

106TH CONGRESS  
1ST SESSION

# S. 1303

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

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## IN THE SENATE OF THE UNITED STATES

JUNE 29, 1999

Mr. MURKOWSKI (for himself, Mr. BREAUX, Mr. GORTON, Mr. COCHRAN, Mr. HUTCHINSON, Ms. COLLINS, Mrs. LINCOLN, Mr. SHELBY, Ms. SNOWE, Mrs. MURRAY, Mr. SESSIONS, Mr. SMITH of Oregon, Mrs. HUTCHISON, Mr. GRAMS, and Mrs. LANDRIEU) introduced the following bill; which was read twice and referred to the Committee on Finance

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## A BILL

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

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

3 **SECTION 1. SHORT TITLE.**

4 This Act may be cited as the “Reforestation Tax Act  
5 of 1999”.

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

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

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

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

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

9 “(b) QUALIFIED TIMBER GAIN.—For purposes of  
10 this section, the term ‘qualified timber gain’ means gain  
11 from the disposition of timber which the taxpayer has  
12 owned for more than 1 year.

13 “(c) QUALIFIED PERCENTAGE.—For purposes of this  
14 section, the term ‘qualified percentage’ means the percent-  
15 age (not exceeding 50 percent) determined by  
16 multiplying—

17 “(1) 3 percent, by

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

20 “(d) ESTATES AND TRUSTS.—In the case of an es-  
21 tate or trust, the deduction under subsection (a) shall be  
22 computed by excluding the portion of (if any) the gains  
23 for the taxable year from sales or exchanges of capital as-  
24 sets which, under sections 652 and 662 (relating to inclu-  
25 sions of amounts in gross income of beneficiaries of

1 trusts), is includible by the income beneficiaries as gain  
2 derived from the sale or exchange of capital assets.”

3 (b) COORDINATION WITH MAXIMUM RATES OF TAX  
4 ON NET CAPITAL GAINS.—

5 (1) Section 1(h) of such Code (relating to max-  
6 imum capital gains rate) is amended by adding at  
7 the end the following new paragraph:

8 “(14) QUALIFIED TIMBER GAIN.—For purposes  
9 of this section, net capital gain shall be determined  
10 without regard to qualified timber gain (as defined  
11 in section 1203) with respect to which an election is  
12 in effect under section 1203.”

13 (2) Subsection (a) of section 1201 of such Code  
14 (relating to the alternative tax for corporations) is  
15 amended by inserting at the end the following new  
16 sentence:

17 “For purposes of this section, net capital gain shall be  
18 determined without regard to qualified timber gain (as de-  
19 fined in section 1203) with respect to which an election  
20 is in effect under section 1203.”

21 (c) ALLOWANCE OF DEDUCTION IN COMPUTING AD-  
22 JUSTED GROSS INCOME.—Subsection (a) of section 62 of  
23 such Code (relating to definition of adjusted gross income)  
24 is amended by inserting after paragraph (17) the following  
25 new paragraph:

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

3           (d) TECHNICAL AMENDMENTS.—

4           (1) Subparagraph (B) of section 172(d)(2) of  
5           such Code is amended to read as follows:

6                   “(B) the exclusion under section 1202 and  
7                   the deduction under section 1203 shall not be  
8                   allowed.”

9           (2) The last sentence of section 453A(c)(3) of  
10           such Code is amended by striking “(whichever is ap-  
11           propriate)” and inserting “or the deduction under  
12           section 1203 (whichever is appropriate)”.

13           (3) Section 641(c)(2)(C) of such Code is  
14           amended by inserting after clause (iii) the following  
15           new clause:

16                   “(iv) The deduction under section  
17                   1203.”

18           (4) The first sentence of section 642(c)(4) of  
19           such Code is amended to read as follows: “To the  
20           extent that the amount otherwise allowable as a de-  
21           duction under this subsection consists of gain de-  
22           scribed in section 1202(a) or qualified timber gain  
23           (as defined in section 1203(b)), proper adjustment  
24           shall be made for any exclusion allowable under sec-

1       tion 1202, and any deduction allowable under sec-  
2       tion 1203, to the estate or trust.”

3           (5) The last sentence of section 643(a)(3) of  
4       such Code is amended to read as follows: “The ex-  
5       clusion under section 1202 and the deduction under  
6       section 1203 shall not be taken into account.”

7           (6) The last sentence of section 643(a)(6)(C) of  
8       such Code is amended by inserting “(i)” before  
9       “there shall” and by inserting before the period “,  
10      and (ii) the deduction under section 1203 (relating  
11      to partial inflation adjustment for timber) shall not  
12      be taken into account”.

13          (7) Paragraph (4) of section 691(c) of such  
14      Code is amended by inserting “1203,” after  
15      “1202,”.

16          (8) The second sentence of paragraph (2) of  
17      section 871(a) of such Code is amended by striking  
18      “section 1202” and inserting “sections 1202 and  
19      1203”.

20      (e) CLERICAL AMENDMENT.—The table of sections  
21      for part I of subchapter P of chapter 1 of such Code is  
22      amended by adding at the end the following new item:

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

23      (f) EFFECTIVE DATE.—The amendments made by  
24      this section shall apply to sales or exchanges after Decem-  
25      ber 31, 1998.

1 **SEC. 3. AMORTIZATION OF REFORESTATION EXPENDI-**  
2 **TURES AND REFORESTATION TAX CREDIT.**

3 (a) DECREASE IN AMORTIZATION PERIOD.—

4 (1) IN GENERAL.—Section 194(a) of the Inter-  
5 nal Revenue Code of 1986 is amended by striking  
6 “84 months” and inserting “60 months”.

7 (2) CONFORMING AMENDMENT.—Section  
8 194(a) of such Code is amended by striking “84-  
9 month period” and inserting “60-month period”.

10 (b) REMOVAL OF CAP ON AMORTIZABLE BASIS.—

11 (1) Section 194 of the Internal Revenue Code  
12 of 1986 is amended by striking subsection (b) and  
13 by redesignating subsections (c) and (d) as sub-  
14 sections (b) and (c), respectively.

15 (2) Subsection (b) of section 194 of such Code  
16 (as redesignated by paragraph (1)) is amended by  
17 striking paragraph (4).

18 (3) Paragraph (1) of section 48(b) of such Code  
19 is amended by striking “(after the application of sec-  
20 tion 194(b)(1))”.

21 (c) EFFECTIVE DATE.—The amendments made by  
22 this section shall apply to additions to capital account  
23 made after December 31, 1998.

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