing
12 participants to another pension plan (with-
13 in the meaning of section 3(2)).

14 “(5) CERTAIN PROVISIONS NOT TO APPLY.—
15 Subsections (a)(1) and (a)(3) shall not apply to a
16 plan described in paragraph (4).”.

17 (b) EFFECTIVE DATE.—The amendment made by
18 this section shall apply to distributions made after final
19 regulations implementing subsections (c) and (d) of sec-
20 tion 4050 of the Employee Retirement Income Security
21 Act of 1974 (as added by subsection (a)), respectively, are
22 prescribed.

1 **SEC. 344. PERIODIC PENSION BENEFITS STATEMENTS.**

2 (a) IN GENERAL.—Section 105(a) of the Employee
3 Retirement Income Security Act of 1974 (29 U.S.C. 1025
4 (a)) is amended to read as follows:

5 “(a)(1) Except as provided in paragraph (2)—

6 “(A) The administrator of an individual ac-
7 count plan shall furnish a pension benefit
8 statement—

9 “(i) to a plan participant at least once an-
10 nually, and

11 “(ii) to a plan beneficiary upon written re-
12 quest.

13 “(B) The administrator of a defined benefit
14 plan shall furnish a pension benefit statement—

15 “(i) at least once every 3 years to each
16 participant with a nonforfeitable accrued ben-
17 efit who is employed by the employer maintain-
18 ing the plan at the time the statement is fur-
19 nished to participants, and

20 “(ii) to a participant or beneficiary of the
21 plan upon written request.

22 “(2) Notwithstanding paragraph (1), the adminis-
23 trator of a plan to which more than 1 unaffiliated em-
24 ployer is required to contribute shall only be required to
25 furnish a pension benefit statement under paragraph (1)

1 upon the written request of a participant or beneficiary
2 of the plan.

3 “(3) A pension benefit statement under paragraph
4 (1)—

5 “(A) shall indicate, on the basis of the latest
6 available information—

7 “(i) the total benefits accrued, and

8 “(ii) the nonforfeitable pension benefits, if
9 any, which have accrued, or the earliest date on
10 which benefits will become nonforfeitable,

11 “(B) shall be communicated in a manner cal-
12 culated to be understood by the average plan partici-
13 pant, and

14 “(C) may be provided in written, electronic, tel-
15 ephonic, or other appropriate form.

16 “(4) In the case of a defined benefit plan, the require-
17 ments of paragraph (1)(B)(i) shall be treated as met with
18 respect to a participant if the administrator provides the
19 participant at least once each year with notice of the avail-
20 ability of the pension benefit statement and the ways in
21 which the participant may obtain such statement. Such
22 notice shall be provided in written, electronic, telephonic,
23 or other appropriate form, and may be included with other
24 communications to the participant if done in a manner

1 reasonably designed to attract the attention of the partici-
2 pant.”.

3 (b) CONFORMING AMENDMENTS.—

4 (1) Section 105 of the Employee Retirement In-
5 come Security Act of 1974 (29 U.S.C. 1025) is
6 amended by striking subsection (d).

7 (2) Section 105(b) of such Act (29 U.S.C.
8 1025(b)) is amended to read as follows:

9 “(b) In no case shall a participant or beneficiary of
10 a plan be entitled to more than one statement described
11 in subsection (a)(1)(A) or (a)(1)(B)(ii), whichever is appli-
12 cable, in any 12-month period.”.

13 (c) EFFECTIVE DATE.—The amendments made by
14 this section shall apply to plan years beginning after De-
15 cember 31, 2000.

16 **SEC. 345. CIVIL PENALTIES FOR BREACH OF FIDUCIARY**
17 **RESPONSIBILITY.**

18 (a) IMPOSITION AND AMOUNT OF PENALTY MADE
19 DISCRETIONARY.—Section 502(l)(1) of the Employee Re-
20 tirement Income Security Act of 1974 (29 U.S.C.
21 1132(l)(1)) is amended—

22 (1) by striking “shall” and inserting “may”,
23 and

24 (2) by striking “equal to” and inserting “not
25 greater than”.

1 (b) APPLICABLE RECOVERY AMOUNT.—Section
2 502(l)(2) of such Act (29 U.S.C. 1132(l)(2)) is amended
3 to read as follows:

4 “(2) For purposes of paragraph (1), the term ‘appli-
5 cable recovery amount’ means any amount which is recov-
6 ered from any fiduciary or other person (or from any other
7 person on behalf of any such fiduciary or other person)
8 with respect to a breach or violation described in para-
9 graph (1) on or after the 30th day following receipt by
10 such fiduciary or other person of written notice from the
11 Secretary of the violation, whether paid voluntarily or by
12 order of a court in a judicial proceeding instituted by the
13 Secretary under subsection (a)(2) or (a)(5). The Secretary
14 may, in the Secretary’s sole discretion, extend the 30-day
15 period described in the preceding sentence.”.

16 (c) OTHER RULES.—Section 502(l) of the Employee
17 Retirement Income Security Act of 1974 (29 U.S.C.
18 1132(l)) is amended by adding at the end the following:

19 “(5) A person shall be jointly and severally liable for
20 the penalty described in paragraph (1) to the same extent
21 that such person is jointly and severally liable for the ap-
22 plicable recovery amount on which the penalty is based.

23 “(6) No penalty shall be assessed under this sub-
24 section unless the person against whom the penalty is as-

1 sessed is given notice and opportunity for a hearing with
2 respect to the violation and applicable recovery amount.”.

3 (d) EFFECTIVE DATES.—

4 (1) IN GENERAL.—The amendments made by
5 this section shall apply to any breach of fiduciary re-
6 sponsibility or other violation of part 4 of subtitle B
7 of title I of the Employee Retirement Income Secu-
8 rity Act of 1974 occurring on or after the date of
9 enactment of this Act.

10 (2) TRANSITION RULE.—In applying the
11 amendment made by subsection (b) (relating to ap-
12 plicable recovery amount), a breach or other viola-
13 tion occurring before the date of enactment of this
14 Act which continues after the 180th day after such
15 date (and which may have been discontinued at any
16 time during its existence) shall be treated as having
17 occurred after such date of enactment.

18 **SEC. 346. EXCISE TAX RELIEF FOR SOUND PENSION FUND-**
19 **ING.**

20 (a) IN GENERAL.—Subsection (c) of section 4972
21 (relating to nondeductible contributions) is amended by
22 adding at the end the following new paragraph:

23 “(7) DEFINED BENEFIT PLAN EXCEPTION.—In
24 determining the amount of nondeductible contribu-
25 tions for any taxable year, an employer may elect for

1 such year not to take into account any contributions
2 to a defined benefit plan except to the extent that
3 such contributions exceed the full-funding limitation
4 (as defined in section 412(c)(7), determined without
5 regard to subparagraph (A)(i)(I) thereof). For pur-
6 poses of this paragraph, the deductible limits under
7 section 404(a)(7) shall first be applied to amounts
8 contributed to defined contribution plans and then
9 to amounts described in this paragraph. If an em-
10 ployer makes an election under this paragraph for a
11 taxable year, paragraph (6) shall not apply to such
12 employer for such taxable year.”.

13 (b) EFFECTIVE DATE.—The amendments made by
14 this section shall apply to years beginning after December
15 31, 2000.

16 **SEC. 347. EXCISE TAX ON FAILURE TO PROVIDE NOTICE BY**
17 **DEFINED BENEFIT PLANS SIGNIFICANTLY**
18 **REDUCING FUTURE BENEFIT ACCRUALS.**

19 (a) AMENDMENT TO 1986 CODE.—Chapter 43 (relat-
20 ing to qualified pension, etc., plans) is amended by adding
21 at the end the following new section:

1 **“SEC. 4980F. FAILURE OF APPLICABLE PLANS REDUCING**
2 **BENEFIT ACCRUALS TO SATISFY NOTICE RE-**
3 **QUIREMENTS.**

4 “(a) IMPOSITION OF TAX.—There is hereby imposed
5 a tax on the failure of any applicable pension plan to meet
6 the requirements of subsection (e) with respect to any ap-
7 plicable individual.

8 “(b) AMOUNT OF TAX.—

9 “(1) IN GENERAL.—The amount of the tax im-
10 posed by subsection (a) on any failure with respect
11 to any applicable individual shall be \$100 for each
12 day in the noncompliance period with respect to such
13 failure.

14 “(2) NONCOMPLIANCE PERIOD.—For purposes
15 of this section, the term ‘noncompliance period’
16 means, with respect to any failure, the period begin-
17 ning on the date the failure first occurs and ending
18 on the date the failure is corrected.

19 “(c) LIMITATIONS ON AMOUNT OF TAX.—

20 “(1) OVERALL LIMITATION FOR UNINTEN-
21 TIONAL FAILURES.—In the case of failures that are
22 due to reasonable cause and not to willful neglect,
23 the tax imposed by subsection (a) for failures during
24 the taxable year of the employer (or, in the case of
25 a multiemployer plan, the taxable year of the trust
26 forming part of the plan) shall not exceed \$500,000.

1 For purposes of the preceding sentence, all multiem-
2 ployer plans of which the same trust forms a part
3 shall be treated as one plan. For purposes of this
4 paragraph, if not all persons who are treated as a
5 single employer for purposes of this section have the
6 same taxable year, the taxable years taken into ac-
7 count shall be determined under principles similar
8 to the principles of section 1561.

9 “(2) WAIVER BY SECRETARY.—In the case of a
10 failure which is due to reasonable cause and not to
11 willful neglect, the Secretary may waive part or all
12 of the tax imposed by subsection (a) to the extent
13 that the payment of such tax would be excessive rel-
14 ative to the failure involved.

15 “(d) LIABILITY FOR TAX.—The following shall be lia-
16 ble for the tax imposed by subsection (a):

17 “(1) In the case of a plan other than a multi-
18 employer plan, the employer.

19 “(2) In the case of a multiemployer plan, the
20 plan.

21 “(e) NOTICE REQUIREMENTS FOR PLANS SIGNIFI-
22 CANTLY REDUCING BENEFIT ACCRUALS.—

23 “(1) IN GENERAL.—If an applicable pension
24 plan is amended to provide for a significant reduc-
25 tion in the rate of future benefit accrual, the plan

1 administrator shall provide written notice to each
2 applicable individual (and to each employee organi-
3 zation representing applicable individuals).

4 “(2) NOTICE.—The notice required by para-
5 graph (1) shall be written in a manner calculated to
6 be understood by the average plan participant and
7 shall provide sufficient information (as determined
8 in accordance with regulations prescribed by the
9 Secretary) to allow applicable individuals to under-
10 stand the effect of the plan amendment.

11 “(3) TIMING OF NOTICE.—Except as provided
12 in regulations, the notice required by paragraph (1)
13 shall be provided within a reasonable time before the
14 effective date of the plan amendment.

15 “(4) DESIGNEES.—Any notice under paragraph
16 (1) may be provided to a person designated, in writ-
17 ing, by the person to which it would otherwise be
18 provided.

19 “(5) NOTICE BEFORE ADOPTION OF AMEND-
20 MENT.—A plan shall not be treated as failing to
21 meet the requirements of paragraph (1) merely be-
22 cause notice is provided before the adoption of the
23 plan amendment if no material modification of the
24 amendment occurs before the amendment is adopt-
25 ed.

1 “(f) APPLICABLE INDIVIDUAL; APPLICABLE PEN-
2 SION PLAN.—For purposes of this section—

3 “(1) APPLICABLE INDIVIDUAL.—The term ‘ap-
4 plicable individual’ means, with respect to any plan
5 amendment—

6 “(A) any participant in the plan, and

7 “(B) any beneficiary who is an alternate
8 payee (within the meaning of section 414(p)(8))
9 under an applicable qualified domestic relations
10 order (within the meaning of section
11 414(p)(1)(A)),

12 who may reasonably be expected to be affected by
13 such plan amendment.

14 “(2) APPLICABLE PENSION PLAN.—The term
15 ‘applicable pension plan’ means—

16 “(A) any defined benefit plan, or

17 “(B) an individual account plan which is
18 subject to the funding standards of section 412,
19 which had 100 or more participants who had ac-
20 crued a benefit, or with respect to whom contribu-
21 tions were made, under the plan (whether or not
22 vested) as of the last day of the plan year preceding
23 the plan year in which the plan amendment becomes
24 effective. Such term shall not include a governmental
25 plan (within the meaning of section 414(d)) or a

1 church plan (within the meaning of section 414(e))
2 with respect to which the election provided by sec-
3 tion 410(d) has not been made.”.

4 (b) AMENDMENT TO ERISA.—Section 204(h) of the
5 Employee Retirement Income Security Act of 1974 (29
6 U.S.C. 1054(h)) is amended by adding at the end the fol-
7 lowing new paragraph:

8 “(3)(A) A plan to which paragraph (1) applies shall
9 not be treated as meeting the requirements of such para-
10 graph unless, in addition to any notice required to be pro-
11 vided to an individual or organization under such para-
12 graph, the plan administrator provides the notice de-
13 scribed in subparagraph (B).

14 “(B) The notice required by subparagraph (A) shall
15 be written in a manner calculated to be understood by the
16 average plan participant and shall provide sufficient infor-
17 mation (as determined in accordance with regulations pre-
18 scribed by the Secretary of the Treasury) to allow individ-
19 uals to understand the effect of the plan amendment.

20 “(C) Except as provided in regulations prescribed by
21 the Secretary of the Treasury, the notice required by sub-
22 paragraph (A) shall be provided within a reasonable time
23 before the effective date of the plan amendment.

24 “(D) A plan shall not be treated as failing to meet
25 the requirements of subparagraph (A) merely because no-

1 nce is provided before the adoption of the plan amendment
2 if no material modification of the amendment occurs be-
3 fore the amendment is adopted.”.

4 (c) CLERICAL AMENDMENT.—The table of sections
5 for chapter 43 is amended by adding at the end the fol-
6 lowing new item:

 “Sec. 4980F. Failure of applicable plans reducing benefit accruals
 to satisfy notice requirements.”.

7 (d) EFFECTIVE DATES.—

8 (1) IN GENERAL.—The amendments made by
9 this section shall apply to plan amendments taking
10 effect on or after the date of the enactment of this
11 Act.

12 (2) TRANSITION.—Until such time as the Sec-
13 retary of the Treasury issues regulations under sec-
14 tions 4980F(e)(2) and (3) of the Internal Revenue
15 Code of 1986 and section 204(h)(3) of the Employee
16 Retirement Income Security Act of 1974 (as added
17 by the amendments made by this section), a plan
18 shall be treated as meeting the requirements of such
19 sections if it makes a good faith effort to comply
20 with such requirements.

21 (3) SPECIAL RULE.—The period for providing
22 any notice required by the amendments made by this
23 section shall not end before the date which is 3
24 months after the date of the enactment of this Act.

1 **SEC. 348. PROTECTION OF INVESTMENT OF EMPLOYEE**
2 **CONTRIBUTIONS TO 401(K) PLANS.**

3 (a) IN GENERAL.—Section 1524(b) of the Taxpayer
4 Relief Act of 1997 is amended to read as follows:

5 “(b) EFFECTIVE DATE.—

6 “(1) IN GENERAL.—Except as provided in para-
7 graph (2), the amendments made by this section
8 shall apply to elective deferrals for plan years begin-
9 ning after December 31, 1998.

10 “(2) NONAPPLICATION TO PREVIOUSLY AC-
11 QUIRED PROPERTY.—The amendments made by this
12 section shall not apply to any elective deferral which
13 is invested in assets consisting of qualifying em-
14 ployer securities, qualifying employer real property,
15 or both, if such assets were acquired before January
16 1, 1999.”.

17 (b) EFFECTIVE DATE.—The amendment made by
18 this section shall apply as if included in the provision of
19 the Taxpayer Relief Act of 1997 to which it relates.

20 **SEC. 349. TREATMENT OF MULTIEMPLOYER PLANS UNDER**
21 **SECTION 415.**

22 (a) COMPENSATION LIMIT.—Paragraph (11) of sec-
23 tion 415(b) (relating to limitation for defined benefit
24 plans) is amended to read as follows:

25 “(11) SPECIAL LIMITATION RULE FOR GOVERN-
26 MENTAL AND MULTIEMPLOYER PLANS.—In the case

1 of a governmental plan (as defined in section
2 414(d)) or a multiemployer plan (as defined in sec-
3 tion 414(f)), subparagraph (B) of paragraph (1)
4 shall not apply.”.

5 (b) EFFECTIVE DATE.—The amendment made by
6 this section shall apply to years beginning after December
7 31, 2000.

8 **SEC. 350. TECHNICAL CORRECTIONS TO SAVER ACT.**

9 Section 517 of the Employee Retirement Income Se-
10 curity Act of 1974 (29 U.S.C. 1147) is amended—

11 (1) in subsection (a), by striking “2001 and
12 2005 on or after September 1 of each year involved”
13 and inserting “2001, 2005, and 2009 in the month
14 of September of each year involved”;

15 (2) in subsection (b), by adding at the end the
16 following new sentence: “To effectuate the purposes
17 of this paragraph, the Secretary may enter into a co-
18 operative agreement, pursuant to the Federal Grant
19 and Cooperative Agreement Act of 1977 (31 U.S.C.
20 6301 et seq.), with the American Savings Education
21 Council.”;

22 (3) in subsection (e)(2)—

23 (A) by striking subparagraph (D) and in-
24 serting the following:

1 “(D) the Chairman and Ranking Member
2 of the Subcommittee on Labor, Health and
3 Human Services, and Education of the Com-
4 mittee on Appropriations of the House of Rep-
5 resentatives and the Chairman and Ranking
6 Member of the Subcommittee on Labor, Health
7 and Human Services, and Education of the
8 Committee on Appropriations of the Senate;”;

9 (B) by redesignating subparagraph (G) as
10 subparagraph (J); and

11 (C) by inserting after subparagraph (F)
12 the following new subparagraphs:

13 “(G) the Chairman and Ranking Member
14 of the Committee on Finance of the Senate;

15 “(H) the Chairman and Ranking Member
16 of the Committee on Ways and Means of the
17 House of Representatives;

18 “(I) the Chairman and Ranking Member
19 of the Subcommittee on Employer-Employee
20 Relations of the Committee on Education and
21 the Workforce of the House of Representatives;
22 and”;

23 (4) in subsection (e)(3)(A)—

24 (A) by striking “There shall be no more
25 than 200 additional participants.” and inserting

1 “The participants in the National Summit shall
2 also include additional participants appointed
3 under this subparagraph.”;

4 (B) by striking “one-half shall be ap-
5 pointed by the President,” in clause (i) and in-
6 serting “not more than 100 participants shall
7 be appointed under this clause by the Presi-
8 dent,”, and by striking “and” at the end of
9 clause (i);

10 (C) by striking “one-half shall be ap-
11 pointed by the elected leaders of Congress” in
12 clause (ii) and inserting “not more than 100
13 participants shall be appointed under this
14 clause by the elected leaders of Congress”, and
15 by striking the period at the end of clause (ii)
16 and inserting “; and”; and

17 (D) by adding at the end the following new
18 clause:

19 “(iii) The President, in consultation
20 with the elected leaders of Congress re-
21 ferred to in subsection (a), may appoint
22 under this clause additional participants to
23 the National Summit. The number of such
24 additional participants appointed under
25 this clause may not exceed the lesser of 3

1 percent of the total number of all addi-
2 tional participants appointed under this
3 paragraph, or 10. Such additional partici-
4 pants shall be appointed from persons
5 nominated by the organization referred to
6 in subsection (b)(2) which is made up of
7 private sector businesses and associations
8 partnered with Government entities to pro-
9 mote long term financial security in retire-
10 ment through savings and with which the
11 Secretary is required thereunder to consult
12 and cooperate and shall not be Federal,
13 State, or local government employees.”;

14 (5) in subsection (e)(3)(B), by striking “Janu-
15 ary 31, 1998” in subparagraph (B) and inserting
16 “May 1, 2001, May 1, 2005, and May 1, 2009, for
17 each of the subsequent summits, respectively”;

18 (6) in subsection (f)(1)(C), by inserting “, no
19 later than 90 days prior to the date of the com-
20 mencement of the National Summit,” after “com-
21 ment” in paragraph (1)(C);

22 (7) in subsection (g), by inserting “, in con-
23 sultation with the congressional leaders specified in
24 subsection (e)(2),” after “report”;

25 (8) in subsection (i)—

1 (A) by striking “beginning on or after Oc-
2 tober 1, 1997” in paragraph (1) and inserting
3 “2001, 2005, and 2009”; and

4 (B) by adding at the end the following new
5 paragraph:

6 “(3) RECEPTION AND REPRESENTATION AU-
7 THORITY.—The Secretary is hereby granted recep-
8 tion and representation authority limited specifically
9 to the events at the National Summit. The Secretary
10 shall use any private contributions received in con-
11 nection with the National Summit prior to using
12 funds appropriated for purposes of the National
13 Summit pursuant to this paragraph.”; and

14 (9) in subsection (k)—

15 (A) by striking “shall enter into a contract
16 on a sole-source basis” and inserting “may
17 enter into a contract on a sole-source basis”;
18 and

19 (B) by striking “fiscal year 1998” and in-
20 serting “fiscal years 2001, 2005, and 2009”.

21 **SEC. 351. MODEL SPOUSAL CONSENT LANGUAGE AND**
22 **QUALIFIED DOMESTIC RELATIONS ORDER.**

23 (a) MODEL SPOUSAL CONSENT LANGUAGE.—Section
24 205(c) of the Employee Retirement Income Security Act

1 of 1974 (29 U.S.C. 1055(c)) is amended by adding at the
2 end the following new paragraph:

3 “(9) Not later than January 1, 2001, the Secretary
4 of Labor shall develop model language for the spousal con-
5 sent required under paragraph (2) which—

6 “(A) is written in a manner calculated to be un-
7 derstood by the average person, and

8 “(B) discloses in plain terms whether—

9 “(i) the waiver is irrevocable, and

10 “(ii) the waiver may be revoked by a quali-
11 fied domestic relations order.”.

12 (b) MODEL QUALIFIED DOMESTIC RELATIONS
13 ORDER.—Section 206(d)(3) of such Act (29 U.S.C.
14 1056(d)(3)) is amended by adding at the end the following
15 new subparagraph:

16 “(O) Not later than January 1, 2001, the Secretary
17 shall develop language for a qualified domestic relations
18 order which meets—

19 “(i) the requirements of subparagraph (B)(i),
20 and

21 “(ii) the requirements of this Act related to the
22 need to consider the treatment of any lump sum
23 payment, qualified joint and survivor annuity, or
24 qualified preretirement survivor annuity.”.

1 (c) PUBLICITY.—The Secretary of Labor shall in-
2 clude publicity for the model language required by the
3 amendments made by this section in the pension outreach
4 efforts undertaken by each Secretary.

5 **SEC. 352. ELIMINATION OF ERISA DOUBLE JEOPARDY.**

6 (a) ELIMINATION OF SECOND LAWSUITS BY THE
7 SECRETARY.—Section 502(h) of the Employee Retirement
8 Income Security Act of 1974 (29 U.S.C. 1132(h)) is
9 amended—

10 (1) by inserting “(1)” after “(h)”, and

11 (2) by adding at the end the following:

12 “(2) In any case in which—

13 “(A) a complaint in an action brought against
14 a person under subsection (a)(2) is served in accord-
15 ance with paragraph (1), and

16 “(B) the action is maintained as a class action
17 or derivative action under the Federal Rules of Civil
18 Procedure,

19 “(C) the action is resolved by a court-approved
20 settlement agreement,

21 “(D) the complaint is served upon the Secretary
22 at least 90 days prior to final court approval of the
23 settlement agreement, and

24 “(E) the Secretary receives a fully executed
25 copy of the settlement agreement within the time es-

1 established by the court for notifying the plan’s par-
2 ticipants of the proposed compromise pursuant to
3 Rule 23 or 23.1 of the Federal Rules of Civil Proce-
4 dure,

5 the Secretary shall be barred from litigating any claim
6 against such person under subsection (a)(2) that was, or
7 could have been, brought in that action with respect to
8 the same plan. Notwithstanding this paragraph, the Sec-
9 retary shall not be barred from litigating any claim
10 against such person under subsection (a)(2) if the Sec-
11 retary filed a complaint under subsection (a)(2) prior to
12 the final court approval of the settlement agreement.”.

13 (b) EFFECTIVE DATE.—The amendments made by
14 this section are effective with respect to all actions or
15 claims commenced by the Secretary that are pending on
16 or after the date of the enactment of this Act.

17 **Subtitle E—Reducing Regulatory**
18 **Burdens**

19 **SEC. 361. MODIFICATION OF TIMING OF PLAN VALUATIONS.**

20 (a) IN GENERAL.—Section 412(c)(9) (relating to an-
21 nual valuation) is amended—

22 (1) by striking “For purposes” and inserting
23 the following:

24 “(A) IN GENERAL.—For purposes”, and

25 (2) by adding at the end the following:

1 “(B) ELECTION TO USE PRIOR YEAR
2 VALUATION.—

3 “(i) IN GENERAL.—Except as pro-
4 vided in clause (ii), if, for any plan year—

5 “(I) an election is in effect under
6 this subparagraph with respect to a
7 plan, and

8 “(II) the assets of the plan are
9 not less than 125 percent of the
10 plan’s current liability (as defined in
11 paragraph (7)(B)), determined as of
12 the valuation date for the preceding
13 plan year,

14 then this section shall be applied using the
15 information available as of such valuation
16 date.

17 “(ii) EXCEPTIONS.—

18 “(I) ACTUAL VALUATION EVERY
19 3 YEARS.—Clause (i) shall not apply
20 for more than 2 consecutive plan
21 years and valuation shall be under
22 subparagraph (A) with respect to any
23 plan year to which clause (i) does not
24 apply by reason of this subclause.

1 “(II) REGULATIONS.—Clause (i)
2 shall not apply to the extent that
3 more frequent valuations are required
4 under the regulations under subpara-
5 graph (A).

6 “(iii) ADJUSTMENTS.—Information
7 under clause (i) shall, in accordance with
8 regulations, be actuarially adjusted to re-
9 flect significant differences in participants.

10 “(iv) ELECTION.—An election under
11 this subparagraph, once made, shall be ir-
12 revocable without the consent of the Sec-
13 retary.”.

14 (b) AMENDMENTS TO ERISA.—Paragraph (9) of
15 section 302(c) of the Employee Retirement Income Secu-
16 rity Act of 1974 (29 U.S.C. 1053(c)) is amended—

17 (1) by inserting “(A)” after “(9)”, and

18 (2) by adding at the end the following:

19 “(B)(i) Except as provided in clause (ii), if, for any
20 plan year—

21 “(I) an election is in effect under this subpara-
22 graph with respect to a plan, and

23 “(II) the assets of the plan are not less than
24 125 percent of the plan’s current liability (as defined

1 in paragraph (7)(B)), determined as of the valuation
2 date for the preceding plan year,
3 then this section shall be applied using the information
4 available as of such valuation date.

5 “(ii)(I) Clause (i) shall not apply for more than 2
6 consecutive plan years and valuation shall be under sub-
7 paragraph (A) with respect to any plan year to which
8 clause (i) does not apply by reason of this subclause.

9 “(II) Clause (i) shall not apply to the extent that
10 more frequent valuations are required under the regula-
11 tions under subparagraph (A).

12 “(iii) Information under clause (i) shall, in accord-
13 ance with regulations, be actuarially adjusted to reflect
14 significant differences in participants.

15 “(iv) An election under this subparagraph, once
16 made, shall be irrevocable without the consent of the Sec-
17 retary of the Treasury.”.

18 (c) EFFECTIVE DATE.—The amendments made by
19 this section shall apply to plan years beginning after De-
20 cember 31, 2000.

21 **SEC. 362. ESOP DIVIDENDS MAY BE REINVESTED WITHOUT**
22 **LOSS OF DIVIDEND DEDUCTION.**

23 (a) IN GENERAL.—Section 404(k)(2)(A) (defining
24 applicable dividends) is amended by striking “or” at the
25 end of clause (ii), by redesignating clause (iii) as clause

1 (iv), and by inserting after clause (ii) the following new
2 clause:

3 “(iii) is, at the election of such par-
4 ticipants or their beneficiaries—

5 “(I) payable as provided in clause
6 (i) or (ii), or

7 “(II) paid to the plan and rein-
8 vested in qualifying employer securi-
9 ties, or”.

10 (b) EFFECTIVE DATE.—The amendments made by
11 this section shall apply to taxable years beginning after
12 December 31, 2000.

13 **SEC. 363. REPEAL OF TRANSITION RULE RELATING TO CER-**
14 **TAIN HIGHLY COMPENSATED EMPLOYEES.**

15 (a) IN GENERAL.—Paragraph (4) of section 1114(c)
16 of the Tax Reform Act of 1986 is hereby repealed.

17 (b) EFFECTIVE DATE.—The repeal made by sub-
18 section (a) shall apply to plan years beginning after De-
19 cember 31, 1999.

20 **SEC. 364. EMPLOYEES OF TAX-EXEMPT ENTITIES.**

21 (a) IN GENERAL.—The Secretary of the Treasury
22 shall modify Treasury Regulations section 1.410(b)–6(g)
23 to provide that employees of an organization described in
24 section 403(b)(1)(A)(i) of the Internal Revenue Code of
25 1986 who are eligible to make contributions under section

1 403(b) of such Code pursuant to a salary reduction agree-
2 ment may be treated as excludable with respect to a plan
3 under section 401 (k) or (m) of such Code that is provided
4 under the same general arrangement as a plan under such
5 section 401(k), if—

6 (1) no employee of an organization described in
7 section 403(b)(1)(A)(i) of such Code is eligible to
8 participate in such section 401(k) plan or section
9 401(m) plan, and

10 (2) 95 percent of the employees who are not
11 employees of an organization described in section
12 403(b)(1)(A)(i) of such Code are eligible to partici-
13 pate in such plan under such section 401 (k) or (m).

14 (b) EFFECTIVE DATE.—The modification required by
15 subsection (a) shall apply as of the same date set forth
16 in section 1426(b) of the Small Business Job Protection
17 Act of 1996.

18 **SEC. 365. CLARIFICATION OF TREATMENT OF EMPLOYER-**

19 **PROVIDED RETIREMENT ADVICE.**

20 (a) IN GENERAL.—Subsection (a) of section 132 (re-
21 lating to exclusion from gross income) is amended by
22 striking “or” at the end of paragraph (5), by striking the
23 period at the end of paragraph (6) and inserting “, or”,
24 and by adding at the end the following new paragraph:

25 “(7) qualified retirement planning services.”.

1 (b) QUALIFIED RETIREMENT PLANNING SERVICES
2 DEFINED.—Section 132 is amended by redesignating sub-
3 section (m) as subsection (n) and by inserting after sub-
4 section (l) the following:

5 “(m) QUALIFIED RETIREMENT PLANNING SERV-
6 ICES.—

7 “(1) IN GENERAL.—For purposes of this sec-
8 tion, the term ‘qualified retirement planning serv-
9 ices’ means any retirement planning service provided
10 to an employee and his spouse by an employer main-
11 taining a qualified employer plan.

12 “(2) NONDISCRIMINATION RULE.—Subsection
13 (a)(7) shall apply in the case of highly compensated
14 employees only if such services are available on sub-
15 stantially the same terms to each member of the
16 group of employees normally provided education and
17 information regarding the employer’s qualified em-
18 ployer plan.

19 “(3) QUALIFIED EMPLOYER PLAN.—For pur-
20 poses of this subsection, the term ‘qualified employer
21 plan’ means a plan, contract, pension, or account de-
22 scribed in section 219(g)(5).”.

23 (c) EFFECTIVE DATE.—The amendments made by
24 this section shall apply to years beginning after December
25 31, 2000.

1 **SEC. 366. REPORTING SIMPLIFICATION.**

2 (a) SIMPLIFIED ANNUAL FILING REQUIREMENT FOR
3 OWNERS AND THEIR SPOUSES.—

4 (1) IN GENERAL.—The Secretary of the Treas-
5 ury shall modify the requirements for filing annual
6 returns with respect to one-participant retirement
7 plans to ensure that such plans with assets of
8 \$250,000 or less as of the close of the plan year
9 need not file a return for that year.

10 (2) ONE-PARTICIPANT RETIREMENT PLAN DE-
11 FINED.—For purposes of this subsection, the term
12 “one-participant retirement plan” means a retire-
13 ment plan that—

14 (A) on the first day of the plan year—

15 (i) covered only the employer (and the
16 employer’s spouse) and the employer
17 owned the entire business (whether or not
18 incorporated), or

19 (ii) covered only one or more partners
20 (and their spouses) in a business partner-
21 ship (including partners in an S or C cor-
22 poration),

23 (B) meets the minimum coverage require-
24 ments of section 410(b) of the Internal Revenue
25 Code of 1986 without being combined with any

1 other plan of the business that covers the em-
2 ployees of the business,

3 (C) does not provide benefits to anyone ex-
4 cept the employer (and the employer's spouse)
5 or the partners (and their spouses),

6 (D) does not cover a business that is a
7 member of an affiliated service group, a con-
8 trolled group of corporations, or a group of
9 businesses under common control, and

10 (E) does not cover a business that leases
11 employees.

12 (3) OTHER DEFINITIONS.—Terms used in para-
13 graph (2) which are also used in section 414 of the
14 Internal Revenue Code of 1986 shall have the re-
15 spective meanings given such terms by such section.

16 (b) SIMPLIFIED ANNUAL FILING REQUIREMENT FOR
17 PLANS WITH FEWER THAN 25 EMPLOYEES.—In the case
18 of a retirement plan which covers less than 25 employees
19 on the first day of the plan year and meets the require-
20 ments described in subparagraphs (B), (D), and (E) of
21 subsection (a)(2), the Secretary of the Treasury shall pro-
22 vide for the filing of a simplified annual return that is
23 substantially similar to the annual return required to be
24 filed by a one-participant retirement plan.

1 (c) EFFECTIVE DATE.—The provisions of this section
2 shall take effect on January 1, 2001.

3 **SEC. 367. IMPROVEMENT OF EMPLOYEE PLANS COMPLI-**
4 **ANCE RESOLUTION SYSTEM.**

5 The Secretary of the Treasury shall continue to up-
6 date and improve the Employee Plans Compliance Resolu-
7 tion System (or any successor program) giving special at-
8 tention to—

9 (1) increasing the awareness and knowledge of
10 small employers concerning the availability and use
11 of the program,

12 (2) taking into account special concerns and
13 circumstances that small employers face with respect
14 to compliance and correction of compliance failures,

15 (3) extending the duration of the self-correction
16 period under the Administrative Policy Regarding
17 Self-Correction for significant compliance failures,

18 (4) expanding the availability to correct insig-
19 nificant compliance failures under the Administra-
20 tive Policy Regarding Self-Correction during audit,
21 and

22 (5) assuring that any tax, penalty, or sanction
23 that is imposed by reason of a compliance failure is
24 not excessive and bears a reasonable relationship to
25 the nature, extent, and severity of the failure.

1 **SEC. 368. SUBSTANTIAL OWNER BENEFITS IN TERMINATED**
2 **PLANS.**

3 (a) MODIFICATION OF PHASE-IN OF GUARANTEE.—
4 Section 4022(b)(5) of the Employee Retirement Income
5 Security Act of 1974 (29 U.S.C. 1322(b)(5)) is amended
6 to read as follows:

7 “(5)(A) For purposes of this paragraph, the term
8 ‘majority owner’ means an individual who, at any time
9 during the 60-month period ending on the date the deter-
10 mination is being made—

11 “(i) owns the entire interest in an unincor-
12 porated trade or business,

13 “(ii) in the case of a partnership, is a partner
14 who owns, directly or indirectly, 50 percent or more
15 of either the capital interest or the profits interest
16 in such partnership, or

17 “(iii) in the case of a corporation, owns, directly
18 or indirectly, 50 percent or more in value of either
19 the voting stock of that corporation or all the stock
20 of that corporation.

21 For purposes of clause (iii), the constructive ownership
22 rules of section 1563(e) of the Internal Revenue Code of
23 1986 shall apply (determined without regard to section
24 1563(e)(3)(C)).

1 “(B) In the case of a participant who is a majority
2 owner, the amount of benefits guaranteed under this sec-
3 tion shall equal the product of—

4 “(i) a fraction (not to exceed 1) the numerator
5 of which is the number of years from the later of the
6 effective date or the adoption date of the plan to the
7 termination date, and the denominator of which is
8 10, and

9 “(ii) the amount of benefits that would be guar-
10 anteed under this section if the participant were not
11 a majority owner.”.

12 (b) MODIFICATION OF ALLOCATION OF ASSETS.—

13 (1) Section 4044(a)(4)(B) of the Employee Re-
14 tirement Income Security Act of 1974 (29 U.S.C.
15 1344(a)(4)(B)) is amended by striking “section
16 4022(b)(5)” and inserting “section 4022(b)(5)(B)”.

17 (2) Section 4044(b) of such Act (29 U.S.C.
18 1344(b)) is amended—

19 (A) by striking “(5)” in paragraph (2) and
20 inserting “(4), (5),” and

21 (B) by redesignating paragraphs (3)
22 through (6) as paragraphs (4) through (7), re-
23 spectively, and by inserting after paragraph (2)
24 the following:

1 “(3) If assets available for allocation under
2 paragraph (4) of subsection (a) are insufficient to
3 satisfy in full the benefits of all individuals who are
4 described in that paragraph, the assets shall be allo-
5 cated first to benefits described in subparagraph (A)
6 of that paragraph. Any remaining assets shall then
7 be allocated to benefits described in subparagraph
8 (B) of that paragraph. If assets allocated to such
9 subparagraph (B) are insufficient to satisfy in full
10 the benefits described in that subparagraph, the as-
11 sets shall be allocated pro rata among individuals on
12 the basis of the present value (as of the termination
13 date) of their respective benefits described in that
14 subparagraph.”.

15 (c) CONFORMING AMENDMENTS.—

16 (1) Section 4021 of the Employee Retirement
17 Income Security Act of 1974 (29 U.S.C. 1321) is
18 amended—

19 (A) in subsection (b)(9), by striking “as
20 defined in section 4022(b)(6)”, and

21 (B) by adding at the end the following:

22 “(d) For purposes of subsection (b)(9), the term ‘sub-
23 stantial owner’ means an individual who, at any time dur-
24 ing the 60-month period ending on the date the determina-
25 tion is being made—

1 “(1) owns the entire interest in an unincor-
2 porated trade or business,

3 “(2) in the case of a partnership, is a partner
4 who owns, directly or indirectly, more than 10 per-
5 cent of either the capital interest or the profits inter-
6 est in such partnership, or

7 “(3) in the case of a corporation, owns, directly
8 or indirectly, more than 10 percent in value of either
9 the voting stock of that corporation or all the stock
10 of that corporation.

11 For purposes of paragraph (3), the constructive ownership
12 rules of section 1563(e) of the Internal Revenue Code of
13 1986 shall apply (determined without regard to section
14 1563(e)(3)(C)).”.

15 (2) Section 4043(c)(7) of such Act (29 U.S.C.
16 1343(c)(7)) is amended by striking “section 4022(b)(6)”
17 and inserting “section 4021(d)”.

18 (d) EFFECTIVE DATES.—

19 (1) IN GENERAL.—Except as provided in para-
20 graph (2), the amendments made by this section
21 shall apply to plan terminations—

22 (A) under section 4041(c) of the Employee
23 Retirement Income Security Act of 1974 (29
24 U.S.C. 1341(c)) with respect to which notices
25 of intent to terminate are provided under sec-

1 tion 4041(a)(2) of such Act (29 U.S.C.
2 1341(a)(2)) after December 31, 2000, and

3 (B) under section 4042 of such Act (29
4 U.S.C. 1342) with respect to which proceedings
5 are instituted by the corporation after such
6 date.

7 (2) CONFORMING AMENDMENTS.—The amend-
8 ments made by subsection (c) shall take effect on
9 the date of the enactment of this Act.

10 **SEC. 369. MODIFICATION OF EXCLUSION FOR EMPLOYER**
11 **PROVIDED TRANSIT PASSES.**

12 (a) IN GENERAL.—Section 132(f)(3) (relating to
13 cash reimbursements) is amended by striking the last sen-
14 tence.

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

18 **SEC. 370. REPEAL OF THE MULTIPLE USE TEST.**

19 (a) IN GENERAL.—Paragraph (9) of section 401(m)
20 is amended to read as follows:

21 “(9) REGULATIONS.—The Secretary shall pre-
22 scribe such regulations as may be necessary to carry
23 out the purposes of this subsection and subsection
24 (k), including regulations permitting appropriate ag-
25 gregation of plans and contributions.”.

1 (b) EFFECTIVE DATE.—The amendment made by
2 this section shall apply to years beginning after December
3 31, 2000.

4 **SEC. 371. FLEXIBILITY IN NONDISCRIMINATION, COV-**
5 **ERAGE, AND LINE OF BUSINESS RULES.**

6 (a) NONDISCRIMINATION.—

7 (1) IN GENERAL.—The Secretary of the Treas-
8 ury shall, by regulation, provide that a plan shall be
9 deemed to satisfy the requirements of section
10 401(a)(4) of the Internal Revenue Code of 1986 if
11 such plan satisfies the facts and circumstances test
12 under section 401(a)(4) of such Code, as in effect
13 before January 1, 1994, but only if—

14 (A) the plan satisfies conditions prescribed
15 by the Secretary to appropriately limit the
16 availability of such test, and

17 (B) the plan is submitted to the Secretary
18 for a determination of whether it satisfies such
19 test.

20 Subparagraph (B) shall only apply to the extent pro-
21 vided by the Secretary.

22 (2) EFFECTIVE DATES.—

23 (A) REGULATIONS.—The regulation re-
24 quired by paragraph (1) shall apply to years be-
25 ginning after December 31, 2000.

1 (B) CONDITIONS OF AVAILABILITY.—Any
2 condition of availability prescribed by the Sec-
3 retary under paragraph (1)(A) shall not apply
4 before the first year beginning not less than
5 120 days after the date on which such condition
6 is prescribed.

7 (b) COVERAGE TEST.—

8 (1) IN GENERAL.—Section 410(b)(1) (relating
9 to minimum coverage requirements) is amended by
10 adding at the end the following:

11 “(D) In the case that the plan fails to
12 meet the requirements of subparagraphs (A),
13 (B) and (C), the plan—

14 “(i) satisfies subparagraph (B), as in
15 effect immediately before the enactment of
16 the Tax Reform Act of 1986,

17 “(ii) is submitted to the Secretary for
18 a determination of whether it satisfies the
19 requirement described in clause (i), and

20 “(iii) satisfies conditions prescribed by
21 the Secretary by regulation that appro-
22 priately limit the availability of this sub-
23 paragraph.

24 Clause (ii) shall apply only to the extent pro-
25 vided by the Secretary.”.

1 (2) EFFECTIVE DATES.—

2 (A) IN GENERAL.—The amendment made
3 by paragraph (1) shall apply to years beginning
4 after December 31, 2000.

5 (B) CONDITIONS OF AVAILABILITY.—Any
6 condition of availability prescribed by the Sec-
7 retary under regulations prescribed by the Sec-
8 retary under section 410(b)(1)(D) of the Inter-
9 nal Revenue Code of 1986 shall not apply be-
10 fore the first year beginning not less than 120
11 days after the date on which such condition is
12 prescribed.

13 (c) LINE OF BUSINESS RULES.—The Secretary of
14 the Treasury shall, on or before December 31, 2000, mod-
15 ify the existing regulations issued under section 414(r) of
16 the Internal Revenue Code of 1986 in order to expand
17 (to the extent that the Secretary determines appropriate)
18 the ability of a pension plan to demonstrate compliance
19 with the line of business requirements based upon the
20 facts and circumstances surrounding the design and oper-
21 ation of the plan, even though the plan is unable to satisfy
22 the mechanical tests currently used to determine compli-
23 ance.

1 **SEC. 372. EXTENSION TO INTERNATIONAL ORGANIZATIONS**
2 **OF MORATORIUM ON APPLICATION OF CER-**
3 **TAIN NONDISCRIMINATION RULES APPLICA-**
4 **BLE TO STATE AND LOCAL PLANS.**

5 (a) IN GENERAL.—Subparagraph (G) of section
6 401(a)(5), subparagraph (H) of section 401(a)(26), sub-
7 paragraph (G) of section 401(k)(3), and paragraph (2) of
8 section 1505(d) of the Taxpayer Relief Act of 1997 are
9 each amended by inserting “or by an international organi-
10 zation which is described in section 414(d)” after “or in-
11 strumentality thereof”.

12 (b) CONFORMING AMENDMENTS.—

13 (1) The headings for subparagraph (G) of sec-
14 tion 401(a)(5) and subparagraph (H) of section
15 401(a)(26) are each amended by inserting “AND
16 INTERNATIONAL ORGANIZATION” after “GOVERN-
17 MENTAL”.

18 (2) Subparagraph (G) of section 401(k)(3) is
19 amended by inserting “STATE AND LOCAL GOVERN-
20 MENTAL AND INTERNATIONAL ORGANIZATION
21 PLANS.—” after “(G)”.

22 (c) EFFECTIVE DATE.—The amendments made by
23 this section shall apply to years beginning after December
24 31, 2000.

1 **SEC. 373. NOTICE AND CONSENT PERIOD REGARDING DIS-**
2 **TRIBUTIONS.**

3 (a) EXPANSION OF PERIOD.—

4 (1) IN GENERAL.—Subparagraph (A) of section
5 205(c)(7) of the Employee Retirement Income Secu-
6 rity Act of 1974 (29 U.S.C. 1055) is amended by
7 striking “90-day” and inserting “180-day”.

8 (2) MODIFICATION OF REGULATIONS.—The
9 Secretary of the Treasury shall modify the regula-
10 tions of such Secretary under part 2 of subtitle B
11 of title I of the Employee Retirement Income Secu-
12 rity Act of 1974 to the extent that they relate to
13 sections 203(e) and 205 of such Act to substitute
14 “180 days” for “90 days” each place it appears.

15 (3) EFFECTIVE DATE.—The amendments made
16 by paragraph (1) and the modifications required by
17 paragraph (2) shall apply to years beginning after
18 December 31, 2000.

19 (b) CONSENT REGULATION INAPPLICABLE TO CER-
20 TAIN DISTRIBUTIONS.—

21 (1) IN GENERAL.—The Secretary of the Treas-
22 ury shall modify the regulations under section 205
23 of the Employee Retirement Income Security Act of
24 1974 to provide that the description of a partici-
25 pant’s right, if any, to defer receipt of a distribution

1 shall also describe the consequences of failing to
2 defer such receipt.

3 (2) EFFECTIVE DATE.—The modifications re-
4 quired by paragraph (1) shall apply to years begin-
5 ning after December 31, 2000.

6 **SEC. 374. ANNUAL REPORT DISSEMINATION.**

7 (a) IN GENERAL.—Section 104(b)(3) of the Em-
8 ployee Retirement Income Security Act of 1974 (29
9 U.S.C. 1024(b)(3)) is amended by striking “shall furnish”
10 and inserting “shall make available for examination (and,
11 upon request, shall furnish)”.

12 (b) EFFECTIVE DATE.—The amendment made by
13 this section shall apply to reports for years beginning after
14 December 31, 1998.

15 **SEC. 375. EXCESS BENEFIT PLANS.**

16 (a) IN GENERAL.—Section 3(36) of the Employee
17 Retirement Income Security Act of 1974 (29 U.S.C.
18 1002(36)) is amended to read as follows:

19 “(36) The term ‘excess benefit plan’ means a plan,
20 without regard to whether such plan is funded, maintained
21 by an employer solely for the purpose of providing benefits
22 to employees in excess of any limitation imposed by section
23 401(a)(17) or 415 of the Internal Revenue Code of 1986
24 or any other limitation on contributions or benefits in such
25 Code on plans to which any of such sections apply. To

1 the extent that a separable part of a plan (as determined
2 by the Secretary of Labor) maintained by an employer is
3 maintained for such purpose, that part shall be treated
4 as a separate plan which is an excess benefit plan.”.

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

8 **SEC. 376. BENEFIT SUSPENSION NOTICE.**

9 (a) MODIFICATION OF REGULATION.—The Secretary
10 of Labor shall modify the regulation under section
11 203(a)(3)(B) of the Employee Retirement Income Secu-
12 rity Act of 1974 (29 U.S.C. 1053(a)(3)(B)) to provide
13 that, except in the case of employment, subsequent to the
14 commencement of payment of benefits, with a former em-
15 ployer, the notification required by such regulation—

16 (1) may be included in the summary plan de-
17 scription for the plan furnished in accordance with
18 section 104(b) of such Act (29 U.S.C. 1024(b)),
19 rather than in a separate notice, and

20 (2) need not include a copy of the relevant plan
21 provisions.

22 (c) EFFECTIVE DATE.—The modification made
23 under this section shall apply to plan years beginning after
24 December 31, 1999.

1 **SEC. 377. CLARIFICATION OF CHURCH WELFARE PLAN STA-**
2 **TUS UNDER STATE INSURANCE LAW.**

3 For purposes of determining the status under State
4 insurance law of a church plan (as defined in section
5 414(e) of the Internal Revenue Code and section 3(33)
6 of the Employee Retirement Income Security Act that is
7 a welfare plan (as defined in section 3(1)), such church
8 plan (and any trust under such plan) shall be deemed a
9 single-employer plan that—

- 10 (1) reimburses costs from general church as-
11 sets;
- 12 (2) purchases insurance coverage with general
13 church assets; or
- 14 (3) both.

15 For purposes of this paragraph, the term “reimbursing
16 costs from general church assets” means engaging in a
17 practice that does not have the effect of transferring or
18 spreading risk. The scope of this paragraph is limited to
19 determining the status of a church welfare plan under
20 State insurance law, and does not otherwise recharacter-
21 ized the status, or modify or affect the rights, of any plan
22 participant, including those who make plan contributions.

23 **Subtitle F—Plan Amendments**

24 **SEC. 381. PROVISIONS RELATING TO PLAN AMENDMENTS.**

25 (a) IN GENERAL.—If this section applies to any plan
26 or contract amendment—

1 (1) such plan or contract shall be treated as
2 being operated in accordance with the terms of the
3 plan during the period described in subsection
4 (b)(2)(A), and

5 (2) such plan shall not fail to meet the require-
6 ments of section 411(d)(6) of the Internal Revenue
7 Code of 1986 by reason of such amendment.

8 (b) AMENDMENTS TO WHICH SECTION APPLIES.—

9 (1) IN GENERAL.—This section shall apply to
10 any amendment to any plan or annuity contract
11 which is made—

12 (A) pursuant to any amendment made by
13 this title, or pursuant to any regulation issued
14 under this title, and

15 (B) on or before the last day of the first
16 plan year beginning on or after January 1,
17 2003.

18 In the case of a government plan (as defined in sec-
19 tion 414(d) of the Internal Revenue Code of 1986),
20 this paragraph shall be applied by substituting
21 “2005” for “2003”.

22 (2) CONDITIONS.—This section shall not apply
23 to any amendment unless—

24 (A) during the period—

1 (i) beginning on the date the legisla-
2 tive or regulatory amendment described in
3 paragraph (1)(A) takes effect (or in the
4 case of a plan or contract amendment not
5 required by such legislative or regulatory
6 amendment, the effective date specified by
7 the plan), and

8 (ii) ending on the date described in
9 paragraph (1)(B) (or, if earlier, the date
10 the plan or contract amendment is adopt-
11 ed),

12 the plan or contract is operated as if such plan
13 or contract amendment were in effect, and

14 (B) such plan or contract amendment ap-
15 plies retroactively for such period.

16 **TITLE IV—EXTENSION OF WORK**
17 **OPPORTUNITY CREDIT AND**
18 **WELFARE-TO-WORK CREDIT**

19 **SEC. 401. WORK OPPORTUNITY CREDIT AND WELFARE-TO-**
20 **WORK CREDIT.**

21 (a) TEMPORARY EXTENSION.—Sections 51(c)(4)(B)
22 and 51A(f) (relating to termination) are each amended
23 by striking “June 30, 1999” and inserting “December 31,
24 2001”.

1 (b) CLARIFICATION OF FIRST YEAR OF EMPLOY-
 2 MENT.—Paragraph (2) of section 51(i) is amended by
 3 striking “during which he was not a member of a targeted
 4 group”.

5 (c) EFFECTIVE DATE.—The amendments made by
 6 this section shall apply to individuals who begin work for
 7 the employer after June 30, 1999.

8 **TITLE V—ESTATE TAX RELIEF**
 9 **Subtitle A—Reductions of Estate**
 10 **and Gift Tax Rates**

11 **SEC. 501. REDUCTIONS OF ESTATE AND GIFT TAX RATES.**

12 (a) MAXIMUM RATE OF TAX REDUCED TO 50 PER-
 13 CENT.—

14 (1) IN GENERAL.—The table contained in sec-
 15 tion 2001(c)(1) is amended by striking the two high-
 16 est brackets and inserting the following:

| | |
|-------------------------|--|
| “Over \$2,500,000 | \$1,025,800, plus 50% of the excess over \$2,500,000.”. |
|-------------------------|--|

17 (2) PHASE-IN OF REDUCED RATE.—Subsection
 18 (c) of section 2001 is amended by adding at the end
 19 the following new paragraph:

20 “(3) PHASE-IN OF REDUCED RATE.—In the
 21 case of decedents dying, and gifts made, during
 22 2001, the last item in the table contained in para-
 23 graph (1) shall be applied by substituting ‘53%’ for
 24 ‘50%’.”.

1 (b) REPEAL OF PHASEOUT OF GRADUATED
2 RATES.—Subsection (c) of section 2001 is amended by
3 striking paragraph (2) and redesignating paragraph (3),
4 as added by subsection (a), as paragraph (2).

5 (c) ADDITIONAL REDUCTIONS OF RATES OF TAX.—
6 Subsection (c) of section 2001, as so amended, is amended
7 by adding at the end the following new paragraph:

8 “(3) PHASEDOWN OF TAX.—In the case of es-
9 tates of decedents dying, and gifts made, during any
10 calendar year after 2002—

11 “(A) IN GENERAL.—Except as provided in
12 subparagraph (C), the tentative tax under this
13 subsection shall be determined by using a table
14 prescribed by the Secretary (in lieu of using the
15 table contained in paragraph (1)) which is the
16 same as such table; except that—

17 “(i) each of the rates of tax shall be
18 reduced by the number of percentage
19 points determined under subparagraph
20 (B), and

21 “(ii) the amounts setting forth the tax
22 shall be adjusted to the extent necessary to
23 reflect the adjustments under clause (i).

24 “(B) PERCENTAGE POINTS OF REDUC-
25 TION.—

| “For calendar year: | The number of percentage points is: |
|----------------------------|--|
| 2003 | 1.0 |
| 2004 and thereafter | 2.0. |

1 “(C) COORDINATION WITH CREDIT FOR
 2 STATE DEATH TAXES.—Rules similar to the
 3 rules of subparagraph (A) shall apply to the
 4 table contained in section 2011(b) except that
 5 the Secretary shall prescribe percentage point
 6 reductions which maintain the proportionate re-
 7 lationship (as in effect before any reduction
 8 under this paragraph) between the credit under
 9 section 2011 and the tax rates under subsection
 10 (c).”.

11 (d) EFFECTIVE DATES.—

12 (1) SUBSECTIONS (a) AND (b).—The amend-
 13 ments made by subsections (a) and (b) shall apply
 14 to estates of decedents dying, and gifts made, after
 15 December 31, 2000.

16 (2) SUBSECTION (c).—The amendment made by
 17 subsection (c) shall apply to estates of decedents
 18 dying, and gifts made, after December 31, 2002.

1 **Subtitle B—Unified Credit Re-**
2 **placed With Unified Exemption**
3 **Amount**

4 **SEC. 511. UNIFIED CREDIT AGAINST ESTATE AND GIFT**
5 **TAXES REPLACED WITH UNIFIED EXEMPTION**
6 **AMOUNT.**

7 (a) IN GENERAL.—

8 (1) ESTATE TAX.—Part IV of subchapter A of
9 chapter 11 is amended by inserting after section
10 2051 the following new section:

11 **“SEC. 2052. EXEMPTION.**

12 “(a) IN GENERAL.—For purposes of the tax imposed
13 by section 2001, the value of the taxable estate shall be
14 determined by deducting from the value of the gross estate
15 an amount equal to the excess (if any) of—

16 “(1) the exemption amount for the calendar
17 year in which the decedent died, over

18 “(2) the sum of—

19 “(A) the aggregate amount allowed as an
20 exemption under section 2521 with respect to
21 gifts made by the decedent after December 31,
22 2000, and

23 “(B) the aggregate amount of gifts made
24 by the decedent for which credit was allowed by
25 section 2505 (as in effect on the day before the

1 date of the enactment of the Wage and Employ-
 2 ment Growth Act of 1999).

3 Gifts which are includible in the gross estate of the dece-
 4 dent shall not be taken into account in determining the
 5 amounts under paragraph (2).

6 “(b) EXEMPTION AMOUNT.—For purposes of sub-
 7 section (a), the term ‘exemption amount’ means the
 8 amount determined in accordance with the following table:

| “In the case of calendar year: | The exemption amount is: |
|---|-------------------------------------|
| 2001 | \$675,000 |
| 2002 and 2003 | \$700,000 |
| 2004 | \$850,000 |
| 2005 | \$950,000 |
| 2006 or thereafter | \$1,000,000.”. |

9 (2) GIFT TAX.—Subchapter C of chapter 12
 10 (relating to deductions) is amended by inserting be-
 11 fore section 2522 the following new section:

12 **“SEC. 2521. EXEMPTION.**

13 “In computing taxable gifts for any calendar year,
 14 there shall be allowed as a deduction in the case of a cit-
 15 izen or resident of the United States an amount equal to
 16 the excess of—

17 “(1) the exemption amount determined under
 18 section 2052 for such calendar year, over

19 “(2) the sum of—

20 “(A) the aggregate amount allowed as an
 21 exemption under this section for all preceding
 22 calendar years after 2000, and

1 “(B) the aggregate amount of gifts for
2 which credit was allowed by section 2505 (as in
3 effect on the day before the date of the enact-
4 ment of the Wage and Employment Growth Act
5 of 1999).”.

6 (b) REPEAL OF UNIFIED CREDITS.—

7 (1) Section 2010 (relating to unified credit
8 against estate tax) is hereby repealed.

9 (2) Section 2505 (relating to unified credit
10 against gift tax) is hereby repealed.

11 (c) CONFORMING AMENDMENTS.—

12 (1) Subparagraph (B) of section 2001(b)(1) is
13 amended by inserting before the comma “reduced by
14 the amount described in section 2052(a)(2)(B)”.

15 (2)(A) Subsection (b) of section 2011 is
16 amended—

17 (i) by striking “adjusted” in the table, and

18 (ii) by striking the last sentence.

19 (B) Subsection (f) of section 2011 is amended
20 by striking “, reduced by the amount of the unified
21 credit provided by section 2010”.

22 (3) Subsection (a) of section 2012 is amended
23 by striking “and the unified credit provided by sec-
24 tion 2010”.

1 (4)(A) Subsection (b) of section 2013 is amend-
2 ed by inserting before the period at the end of the
3 first sentence “and increased by the exemption al-
4 lowed under section 2052 or 2106(a)(4) (or the cor-
5 responding provisions of prior law) in determining
6 the taxable estate of the transferor for purposes of
7 the estate tax”.

8 (B) Subparagraph (A) of section 2013(c)(1) is
9 amended by striking “2010,”.

10 (5) Paragraph (2) of section 2014(b) is amend-
11 ed by striking “2010,”.

12 (6) Clause (ii) of section 2056A(b)(12)(C) is
13 amended to read as follows:

14 “(ii) to treat any reduction in the tax
15 imposed by paragraph (1)(A) by reason of
16 the credit allowable under section 2010 (as
17 in effect on the day before the date of the
18 enactment of the Wage and Employment
19 Growth Act of 1999) or the exemption al-
20 lowable under section 2052 with respect to
21 the decedent as a credit under section
22 2505 (as so in effect) or exemption under
23 section 2521 (as the case may be) allow-
24 able to such surviving spouse for purposes
25 of determining the amount of the exemp-

1 tion allowable under section 2521 with re-
2 spect to taxable gifts made by the sur-
3 viving spouse during the year in which the
4 spouse becomes a citizen or any subse-
5 quent year.”.

6 (7) Paragraph (3) of section 2057(a) is amend-
7 ed to read as follows:

8 “(3) COORDINATION WITH EXEMPTION
9 AMOUNT.—

10 “(A) IN GENERAL.—Except as provided in
11 subparagraph (B), if this section applies to an
12 estate, the exemption amount under section
13 2052 shall be \$625,000.

14 “(B) INCREASE IN EXEMPTION AMOUNT IF
15 DEDUCTION IS LESS THAN \$675,000.—If the de-
16 duction allowed by this section is less than
17 \$675,000, the amount of the exemption amount
18 under section 2052 shall be increased (but not
19 above the amount which would apply to the es-
20 tate without regard to this section) by the ex-
21 cess of \$675,000 over the amount of the deduc-
22 tion allowed.”.

23 (8)(A) Subparagraph (B) of section 2101(b)(1)
24 is amended by inserting before the comma “reduced
25 by the aggregate amount of gifts for which credit

1 was allowed by section 2505 (as in effect on the day
2 before the date of the enactment of the Wage and
3 Employment Growth Act of 1999)”

4 (B) Subsection (b) of section 2101 is amended
5 by striking the last sentence.

6 (9) Section 2102 is amended by striking sub-
7 section (c).

8 (10) Subsection (a) of section 2106 is amended
9 by adding at the end the following new paragraph:

10 “(4) EXEMPTION.—

11 “(A) IN GENERAL.—An exemption of
12 \$60,000.

13 “(B) RESIDENTS OF POSSESSIONS OF THE
14 UNITED STATES.—In the case of a decedent
15 who is considered to be a nonresident not a cit-
16 izen of the United States under section 2209,
17 the exemption under this paragraph shall be the
18 greater of—

19 “(i) \$60,000, or

20 “(ii) that proportion of \$175,000
21 which the value of that part of the dece-
22 dent’s gross estate which at the time of his
23 death is situated in the United States
24 bears to the value of his entire gross estate
25 wherever situated.

1 “(C) SPECIAL RULES.—

2 “(i) COORDINATION WITH TREA-
3 TIES.—To the extent required under any
4 treaty obligation of the United States, the
5 exemption allowed under this paragraph
6 shall be equal to the amount which bears
7 the same ratio to the exemption amount
8 under section 2052 (for the calendar year
9 in which the decedent died) as the value of
10 the part of the decedent’s gross estate
11 which at the time of his death is situated
12 in the United States bears to the value of
13 his entire gross estate wherever situated.
14 For purposes of the preceding sentence,
15 property shall not be treated as situated in
16 the United States if such property is ex-
17 empt from the tax imposed by this sub-
18 chapter under any treaty obligation of the
19 United States.

20 “(ii) COORDINATION WITH GIFT TAX
21 EXEMPTION AND UNIFIED CREDIT.—If an
22 exemption has been allowed under section
23 2521 (or a credit has been allowed under
24 section 2505 as in effect on the day before
25 the date of the enactment of the Wage and

1 Employment Growth Act of 1999) with re-
2 spect to any gift made by the decedent,
3 each dollar amount contained in subpara-
4 graph (A) or (B) or the exemption amount
5 applicable under clause (i) of this subpara-
6 graph (whichever applies) shall be reduced
7 by the exemption so allowed under 2521
8 (or, in the case of such a credit, by the
9 amount of the gift for which the credit was
10 so allowed).”.

11 (11)(A) Subsection (a) of section 2107 is
12 amended by adding at the end the following new
13 paragraph:

14 “(3) LIMITATION ON EXEMPTION AMOUNT.—
15 Subparagraphs (B) and (C) of section 2106(a)(4)
16 shall not apply in applying section 2106 for purposes
17 of this section.”.

18 (B) Subsection (c) of section 2107 is
19 amended—

20 (i) by striking paragraph (1) and by
21 redesignating paragraphs (2) and (3) as
22 paragraphs (1) and (2), respectively, and

23 (ii) by striking the second sentence of
24 paragraph (2) (as so redesignated).

1 (12) Section 2206 is amended by striking “the
2 taxable estate” in the first sentence and inserting
3 “the sum of the taxable estate and the amount of
4 the exemption allowed under section 2052 or
5 2106(a)(4) in computing the taxable estate”.

6 (13) Section 2207 is amended by striking “the
7 taxable estate” in the first sentence and inserting
8 “the sum of the taxable estate and the amount of
9 the exemption allowed under section 2052 or
10 2106(a)(4) in computing the taxable estate”.

11 (14) Subparagraph (B) of section 2207B(a)(1)
12 is amended to read as follows:

13 “(B) the sum of the taxable estate and the
14 amount of the exemption allowed under section
15 2052 or 2106(a)(4) in computing the taxable
16 estate.”.

17 (15) Subsection (a) of section 2503 is amended
18 by striking “section 2522” and inserting “section
19 2521”.

20 (16) Paragraph (1) of section 6018(a) is
21 amended by striking “the applicable exclusion
22 amount in effect under section 2010(c)” and insert-
23 ing “the exemption amount under section 2052”.

24 (17) Subparagraph (A) of section 6601(j)(2) is
25 amended to read as follows:

1 “(A) the amount of the tax which would be
2 imposed by chapter 11 on an amount of taxable
3 estate equal to \$1,000,000, or”.

4 (18) The table of sections for part II of sub-
5 chapter A of chapter 11 is amended by striking the
6 item relating to section 2010.

7 (19) The table of sections for part IV of sub-
8 chapter A of chapter 11 is amended by inserting
9 after the item relating to section 2051 the following
10 new item:

 “Sec. 2052. Exemption.”.

11 (20) The table of sections for subchapter A of
12 chapter 12 is amended by striking the item relating
13 to section 2505.

14 (21) The table of sections for subchapter C of
15 chapter 12 is amended by inserting before the item
16 relating to section 2522 the following new item:

 “Sec. 2521. Exemption.”.

17 (d) **EFFECTIVE DATE.**—The amendments made by
18 this section—

19 (1) insofar as they relate to the tax imposed by
20 chapter 11 of the Internal Revenue Code of 1986,
21 shall apply to estates of decedents dying after De-
22 cember 31, 2000, and

1 (2) insofar as they relate to the tax imposed by
2 chapter 12 of such Code, shall apply to gifts made
3 after December 31, 2000.

4 **Subtitle C—Modifications of**
5 **Generation-skipping Transfer Tax**

6 **SEC. 521. DEEMED ALLOCATION OF GST EXEMPTION TO**
7 **LIFETIME TRANSFERS TO TRUSTS; RETRO-**
8 **ACTIVE ALLOCATIONS.**

9 (a) IN GENERAL.—Section 2632 (relating to special
10 rules for allocation of GST exemption) is amended by re-
11 designating subsection (c) as subsection (e) and by insert-
12 ing after subsection (b) the following new subsections:

13 “(c) DEEMED ALLOCATION TO CERTAIN LIFETIME
14 TRANSFERS TO GST TRUSTS.—

15 “(1) IN GENERAL.—If any individual makes an
16 indirect skip during such individual’s lifetime, any
17 unused portion of such individual’s GST exemption
18 shall be allocated to the property transferred to the
19 extent necessary to make the inclusion ratio for such
20 property zero. If the amount of the indirect skip ex-
21 ceeds such unused portion, the entire unused portion
22 shall be allocated to the property transferred.

23 “(2) UNUSED PORTION.—For purposes of para-
24 graph (1), the unused portion of an individual’s

1 GST exemption is that portion of such exemption
2 which has not previously been—

3 “(A) allocated by such individual,

4 “(B) treated as allocated under subsection
5 (b) with respect to a direct skip occurring dur-
6 ing or before the calendar year in which the in-
7 direct skip is made, or

8 “(C) treated as allocated under paragraph
9 (1) with respect to a prior indirect skip.

10 “(3) DEFINITIONS.—

11 “(A) INDIRECT SKIP.—For purposes of
12 this subsection, the term ‘indirect skip’ means
13 any transfer of property (other than a direct
14 skip) subject to the tax imposed by chapter 12
15 made to a GST trust.

16 “(B) GST TRUST.—The term ‘GST trust’
17 means a trust that could have a generation-
18 skipping transfer with respect to the transferor
19 unless—

20 “(i) the trust instrument provides that
21 more than 25 percent of the trust corpus
22 must be distributed to or may be with-
23 drawn by 1 or more individuals who are
24 non-skip persons—

1 “(I) before the date that the indi-
2 vidual attains age 46,

3 “(II) on or before one or more
4 dates specified in the trust instrument
5 that will occur before the date that
6 such individual attains age 46, or

7 “(III) upon the occurrence of an
8 event that, in accordance with regula-
9 tions prescribed by the Secretary, may
10 reasonably be expected to occur before
11 the date that such individual attains
12 age 46;

13 “(ii) the trust instrument provides
14 that more than 25 percent of the trust cor-
15 pus must be distributed to or may be with-
16 drawn by one or more individuals who are
17 non-skip persons and who are living on the
18 date of death of another person identified
19 in the instrument (by name or by class)
20 who is more than 10 years older than such
21 individuals;

22 “(iii) the trust instrument provides
23 that, if one or more individuals who are
24 non-skip persons die on or before a date or
25 event described in clause (i) or (ii), more

1 than 25 percent of the trust corpus either
2 must be distributed to the estate or estates
3 of one or more of such individuals or is
4 subject to a general power of appointment
5 exercisable by one or more of such individ-
6 uals;

7 “(iv) the trust is a trust any portion
8 of which would be included in the gross es-
9 tate of a non-skip person (other than the
10 transferor) if such person died immediately
11 after the transfer;

12 “(v) the trust is a charitable lead an-
13 nuity trust (within the meaning of section
14 2642(e)(3)(A)) or a charitable remainder
15 annuity trust or a charitable remainder
16 unitrust (within the meaning of section
17 664(d)); or

18 “(vi) the trust is a trust with respect
19 to which a deduction was allowed under
20 section 2522 for the amount of an interest
21 in the form of the right to receive annual
22 payments of a fixed percentage of the net
23 fair market value of the trust property (de-
24 termined yearly) and which is required to
25 pay principal to a non-skip person if such

1 person is alive when the yearly payments
2 for which the deduction was allowed termi-
3 nate.

4 For purposes of this subparagraph, the value of
5 transferred property shall not be considered to
6 be includible in the gross estate of a non-skip
7 person or subject to a right of withdrawal by
8 reason of such person holding a right to with-
9 draw so much of such property as does not ex-
10 ceed the amount referred to in section 2503(b)
11 with respect to any transferor, and it shall be
12 assumed that powers of appointment held by
13 non-skip persons will not be exercised.

14 “(4) AUTOMATIC ALLOCATIONS TO CERTAIN
15 GST TRUSTS.—For purposes of this subsection, an
16 indirect skip to which section 2642(f) applies shall
17 be deemed to have been made only at the close of
18 the estate tax inclusion period. The fair market
19 value of such transfer shall be the fair market value
20 of the trust property at the close of the estate tax
21 inclusion period.

22 “(5) APPLICABILITY AND EFFECT.—

23 “(A) IN GENERAL.—An individual—

24 “(i) may elect to have this subsection
25 not apply to—

1 “(I) an indirect skip, or

2 “(II) any or all transfers made
3 by such individual to a particular
4 trust, and

5 “(ii) may elect to treat any trust as a
6 GST trust for purposes of this subsection
7 with respect to any or all transfers made
8 by such individual to such trust.

9 “(B) ELECTIONS.—

10 “(i) ELECTIONS WITH RESPECT TO
11 INDIRECT SKIPS.—An election under sub-
12 paragraph (A)(i)(I) shall be deemed to be
13 timely if filed on a timely filed gift tax re-
14 turn for the calendar year in which the
15 transfer was made or deemed to have been
16 made pursuant to paragraph (4) or on
17 such later date or dates as may be pre-
18 scribed by the Secretary.

19 “(ii) OTHER ELECTIONS.—An election
20 under clause (i)(II) or (ii) of subparagraph
21 (A) may be made on a timely filed gift tax
22 return for the calendar year for which the
23 election is to become effective.

24 “(d) RETROACTIVE ALLOCATIONS.—

25 “(1) IN GENERAL.—If—

1 “(A) a non-skip person has an interest or
2 a future interest in a trust to which any trans-
3 fer has been made,

4 “(B) such person—

5 “(i) is a lineal descendant of a grand-
6 parent of the transferor or of a grand-
7 parent of the transferor’s spouse or former
8 spouse, and

9 “(ii) is assigned to a generation below
10 the generation assignment of the trans-
11 feror, and

12 “(C) such person predeceases the trans-
13 feror,

14 then the transferor may make an allocation of any
15 of such transferor’s unused GST exemption to any
16 previous transfer or transfers to the trust on a
17 chronological basis.

18 “(2) SPECIAL RULES.—If the allocation under
19 paragraph (1) by the transferor is made on a gift
20 tax return filed on or before the date prescribed by
21 section 6075(b) for gifts made within the calendar
22 year within which the non-skip person’s death
23 occurred—

24 “(A) the value of such transfer or trans-
25 fers for purposes of section 2642(a) shall be de-

1 terminated as if such allocation had been made
2 on a timely filed gift tax return for each cal-
3 endar year within which each transfer was
4 made,

5 “(B) such allocation shall be effective im-
6 mediately before such death, and

7 “(C) the amount of the transferor’s un-
8 used GST exemption available to be allocated
9 shall be determined immediately before such
10 death.

11 “(3) FUTURE INTEREST.—For purposes of this
12 subsection, a person has a future interest in a trust
13 if the trust may permit income or corpus to be paid
14 to such person on a date or dates in the future.”.

15 (b) CONFORMING AMENDMENT.—Paragraph (2) of
16 section 2632(b) is amended by striking “with respect to
17 a direct skip” and inserting “or subsection (c)(1)”.

18 (c) EFFECTIVE DATES.—

19 (1) DEEMED ALLOCATION.—Section 2632(c) of
20 the Internal Revenue Code of 1986 (as added by
21 subsection (a)), and the amendment made by sub-
22 section (b), shall apply to transfers subject to chap-
23 ter 11 or 12 made after December 31, 1999, and to
24 estate tax inclusion periods ending after December
25 31, 1999.

1 (2) RETROACTIVE ALLOCATIONS.—Section
2 2632(d) of the Internal Revenue Code of 1986 (as
3 added by subsection (a)) shall apply to deaths of
4 non-skip persons occurring after the date of the en-
5 actment of this Act.

6 **SEC. 522. SEVERING OF TRUSTS.**

7 (a) IN GENERAL.—Subsection (a) of section 2642
8 (relating to inclusion ratio) is amended by adding at the
9 end the following new paragraph:

10 “(3) SEVERING OF TRUSTS.—

11 “(A) IN GENERAL.—If a trust is severed in
12 a qualified severance, the trusts resulting from
13 such severance shall be treated as separate
14 trusts thereafter for purposes of this chapter.

15 “(B) QUALIFIED SEVERANCE.—For pur-
16 poses of subparagraph (A)—

17 “(i) IN GENERAL.—The term ‘quali-
18 fied severance’ means the division of a sin-
19 gle trust and the creation (by any means
20 available under the governing instrument
21 or under local law) of two or more trusts
22 if—

23 “(I) the single trust was divided
24 on a fractional basis, and

1 “(II) the terms of the new trusts,
2 in the aggregate, provide for the same
3 succession of interests of beneficiaries
4 as are provided in the original trust.

5 “(ii) TRUSTS WITH INCLUSION RATIO
6 GREATER THAN ZERO.—If a trust has an
7 inclusion ratio of greater than zero and
8 less than 1, a severance is a qualified sev-
9 erance only if the single trust is divided
10 into two trusts, one of which receives a
11 fractional share of the total value of all
12 trust assets equal to the applicable fraction
13 of the single trust immediately before the
14 severance. In such case, the trust receiving
15 such fractional share shall have an inclu-
16 sion ratio of zero and the other trust shall
17 have an inclusion ratio of 1.

18 “(iii) REGULATIONS.—The term
19 ‘qualified severance’ includes any other
20 severance permitted under regulations pre-
21 scribed by the Secretary.

22 “(C) TIMING AND MANNER OF
23 SEVERANCES.—A severance pursuant to this
24 paragraph may be made at any time. The Sec-
25 retary shall prescribe by forms or regulations

1 the manner in which the qualified severance
2 shall be reported to the Secretary.”.

3 (b) EFFECTIVE DATE.—The amendment made by
4 this section shall apply to severances after the date of the
5 enactment of this Act.

6 **SEC. 523. MODIFICATION OF CERTAIN VALUATION RULES.**

7 (a) GIFTS FOR WHICH GIFT TAX RETURN FILED OR
8 DEEMED ALLOCATION MADE.—Paragraph (1) of section
9 2642(b) (relating to valuation rules, etc.) is amended to
10 read as follows:

11 “(1) GIFTS FOR WHICH GIFT TAX RETURN
12 FILED OR DEEMED ALLOCATION MADE.—If the allo-
13 cation of the GST exemption to any transfers of
14 property is made on a gift tax return filed on or be-
15 fore the date prescribed by section 6075(b) for such
16 transfer or is deemed to be made under section 2632
17 (b)(1) or (c)(1)—

18 “(A) the value of such property for pur-
19 poses of subsection (a) shall be its value as fi-
20 nally determined for purposes of chapter 12
21 (within the meaning of section 2001(f)(2)), or,
22 in the case of an allocation deemed to have been
23 made at the close of an estate tax inclusion pe-
24 riod, its value at the time of the close of the es-
25 tate tax inclusion period, and

1 “(B) such allocation shall be effective on
2 and after the date of such transfer, or, in the
3 case of an allocation deemed to have been made
4 at the close of an estate tax inclusion period, on
5 and after the close of such estate tax inclusion
6 period.”.

7 (b) TRANSFERS AT DEATH.—Subparagraph (A) of
8 section 2642(b)(2) is amended to read as follows:

9 “(A) TRANSFERS AT DEATH.—If property
10 is transferred as a result of the death of the
11 transferor, the value of such property for pur-
12 poses of subsection (a) shall be its value as fi-
13 nally determined for purposes of chapter 11; ex-
14 cept that, if the requirements prescribed by the
15 Secretary respecting allocation of post-death
16 changes in value are not met, the value of such
17 property shall be determined as of the time of
18 the distribution concerned.”.

19 (c) EFFECTIVE DATE.—The amendments made by
20 this section shall take effect as if included in the amend-
21 ments made by section 1431 of the Tax Reform Act of
22 1986.

23 **SEC. 524. RELIEF PROVISIONS.**

24 (a) IN GENERAL.—Section 2642 is amended by add-
25 ing at the end the following new subsection:

1 “(g) RELIEF PROVISIONS.—

2 “(1) RELIEF FOR LATE ELECTIONS.—

3 “(A) IN GENERAL.—The Secretary shall by
4 regulation prescribe such circumstances and
5 procedures under which extensions of time will
6 be granted to make—

7 “(i) an allocation of GST exemption
8 described in paragraph (1) or (2) of sub-
9 section (b), and

10 “(ii) an election under subsection
11 (b)(3) or (c)(5) of section 2632.

12 Such regulations shall include procedures for
13 requesting comparable relief with respect to
14 transfers made before the date of the enactment
15 of this paragraph.

16 “(B) BASIS FOR DETERMINATIONS.—In
17 determining whether to grant relief under this
18 paragraph, the Secretary shall take into ac-
19 count all relevant circumstances, including evi-
20 dence of intent contained in the trust instru-
21 ment or instrument of transfer and such other
22 factors as the Secretary deems relevant. For
23 purposes of determining whether to grant relief
24 under this paragraph, the time for making the

1 allocation (or election) shall be treated as if not
2 expressly prescribed by statute.

3 “(2) SUBSTANTIAL COMPLIANCE.—An alloca-
4 tion of GST exemption under section 2632 that
5 demonstrates an intent to have the lowest possible
6 inclusion ratio with respect to a transfer or a trust
7 shall be deemed to be an allocation of so much of
8 the transferor’s unused GST exemption as produces
9 the lowest possible inclusion ratio. In determining
10 whether there has been substantial compliance, all
11 relevant circumstances shall be taken into account,
12 including evidence of intent contained in the trust
13 instrument or instrument of transfer and such other
14 factors as the Secretary deems relevant.”.

15 (b) EFFECTIVE DATES.—

16 (1) RELIEF FOR LATE ELECTIONS.—Section
17 2642(g)(1) of the Internal Revenue Code of 1986
18 (as added by subsection (a)) shall apply to requests
19 pending on, or filed after, the date of the enactment
20 of this Act.

21 (2) SUBSTANTIAL COMPLIANCE.—Section
22 2642(g)(2) of such Code (as so added) shall take ef-
23 fect on the date of the enactment of this Act and
24 shall apply to allocations made prior to such date for
25 purposes of determining the tax consequences of

1 generation-skipping transfers with respect to which
 2 the period of time for filing claims for refund has
 3 not expired. No implication is intended with respect
 4 to the availability of relief for late elections or the
 5 application of a rule of substantial compliance prior
 6 to the enactment of this amendment.

7 **Subtitle D—Conservation** 8 **Easements**

9 **SEC. 531. EXPANSION OF ESTATE TAX RULE FOR CON-** 10 **SERVATION EASEMENTS.**

11 (a) WHERE LAND IS LOCATED.—

12 (1) IN GENERAL.—Clause (i) of section
 13 2031(c)(8)(A) (defining land subject to a conserva-
 14 tion easement) is amended—

15 (A) by striking “25 miles” both places it
 16 appears and inserting “50 miles”, and

17 (B) striking “10 miles” and inserting “25
 18 miles”.

19 (2) EFFECTIVE DATE.—The amendments made
 20 by this subsection shall apply to estates of decedents
 21 dying after December 31, 1999.

22 (b) CLARIFICATION OF DATE FOR DETERMINING
 23 VALUE OF LAND AND EASEMENT.—

24 (1) IN GENERAL.—Section 2031(c)(2) (defining
 25 applicable percentage) is amended by adding at the

1 end the following new sentence: “The values taken
 2 into account under the preceding sentence shall be
 3 such values as of the date of the contribution re-
 4 ferred to in paragraph (8)(B).”.

5 (2) EFFECTIVE DATE.—The amendment made
 6 by this subsection shall apply to estates of decedents
 7 dying after December 31, 1997.

8 **TITLE VI—TAX RELIEF FOR DIS-**
 9 **TRESSED COMMUNITIES AND**
 10 **INDUSTRIES**

11 **Subtitle A—American Community**
 12 **Renewal Act of 1999**

13 **SEC. 601. SHORT TITLE.**

14 This subtitle may be cited as the “American Commu-
 15 nity Renewal Act of 1999”.

16 **SEC. 602. DESIGNATION OF AND TAX INCENTIVES FOR RE-**
 17 **NEWAL COMMUNITIES.**

18 (a) IN GENERAL.—Chapter 1 is amended by adding
 19 at the end the following new subchapter:

20 **“Subchapter X—Renewal Communities**

“Part I. Designation.

“Part II. Renewal community capital gain; renewal community
 business.

“Part III. Family development accounts.

“Part IV. Additional incentives.

21 **“PART I—DESIGNATION**

“Sec. 1400E. Designation of renewal communities.

1 **“SEC. 1400E. DESIGNATION OF RENEWAL COMMUNITIES.**

2 “(a) DESIGNATION.—

3 “(1) DEFINITIONS.—For purposes of this title,
4 the term ‘renewal community’ means any area—

5 “(A) which is nominated by one or more
6 local governments and the State or States in
7 which it is located for designation as a renewal
8 community (hereinafter in this section referred
9 to as a ‘nominated area’); and

10 “(B) which the Secretary of Housing and
11 Urban Development designates as a renewal
12 community, after consultation with—

13 “(i) the Secretaries of Agriculture,
14 Commerce, Labor, and the Treasury; the
15 Director of the Office of Management and
16 Budget; and the Administrator of the
17 Small Business Administration; and

18 “(ii) in the case of an area on an In-
19 dian reservation, the Secretary of the Inte-
20 rior.

21 “(2) NUMBER OF DESIGNATIONS.—

22 “(A) IN GENERAL.—The Secretary of
23 Housing and Urban Development may des-
24 ignate not more than 15 nominated areas as re-
25 newal communities of which—

1 “(i) only 5 may be designated during
2 the first 12 months of the period referred
3 to in paragraph (4)(B),

4 “(ii) an additional 5 may be des-
5 ignated during the second 12 months of
6 such period, and

7 “(iii) the remaining 5 may be des-
8 ignated during the last 12 months of such
9 period.

10 “(B) MINIMUM DESIGNATION IN RURAL
11 AREAS.—Of the areas designated under para-
12 graph (1), at least 3 must be areas—

13 “(i) which are within a local govern-
14 ment jurisdiction or jurisdictions with a
15 population of less than 50,000,

16 “(ii) which are outside of a metropoli-
17 tan statistical area (within the meaning of
18 section 143(k)(2)(B)), or

19 “(iii) which are determined by the
20 Secretary of Housing and Urban Develop-
21 ment, after consultation with the Secretary
22 of Commerce, to be rural areas.

23 “(3) AREAS DESIGNATED BASED ON DEGREE
24 OF POVERTY, ETC.—

1 “(A) IN GENERAL.—Except as otherwise
2 provided in this section, the nominated areas
3 designated as renewal communities under this
4 subsection shall be those nominated areas with
5 the highest average ranking with respect to the
6 criteria described in subparagraphs (B), (C),
7 and (D) of subsection (c)(3). For purposes of
8 the preceding sentence, an area shall be ranked
9 within each such criterion on the basis of the
10 amount by which the area exceeds such cri-
11 terion, with the area which exceeds such cri-
12 terion by the greatest amount given the highest
13 ranking.

14 “(B) EXCEPTION WHERE INADEQUATE
15 COURSE OF ACTION, ETC.—An area shall not be
16 designated under subparagraph (A) if the Sec-
17 retary of Housing and Urban Development de-
18 termines that the course of action described in
19 subsection (d)(2) with respect to such area is
20 inadequate.

21 “(C) PRIORITY FOR EMPOWERMENT ZONES
22 AND ENTERPRISE COMMUNITIES WITH RESPECT
23 TO FIRST HALF OF DESIGNATIONS.—With re-
24 spect to the first 10 designations made under
25 this section—

1 “(i) all shall be chosen from nomi-
2 nated areas which are empowerment zones
3 or enterprise communities (and are other-
4 wise eligible for designation under this sec-
5 tion); and

6 “(ii) two shall be areas described in
7 paragraph (2)(B).

8 “(4) LIMITATION ON DESIGNATIONS.—

9 “(A) PUBLICATION OF REGULATIONS.—
10 The Secretary of Housing and Urban Develop-
11 ment shall prescribe by regulation no later than
12 4 months after the date of the enactment of
13 this section, after consultation with the officials
14 described in paragraph (1)(B)—

15 “(i) the procedures for nominating an
16 area under paragraph (1)(A);

17 “(ii) the parameters relating to the
18 size and population characteristics of a re-
19 newal community; and

20 “(iii) the manner in which nominated
21 areas will be evaluated based on the cri-
22 teria specified in subsection (d).

23 “(B) TIME LIMITATIONS.—The Secretary
24 of Housing and Urban Development may des-
25 ignate nominated areas as renewal communities

1 only during the 36-month period beginning on
2 the first day of the first month following the
3 month in which the regulations described in
4 subparagraph (A) are prescribed.

5 “(C) PROCEDURAL RULES.—The Secretary
6 of Housing and Urban Development shall not
7 make any designation of a nominated area as a
8 renewal community under paragraph (2)
9 unless—

10 “(i) the local governments and the
11 States in which the nominated area is lo-
12 cated have the authority—

13 “(I) to nominate such area for
14 designation as a renewal community;

15 “(II) to make the State and local
16 commitments described in subsection
17 (d); and

18 “(III) to provide assurances sat-
19 isfactory to the Secretary of Housing
20 and Urban Development that such
21 commitments will be fulfilled,

22 “(ii) a nomination regarding such
23 area is submitted in such a manner and in
24 such form, and contains such information,
25 as the Secretary of Housing and Urban

1 Development shall by regulation prescribe;
2 and

3 “(iii) the Secretary of Housing and
4 Urban Development determines that any
5 information furnished is reasonably accu-
6 rate.

7 “(5) NOMINATION PROCESS FOR INDIAN RES-
8 ERVATIONS.—For purposes of this subchapter, in
9 the case of a nominated area on an Indian reserva-
10 tion, the reservation governing body (as determined
11 by the Secretary of the Interior) shall be treated as
12 being both the State and local governments with re-
13 spect to such area.

14 “(b) PERIOD FOR WHICH DESIGNATION IS IN EF-
15 FECT.—

16 “(1) IN GENERAL.—Any designation of an area
17 as a renewal community shall remain in effect dur-
18 ing the period beginning on the date of the designa-
19 tion and ending on the earliest of—

20 “(A) December 31, 2007,

21 “(B) the termination date designated by
22 the State and local governments in their nomi-
23 nation, or

1 “(C) the date the Secretary of Housing
2 and Urban Development revokes such designa-
3 tion.

4 “(2) REVOCATION OF DESIGNATION.—The Sec-
5 retary of Housing and Urban Development may re-
6 voke the designation under this section of an area if
7 such Secretary determines that the local government
8 or the State in which the area is located—

9 “(A) has modified the boundaries of the
10 area, or

11 “(B) is not complying substantially with,
12 or fails to make progress in achieving, the State
13 or local commitments, respectively, described in
14 subsection (d).

15 “(c) AREA AND ELIGIBILITY REQUIREMENTS.—

16 “(1) IN GENERAL.—The Secretary of Housing
17 and Urban Development may designate a nominated
18 area as a renewal community under subsection (a)
19 only if the area meets the requirements of para-
20 graphs (2) and (3) of this subsection.

21 “(2) AREA REQUIREMENTS.—A nominated area
22 meets the requirements of this paragraph if—

23 “(A) the area is within the jurisdiction of
24 one or more local governments;

1 “(B) the boundary of the area is contin-
2 uous; and

3 “(C) the area—

4 “(i) has a population, of at least—

5 “(I) 4,000 if any portion of such
6 area (other than a rural area de-
7 scribed in subsection (a)(2)(B)(i)) is
8 located within a metropolitan statis-
9 tical area (within the meaning of sec-
10 tion 143(k)(2)(B)) which has a popu-
11 lation of 50,000 or greater; or

12 “(II) 1,000 in any other case; or

13 “(ii) is entirely within an Indian res-
14 ervation (as determined by the Secretary of
15 the Interior).

16 “(3) ELIGIBILITY REQUIREMENTS.—A nomi-
17 nated area meets the requirements of this paragraph
18 if the State and the local governments in which it
19 is located certify (and the Secretary of Housing and
20 Urban Development, after such review of supporting
21 data as he deems appropriate, accepts such certifi-
22 cation) that—

23 “(A) the area is one of pervasive poverty,
24 unemployment, and general distress;

1 “(B) the unemployment rate in the area,
2 as determined by the most recent available
3 data, was at least 1½ times the national unem-
4 ployment rate for the period to which such data
5 relate;

6 “(C) the poverty rate for each population
7 census tract within the nominated area is at
8 least 20 percent; and

9 “(D) in the case of an urban area, at least
10 70 percent of the households living in the area
11 have incomes below 80 percent of the median
12 income of households within the jurisdiction of
13 the local government (determined in the same
14 manner as under section 119(b)(2) of the
15 Housing and Community Development Act of
16 1974).

17 “(4) CONSIDERATION OF HIGH INCIDENCE OF
18 CRIME.—The Secretary of Housing and Urban De-
19 velopment shall take into account, in selecting nomi-
20 nated areas for designation as renewal communities
21 under this section, the extent to which such areas
22 have a high incidence of crime.

23 “(5) CONSIDERATION OF COMMUNITIES IDENTI-
24 FIED IN GAO STUDY.—The Secretary of Housing
25 and Urban Development shall take into account, in

1 selecting nominated areas for designation as renewal
2 communities under this section, if the area has cen-
3 sus tracts identified in the May 12, 1998, report of
4 the Government Accounting Office regarding the
5 identification of economically distressed areas.

6 “(d) REQUIRED STATE AND LOCAL COMMIT-
7 MENTS.—

8 “(1) IN GENERAL.—The Secretary of Housing
9 and Urban Development may designate any nomi-
10 nated area as a renewal community under subsection
11 (a) only if—

12 “(A) the local government and the State in
13 which the area is located agree in writing that,
14 during any period during which the area is a
15 renewal community, such governments will fol-
16 low a specified course of action which meets the
17 requirements of paragraph (2) and is designed
18 to reduce the various burdens borne by employ-
19 ers or employees in such area; and

20 “(B) the economic growth promotion re-
21 quirements of paragraph (3) are met.

22 “(2) COURSE OF ACTION.—

23 “(A) IN GENERAL.—A course of action
24 meets the requirements of this paragraph if
25 such course of action is a written document,

1 signed by a State (or local government) and
2 neighborhood organizations, which evidences a
3 partnership between such State or government
4 and community-based organizations and which
5 commits each signatory to specific and measur-
6 able goals, actions, and timetables. Such course
7 of action shall include at least five of the fol-
8 lowing:

9 “(i) A reduction of tax rates or fees
10 applying within the renewal community.

11 “(ii) An increase in the level of effi-
12 ciency of local services within the renewal
13 community.

14 “(iii) Crime reduction strategies, such
15 as crime prevention (including the provi-
16 sion of such services by nongovernmental
17 entities).

18 “(iv) Actions to reduce, remove, sim-
19 plify, or streamline governmental require-
20 ments applying within the renewal commu-
21 nity.

22 “(v) Involvement in the program by
23 private entities, organizations, neighbor-
24 hood organizations, and community
25 groups, particularly those in the renewal

1 community, including a commitment from
2 such private entities to provide jobs and
3 job training for, and technical, financial, or
4 other assistance to, employers, employees,
5 and residents from the renewal community.

6 “(vi) State or local income tax bene-
7 fits for fees paid for services performed by
8 a nongovernmental entity which were for-
9 merly performed by a governmental entity.

10 “(vii) The gift (or sale at below fair
11 market value) of surplus real property
12 (such as land, homes, and commercial or
13 industrial structures) in the renewal com-
14 munity to neighborhood organizations,
15 community development corporations, or
16 private companies.

17 “(B) RECOGNITION OF PAST EFFORTS.—

18 For purposes of this section, in evaluating the
19 course of action agreed to by any State or local
20 government, the Secretary of Housing and
21 Urban Development shall take into account the
22 past efforts of such State or local government
23 in reducing the various burdens borne by em-
24 ployers and employees in the area involved.

1 “(3) ECONOMIC GROWTH PROMOTION REQUIRE-
2 MENTS.—The economic growth promotion require-
3 ments of this paragraph are met with respect to a
4 nominated area if the local government and the
5 State in which such area is located certify in writing
6 that such government and State, respectively, have
7 repealed or otherwise will not enforce within the
8 area, if such area is designated as a renewal
9 community—

10 “(A) licensing requirements for occupa-
11 tions that do not ordinarily require a profes-
12 sional degree;

13 “(B) zoning restrictions on home-based
14 businesses which do not create a public nui-
15 sance;

16 “(C) permit requirements for street ven-
17 dors who do not create a public nuisance;

18 “(D) zoning or other restrictions that im-
19 pede the formation of schools or child care cen-
20 ters; and

21 “(E) franchises or other restrictions on
22 competition for businesses providing public
23 services, including but not limited to taxicabs,
24 jitneys, cable television, or trash hauling,

1 except to the extent that such regulation of busi-
2 nesses and occupations is necessary for and well-tai-
3 lored to the protection of health and safety.

4 “(e) COORDINATION WITH TREATMENT OF EM-
5 POWERMENT ZONES AND ENTERPRISE COMMUNITIES.—

6 For purposes of this title, if there are in effect with respect
7 to the same area both—

8 “(1) a designation as a renewal community; and

9 “(2) a designation as an empowerment zone or
10 enterprise community,

11 both of such designations shall be given full effect with
12 respect to such area.

13 “(f) DEFINITIONS AND SPECIAL RULES.—For pur-
14 poses of this subchapter—

15 “(1) GOVERNMENTS.—If more than one govern-
16 ment seeks to nominate an area as a renewal com-
17 munity, any reference to, or requirement of, this sec-
18 tion shall apply to all such governments.

19 “(2) STATE.—The term ‘State’ includes Puerto
20 Rico, the Virgin Islands of the United States, Guam,
21 American Samoa, the Northern Mariana Islands,
22 and any other possession of the United States.

23 “(3) LOCAL GOVERNMENT.—The term ‘local
24 government’ means—

1 “(A) any county, city, town, township, par-
2 ish, village, or other general purpose political
3 subdivision of a State;

4 “(B) any combination of political subdivi-
5 sions described in subparagraph (A) recognized
6 by the Secretary of Housing and Urban Devel-
7 opment; and

8 “(C) the District of Columbia.

9 “(4) APPLICATION OF RULES RELATING TO
10 CENSUS TRACTS AND CENSUS DATA.—The rules of
11 sections 1392(b)(4) and 1393(a)(9) shall apply.

12 **“PART II—RENEWAL COMMUNITY CAPITAL GAIN;
13 RENEWAL COMMUNITY BUSINESS**

 “Sec. 1400F. Renewal community capital gain.

 “Sec. 1400G. Renewal community business defined.

14 **“SEC. 1400F. RENEWAL COMMUNITY CAPITAL GAIN.**

15 “(a) GENERAL RULE.—Gross income does not in-
16 clude any qualified capital gain recognized on the sale or
17 exchange of a qualified community asset held for more
18 than 5 years.

19 “(b) QUALIFIED COMMUNITY ASSET.—For purposes
20 of this section—

21 “(1) IN GENERAL.—The term ‘qualified com-
22 munity asset’ means—

23 “(A) any qualified community stock;

1 “(B) any qualified community partnership
2 interest; and

3 “(C) any qualified community business
4 property.

5 “(2) QUALIFIED COMMUNITY STOCK.—

6 “(A) IN GENERAL.—Except as provided in
7 subparagraph (B), the term ‘qualified commu-
8 nity stock’ means any stock in a domestic cor-
9 poration if—

10 “(i) such stock is acquired by the tax-
11 payer after December 31, 2000, and before
12 January 1, 2008, at its original issue (di-
13 rectly or through an underwriter) from the
14 corporation solely in exchange for cash;

15 “(ii) as of the time such stock was
16 issued, such corporation was a renewal
17 community business (or, in the case of a
18 new corporation, such corporation was
19 being organized for purposes of being a re-
20 newal community business); and

21 “(iii) during substantially all of the
22 taxpayer’s holding period for such stock,
23 such corporation qualified as a renewal
24 community business.

1 “(B) REDEMPTIONS.—A rule similar to
2 the rule of section 1202(c)(3) shall apply for
3 purposes of this paragraph.

4 “(3) QUALIFIED COMMUNITY PARTNERSHIP IN-
5 TEREST.—The term ‘qualified community partner-
6 ship interest’ means any capital or profits interest in
7 a domestic partnership if—

8 “(A) such interest is acquired by the tax-
9 payer after December 31, 2000, and before
10 January 1, 2008;

11 “(B) as of the time such interest was ac-
12 quired, such partnership was a renewal commu-
13 nity business (or, in the case of a new partner-
14 ship, such partnership was being organized for
15 purposes of being a renewal community busi-
16 ness); and

17 “(C) during substantially all of the
18 taxpayer’s holding period for such interest,
19 such partnership qualified as a renewal commu-
20 nity business.

21 A rule similar to the rule of paragraph (2)(B) shall
22 apply for purposes of this paragraph.

23 “(4) QUALIFIED COMMUNITY BUSINESS PROP-
24 PERTY.—

1 “(A) IN GENERAL.—The term ‘qualified
2 community business property’ means tangible
3 property if—

4 “(i) such property was acquired by
5 the taxpayer by purchase (as defined in
6 section 179(d)(2)) after December 31,
7 2000, and before January 1, 2008;

8 “(ii) the original use of such property
9 in the renewal community commences with
10 the taxpayer; and

11 “(iii) during substantially all of the
12 taxpayer’s holding period for such prop-
13 erty, substantially all of the use of such
14 property was in a renewal community busi-
15 ness of the taxpayer.

16 “(B) SPECIAL RULE FOR SUBSTANTIAL IM-
17 PROVEMENTS.—The requirements of clauses (i)
18 and (ii) of subparagraph (A) shall be treated as
19 satisfied with respect to—

20 “(i) property which is substantially
21 improved (within the meaning of section
22 1400B(b)(4)(B)(ii)) by the taxpayer before
23 January 1, 2008; and

24 “(ii) any land on which such property
25 is located.

1 such individual to any family development ac-
2 count for such individual's benefit; and

3 “(B) in the case of any person other than
4 a qualified individual, the amount paid in cash
5 for the taxable year by such person to any fam-
6 ily development account for the benefit of a
7 qualified individual but only if the amount so
8 paid is designated for purposes of this section
9 by such individual.

10 “(2) LIMITATION.—

11 “(A) IN GENERAL.—The amount allowable
12 as a deduction to any individual for any taxable
13 year by reason of paragraph (1)(A) shall not
14 exceed the lesser of—

15 “(i) \$2,000, or

16 “(ii) an amount equal to the com-
17 pensation includible in the individual's
18 gross income for such taxable year.

19 “(B) PERSONS DONATING TO FAMILY DE-
20 VELOPMENT ACCOUNTS OF OTHERS.—The
21 amount which may be designated under para-
22 graph (1)(B) by any qualified individual for any
23 taxable year of such individual shall not exceed
24 \$1,000.

1 “(3) SPECIAL RULES FOR CERTAIN MARRIED
2 INDIVIDUALS.—Rules similar to rules of section
3 219(c) shall apply to the limitation in paragraph
4 (2)(A).

5 “(4) COORDINATION WITH IRAS.—No deduction
6 shall be allowed under this section for any taxable
7 year to any person by reason of a payment to an ac-
8 count for the benefit of a qualified individual if any
9 amount is paid for such taxable year into an indi-
10 vidual retirement account (including a Roth IRA)
11 for the benefit of such individual.

12 “(5) ROLLOVERS.—No deduction shall be al-
13 lowed under this section with respect to any rollover
14 contribution.

15 “(b) TAX TREATMENT OF DISTRIBUTIONS.—

16 “(1) INCLUSION OF AMOUNTS IN GROSS IN-
17 COME.—Except as otherwise provided in this sub-
18 section, any amount paid or distributed out of a
19 family development account shall be included in
20 gross income by the payee or distributee, as the case
21 may be.

22 “(2) EXCLUSION OF QUALIFIED FAMILY DEVEL-
23 OPMENT DISTRIBUTIONS.—Paragraph (1) shall not
24 apply to any qualified family development distribu-
25 tion.

1 “(c) QUALIFIED FAMILY DEVELOPMENT DISTRIBUTION.—For purposes of this section—

2
3 “(1) IN GENERAL.—The term ‘qualified family
4 development distribution’ means any amount paid or
5 distributed out of a family development account
6 which would otherwise be includible in gross income,
7 to the extent that such payment or distribution is
8 used exclusively to pay qualified family development
9 expenses for the holder of the account or the spouse
10 or dependent (as defined in section 152) of such
11 holder.

12 “(2) QUALIFIED FAMILY DEVELOPMENT EXPENSES.—The term ‘qualified family development
13 expenses’ means any of the following:

14 “(A) Qualified higher education expenses.

15 “(B) Qualified first-time homebuyer costs.

16 “(C) Qualified business capitalization
17 costs.

18 “(D) Qualified medical expenses.

19 “(E) Qualified rollovers.

20 “(3) QUALIFIED HIGHER EDUCATION EXPENSES.—

21 “(A) IN GENERAL.—The term ‘qualified
22 higher education expenses’ has the meaning
23 given such term by section 72(t)(7), determined
24 given such term by section 72(t)(7), determined
25

1 by treating postsecondary vocational edu-
2 cational schools as eligible educational institu-
3 tions.

4 “(B) POSTSECONDARY VOCATIONAL EDU-
5 CATION SCHOOL.—The term ‘postsecondary vo-
6 cational educational school’ means an area vo-
7 cational education school (as defined in sub-
8 paragraph (C) or (D) of section 521(4) of the
9 Carl D. Perkins Vocational and Applied Tech-
10 nology Education Act (20 U.S.C. 2471(4)))
11 which is in any State (as defined in section
12 521(33) of such Act), as such sections are in
13 effect on the date of the enactment of this sec-
14 tion.

15 “(C) COORDINATION WITH OTHER BENE-
16 FITS.—The amount of qualified higher edu-
17 cation expenses for any taxable year shall be re-
18 duced as provided in section 25A(g)(2).

19 “(4) QUALIFIED FIRST-TIME HOMEBUYER
20 COSTS.—The term ‘qualified first-time homebuyer
21 costs’ means qualified acquisition costs (as defined
22 in section 72(t)(8) without regard to subparagraph
23 (B) thereof) with respect to a principal residence
24 (within the meaning of section 121) for a qualified

1 first-time homebuyer (as defined in section
2 72(t)(8)).

3 “(5) QUALIFIED BUSINESS CAPITALIZATION
4 COSTS.—

5 “(A) IN GENERAL.—The term ‘qualified
6 business capitalization costs’ means qualified
7 expenditures for the capitalization of a qualified
8 business pursuant to a qualified plan.

9 “(B) QUALIFIED EXPENDITURES.—The
10 term ‘qualified expenditures’ means expendi-
11 tures included in a qualified plan, including
12 capital, plant, equipment, working capital, and
13 inventory expenses.

14 “(C) QUALIFIED BUSINESS.—The term
15 ‘qualified business’ means any trade or business
16 other than any trade or business—

17 “(i) which consists of the operation of
18 any facility described in section
19 144(c)(6)(B), or

20 “(ii) which contravenes any law.

21 “(D) QUALIFIED PLAN.—The term ‘quali-
22 fied plan’ means a business plan which meets
23 such requirements as the Secretary may specify.

24 “(6) QUALIFIED MEDICAL EXPENSES.—The
25 term ‘qualified medical expenses’ means any amount

1 paid during the taxable year, not compensated for by
2 insurance or otherwise, for medical care (as defined
3 in section 213(d)) of the taxpayer, his spouse, or his
4 dependent (as defined in section 152).

5 “(7) QUALIFIED ROLLOVERS.—The term ‘quali-
6 fied rollover’ means any amount paid from a family
7 development account of a taxpayer into another such
8 account established for the benefit of—

9 “(A) such taxpayer, or

10 “(B) any qualified individual who is—

11 “(i) the spouse of such taxpayer, or

12 “(ii) any dependent (as defined in sec-
13 tion 152) of the taxpayer.

14 Rules similar to the rules of section 408(d)(3) shall
15 apply for purposes of this paragraph.

16 “(d) TAX TREATMENT OF ACCOUNTS.—

17 “(1) IN GENERAL.—Any family development ac-
18 count is exempt from taxation under this subtitle
19 unless such account has ceased to be a family devel-
20 opment account by reason of paragraph (2). Not-
21 withstanding the preceding sentence, any such ac-
22 count is subject to the taxes imposed by section 511
23 (relating to imposition of tax on unrelated business
24 income of charitable, etc., organizations). Notwith-
25 standing any other provision of this title (including

1 chapters 11 and 12), the basis of any person in such
2 an account is zero.

3 “(2) LOSS OF EXEMPTION IN CASE OF PROHIB-
4 ITED TRANSACTIONS.—For purposes of this section,
5 rules similar to the rules of section 408(e) shall
6 apply.

7 “(3) OTHER RULES TO APPLY.—Rules similar
8 to the rules of paragraphs (4), (5), and (6) of sec-
9 tion 408(d) shall apply for purposes of this section.

10 “(e) FAMILY DEVELOPMENT ACCOUNT.—For pur-
11 poses of this title, the term ‘family development account’
12 means a trust created or organized in the United States
13 for the exclusive benefit of a qualified individual or his
14 beneficiaries, but only if the written governing instrument
15 creating the trust meets the following requirements:

16 “(1) Except in the case of a qualified rollover
17 (as defined in subsection (c)(7))—

18 “(A) no contribution will be accepted un-
19 less it is in cash; and

20 “(B) contributions will not be accepted for
21 the taxable year in excess of \$3,000.

22 “(2) The requirements of paragraphs (2)
23 through (6) of section 408(a) are met.

1 “(f) QUALIFIED INDIVIDUAL.—For purposes of this
2 section, the term ‘qualified individual’ means, for any tax-
3 able year, an individual—

4 “(1) who is a bona fide resident of a renewal
5 community throughout the taxable year; and

6 “(2) to whom a credit was allowed under sec-
7 tion 32 for the preceding taxable year.

8 “(g) OTHER DEFINITIONS AND SPECIAL RULES.—

9 “(1) COMPENSATION.—The term ‘compensa-
10 tion’ has the meaning given such term by section
11 219(f)(1).

12 “(2) MARRIED INDIVIDUALS.—The maximum
13 deduction under subsection (a) shall be computed
14 separately for each individual, and this section shall
15 be applied without regard to any community prop-
16 erty laws.

17 “(3) TIME WHEN CONTRIBUTIONS DEEMED
18 MADE.—For purposes of this section, a taxpayer
19 shall be deemed to have made a contribution to a
20 family development account on the last day of the
21 preceding taxable year if the contribution is made on
22 account of such taxable year and is made not later
23 than the time prescribed by law for filing the return
24 for such taxable year (not including extensions
25 thereof).

1 “(4) EMPLOYER PAYMENTS; CUSTODIAL AC-
2 COUNTS.—Rules similar to the rules of sections
3 219(f)(5) and 408(h) shall apply for purposes of
4 this section.

5 “(5) REPORTS.—The trustee of a family devel-
6 opment account shall make such reports regarding
7 such account to the Secretary and to the individual
8 for whom the account is maintained with respect to
9 contributions (and the years to which they relate),
10 distributions, and such other matters as the Sec-
11 retary may require under regulations. The reports
12 required by this paragraph—

13 “(A) shall be filed at such time and in
14 such manner as the Secretary prescribes in
15 such regulations; and

16 “(B) shall be furnished to individuals—

17 “(i) not later than January 31 of the
18 calendar year following the calendar year
19 to which such reports relate; and

20 “(ii) in such manner as the Secretary
21 prescribes in such regulations.

22 “(6) INVESTMENT IN COLLECTIBLES TREATED
23 AS DISTRIBUTIONS.—Rules similar to the rules of
24 section 408(m) shall apply for purposes of this sec-
25 tion.

1 “(h) PENALTY FOR DISTRIBUTIONS NOT USED FOR
2 QUALIFIED FAMILY DEVELOPMENT EXPENSES.—

3 “(1) IN GENERAL.—If any amount is distrib-
4 uted from a family development account and is not
5 used exclusively to pay qualified family development
6 expenses for the holder of the account or the spouse
7 or dependent (as defined in section 152) of such
8 holder, the tax imposed by this chapter for the tax-
9 able year of such distribution shall be increased by
10 10 percent of the portion of such amount which is
11 includible in gross income.

12 “(2) EXCEPTION FOR CERTAIN DISTRIBUTI-
13 TIONS.—Paragraph (1) shall not apply to distribu-
14 tions which are—

15 “(A) made on or after the date on which
16 the account holder attains age 59½,

17 “(B) made to a beneficiary (or the estate
18 of the account holder) on or after the death of
19 the account holder, or

20 “(C) attributable to the account holder’s
21 being disabled within the meaning of section
22 72(m)(7).

23 “(i) APPLICATION OF SECTION.—This section shall
24 apply to amounts paid to a family development account

1 for any taxable year beginning after December 31, 2000,
2 and before January 1, 2008.

3 **“SEC. 1400I. DESIGNATION OF EARNED INCOME TAX CRED-**
4 **IT PAYMENTS FOR DEPOSIT TO FAMILY DE-**
5 **VELOPMENT ACCOUNT.**

6 “(a) IN GENERAL.—With respect to the return of any
7 qualified individual (as defined in section 1400H(f)) for
8 the taxable year of the tax imposed by this chapter, such
9 individual may designate that a specified portion (not less
10 than \$1) of any overpayment of tax for such taxable year
11 which is attributable to the earned income tax credit shall
12 be deposited by the Secretary into a family development
13 account of such individual. The Secretary shall so deposit
14 such portion designated under this subsection.

15 “(b) MANNER AND TIME OF DESIGNATION.—A des-
16 ignation under subsection (a) may be made with respect
17 to any taxable year—

18 “(1) at the time of filing the return of the tax
19 imposed by this chapter for such taxable year, or

20 “(2) at any other time (after the time of filing
21 the return of the tax imposed by this chapter for
22 such taxable year) specified in regulations prescribed
23 by the Secretary.

24 Such designation shall be made in such manner as the
25 Secretary prescribes by regulations.

1 “(c) **PORTION ATTRIBUTABLE TO EARNED INCOME**
2 **TAX CREDIT.**—For purposes of subsection (a), an over-
3 payment for any taxable year shall be treated as attrib-
4 utable to the earned income tax credit to the extent that
5 such overpayment does not exceed the credit allowed to
6 the taxpayer under section 32 for such taxable year.

7 “(d) **OVERPAYMENTS TREATED AS REFUNDED.**—
8 For purposes of this title, any portion of an overpayment
9 of tax designated under subsection (a) shall be treated as
10 being refunded to the taxpayer as of the last date pre-
11 scribed for filing the return of tax imposed by this chapter
12 (determined without regard to extensions) or, if later, the
13 date the return is filed.

14 “(e) **TERMINATION.**—This section shall not apply to
15 any taxable year beginning after December 31, 2007.

16 **“PART IV—ADDITIONAL INCENTIVES**

 “Sec. 1400K. Commercial revitalization deduction.

 “Sec. 1400L. Increase in expensing under section 179.

17 **“SEC. 1400K. COMMERCIAL REVITALIZATION DEDUCTION.**

18 “(a) **GENERAL RULE.**—At the election of the tax-
19 payer, either—

20 “(1) one-half of any qualified revitalization ex-
21 penditures chargeable to capital account with respect
22 to any qualified revitalization building shall be allow-
23 able as a deduction for the taxable year in which the
24 building is placed in service, or

1 “(2) a deduction for all such expenditures shall
2 be allowable ratably over the 120-month period be-
3 ginning with the month in which the building is
4 placed in service.

5 The deduction provided by this section with respect to
6 such expenditure shall be in lieu of any depreciation de-
7 duction otherwise allowable on account of such expendi-
8 ture.

9 “(b) QUALIFIED REVITALIZATION BUILDINGS AND
10 EXPENDITURES.—For purposes of this section—

11 “(1) QUALIFIED REVITALIZATION BUILDING.—

12 The term ‘qualified revitalization building’ means
13 any building (and its structural components) if—

14 “(A) such building is located in a renewal
15 community and is placed in service after De-
16 cember 31, 2000;

17 “(B) a commercial revitalization deduction
18 amount is allocated to the building under sub-
19 section (d); and

20 “(C) depreciation (or amortization in lieu
21 of depreciation) is allowable with respect to the
22 building (without regard to this section).

23 “(2) QUALIFIED REVITALIZATION EXPENDI-
24 TURE.—

1 “(A) IN GENERAL.—The term ‘qualified
2 revitalization expenditure’ means any amount
3 properly chargeable to capital account—

4 “(i) for property for which deprecia-
5 tion is allowable under section 168 (with-
6 out regard to this section) and which is—

7 “(I) nonresidential real property;

8 or

9 “(II) an addition or improvement
10 to property described in subclause (I);

11 “(ii) in connection with the construc-
12 tion of any qualified revitalization building
13 which was not previously placed in service
14 or in connection with the substantial reha-
15 bilitation (within the meaning of section
16 47(c)(1)(C)) of a building which was
17 placed in service before the beginning of
18 such rehabilitation; and

19 “(iii) for land (including land which is
20 functionally related to such property and
21 subordinate thereto).

22 “(B) DOLLAR LIMITATION.—The aggre-
23 gate amount which may be treated as qualified
24 revitalization expenditures with respect to any

1 qualified revitalization building for any taxable
2 year shall not exceed the excess of—

3 “(i) \$10,000,000, reduced by

4 “(ii) any such expenditures with re-
5 spect to the building taken into account by
6 the taxpayer or any predecessor in deter-
7 mining the amount of the deduction under
8 this section for all preceding taxable years.

9 “(C) CERTAIN EXPENDITURES NOT IN-
10 CLUDED.—The term ‘qualified revitalization ex-
11 penditure’ does not include—

12 “(i) ACQUISITION COSTS.—The costs
13 of acquiring any building or interest there-
14 in and any land in connection with such
15 building to the extent that such costs ex-
16 ceed 30 percent of the qualified revitaliza-
17 tion expenditures determined without re-
18 gard to this clause.

19 “(ii) CREDITS.—Any expenditure
20 which the taxpayer may take into account
21 in computing any credit allowable under
22 this title unless the taxpayer elects to take
23 the expenditure into account only for pur-
24 poses of this section.

1 “(c) WHEN EXPENDITURES TAKEN INTO AC-
2 COUNT.—Qualified revitalization expenditures with re-
3 spect to any qualified revitalization building shall be taken
4 into account for the taxable year in which the qualified
5 revitalization building is placed in service. For purposes
6 of the preceding sentence, a substantial rehabilitation of
7 a building shall be treated as a separate building.

8 “(d) LIMITATION ON AGGREGATE DEDUCTIONS AL-
9 LOWABLE WITH RESPECT TO BUILDINGS LOCATED IN A
10 STATE.—

11 “(1) IN GENERAL.—The amount of the deduc-
12 tion determined under this section for any taxable
13 year with respect to any building shall not exceed
14 the commercial revitalization deduction amount (in
15 the case of an amount determined under subsection
16 (a)(2), the present value of such amount as deter-
17 mined under the rules of section 42(b)(2)(C) by sub-
18 stituting ‘100 percent’ for ‘72 percent’ in clause (ii)
19 thereof) allocated to such building under this sub-
20 section by the commercial revitalization agency.
21 Such allocation shall be made at the same time and
22 in the same manner as under paragraphs (1) and
23 (7) of section 42(h).

24 “(2) COMMERCIAL REVITALIZATION DEDUCTION
25 AMOUNT FOR AGENCIES.—

1 “(A) IN GENERAL.—The aggregate com-
2 mercial revitalization deduction amount which a
3 commercial revitalization agency may allocate
4 for any calendar year is the amount of the
5 State commercial revitalization deduction ceil-
6 ing determined under this paragraph for such
7 calendar year for such agency.

8 “(B) STATE COMMERCIAL REVITALIZATION
9 DEDUCTION CEILING.—The State commercial
10 revitalization deduction ceiling applicable to any
11 State—

12 “(i) for each calendar year after 2000
13 and before 2008 is \$6,000,000 for each re-
14 newal community in the State; and

15 “(ii) zero for each calendar year
16 thereafter.

17 “(C) COMMERCIAL REVITALIZATION AGEN-
18 CY.—For purposes of this section, the term
19 ‘commercial revitalization agency’ means any
20 agency authorized by a State to carry out this
21 section.

22 “(e) RESPONSIBILITIES OF COMMERCIAL REVITAL-
23 IZATION AGENCIES.—

24 “(1) PLANS FOR ALLOCATION.—Notwith-
25 standing any other provision of this section, the

1 commercial revitalization deduction amount with re-
2 spect to any building shall be zero unless—

3 “(A) such amount was allocated pursuant
4 to a qualified allocation plan of the commercial
5 revitalization agency which is approved (in ac-
6 cordance with rules similar to the rules of sec-
7 tion 147(f)(2) (other than subparagraph (B)(ii)
8 thereof)) by the governmental unit of which
9 such agency is a part; and

10 “(B) such agency notifies the chief execu-
11 tive officer (or its equivalent) of the local juris-
12 diction within which the building is located of
13 such allocation and provides such individual a
14 reasonable opportunity to comment on the allo-
15 cation.

16 “(2) QUALIFIED ALLOCATION PLAN.—For pur-
17 poses of this subsection, the term ‘qualified alloca-
18 tion plan’ means any plan—

19 “(A) which sets forth selection criteria to
20 be used to determine priorities of the commer-
21 cial revitalization agency which are appropriate
22 to local conditions;

23 “(B) which considers—

24 “(i) the degree to which a project con-
25 tributes to the implementation of a stra-

1 tegie plan that is devised for a renewal
2 community through a citizen participation
3 process;

4 “(ii) the amount of any increase in
5 permanent, full-time employment by reason
6 of any project; and

7 “(iii) the active involvement of resi-
8 dents and nonprofit groups within the re-
9 newal community; and

10 “(C) which provides a procedure that the
11 agency (or its agent) will follow in monitoring
12 compliance with this section.

13 “(f) REGULATIONS.—For purposes of this section,
14 the Secretary shall, by regulations, provide for the applica-
15 tion of rules similar to the rules of section 49 and sub-
16 sections (a) and (b) of section 50.

17 “(g) TERMINATION.—This section shall not apply to
18 any building placed in service after December 31, 2007.

19 **“SEC. 1400L. INCREASE IN EXPENSING UNDER SECTION 179.**

20 “(a) GENERAL RULE.—In the case of a renewal com-
21 munity business (as defined in section 1400G), for pur-
22 poses of section 179—

23 “(1) the limitation under section 179(b)(1)
24 shall be increased by the lesser of—

25 “(A) \$35,000; or

1 “(B) the cost of section 179 property
2 which is qualified renewal property placed in
3 service during the taxable year; and

4 “(2) the amount taken into account under sec-
5 tion 179(b)(2) with respect to any section 179 prop-
6 erty which is qualified renewal property shall be 50
7 percent of the cost thereof.

8 “(b) RECAPTURE.—Rules similar to the rules under
9 section 179(d)(10) shall apply with respect to any quali-
10 fied renewal property which ceases to be used in a renewal
11 community by a renewal community business.

12 “(c) QUALIFIED RENEWAL PROPERTY.—For pur-
13 poses of this section—

14 “(1) IN GENERAL.—The term ‘qualified renewal
15 property’ means any property to which section 168
16 applies (or would apply but for section 179) if—

17 “(A) such property was acquired by the
18 taxpayer by purchase (as defined in section
19 179(d)(2)) after December 31, 2000, and be-
20 fore January 1, 2008; and

21 “(B) such property would be qualified zone
22 property (as defined in section 1397C) if ref-
23 erences to renewal communities were sub-
24 stituted for references to empowerment zones in
25 section 1397C.

1 “(2) CERTAIN RULES TO APPLY.—The rules of
2 subsections (a)(2) and (b) of section 1397C shall
3 apply for purposes of this section.”.

4 **SEC. 603. EXTENSION OF EXPENSING OF ENVIRONMENTAL**
5 **REMEDATION COSTS TO RENEWAL COMMU-**
6 **NITIES.**

7 (a) EXTENSION.—Paragraph (2) of section 198(c)
8 (defining targeted area) is amended by redesignating sub-
9 paragraph (C) as subparagraph (D) and by inserting after
10 subparagraph (B) the following new subparagraph:

11 “(C) RENEWAL COMMUNITIES IN-
12 CLUDED.—Except as provided in subparagraph
13 (B), such term shall include a renewal commu-
14 nity (as defined in section 1400E) with respect
15 to expenditures paid or incurred after Decem-
16 ber 31, 2000.”.

17 (b) EXTENSION OF TERMINATION DATE FOR RE-
18 NEWAL COMMUNITIES.—Subsection (h) of section 198 is
19 amended by inserting before the period “(December 31,
20 2007, in the case of a renewal community, as defined in
21 section 1400E).”.

1 **SEC. 604. EXTENSION OF WORK OPPORTUNITY TAX CREDIT**
2 **FOR RENEWAL COMMUNITIES.**

3 (a) EXTENSION.—Subsection (c) of section 51 (relat-
4 ing to termination) is amended by adding at the end the
5 following new paragraph:

6 “(5) EXTENSION OF CREDIT FOR RENEWAL
7 COMMUNITIES.—

8 “(A) IN GENERAL.—In the case of an indi-
9 vidual who begins work for the employer after
10 the date contained in paragraph (4)(B), for
11 purposes of section 38—

12 “(i) in lieu of applying subsection (a),
13 the amount of the work opportunity credit
14 determined under this section for the tax-
15 able year shall be equal to—

16 “(I) 15 percent of the qualified
17 first-year wages for such year; and

18 “(II) 30 percent of the qualified
19 second-year wages for such year;

20 “(ii) subsection (b)(3) shall be applied
21 by substituting ‘\$10,000’ for ‘\$6,000’;

22 “(iii) paragraph (4)(B) shall be ap-
23 plied by substituting for the date contained
24 therein the last day for which the designa-
25 tion under section 1400E of the renewal

1 community referred to in subparagraph
2 (B)(i) is in effect; and

3 “(iv) rules similar to the rules of sec-
4 tion 51A(b)(5)(C) shall apply.

5 “(B) QUALIFIED FIRST- AND SECOND-
6 YEAR WAGES.—For purposes of subparagraph
7 (A)—

8 “(i) IN GENERAL.—The term ‘quali-
9 fied wages’ means, with respect to each 1-
10 year period referred to in clause (ii) or
11 (iii), as the case may be, the wages paid or
12 incurred by the employer during the tax-
13 able year to any individual but only if—

14 “(I) the employer is engaged in a
15 trade or business in a renewal com-
16 munity throughout such 1-year period;

17 “(II) the principal place of abode
18 of such individual is in such renewal
19 community throughout such 1-year
20 period; and

21 “(III) substantially all of the
22 services which such individual per-
23 forms for the employer during such 1-
24 year period are performed in such re-
25 newal community.

1 “(ii) QUALIFIED FIRST-YEAR
2 WAGES.—The term ‘qualified first-year
3 wages’ means, with respect to any indi-
4 vidual, qualified wages attributable to serv-
5 ice rendered during the 1-year period be-
6 ginning with the day the individual begins
7 work for the employer.

8 “(iii) QUALIFIED SECOND-YEAR
9 WAGES.—The term ‘qualified second-year
10 wages’ means, with respect to any indi-
11 vidual, qualified wages attributable to serv-
12 ice rendered during the 1-year period be-
13 ginning on the day after the last day of the
14 1-year period with respect to such indi-
15 vidual determined under clause (ii).”.

16 (b) CONGRUENT TREATMENT OF RENEWAL COMMU-
17 NITIES AND ENTERPRISE ZONES FOR PURPOSES OF
18 YOUTH RESIDENCE REQUIREMENTS.—

19 (1) HIGH-RISK YOUTH.—Subparagraphs (A)(ii)
20 and (B) of section 51(d)(5) are each amended by
21 striking “empowerment zone or enterprise commu-
22 nity” and inserting “empowerment zone, enterprise
23 community, or renewal community”.

24 (2) QUALIFIED SUMMER YOUTH EMPLOYEE.—
25 Clause (iv) of section 51(d)(7)(A) is amended by

1 striking “empowerment zone or enterprise commu-
2 nity” and inserting “empowerment zone, enterprise
3 community, or renewal community”.

4 (3) HEADINGS.—Paragraphs (5)(B) and (7)(C)
5 of section 51(d) are each amended by inserting “OR
6 COMMUNITY” in the heading after “ZONE”.

7 (4) EFFECTIVE DATE.—The amendments made
8 by this subsection shall apply to individuals who
9 begin work for the employer after December 31,
10 2000.

11 **SEC. 605. CONFORMING AND CLERICAL AMENDMENTS.**

12 (a) DEDUCTION FOR CONTRIBUTIONS TO FAMILY
13 DEVELOPMENT ACCOUNTS ALLOWABLE WHETHER OR
14 NOT TAXPAYER ITEMIZES.—Subsection (a) of section 62
15 (relating to adjusted gross income defined) is amended by
16 inserting after paragraph (19) the following new para-
17 graph:

18 “(20) FAMILY DEVELOPMENT ACCOUNTS.—The
19 deduction allowed by section 1400H(a)(1).”.

20 (b) TAX ON EXCESS CONTRIBUTIONS.—

21 (1) TAX IMPOSED.—Subsection (a) of section
22 4973 is amended by striking “or” at the end of
23 paragraph (3), adding “or” at the end of paragraph
24 (4), and inserting after paragraph (4) the following
25 new paragraph:

1 “(5) a family development account (within the
2 meaning of section 1400H(e)),”.

3 (2) EXCESS CONTRIBUTIONS.—Section 4973 is
4 amended by adding at the end the following new
5 subsection:

6 “(g) FAMILY DEVELOPMENT ACCOUNTS.—For pur-
7 poses of this section, in the case of family development
8 accounts, the term ‘excess contributions’ means the sum
9 of—

10 “(1) the excess (if any) of—

11 “(A) the amount contributed for the tax-
12 able year to the accounts (other than a quali-
13 fied rollover, as defined in section
14 1400H(c)(7)), over

15 “(B) the amount allowable as a deduction
16 under section 1400H for such contributions;
17 and

18 “(2) the amount determined under this sub-
19 section for the preceding taxable year reduced by the
20 sum of—

21 “(A) the distributions out of the accounts
22 for the taxable year which were included in the
23 gross income of the payee under section
24 1400H(b)(1);

1 “(B) the distributions out of the accounts
2 for the taxable year to which rules similar to
3 the rules of section 408(d)(5) apply by reason
4 of section 1400H(d)(3); and

5 “(C) the excess (if any) of the maximum
6 amount allowable as a deduction under section
7 1400H for the taxable year over the amount
8 contributed to the account for the taxable year.

9 For purposes of this subsection, any contribution which
10 is distributed from the family development account in a
11 distribution to which rules similar to the rules of section
12 408(d)(4) apply by reason of section 1400H(d)(3) shall
13 be treated as an amount not contributed.”.

14 (c) TAX ON PROHIBITED TRANSACTIONS.—Section
15 4975 is amended—

16 (1) by adding at the end of subsection (c) the
17 following new paragraph:

18 “(6) SPECIAL RULE FOR FAMILY DEVELOP-
19 MENT ACCOUNTS.—An individual for whose benefit a
20 family development account is established and any
21 contributor to such account shall be exempt from the
22 tax imposed by this section with respect to any
23 transaction concerning such account (which would
24 otherwise be taxable under this section) if, with re-
25 spect to such transaction, the account ceases to be

1 a family development account by reason of the appli-
2 cation of section 1400H(d)(2) to such account.”;
3 and

4 (2) in subsection (e)(1), by striking “or” at the
5 end of subparagraph (E), by redesignating subpara-
6 graph (F) as subparagraph (G), and by inserting
7 after subparagraph (E) the following new subpara-
8 graph:

9 “(F) a family development account de-
10 scribed in section 1400H(e), or”.

11 (d) INFORMATION RELATING TO CERTAIN TRUSTS
12 AND ANNUITY PLANS.—Subsection (c) of section 6047 is
13 amended—

14 (1) by inserting “or section 1400H” after “sec-
15 tion 219”; and

16 (2) by inserting “, of any family development
17 account described in section 1400H(e),”, after “sec-
18 tion 408(a)”.

19 (e) INSPECTION OF APPLICATIONS FOR TAX EXEMP-
20 TION.—Clause (i) of section 6104(a)(1)(B) is amended by
21 inserting “a family development account described in sec-
22 tion 1400H(e),” after “section 408(a),”.

23 (f) FAILURE TO PROVIDE REPORTS ON FAMILY DE-
24 VELOPMENT ACCOUNTS.—Paragraph (2) of section
25 6693(a) is amended by striking “and” at the end of sub-

1 paragraph (C), by striking the period and inserting
2 “, and” at the end of subparagraph (D), and by adding
3 at the end the following new subparagraph:

4 “(E) section 1400H(g)(6) (relating to fam-
5 ily development accounts).”.

6 (g) CONFORMING AMENDMENTS REGARDING COM-
7 MERCIAL REVITALIZATION DEDUCTION.—

8 (1) Section 172 is amended by redesignating
9 subsection (j) as subsection (k) and by inserting
10 after subsection (i) the following new subsection:

11 “(j) NO CARRYBACK OF SECTION 1400K DEDUC-
12 TION BEFORE DATE OF THE ENACTMENT.—No portion
13 of the net operating loss for any taxable year which is at-
14 tributable to any commercial revitalization deduction de-
15 termined under section 1400K may be carried back to a
16 taxable year ending before the date of the enactment of
17 section 1400K.”.

18 (2) Subparagraph (B) of section 48(a)(2) is
19 amended by inserting “or commercial revitalization”
20 after “rehabilitation” each place it appears in the
21 text and heading.

22 (3) Subparagraph (C) of section 469(i)(3) is
23 amended—

24 (A) by inserting “or section 1400K” after
25 “section 42”; and

1 (B) by inserting “AND COMMERCIAL REVI-
2 TALIZATION DEDUCTION” after “CREDIT” in
3 the heading.

4 (h) CLERICAL AMENDMENTS.—The table of sub-
5 chapters for chapter 1 is amended by adding at the end
6 the following new item:

“Subchapter X. Renewal Communities.”.

7 **Subtitle B—Timber Incentives**

8 **SEC. 611. TEMPORARY SUSPENSION OF MAXIMUM AMOUNT** 9 **OF AMORTIZABLE REFORESTATION EXPENDI-** 10 **TURES.**

11 (a) INCREASE IN DOLLAR LIMITATION.—Paragraph
12 (1) of section 194(b) (relating to amortization of reforest-
13 ation expenditures) is amended by striking “\$10,000
14 (\$5,000” and inserting “\$25,000 (\$12,500”.

15 (b) TEMPORARY SUSPENSION OF INCREASED DOL-
16 LAR LIMITATION.—Subsection (b) of section 194(b) (re-
17 lating to amortization of reforestation expenditures) is
18 amended by adding at the end the following new para-
19 graph:

20 “(5) SUSPENSION OF DOLLAR LIMITATION.—
21 Paragraph (1) shall not apply to taxable years be-
22 ginning after December 31, 1999, and before Janu-
23 ary 1, 2004.

24 (c) CONFORMING AMENDMENT.—Paragraph (1) of
25 section 48(b) is amended by striking “section 194(b)(1)”

1 and inserting “section 194(b)(1) and without regard to
2 section 194(b)(5)”.

3 (d) EFFECTIVE DATE.—The amendments made by
4 this section shall apply to taxable years beginning after
5 December 31, 2000.

6 **TITLE VII—REAL ESTATE**
7 **PROVISIONS**

8 **Subtitle A—Improvements in Low-**
9 **Income Housing Credit**

10 **SEC. 701. MODIFICATION OF STATE CEILING ON LOW-IN-**
11 **COME HOUSING CREDIT.**

12 (a) IN GENERAL.—Clauses (i) and (ii) of section
13 42(h)(3)(C) (relating to State housing credit ceiling) are
14 amended to read as follows:

15 “(i) the unused State housing credit
16 ceiling (if any) of such State for the pre-
17 ceding calendar year,

18 “(ii) the greater of—

19 “(I) the applicable amount under
20 subparagraph (H) multiplied by the
21 State population, or

22 “(II) \$2,000,000.”

23 (b) APPLICABLE AMOUNT.—Paragraph (3) of section
24 42(h) (relating to housing credit dollar amount for agen-

1 cies) is amended by adding at the end the following new
2 subparagraph:

3 “(H) APPLICABLE AMOUNT OF STATE
4 CEILING.—For purposes of subparagraph
5 (C)(ii), the applicable amount shall be deter-
6 mined under the following table:

| “For calendar year: | The applicable amount is: |
|----------------------------|----------------------------------|
| 2000 | \$1.35 |
| 2001 | 1.45 |
| 2002 | 1.55 |
| 2003 | 1.65 |
| 2004 and thereafter | 1.75.”. |

7 (c) ADJUSTMENT OF STATE CEILING FOR INCREASES
8 IN COST-OF-LIVING.—Paragraph (3) of section 42(h) (re-
9 lating to housing credit dollar amount for agencies), as
10 amended by subsection (c), is amended by adding at the
11 end the following new subparagraph:

12 “(I) COST-OF-LIVING ADJUSTMENT.—

13 “(i) IN GENERAL.—In the case of a
14 calendar year after 2004, the \$2,000,000
15 in subparagraph (C) and the \$1.75 amount
16 in subparagraph (H) shall each be in-
17 creased by an amount equal to—

18 “(I) such dollar amount, multi-
19 plied by

20 “(II) the cost-of-living adjust-
21 ment determined under section
22 1(f)(3) for such calendar year by sub-

1 stituting ‘calendar year 2003’ for ‘cal-
2 endar year 1992’ in subparagraph (B)
3 thereof.

4 “(ii) ROUNDING.—

5 “(I) In the case of the amount in
6 subparagraph (C), any increase under
7 clause (i) which is not a multiple of
8 \$5,000 shall be rounded to the next
9 lowest multiple of \$5,000.

10 “(II) In the case of the amount
11 in subparagraph (H), any increase
12 under clause (i) which is not a mul-
13 tiple of 5 cents shall be rounded to
14 the next lowest multiple of 5 cents.”.

15 (d) CONFORMING AMENDMENTS.—

16 (1) Section 42(h)(3)(C), as amended by sub-
17 section (a), is amended—

18 (A) by striking “clause (ii)” in the matter
19 following clause (iv) and inserting “clause (i)”,
20 and

21 (B) by striking “clauses (i)” in the matter
22 following clause (iv) and inserting “clauses
23 (ii)”.

24 (2) Section 42(h)(3)(D)(ii) is amended—

1 (A) by striking “subparagraph (C)(ii)” and
2 inserting “subparagraph (C)(i)”, and

3 (B) by striking “clauses (i)” in subclause
4 (II) and inserting “clauses (ii)”.

5 (e) EFFECTIVE DATE.—The amendments made by
6 this section shall apply to calendar years after 2000.

7 **SEC. 702. MODIFICATION OF CRITERIA FOR ALLOCATING**
8 **HOUSING CREDITS AMONG PROJECTS.**

9 (a) SELECTION CRITERIA.—Subparagraph (C) of
10 section 42(m)(1) (relating to certain selection criteria
11 must be used) is amended—

12 (1) by inserting “, including whether the project
13 includes the use of existing housing as part of a
14 community revitalization plan” before the comma at
15 the end of clause (iii), and

16 (2) by striking clauses (v), (vi), and (vii) and
17 inserting the following new clauses:

18 “(v) tenant populations with special
19 housing needs,

20 “(vi) public housing waiting lists,

21 “(vii) tenant populations of individ-
22 uals with children, and

23 “(viii) projects intended for eventual
24 tenant ownership.”.

1 (b) PREFERENCE FOR COMMUNITY REVITALIZATION
2 PROJECTS LOCATED IN QUALIFIED CENSUS TRACTS.—
3 Clause (ii) of section 42(m)(1)(B) is amended by striking
4 “and” at the end of subclause (I), by adding “and” at
5 the end of subclause (II), and by inserting after subclause
6 (II) the following new subclause:

7 “(III) projects which are located
8 in qualified census tracts (as defined
9 in subsection (d)(5)(C)) and the devel-
10 opment of which contributes to a con-
11 certed community revitalization
12 plan,”.

13 **SEC. 703. ADDITIONAL RESPONSIBILITIES OF HOUSING**
14 **CREDIT AGENCIES.**

15 (a) MARKET STUDY; PUBLIC DISCLOSURE OF RA-
16 TIONALE FOR NOT FOLLOWING CREDIT ALLOCATION
17 PRIORITIES.—Subparagraph (A) of section 42(m)(1) (re-
18 lating to responsibilities of housing credit agencies) is
19 amended by striking “and” at the end of clause (i), by
20 striking the period at the end of clause (ii) and inserting
21 a comma, and by adding at the end the following new
22 clauses:

23 “(iii) a comprehensive market study
24 of the housing needs of low-income individ-
25 uals in the area to be served by the project

1 is conducted before the credit allocation is
2 made and at the developer's expense by a
3 disinterested party who is approved by
4 such agency, and

5 “(iv) a written explanation is available
6 to the general public for any allocation of
7 a housing credit dollar amount which is
8 not made in accordance with established
9 priorities and selection criteria of the hous-
10 ing credit agency.”.

11 (b) SITE VISITS.—Clause (iii) of section 42(m)(1)(B)
12 (relating to qualified allocation plan) is amended by insert-
13 ing before the period “and in monitoring for noncompli-
14 ance with habitability standards through regular site vis-
15 its”.

16 **SEC. 704. MODIFICATIONS TO RULES RELATING TO BASIS**
17 **OF BUILDING WHICH IS ELIGIBLE FOR CRED-**
18 **IT.**

19 (a) ADJUSTED BASIS TO INCLUDE PORTION OF CER-
20 TAIN BUILDINGS USED BY LOW-INCOME INDIVIDUALS
21 WHO ARE NOT TENANTS AND BY PROJECT EMPLOY-
22 EES.—Paragraph (4) of section 42(d) (relating to special
23 rules relating to determination of adjusted basis) is
24 amended—

1 (1) by striking “subparagraph (B)” in subpara-
2 graph (A) and inserting “subparagraphs (B) and
3 (C)”,

4 (2) by redesignating subparagraph (C) as sub-
5 paragraph (D), and

6 (3) by inserting after subparagraph (B) the fol-
7 lowing new subparagraph:

8 “(C) INCLUSION OF BASIS OF PROPERTY
9 USED TO PROVIDE SERVICES FOR CERTAIN
10 NONTENANTS.—

11 “(i) IN GENERAL.—The adjusted
12 basis of any building located in a qualified
13 census tract (as defined in paragraph
14 (5)(C)) shall be determined by taking into
15 account the adjusted basis of property (of
16 a character subject to the allowance for de-
17 preciation and not otherwise taken into ac-
18 count) used throughout the taxable year in
19 providing any community service facility.

20 “(ii) LIMITATION.—The increase in
21 the adjusted basis of any building which is
22 taken into account by reason of clause (i)
23 shall not exceed 10 percent of the eligible
24 basis of the qualified low-income housing
25 project of which it is a part. For purposes

1 of the preceding sentence, all community
2 service facilities which are part of the same
3 qualified low-income housing project shall
4 be treated as one facility.

5 “(iii) COMMUNITY SERVICE FACIL-
6 ITY.—For purposes of this subparagraph,
7 the term ‘community service facility’
8 means any facility designed to serve pri-
9 marily individuals whose income is 60 per-
10 cent or less of area median income (within
11 the meaning of subsection (g)(1)(B)).”.

12 (b) CERTAIN NATIVE AMERICAN HOUSING ASSIST-
13 ANCE DISREGARDED IN DETERMINING WHETHER BUILD-
14 ING IS FEDERALLY SUBSIDIZED FOR PURPOSES OF THE
15 LOW-INCOME HOUSING CREDIT.—Subparagraph (E) of
16 section 42(i)(2) (relating to determination of whether
17 building is federally subsidized) is amended—

18 (1) in clause (i), by inserting “or the Native
19 American Housing Assistance and Self-Determina-
20 tion Act of 1996 (25 U.S.C. 4101 et seq.) (as in ef-
21 fect on October 1, 1997)” after “this subpara-
22 graph)”, and

23 (2) in the subparagraph heading, by inserting
24 “OR NATIVE AMERICAN HOUSING ASSISTANCE” after
25 “HOME ASSISTANCE”.

1 **SEC. 705. OTHER MODIFICATIONS.**

2 (a) ALLOCATION OF CREDIT LIMIT TO CERTAIN
3 BUILDINGS.—

4 (1) The first sentence of section 42(h)(1)(E)(ii)
5 is amended by striking “(as of” the first place it ap-
6 pears and inserting “(as of the later of the date
7 which is 6 months after the date that the allocation
8 was made or”.

9 (2) The last sentence of section 42(h)(3)(C) is
10 amended by striking “project which” and inserting
11 “project which fails to meet the 10 percent test
12 under paragraph (1)(E)(ii) on a date after the close
13 of the calendar year in which the allocation was
14 made or which”.

15 (b) DETERMINATION OF WHETHER BUILDINGS ARE
16 LOCATED IN HIGH COST AREAS.—The first sentence of
17 section 42(d)(5)(C)(ii)(I) is amended—

18 (1) by inserting “either” before “in which 50
19 percent”, and

20 (2) by inserting before the period “or which has
21 a poverty rate of at least 25 percent”.

22 **SEC. 706. CARRYFORWARD RULES.**

23 (a) IN GENERAL.—Clause (ii) of section 42(h)(3)(D)
24 (relating to unused housing credit carryovers allocated
25 among certain States) is amended by striking “the excess”
26 and all that follows and inserting “the excess (if any) of—

1 “(I) the unused State housing
2 credit ceiling for the year preceding
3 such year, over

4 “(II) the aggregate housing cred-
5 it dollar amount allocated for such
6 year.”.

7 (b) CONFORMING AMENDMENT.—The second sen-
8 tence of section 42(h)(3)(C) (relating to State housing
9 credit ceiling) is amended by striking “clauses (i) and
10 (iii)” and inserting “clauses (i) through (iv)”.

11 **SEC. 707. EFFECTIVE DATE.**

12 Except as otherwise provided in this subtitle, the
13 amendments made by this subtitle shall apply to—

14 (1) housing credit dollar amounts allocated
15 after December 31, 1999, and

16 (2) buildings placed in service after such date
17 to the extent paragraph (1) of section 42(h) of the
18 Internal Revenue Code of 1986 does not apply to
19 any building by reason of paragraph (4) thereof, but
20 only with respect to bonds issued after such date.

1 **Subtitle B—Provisions Relating to**
2 **Real Estate Investment Trusts**

3 **PART I—TREATMENT OF INCOME AND SERVICES**
4 **PROVIDED BY TAXABLE REIT SUBSIDIARIES**

5 **SEC. 711. MODIFICATIONS TO ASSET DIVERSIFICATION**
6 **TEST.**

7 (a) IN GENERAL.—Subparagraph (B) of section
8 856(c)(4) is amended to read as follows:

9 “(B)(i) not more than 25 percent of the
10 value of its total assets is represented by securi-
11 ties (other than those includible under subpara-
12 graph (A)), and

13 “(ii) except with respect to a taxable REIT
14 subsidiary and securities includible under sub-
15 paragraph (A)—

16 “(I) not more than 5 percent of the
17 value of its total assets is represented by
18 securities of any one issuer,

19 “(II) the trust does not hold securities
20 possessing more than 10 percent of the
21 total voting power of the outstanding secu-
22 rities of any one issuer, and

23 “(III) the trust does not hold securi-
24 ties having a value of more than 10 per-

1 cent of the total value of the outstanding
2 securities of any one issuer.”.

3 (b) EXCEPTION FOR STRAIGHT DEBT SECURITIES.—

4 Subsection (c) of section 856 is amended by adding at the
5 end the following new paragraph:

6 “(7) STRAIGHT DEBT SAFE HARBOR IN APPLY-
7 ING PARAGRAPH (4).—Securities of an issuer which
8 are straight debt (as defined in section 1361(c)(5)
9 without regard to subparagraph (B)(iii) thereof)
10 shall not be taken into account in applying para-
11 graph (4)(B)(ii)(III) if—

12 “(A) the issuer is an individual, or

13 “(B) the only securities of such issuer
14 which are held by the trust or a taxable REIT
15 subsidiary of the trust are straight debt (as so
16 defined), or

17 “(C) the issuer is a partnership and the
18 trust holds at least a 20 percent profits interest
19 in the partnership.”.

20 **SEC. 712. TREATMENT OF INCOME AND SERVICES PRO-**
21 **VIDED BY TAXABLE REIT SUBSIDIARIES.**

22 (a) INCOME FROM TAXABLE REIT SUBSIDIARIES
23 NOT TREATED AS IMPERMISSIBLE TENANT SERVICE IN-
24 COME.—Clause (i) of section 856(d)(7)(C) (relating to ex-
25 ceptions to impermissible tenant service income) is amend-

1 ed by inserting “or through a taxable REIT subsidiary
2 of such trust” after “income”.

3 (b) CERTAIN INCOME FROM TAXABLE REIT SUB-
4 SIDIARIES NOT EXCLUDED FROM RENTS FROM REAL
5 PROPERTY.—

6 (1) IN GENERAL.—Subsection (d) of section
7 856 (relating to rents from real property defined) is
8 amended by adding at the end the following new
9 paragraphs:

10 “(8) SPECIAL RULE FOR TAXABLE REIT SUB-
11 SIDIARIES.—For purposes of this subsection,
12 amounts paid to a real estate investment trust by a
13 taxable REIT subsidiary of such trust shall not be
14 excluded from rents from real property by reason of
15 paragraph (2)(B) if the requirements of either of the
16 following subparagraphs are met:

17 “(A) LIMITED RENTAL EXCEPTION.—The
18 requirements of this subparagraph are met with
19 respect to any property if at least 90 percent of
20 the leased space of the property is rented to
21 persons other than taxable REIT subsidiaries of
22 such trust and other than persons described in
23 section 856(d)(2)(B). The preceding sentence
24 shall apply only to the extent that the amounts
25 paid to the trust as rents from real property (as

1 defined in paragraph (1) without regard to
2 paragraph (2)(B)) from such property are sub-
3 stantially comparable to such rents made by the
4 other tenants of the trust's property for com-
5 parable space.

6 “(B) EXCEPTION FOR CERTAIN LODGING
7 FACILITIES.—The requirements of this subpara-
8 graph are met with respect to an interest in
9 real property which is a qualified lodging facil-
10 ity leased by the trust to a taxable REIT sub-
11 sidiary of the trust if the property is operated
12 on behalf of such subsidiary by a person who is
13 an eligible independent contractor.

14 “(9) ELIGIBLE INDEPENDENT CONTRACTOR.—
15 For purposes of paragraph (8)(B)—

16 “(A) IN GENERAL.—The term ‘eligible
17 independent contractor’ means, with respect to
18 any qualified lodging facility, any independent
19 contractor if, at the time such contractor enters
20 into a management agreement or other similar
21 service contract with the taxable REIT sub-
22 sidiary to operate the facility, such contractor
23 (or any related person) is actively engaged in
24 the trade or business of operating qualified
25 lodging facilities for any person who is not a re-

1 lated person with respect to the real estate in-
2 vestment trust or the taxable REIT subsidiary.

3 “(B) SPECIAL RULES.—Solely for purposes
4 of this paragraph and paragraph (8)(B), a per-
5 son shall not fail to be treated as an inde-
6 pendent contractor with respect to any qualified
7 lodging facility by reason of any of the fol-
8 lowing:

9 “(i) The taxable REIT subsidiary
10 bears the expenses for the operation of the
11 facility pursuant to the management agree-
12 ment or other similar service contract.

13 “(ii) The taxable REIT subsidiary re-
14 ceives the revenues from the operation of
15 such facility, net of expenses for such oper-
16 ation and fees payable to the operator pur-
17 suant to such agreement or contract.

18 “(iii) The real estate investment trust
19 receives income from such person with re-
20 spect to another property that is attrib-
21 utable to a lease of such other property to
22 such person that was in effect as of the
23 later of—

24 “(I) January 1, 1999, or

1 “(II) the earliest date that any
2 taxable REIT subsidiary of such trust
3 entered into a management agreement
4 or other similar service contract with
5 such person with respect to such
6 qualified lodging facility.

7 “(C) RENEWALS, ETC., OF EXISTING
8 LEASES.—For purposes of subparagraph
9 (B)(iii)—

10 “(i) a lease shall be treated as in ef-
11 fect on January 1, 1999, without regard to
12 its renewal after such date, so long as such
13 renewal is pursuant to the terms of such
14 lease as in effect on whichever of the dates
15 under subparagraph (B)(iii) is the latest,
16 and

17 “(ii) a lease of a property entered into
18 after whichever of the dates under sub-
19 paragraph (B)(iii) is the latest shall be
20 treated as in effect on such date if—

21 “(I) on such date, a lease of such
22 property from the trust was in effect,
23 and

24 “(II) under the terms of the new
25 lease, such trust receives a substan-

1 tially similar or lesser benefit in com-
2 parison to the lease referred to in sub-
3 clause (I).

4 “(D) QUALIFIED LODGING FACILITY.—For
5 purposes of this paragraph—

6 “(i) IN GENERAL.—The term ‘quali-
7 fied lodging facility’ means any lodging fa-
8 cility unless wagering activities are con-
9 ducted at or in connection with such facil-
10 ity by any person who is engaged in the
11 business of accepting wagers and who is le-
12 gally authorized to engage in such business
13 at or in connection with such facility.

14 “(ii) LODGING FACILITY.—The term
15 ‘lodging facility’ means a hotel, motel, or
16 other establishment more than one-half of
17 the dwelling units in which are used on a
18 transient basis.

19 “(iii) CUSTOMARY AMENITIES AND FA-
20 CILITIES.—The term ‘lodging facility’ in-
21 cludes customary amenities and facilities
22 operated as part of, or associated with, the
23 lodging facility so long as such amenities
24 and facilities are customary for other prop-
25 erties of a comparable size and class owned

1 by other owners unrelated to such real es-
2 tate investment trust.

3 “(E) OPERATE INCLUDES MANAGE.—Ref-
4 erences in this paragraph to operating a prop-
5 erty shall be treated as including a reference to
6 managing the property.

7 “(F) RELATED PERSON.—Persons shall be
8 treated as related to each other if such persons
9 are treated as a single employer under sub-
10 section (a) or (b) of section 52.”.

11 (2) CONFORMING AMENDMENT.—Subparagraph
12 (B) of section 856(d)(2) is amended by inserting
13 “except as provided in paragraph (8),” after “(B)”.

14 (3) DETERMINING RENTS FROM REAL PROP-
15 ERTY.—

16 (A)(i) Paragraph (1) of section 856(d) is
17 amended by striking “adjusted bases” each
18 place it occurs and inserting “fair market val-
19 ues”.

20 (ii) The amendment made by this subpara-
21 graph shall apply to taxable years beginning
22 after December 31, 2000.

23 (B)(i) Clause (i) of section 856(d)(2)(B) is
24 amended by striking “number” and inserting
25 “value”.

1 (ii) The amendment made by this subpara-
2 graph shall apply to amounts received or ac-
3 crued in taxable years beginning after Decem-
4 ber 31, 2000, except for amounts paid pursuant
5 to leases in effect on July 12, 1999, or pursu-
6 ant to a binding contract in effect on such date
7 and at all times thereafter.

8 **SEC. 713. TAXABLE REIT SUBSIDIARY.**

9 (a) IN GENERAL.—Section 856 is amended by adding
10 at the end the following new subsection:

11 “(1) TAXABLE REIT SUBSIDIARY.—For purposes of
12 this part—

13 “(1) IN GENERAL.—The term ‘taxable REIT
14 subsidiary’ means, with respect to a real estate in-
15 vestment trust, a corporation (other than a real es-
16 tate investment trust) if—

17 “(A) such trust directly or indirectly owns
18 stock in such corporation, and

19 “(B) such trust and such corporation joint-
20 ly elect that such corporation shall be treated as
21 a taxable REIT subsidiary of such trust for
22 purposes of this part.

23 Such an election, once made, shall be irrevocable un-
24 less both such trust and corporation consent to its
25 revocation. Such election, and any revocation there-

1 of, may be made without the consent of the Sec-
2 retary.

3 “(2) 35 PERCENT OWNERSHIP IN ANOTHER
4 TAXABLE REIT SUBSIDIARY.—The term ‘taxable
5 REIT subsidiary’ includes, with respect to any real
6 estate investment trust, any corporation (other than
7 a real estate investment trust) with respect to which
8 a taxable REIT subsidiary of such trust owns di-
9 rectly or indirectly—

10 “(A) securities possessing more than 35
11 percent of the total voting power of the out-
12 standing securities of such corporation, or

13 “(B) securities having a value of more
14 than 35 percent of the total value of the out-
15 standing securities of such corporation.

16 The preceding sentence shall not apply to a qualified
17 REIT subsidiary (as defined in subsection (i)(2)).
18 The rule of section 856(c)(7) shall apply for pur-
19 poses of subparagraph (B).

20 “(3) EXCEPTIONS.—The term ‘taxable REIT
21 subsidiary’ shall not include—

22 “(A) any corporation which directly or in-
23 directly operates or manages a lodging facility
24 or a health care facility, and

1 “(B) any corporation which directly or in-
2 directly provides to any other person (under a
3 franchise, license, or otherwise) rights to any
4 brand name under which any lodging facility or
5 health care facility is operated.

6 Subparagraph (B) shall not apply to rights provided
7 to an eligible independent contractor to operate or
8 manage a lodging facility if such rights are held by
9 such corporation as a franchisee, licensee, or in a
10 similar capacity and such lodging facility is either
11 owned by such corporation or is leased to such cor-
12 poration from the real estate investment trust.

13 “(4) DEFINITIONS.—For purposes of paragraph
14 (3)—

15 “(A) LODGING FACILITY.—The term ‘lodg-
16 ing facility’ has the meaning given to such term
17 by paragraph (9)(D)(ii).

18 “(B) HEALTH CARE FACILITY.—The term
19 ‘health care facility’ has the meaning given to
20 such term by subsection (e)(6)(D)(ii).”.

21 (b) CONFORMING AMENDMENT.—Paragraph (2) of
22 section 856(i) is amended by adding at the end the fol-
23 lowing new sentence: “Such term shall not include a tax-
24 able REIT subsidiary.”.

1 **SEC. 714. LIMITATION ON EARNINGS STRIPPING.**

2 Paragraph (3) of section 163(j) (relating to limita-
3 tion on deduction for interest on certain indebtedness) is
4 amended by striking “and” at the end of subparagraph
5 (A), by striking the period at the end of subparagraph
6 (B) and inserting “, and”, and by adding at the end the
7 following new subparagraph:

8 “(C) any interest paid or accrued (directly
9 or indirectly) by a taxable REIT subsidiary (as
10 defined in section 856(l)) of a real estate invest-
11 ment trust to such trust.”.

12 **SEC. 715. 100 PERCENT TAX ON IMPROPERLY ALLOCATED**
13 **AMOUNTS.**

14 (a) IN GENERAL.—Subsection (b) of section 857 (re-
15 lating to method of taxation of real estate investment
16 trusts and holders of shares or certificates of beneficial
17 interest) is amended by redesignating paragraphs (7) and
18 (8) as paragraphs (8) and (9), respectively, and by insert-
19 ing after paragraph (6) the following new paragraph:

20 “(7) INCOME FROM REDETERMINED RENTS, RE-
21 DETERMINED DEDUCTIONS, AND EXCESS INTER-
22 EST.—

23 “(A) IMPOSITION OF TAX.—There is here-
24 by imposed for each taxable year of the real es-
25 tate investment trust a tax equal to 100 percent

1 of redetermined rents, redetermined deductions,
2 and excess interest.

3 “(B) REDETERMINED RENTS.—

4 “(i) IN GENERAL.—The term ‘redeter-
5 mined rents’ means rents from real prop-
6 erty (as defined in subsection 856(d)) the
7 amount of which would (but for subpara-
8 graph (E)) be reduced on distribution, ap-
9 portionment, or allocation under section
10 482 to clearly reflect income as a result of
11 services furnished or rendered by a taxable
12 REIT subsidiary of the real estate invest-
13 ment trust to a tenant of such trust.

14 “(ii) EXCEPTION FOR CERTAIN SERV-
15 ICES.—Clause (i) shall not apply to
16 amounts received directly or indirectly by a
17 real estate investment trust for services de-
18 scribed in paragraph (1)(B) or (7)(C)(i) of
19 section 856(d).

20 “(iii) EXCEPTION FOR DE MINIMIS
21 AMOUNTS.—Clause (i) shall not apply to
22 amounts described in section 856(d)(7)(A)
23 with respect to a property to the extent
24 such amounts do not exceed the one per-
25 cent threshold described in section

1 856(d)(7)(B) with respect to such prop-
2 erty.

3 “(iv) EXCEPTION FOR COMPARABLY
4 PRICED SERVICES.—Clause (i) shall not
5 apply to any service rendered by a taxable
6 REIT subsidiary of a real estate invest-
7 ment trust to a tenant of such trust if—

8 “(I) such subsidiary renders a
9 significant amount of similar services
10 to persons other than such trust and
11 tenants of such trust who are unre-
12 lated (within the meaning of section
13 856(d)(8)(F)) to such subsidiary,
14 trust, and tenants, but

15 “(II) only to the extent the
16 charge for such service so rendered is
17 substantially comparable to the charge
18 for the similar services rendered to
19 persons referred to in subclause (I).

20 “(v) EXCEPTION FOR CERTAIN SEPA-
21 RATELY CHARGED SERVICES.—Clause (i)
22 shall not apply to any service rendered by
23 a taxable REIT subsidiary of a real estate
24 investment trust to a tenant of such trust
25 if—

1 “(I) the rents paid to the trust
2 by tenants (leasing at least 25 percent
3 of the net leasable space in the trust’s
4 property) who are not receiving such
5 service from such subsidiary are sub-
6 stantially comparable to the rents
7 paid by tenants leasing comparable
8 space who are receiving such service
9 from such subsidiary, and

10 “(II) the charge for such service
11 from such subsidiary is separately
12 stated.

13 “(vi) EXCEPTION FOR CERTAIN SERV-
14 ICES BASED ON SUBSIDIARY’S INCOME
15 FROM THE SERVICES.—Clause (i) shall not
16 apply to any service rendered by a taxable
17 REIT subsidiary of a real estate invest-
18 ment trust to a tenant of such trust if the
19 gross income of such subsidiary from such
20 service is not less than 150 percent of such
21 subsidiary’s direct cost in furnishing or
22 rendering the service.

23 “(vii) EXCEPTIONS GRANTED BY SEC-
24 RETARY.—The Secretary may waive the
25 tax otherwise imposed by subparagraph

1 (A) if the trust establishes to the satisfac-
2 tion of the Secretary that rents charged to
3 tenants were established on an arms'
4 length basis even though a taxable REIT
5 subsidiary of the trust provided services to
6 such tenants.

7 “(C) REDETERMINED DEDUCTIONS.—The
8 term ‘redetermined deductions’ means deduc-
9 tions (other than redetermined rents) of a tax-
10 able REIT subsidiary of a real estate invest-
11 ment trust if the amount of such deductions
12 would (but for subparagraph (E)) be decreased
13 on distribution, apportionment, or allocation
14 under section 482 to clearly reflect income as
15 between such subsidiary and such trust.

16 “(D) EXCESS INTEREST.—The term ‘ex-
17 cess interest’ means any deductions for interest
18 payments by a taxable REIT subsidiary of a
19 real estate investment trust to such trust to the
20 extent that the interest payments are in excess
21 of a rate that is commercially reasonable.

22 “(E) COORDINATION WITH SECTION 482.—
23 The imposition of tax under subparagraph (A)
24 shall be in lieu of any distribution, apportion-
25 ment, or allocation under section 482.

1 “(F) REGULATORY AUTHORITY.—The Sec-
2 retary shall prescribe such regulations as may
3 be necessary or appropriate to carry out the
4 purposes of this paragraph. Until the Secretary
5 prescribes such regulations, real estate invest-
6 ment trusts and their taxable REIT subsidi-
7 aries may base their allocations on any reason-
8 able method.”.

9 (b) AMOUNT SUBJECT TO TAX NOT REQUIRED TO
10 BE DISTRIBUTED.—Subparagraph (E) of section
11 857(b)(2) (relating to real estate investment trust taxable
12 income) is amended by striking “paragraph (5)” and in-
13 serting “paragraphs (5) and (7)”.

14 **SEC. 716. EFFECTIVE DATE.**

15 (a) IN GENERAL.—The amendments made by this
16 part shall apply to taxable years beginning after December
17 31, 2000.

18 (b) TRANSITIONAL RULES RELATED TO SECTION
19 711.—

20 (1) EXISTING ARRANGEMENTS.—

21 (A) IN GENERAL.—Except as otherwise
22 provided in this paragraph, the amendment
23 made by section 711 shall not apply to a real
24 estate investment trust with respect to—

1 (i) securities of a corporation held di-
2 rectly or indirectly by such trust on July
3 12, 1999,

4 (ii) securities of a corporation held by
5 an entity on July 12, 1999, if such trust
6 acquires control of such entity pursuant to
7 a written binding contract in effect on such
8 date and at all times thereafter before such
9 acquisition,

10 (iii) securities received by such trust
11 (or a successor) in exchange for, or with
12 respect to, securities described in clause (i)
13 or (ii) in a transaction in which gain or
14 loss is not recognized, and

15 (iv) securities acquired directly or in-
16 directly by such trust as part of a reorga-
17 nization (as defined in section 368(a)(1) of
18 the Internal Revenue Code of 1986) with
19 respect to such trust if such securities are
20 described in clause (i), (ii), or (iii) with re-
21 spect to any other real estate investment
22 trust.

23 (B) NEW TRADE OR BUSINESS OR SUB-
24 STANTIAL NEW ASSETS.—Subparagraph (A)
25 shall cease to apply to securities of a corpora-

1 tion as of the first day after July 12, 1999,
2 on which such corporation engages in a sub-
3 stantial new line of business, or acquires any
4 substantial asset, other than—

5 (i) pursuant to a binding contract in
6 effect on such date and at all times there-
7 after before the acquisition of such asset,

8 (ii) in a transaction in which gain or
9 loss is not recognized by reason of section
10 1031 or 1033 of the Internal Revenue
11 Code of 1986, or

12 (iii) in a reorganization (as so de-
13 fined) with another corporation the securi-
14 ties of which are described in paragraph
15 (1)(A) of this subsection.

16 (C) LIMITATION ON TRANSITION RULES.—

17 Subparagraph (A) shall cease to apply to secu-
18 rities of a corporation held, acquired, or re-
19 ceived, directly or indirectly, by a real estate in-
20 vestment trust as of the first day after July 12,
21 1999, on which such trust acquires any addi-
22 tional securities of such corporation other
23 than—

1 (i) pursuant to a binding contract in
2 effect on July 12, 1999, and at all times
3 thereafter, or

4 (ii) in a reorganization (as so defined)
5 with another corporation the securities of
6 which are described in paragraph (1)(A) of
7 this subsection.

8 (2) TAX-FREE CONVERSION.—If—

9 (A) at the time of an election for a cor-
10 poration to become a taxable REIT subsidiary,
11 the amendment made by section 1021 does not
12 apply to such corporation by reason of para-
13 graph (1), and

14 (B) such election first takes effect before
15 January 1, 2004,
16 such election shall be treated as a reorganization
17 qualifying under section 368(a)(1)(A) of such Code.

18 **PART II—HEALTH CARE REITS**

19 **SEC. 721. HEALTH CARE REITS.**

20 (a) SPECIAL FORECLOSURE RULE FOR HEALTH
21 CARE PROPERTIES.—Subsection (e) of section 856 (relat-
22 ing to special rules for foreclosure property) is amended
23 by adding at the end the following new paragraph:

1 “(6) SPECIAL RULE FOR QUALIFIED HEALTH
2 CARE PROPERTIES.—For purposes of this
3 subsection—

4 “(A) ACQUISITION AT EXPIRATION OF
5 LEASE.—The term ‘foreclosure property’ shall
6 include any qualified health care property ac-
7 quired by a real estate investment trust as the
8 result of the termination of a lease of such
9 property (other than a termination by reason of
10 a default, or the imminence of a default, on the
11 lease).

12 “(B) GRACE PERIOD.—In the case of a
13 qualified health care property which is fore-
14 closure property solely by reason of subpara-
15 graph (A), in lieu of applying paragraphs (2)
16 and (3)—

17 “(i) the qualified health care property
18 shall cease to be foreclosure property as of
19 the close of the second taxable year after
20 the taxable year in which such trust ac-
21 quired such property, and

22 “(ii) if the real estate investment
23 trust establishes to the satisfaction of the
24 Secretary that an extension of the grace
25 period in clause (i) is necessary to the or-

1 derly leasing or liquidation of the trust's
2 interest in such qualified health care prop-
3 erty, the Secretary may grant one or more
4 extensions of the grace period for such
5 qualified health care property.

6 Any such extension shall not extend the grace
7 period beyond the close of the 6th year after
8 the taxable year in which such trust acquired
9 such qualified health care property.

10 “(C) INCOME FROM INDEPENDENT CON-
11 TRACTORS.—For purposes of applying para-
12 graph (4)(C) with respect to qualified health
13 care property which is foreclosure property by
14 reason of subparagraph (A) or paragraph (1),
15 income derived or received by the trust from an
16 independent contractor shall be disregarded to
17 the extent such income is attributable to—

18 “(i) any lease of property in effect on
19 the date the real estate investment trust
20 acquired the qualified health care property
21 (without regard to its renewal after such
22 date so long as such renewal is pursuant to
23 the terms of such lease as in effect on such
24 date), or

1 “(ii) any lease of property entered
2 into after such date if—

3 “(I) on such date, a lease of such
4 property from the trust was in effect,
5 and

6 “(II) under the terms of the new
7 lease, such trust receives a substan-
8 tially similar or lesser benefit in com-
9 parison to the lease referred to in sub-
10 clause (I).

11 “(D) QUALIFIED HEALTH CARE PROP-
12 ERTY.—

13 “(i) IN GENERAL.—The term ‘quali-
14 fied health care property’ means any real
15 property (including interests therein), and
16 any personal property incident to such real
17 property, which—

18 “(I) is a health care facility, or

19 “(II) is necessary or incidental to
20 the use of a health care facility.

21 “(ii) HEALTH CARE FACILITY.—For
22 purposes of clause (i), the term ‘health
23 care facility’ means a hospital, nursing fa-
24 cility, assisted living facility, congregate
25 care facility, qualified continuing care facil-

1 ity (as defined in section 7872(g)(4)), or
2 other licensed facility which extends med-
3 ical or nursing or ancillary services to pa-
4 tients and which, immediately before the
5 termination, expiration, default, or breach
6 of the lease of or mortgage secured by
7 such facility, was operated by a provider of
8 such services which was eligible for partici-
9 pation in the medicare program under title
10 XVIII of the Social Security Act with re-
11 spect to such facility.”.

12 (b) EFFECTIVE DATE.—The amendment made by
13 this section shall apply to taxable years beginning after
14 December 31, 2000.

15 **PART III—CONFORMITY WITH REGULATED**

16 **INVESTMENT COMPANY RULES**

17 **SEC. 731. CONFORMITY WITH REGULATED INVESTMENT**

18 **COMPANY RULES.**

19 (a) DISTRIBUTION REQUIREMENT.—Clauses (i) and
20 (ii) of section 857(a)(1)(A) (relating to requirements ap-
21 plicable to real estate investment trusts) are each amended
22 by striking “95 percent (90 percent for taxable years be-
23 ginning before January 1, 1980)” and inserting “90 per-
24 cent”.

1 (b) IMPOSITION OF TAX.—Clause (i) of section
2 857(b)(5)(A) (relating to imposition of tax in case of fail-
3 ure to meet certain requirements) is amended by striking
4 “95 percent (90 percent in the case of taxable years begin-
5 ning before January 1, 1980)” and inserting “90 per-
6 cent”.

7 (c) EFFECTIVE DATE.—The amendments made by
8 this section shall apply to taxable years beginning after
9 December 31, 2000.

10 **PART IV—CLARIFICATION OF EXCEPTION FROM**
11 **IMPERMISSIBLE TENANT SERVICE INCOME**

12 **SEC. 741. CLARIFICATION OF EXCEPTION FOR INDE-**
13 **PENDENT OPERATORS.**

14 (a) IN GENERAL.—Paragraph (3) of section 856(d)
15 (relating to independent contractor defined) is amended
16 by adding at the end the following flush sentence:

17 “In the event that any class of stock of either the
18 real estate investment trust or such person is regu-
19 larly traded on an established securities market, only
20 persons who own, directly or indirectly, more than 5
21 percent of such class of stock shall be taken into ac-
22 count as owning any of the stock of such class for
23 purposes of applying the 35 percent limitation set
24 forth in subparagraph (B) (but all of the out-
25 standing stock of such class shall be considered out-

1 standing in order to compute the denominator for
2 purpose of determining the applicable percentage of
3 ownership).”.

4 (b) EFFECTIVE DATE.—The amendment made by
5 this section shall apply to taxable years beginning after
6 December 31, 2000.

7 **PART V—MODIFICATION OF EARNINGS AND**
8 **PROFITS RULES**

9 **SEC. 751. MODIFICATION OF EARNINGS AND PROFITS**
10 **RULES.**

11 (a) RULES FOR DETERMINING WHETHER REGU-
12 LATED INVESTMENT COMPANY HAS EARNINGS AND
13 PROFITS FROM NON-RIC YEAR.—Subsection (c) of sec-
14 tion 852 is amended by adding at the end the following
15 new paragraph:

16 “(3) DISTRIBUTIONS TO MEET REQUIREMENTS
17 OF SUBSECTION (a)(2)(B).—Any distribution which
18 is made in order to comply with the requirements of
19 subsection (a)(2)(B)—

20 “(A) shall be treated for purposes of this
21 subsection and subsection (a)(2)(B) as made
22 from the earliest earnings and profits accumu-
23 lated in any taxable year to which the provi-
24 sions of this part did not apply rather than the

1 most recently accumulated earnings and profits,
2 and

3 “(B) to the extent treated under subpara-
4 graph (A) as made from accumulated earnings
5 and profits, shall not be treated as a distribu-
6 tion for purposes of subsection (b)(2)(D) and
7 section 855.”.

8 (b) CLARIFICATION OF APPLICATION OF REIT
9 SPILLOVER DIVIDEND RULES TO DISTRIBUTIONS TO
10 MEET QUALIFICATION REQUIREMENT.—Subparagraph
11 (B) of section 857(d)(3) is amended by inserting before
12 the period “and section 858”.

13 (c) APPLICATION OF DEFICIENCY DIVIDEND PROCE-
14 DURES.—Paragraph (1) of section 852(e) is amended by
15 adding at the end the following new sentence: “If the de-
16 termination under subparagraph (A) is solely as a result
17 of the failure to meet the requirements of subsection
18 (a)(2), the preceding sentence shall also apply for pur-
19 poses of applying subsection (a)(2) to the non-RIC year.”.

20 (d) EFFECTIVE DATE.—The amendments made by
21 this section shall apply to distributions after December 31,
22 2000.

1 **Subtitle C—Private Activity Bond**
 2 **Volume Cap**

3 **SEC. 761. ACCELERATION OF PHASE-IN OF INCREASE IN**
 4 **VOLUME CAP ON PRIVATE ACTIVITY BONDS.**

5 (a) IN GENERAL.—The table contained in section
 6 146(d)(2) (relating to per capita limit; aggregate limit) is
 7 amended to read as follows:

| “Calendar Year | Per Capita Limit | Aggregate Limit |
|---------------------------|---------------------|--------------------|
| 2000 | \$55.00 | 165,000,000 |
| 2001 | 60.00 | 180,000,000 |
| 2002 | 65.00 | 195,000,000 |
| 2003 | 70.00 | 210,000,000 |
| 2004 and thereafter | 75.00 | 225,000,000.”. |

8 (b) EFFECTIVE DATE.—The amendment made by
 9 this section shall apply to calendar years beginning after
 10 1999.

11 **Subtitle D—Exclusion from gross**
 12 **income for certain forgiven**
 13 **mortgage obligations**

14 **SEC. 771. EXCLUSION FROM GROSS INCOME FOR CERTAIN**
 15 **FORGIVEN MORTGAGE OBLIGATIONS.**

16 (a) IN GENERAL.—Paragraph (1) of section 108(a)
 17 of the Internal Revenue Code of 1986 (relating to exclu-
 18 sion from gross income) is amended by striking “or” at
 19 the end of both subparagraphs (A) and (C), by striking
 20 the period at the end of subparagraph (D) and inserting
 21 “, or”, and by inserting after subparagraph (D) the fol-
 22 lowing new subparagraph:

1 “(E) in the case of an individual, the in-
2 debtedness discharged is qualified residential in-
3 debtedness.”.

4 (b) QUALIFIED RESIDENTIAL INDEBTEDNESS
5 SHORTFALL.—Section 108 of such Code (relating to dis-
6 charge of indebtedness) is amended by adding at the end
7 the following new subsection:

8 “(h) QUALIFIED RESIDENTIAL INDEBTEDNESS.—

9 “(1) LIMITATIONS.—The amount excluded
10 under subparagraph (E) of subsection (a)(1) with
11 respect to any qualified residential indebtedness
12 shall not exceed the excess (if any) of—

13 “(A) the outstanding principal amount of
14 such indebtedness (immediately before the dis-
15 charge), over

16 “(B) the sum of—

17 “(i) the amount realized from the sale
18 of the real property securing such indebt-
19 edness reduced by the cost of such sale,
20 and

21 “(ii) the outstanding principal amount
22 of any other indebtedness secured by such
23 property.

24 “(2) QUALIFIED RESIDENTIAL INDEBTED-
25 NESS.—

1 “(A) IN GENERAL.—The term ‘qualified
2 residential indebtedness’ means indebtedness
3 which—

4 “(i) was incurred or assumed by the
5 taxpayer in connection with real property
6 used as a residence and is secured by such
7 real property,

8 “(ii) is incurred or assumed to ac-
9 quire, construct, reconstruct, or substan-
10 tially improve such real property, and

11 “(iii) with respect to which such tax-
12 payer makes an election to have this para-
13 graph apply.

14 “(B) REFINANCED INDEBTEDNESS.—Such
15 term shall include indebtedness resulting from
16 the refinancing of indebtedness under subpara-
17 graph (A)(ii), but only to the extent the refi-
18 nanced indebtedness does not exceed the
19 amount of the indebtedness being refinanced.

20 “(C) EXCEPTIONS.—Such term shall not
21 include qualified farm indebtedness or qualified
22 real property business indebtedness.”.

23 (c) CONFORMING AMENDMENTS.—

24 (1) Paragraph (2) of section 108(a) of such
25 Code is amended—

1 (A) in subparagraph (A) by striking “and
2 (D)” and inserting “(D), and (E)”, and

3 (B) by amending subparagraph (B) to read
4 as follows:

5 “(B) INSOLVENCY EXCLUSION TAKES
6 PRECEDENCE OVER QUALIFIED FARM EXCLU-
7 SION; QUALIFIED REAL PROPERTY BUSINESS
8 EXCLUSION; AND QUALIFIED RESIDENTIAL
9 SHORTFALL EXCLUSION.—Subparagraphs (C),
10 (D), and (E) of paragraph (1) shall not apply
11 to a discharge to the extent the taxpayer is in-
12 solvent.”.

13 (2) Paragraph (1) of section 108(b) of such
14 Code is amended by striking “or (C)” and inserting
15 “(C), or (E)”.

16 (3) Subsection (e) of section 121 of such Code
17 is amended by adding at the end the following new
18 paragraph:

19 “(4) SPECIAL RULE RELATING TO DISCHARGE
20 OF INDEBTEDNESS.—The amount of gain which
21 (but for this paragraph) would be excluded from
22 gross income under subsection (a) with respect to a
23 principal residence shall be reduced by the amount
24 excluded from gross income under section
25 108(a)(1)(E) with respect to such residence.”.

1 (d) EFFECTIVE DATE.—The amendments made by
2 this section shall apply to discharges after the date of the
3 enactment of this Act.

4 **TITLE VIII—MISCELLANEOUS**
5 **PROVISIONS**

6 **SEC. 801. CREDIT FOR MODIFICATIONS TO INTER-CITY**
7 **BUSES REQUIRED UNDER THE AMERICANS**
8 **WITH DISABILITIES ACT OF 1990.**

9 (a) IN GENERAL.—Subsection (a) of section 44 (re-
10 lating to expenditures to provide access to disabled individ-
11 uals) is amended to read as follows:

12 “(a) GENERAL RULE.—For purposes of section 38,
13 the amount of the disabled access credit determined under
14 this section for any taxable year shall be an amount equal
15 to the sum of—

16 “(1) in the case of an eligible small business, 50
17 percent of so much of the eligible access expendi-
18 tures for the taxable year as exceed \$250 but do not
19 exceed \$10,250, and

20 “(2) 50 percent of so much of the eligible bus
21 access expenditures for the taxable year with respect
22 to each eligible bus as exceed \$250 but do not ex-
23 ceed \$30,250.”.

24 (b) ELIGIBLE BUS ACCESS EXPENDITURES.—Sec-
25 tion 44 is amended by redesignating subsections (d) and

1 (e) as subsections (e) and (f), respectively, and by insert-
2 ing after subsection (c) the following new subsection:

3 “(d) ELIGIBLE BUS ACCESS EXPENDITURES.—For
4 purposes of this section—

5 “(1) IN GENERAL.—The term ‘eligible bus ac-
6 cess expenditures’ means amounts paid or incurred
7 by the taxpayer for the purpose of enabling the tax-
8 payer’s eligible bus to comply with applicable re-
9 quirements under the Americans With Disabilities
10 Act of 1990 (as in effect on the date of the enact-
11 ment of this subsection).

12 “(2) CERTAIN EXPENDITURES NOT IN-
13 CLUDED.—The amount of eligible bus access ex-
14 penditures otherwise taken into account under sub-
15 section (a)(2) shall be reduced to the extent that
16 funds for such expenditures are received under any
17 Federal, State, or local program.

18 “(3) ELIGIBLE BUS.—The term ‘eligible bus’
19 means any automobile bus eligible for a refund
20 under section 6427(b) by reason of transportation
21 described in section 6427(b)(1)(A).”.

22 (c) EFFECTIVE DATE.—The amendments made by
23 this section shall apply to taxable years beginning after
24 December 31, 1999, and before January 1, 2012.

1 **SEC. 802. CERTAIN EDUCATIONAL BENEFITS PROVIDED BY**
2 **AN EMPLOYER TO CHILDREN OF EMPLOYEES**
3 **EXCLUDABLE FROM GROSS INCOME AS A**
4 **SCHOLARSHIP.**

5 (a) IN GENERAL.—Section 117 (relating to qualified
6 scholarships) is amended by adding at the end the fol-
7 lowing new subsection:

8 “(e) EMPLOYER-PROVIDED EDUCATIONAL BENEFITS
9 PROVIDED TO CHILDREN OF EMPLOYEES.—

10 “(1) IN GENERAL.—In determining whether
11 any amount is a qualified scholarship for purposes
12 of subsection (a), the fact that such amount is pro-
13 vided in connection with an employment relationship
14 shall be disregarded if—

15 “(A) such amount is provided by the em-
16 ployer to a child (as defined in section
17 151(c)(3)) of an employee of such employer,

18 “(B) such amount is provided pursuant to
19 a plan which meets the nondiscrimination re-
20 quirements of subsection (d)(3), and

21 “(C) amounts provided under such plan
22 are in addition to any other compensation pay-
23 able to employees and such plan does not pro-
24 vide employees with a choice between such
25 amounts and any other benefit.

1 For purposes of subparagraph (C), the business
2 practices of the employer (as well as such plan) shall
3 be taken into account.

4 “(2) DOLLAR LIMITATIONS.—

5 “(A) PER CHILD.—The amount excluded
6 from the gross income of the employee by rea-
7 son of paragraph (1) for a taxable year with re-
8 spect to amounts provided to each child of such
9 employee shall not exceed \$2,000.

10 “(B) AGGREGATE LIMIT.—The amount ex-
11 cluded from the gross income of the employee
12 by reason of paragraph (1) for a taxable year
13 (after the application of subparagraph (A))
14 shall not exceed the excess of the dollar amount
15 contained in section 127(a)(2) over the amount
16 excluded from the employee’s gross income
17 under section 127 for such year.

18 “(3) PRINCIPAL SHAREHOLDERS AND OWN-
19 ERS.—Paragraph (1) shall not apply to any amount
20 provided to any child of any individual if such indi-
21 vidual (or such individual’s spouse) owns (on any
22 day of the year) more than 5 percent of the stock
23 or of the capital or profits interest in the employer.

24 “(4) DEGREE REQUIREMENT NOT TO APPLY.—

25 In the case of an amount which is treated as a quali-

1 fied scholarship by reason of this subsection, sub-
2 section (a) shall be applied without regard to the re-
3 quirement that the recipient be a candidate for a de-
4 gree.

5 “(5) CERTAIN OTHER RULES TO APPLY.—Rules
6 similar to the rules of paragraphs (4), (5), and (7)
7 of section 127(c) shall apply for purposes of this
8 subsection.”

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

12 **SEC. 803. TAX INCENTIVES FOR QUALIFIED UNITED STATES**
13 **INDEPENDENT FILM AND TELEVISION PRO-**
14 **DUCTION.**

15 (a) IN GENERAL.—Subpart C of part IV of sub-
16 chapter A of chapter 1 (relating to refundable credits) is
17 amended by redesignating section 35 as section 36 and
18 by inserting after section 34 the following new section:

19 **“SEC. 35. UNITED STATES INDEPENDENT FILM AND TELE-**
20 **VISION PRODUCTION WAGE CREDIT.**

21 “(a) AMOUNT OF CREDIT.—There shall be allowed
22 as a credit against the tax imposed by this subtitle for
23 the taxable year an amount equal to 20 percent of the
24 qualified wages paid or incurred during the calendar year
25 which ends with or within the taxable year.

1 “(b) ONLY FIRST \$20,000 OF WAGES PER YEAR
2 TAKEN INTO ACCOUNT.—With respect to each qualified
3 United States independent film and television production,
4 the amount of qualified wages paid or incurred to each
5 qualified United States independent film and television
6 production employee which may be taken into account for
7 a calendar year shall not exceed \$20,000.

8 “(c) QUALIFIED WAGES.—For purposes of this
9 section—

10 “(1) IN GENERAL.—The term ‘qualified wages’
11 means any wages paid or incurred by an employer
12 for services performed by an employee while such
13 employee is a qualified United States independent
14 film and television production employee.

15 “(2) QUALIFIED UNITED STATES INDE-
16 PENDENT FILM AND TELEVISION PRODUCTION EM-
17 PLOYEE.—

18 “(A) IN GENERAL.—The term ‘qualified
19 United States independent film and television
20 production employee’ means, with respect to
21 any period, any employee of an employer if sub-
22 stantially all of the services performed during
23 such period by such employee for such employer
24 are performed in an activity related to any
25 qualified United States independent film and

1 television production in a trade or business of
2 the employer.

3 “(B) CERTAIN INDIVIDUALS NOT ELIGI-
4 BLE.—Such term shall not include—

5 “(i) any individual described in sub-
6 paragraph (A), (B), or (C) of section
7 51(i)(1), and

8 “(ii) any 5-percent owner (as defined
9 in section 416(i)(1)(B).

10 “(3) COORDINATION WITH OTHER WAGE CRED-
11 ITS.—No credit shall be allowed under any other
12 provision of this chapter for wages paid to any em-
13 ployee during any calendar year if the employer is
14 allowed a credit under this section for any of such
15 wages.

16 “(4) WAGES.—The term ‘wages’ has the same
17 meaning as when used in section 51.

18 “(d) QUALIFIED UNITED STATES INDEPENDENT
19 FILM AND TELEVISION PRODUCTION.—For purposes of
20 this section—

21 “(1) IN GENERAL.—The term ‘qualified United
22 States independent film and television production’
23 means any production of any motion picture (wheth-
24 er released theatrically or directly to video cassette

1 or any other format), a mini series, or a pilot pro-
2 duction for a dramatic series if—

3 “(A) the production is produced in whole
4 or in substantial part within the United States
5 (determined on the basis of proportion of the
6 qualified United States independent film and
7 television production employees with respect to
8 such production to total employee performing
9 services related to such production),

10 “(B) the production is created primarily
11 for use as public entertainment or for edu-
12 cational purposes, and

13 “(C) the total production cost of the pro-
14 duction is less than \$10,000,000.

15 “(2) PUBLIC ENTERTAINMENT.—The term
16 ‘public entertainment’ includes a motion picture
17 film, video tape, or television program intended for
18 initial broadcast via the public broadcast spectrum
19 or delivered via cable distribution, or productions
20 that are submitted to a national organization that
21 rates films for violent or adult content. Such term
22 does not include any film or tape the market for
23 which is primarily topical, is otherwise essentially
24 transitory in nature, or is produced for private non-
25 commercial use.

1 “(3) TOTAL PRODUCTION COST.—The term
2 ‘total production cost’ includes costs incurred in the
3 delivery of the final master copy but does not in-
4 clude development, acquisition, and marketing costs
5 of the qualified United States independent film and
6 television production.

7 “(e) CONTROLLED GROUPS.—For purposes of this
8 section—

9 “(1) all employers treated as a single employer
10 under subsection (a) or (b) of section 52 shall be
11 treated as a single employer for purposes of this
12 subpart, and

13 “(2) the credit (if any) determined under this
14 section with respect to each such employer shall be
15 its proportionate share of the wages giving rise to
16 such credit.

17 “(f) CERTAIN OTHER RULES MADE APPLICABLE.—
18 Rules similar to the rules of section 51(k) and subsections
19 (c) and (d) of section 52 shall apply for purposes of this
20 section.”.

21 (b) DENIAL OF DOUBLE BENEFIT.—Subsection (a)
22 of section 280C is amended by inserting “35,” before
23 “45A(a),”.

24 (c) CONFORMING AMENDMENTS.—

