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GENERALIZED SYSTEM OF PREFERENCES EXTENSION ACT

AUGUST 4, 1999.—Ordered to be printed

Mr. ROTH, from the Committee on Finance,
submitted the following

REPORT

[To accompany S. 1388]

[Including cost estimate of the Congressional Budget Office]

The Committee on Finance, having considered legislation to extend the Generalized System of Preferences, reports favorably thereon and refers the bill to the full Senate with a recommendation that the bill do pass.

I. BACKGROUND

The Generalized System of Preferences (GSP) expires on June 30, 1999. The last extension of GSP was included in Public Law 105–277, the Omnibus Consolidated and Emergency Appropriations Act, 1999, which was enacted on October 21, 1998. Prior to that extension, the program had expired on September 30, 1998, and the extension was made retroactively to that date. The Finance Committee approved legislation that would extend the program in the 105th Congress as a part of S. 2400, the Trade and Tariff Act of 1998, which passed the Committee on July 31, 1998.

II. GENERAL DESCRIPTION OF ACT

SECTION 1: EXTENSION OF DUTY-FREE TREATMENT UNDER GENERAL SYSTEM OF PREFERENCES

Present law

The Generalized System of Preferences (GSP), title V of the Trade Act of 1974, as amended, grants authority to the President to provide duty-free treatment to imports of eligible articles from designated beneficiary developing countries, subject to certain con-

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ditions and limitations. To qualify for GSP benefits, each beneficiary country is subject to various mandatory and discretionary eligibility criteria. Import sensitive products are ineligible for GSP. The President's authority to grant GSP benefits expires on June 30, 1999.

The Committee notes that under 19 U.S.C. 2462(b)(2)(C), Congress expressly enjoined the grant of benefits under the Generalized System of Preferences to countries that offered preferential treatment to the products of a developed country other than the United States if the treatment has, or is likely to have, a significant effect on United States commerce. As the Committee indicated in its 1974 report on legislation that established the GSP program, one of the objectives of the GSP program was to provide an alternative to the proliferation of preferential trading arrangements created by the European Union and developing countries that generally involved a reverse grant of preferences in favor of the European Union and to the exclusion of products from other countries, including the United States. The Committee than recognized the discriminatory impact of those preferential trading arrangements, their capacity to seriously distort trade, and the extent to which they undermine the benefits of a rules-based international trading system.

In recent years, the European Union has pressed for the creation of such preferential arrangements with certain countries in Central and Eastern Europe that benefit from GSP. That has led certain GSP beneficiary counrties effectively to discriminate against U.S. goods. Given that trend, the Committee underscores the importance of enforcing the condition on GSP treatment established in 19 U.S.C. 2462(b)(2)(C) in order to discourage the reestablishment of the preferential tariff systems that the GSP was originally designed to supplant, and which the rules of the World Trade Organization, and its predecessor, the General Agreement on Tariffs and Trade sought to eliminate. The intent, as it was in 1974, is to bring pressure to bear on both developed and developing countries to remove the aforementioned "reverse preferences" as promptly as possible. If such action is not taken within a reasonable period, GSP benefts should be withdrawn.

Explanation of provision

Section 1(a) of this Act extends the GSP program through June 30, 2004. Section 1(b)(2) of this legislation provides for retroactive application for certain liquidations and reliquidations. Specifically, this subparagraph allows the Secretary of the Treasury to liquidate or reliquidate as free of duty any article that was entered after June 30, 1999, and before the date of enactment, and that would have been otherwise eligible for duty-free treatment under the GSP program if the entry had been made on June 30, 1999.

Section 1(b)(3) provides that requests for liquidation or reliquidation under this section must be filed with the Customs Service within 180 days after the enactment of this Act. Such requests must contain sufficient information to enable the Customs Service to locate the entry or to reconstruct the entry if it cannot be located.

Effective date

The provision is effective on the date of enactment.

Reason for change

The GSP program has been an important element of American trade policy since it was first enacted as part of the Trade Act of 1974. In recent years, the need to offset the tariff revenue losses generated by the GSP benefits has resulted in only short-term extensions of the program, disrupting trade and creating uncertainty for importers and GSP beneficiary countries. The Committee believes that a four and one-half year extension of the program will help to minimize the disruptions created by short-term extensions and periodic suspension of the program.

SECTION 2: ENTRY PROCEDURES FOR FOREIGN TRADE ZONE OPERATIONS

Present law

Section 484 of the Tariff Act of 1930 (19 U.S.C. 1484) sets forth the procedures for the entry of merchandise imported into the United States. Under section 484, the Customs Service has permitted a limited weekly entry procedure for foreign trade zones (FTZ) since May 12, 1986 (as authorized by T.D. 86–16, 51 Fed. Reg. 5040). This procedure has been limited to merchandise which is manufactured or changed into its final form just prior to its transfer from the zone. Section 637 of the Customs Modernization Act (included as Title VI of the North American Free Trade Agreement Implementation Act, Pub. L. 103–182, 107 Stat. 2057) provided the Customs Service with additional statutory support for the weekly entry procedure.

Explanation of provision

This provision amends Section 484 of the Tariff Act of 1930 (19 U.S.C. 1484) to allow merchandise withdrawn from a foreign-trade zone during a week (i.e., any 7 calendar day period) to be the subject of a single entry, at the option of the zone operator or user. Such an entry is treated under the new provision as a single entry or release of merchandise for purposes of assessment of the merchandise processing fee of 19 U.S.C. 8c(a)(9)(A) and thus may not be assessed such fee in excess of the fee limitations provided for under 19 U.S.C. 58c(b)(8)(A)(i). All other pertinent exceptions and exclusions from the merchandise processing fee would also apply, as appropriate. The amendment establishes a new section 19 USC 1484(a)(3). The provision is self executing and accordingly does not require the issuance of implementing regulations by the Secretary of the Treasury in order for it to go into effect.

The net effect of the provision is to require Customs to expand the weekly entry system (which currently is only available to certain manufactured goods) to permit FTZ operators and users to use a weekly entry system, under certain limitations, if they so choose. This expanded procedure allows for goods stored in a FTZ for the purpose of warehouse and distribution to be removed from the zone under a weekly Customs entry process. This provision would also mean that the merchandise processing fee (MPF) that Customs col-

lects would be collected on the basis of that single weekly entry at the same rate applicable to any other single entry of such merchandise into the Customs territory of the United States.

Effective date

The provision is effective 60 days from the date of enactment.

Reason for change

While the Customs Service issued proposed regulations to expand the weekly entry system (62 Fed. Reg. 12129 (March 14, 1997) consistent with Congress' intent as set out in the Customs Modernization Act, those regulations were never finalized. The new provision would remedy that failure by requiring such treatment as a matter of law.

The new provision is not intended to qualify, limit or restrict any foreign-trade zone weekly entry procedures now in effect. Rather, it is intended to broaden the availability of weekly entry procedures to all zones, including general purpose zones and special purpose subzones, and to all zone operations and processes authorized by law. Consistent with the Foreign Trade Zones Act, the new procedure is available for merchandise of every description, except such as is prohibited by law, regardless whether such merchandise is of the same class, type or category or of different classes, types, and categories.

SECTION 3. MODIFY INSTALLMENT METHOD AND PROHIBIT ITS USE BY ACCRUAL METHOD TAXPAYERS (SECS. 453 AND 453A OF THE INTERNAL REVENUE CODE)

Present law

An accrual method taxpayer is generally required to recognize income when all the events have occurred that fix the right to the receipt of the income and the amount of the income can be determined with reasonable accuracy. The installment method of accounting provides an exception to this general principle of income recognition by allowing a taxpayer to defer the recognition of income from the disposition of certain property until payment is received. Sales to customers in the ordinary course of business are not eligible for the installment method, except for sales of property used or produced in the trade or business of farming and sales of timeshares and residential lots if an election to pay interest under section 453(l)(2)(B) is made.

A pledge rule provides that if an installment obligation is pledged as security for any indebtedness, the net proceeds [1] of such indebtedness are treated as a payment on the obligation, triggering the recognition of income. Actual payments received on the installment obligation subsequent to the receipt of the loan proceeds are not taken into account until such subsequent payments exceed the loan proceeds that were treated as payments. The pledge rule does not apply to sales of property used or produced in the trade or business of farming, to sales of timeshares and residential lots where

[1] The net proceeds equal the gross loan proceeds less the direct expenses of obtaining the loan.

the taxpayer elects to pay interest under section 453(l)(2), or to dispositions where the sales price does not exceed $150,000.

An additional rule requires the payment of interest on the deferred tax that is attributable to most large installment sales.

Reasons for change

The Committee believes that the installment method is inconsistent with the use of the accrual method of accounting and should not be allowed in situations where the disposition of property would otherwise be reported using the accrual method. The Committee is concerned that the continued use of the installment method in such situations would allow a deferral of gain that is inconsistent with the requirement of the accrual method that income be reported in the period it is earned, rather than the period it is received.

The Committee also believes that the installment method, where its use is appropriate, should not serve to defer the recognition of gain beyond the time when funds are received. Accordingly, the Committee believes that proceeds of a loan should be treated in the same manner as a payment on an installment obligation if the loan is dependent on the existence of the installment obligation, such as where the loan is secured by the installment obligation or can be satisfied by the delivery of the installment obligation.

The Committee recognizes that special considerations exist in the disposition of property that is used or produced in the trade or business of farming, as well as certain dispositions of timeshares and residential lots where an election is made to pay interest on deferred taxes. The Committee does not believe that the rules applicable to such situations should be modified at this time.

Explanation of provision

Use of the installment method for accrual method dispositions

The installment method of accounting generally may not be used for dispositions of property that otherwise would be reported for Federal income tax purposes using an accrual method of accounting. The bill does not change present law regarding the availability of the installment method for dispositions of property used or produced in the trade or business of farming. The bill also does not change present law regarding the availability of the installment method for dispositions of timeshares and residential lots if the taxpayer elects to pay interest under section 453(l)(2).

The bill does not change the ability of a cash method taxpayer to use the installment method. For example, a cash method individual who owns all of the stock of a closely held accrual method corporation sells his stock for cash, a 10 year note, and a percentage of the gross revenues of the company for the next 10 years. Because the individual would otherwise report the disposition of the stock on the cash method, his ability to use the installment method in reporting the gain on the sale of the stock is not affected.

Modify pledge rule

The bill also modifies the pledge rule to provide that entering into any arrangement that gives the taxpayer the right to satisfy an obligation with an installment note will be treated in the same manner as the direct pledge of the installment note. For example, a taxpayer disposes of property for an installment note. The disposition is properly reported using the installment method. The taxpayer only recognizes gain as it receives the deferred payments. However, were the taxpayer to pledge the installment note as security for a loan, the taxpayer would be required to treat the proceeds of such loan as a payment on the installment note and recognize the appropriate amount of gain. Under the bill, the taxpayer would also be required to treat the proceeds of a loan as payment on the installment note to the extent the taxpayer had the right to "put" or repay the loan by transferring the installment note to the taxpayer's creditor. Other arrangements that have a similar effect would be treated in the same manner.

The modification of the pledge rule only applies to installment sales where the pledge rule of present law applies. Accordingly, the modified pledge rule does not apply to installment method sales made by a dealer in timeshares and residential lots where the taxpayer elects to pay interest under section 453(l)(2), to sales of property used or produced in the trade or business of farming, or to dispositions where the sales price does not exceed $150,000, because such sales are not subject to the pledge rule under present law.

Effective date

The provision is effective for sales or dispositions on or after the date of enactment.

III. CONGRESSIONAL ACTION

The Committee considered the legislation in the form of an original bill on June 22, 1999, and ordered it reported favorably on the basis of a voice vote.

IV. VOTE OF THE COMMITTEE

In compliance with paragraph 7(b) of rule XXVI of the Standing Rules of the Senate, the Committee states that the Generalized System of Preferences Extension Act was ordered favorably reported by a voice vote on June 22, 1999.

V. BUDGETARY IMPACT

A. COMMITTEE ESTIMATES

In compliance with sections 308 and 403 of the Congressional Budget Act of 1974, and paragraph 11(a) of rule XXVI of the Standing Rules of the Senate, the following statement is made concerning the estimated budget effects of the bill.

ESTIMATED BUDGET EFFECTS OF THE ''GENERALIZED SYSTEM OF PREFERENCES EXTENSION ACT,'' AS APPROVED BY THE COMMITTEE ON FINANCE ON JUNE 22, 1999: Fiscal Years 1999–2009

[In millions of dollars]

Provision	Effective	1999	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009	2000–04	2005–09	2000–09
Extension of Generalized System of preferences [1]	10/1/99	.....	−438	−360	−373	−393	−313	.....	.....	.....	.....	.....	−1,877	.....	−1,877
Permit importers to File Weekly Entries into the U.S. Through Foreign Trade Zones [1].	10/1/99	.....	.....	3	3	3	3	3	3	3	3	3	12	15	27
Revenue Offset Provision:															
1. Repeal installment method for most accrual basis taxpayers; adjust pledge rules.	Iseio/a DOE	4	477	677	406	257	72	8	21	35	48	62	1,889	174	2,063
Net total	.....	4	39	320	36	−133	−238	11	24	38	51	65	24	189	213

[1] Estimate provided by the Congressional Budget Office.

NOTE.-Details may not add to totals due to rounding.

Legend for ''Effective'' column: DOE=date of enactment; iseio/a=installment sales entered into on or after.

Source: Joint Committee on Taxation.

B. BUDGET AUTHORITY AND TAX EXPENDITURES

1. Budget authority

In accordance with section 308(a)(1) of the Budget Act the Committee states that the Generalized System of Preferences Extension Act involves no new or increased budget authority.

2. Tax Expenditures

In accordance with section 308(a)(2) of the Budget Act, the Committee states that the Generalized System of Preferences Extension Act will result in no increased tax expenditures over the period fiscal years 1999–2009.

C. CONSULTATION WITH CONGRESSIONAL BUDGET OFFICE

In accordance with section 403 of the Budget Act, the Committee advises that the Congressional Budget Office has submitted the following statement on the budgetary impact of the Generalized System of Preferences Extension Act:

U.S. CONGRESS,
CONGRESSIONAL BUDGET OFFICE,
Washington, DC, July 16, 1999.

Hon. WILLIAM V. ROTH, Jr.,
Chairman, Committee on Finance,
U.S. Senate, Washington, DC.

DAR MR. CHAIRMAN: The Congressional Budget Office has prepared the enclosed cost estimate for a bill to extend the Generalized System of Preferences.

If you wish further details on this estimate, we will be pleased to provide them. The CBO staff contacts are Hester Grippando (for revenues) and Mark Grabowicz (for spending).

Sincerely,

DAN L. CRIPPEN, *Director.*

Enclosure.

A bill to extend the Generalized System of Preferences

Summary

The bill to extend the Generalized System of Preferences (GSP) would extend these trade preferences, which expired on June 30, 1999, through June 30, 2004. In addition, the legislation would amend the Internal Revenue Code to prohibit the use of the installment method of accounting and modify the pledge rule for dispositions of property. The bill also would change procedures for the entry of goods into the United States through foreign trade zones. CBO and the Joint Committee on Taxation (JCT) estimate that enacting this bill would increase revenues by $16 million and increase direct spending by $12 million over the 1999–2004 period. Because the bill would affect revenues and direct spending, pay-as-you-go procedures would apply.

The bill contains no intergovernmental mandates as defined in the Unfunded Mandates Reform Act (UMRA) and would not affect the budgets of state, local, or tribal governments. The legislation contains a private-sector mandate that would prohibit the use of

the installment method of accounting and modify the pledge rule for dispositions of property. JCT estimates that the costs of the mandate would exceed the threshold for private-sector mandates established in UMRA ($100 million in 1996, adjusted annually for inflation) in fiscal years 2000 through 2004.

Estimated cost to the Federal Government

The estimated budgetary impact of the bill is shown in the following table. In addition to affecting revenues, the bill would affect spending in budget function 750 (administration of justice).

	By fiscal year in millions of dollars—					
	1999	2000	2001	2002	2003	2004
CHANGES IN REVENUES						
Extension of the GSP	0	−438	−360	−373	−393	−313
Repeal Installment Method of Accounting; Adjust Pledge Rules	4	477	677	406	257	72
Total Change in Revenues	4	39	317	33	−136	−241
CHANGES IN DIRECT SPENDING						
Estimated Budget Authority	0	(1)	3	3	3	3
Estimated Outlays	0	(1)	3	3	3	3

[1] Less than $500,000.

Sources: Congressional Budget Office and Joint Committee on Taxation.

Basis of estimate

Revenues

GSP affords nonreciprocal tariff preferences to approximately 140 developing countries to aid their economic development, and to diversify and expand their production and exports. Generally, duty-free treatment of imported goods from GSP-designated developing countries is extended to products that are not competitive internationally. The bill would renew GSP, which expired on June 30, 1999, through June 30, 2004. Taxpayers could apply for refunds for the period since July 1, 1999.

This estimate is based on projections of U.S. imports and recent data on collections from beneficiary countries under the GSP program. The estimate of the revenue loss from extending the existing GSP program was based on recent trade data on imports for U.S. consumption of goods from eligible countries. CBO assumed that GSP imports would remain a constant portion of total imports. Losses of revenues from customs duties were projected using a trade-weighted duty rate adjusted for tariff reductions scheduled by the World Trade Organization (WTO). Assuming an October 1, 1999, enactment date, CBO estimates that renewing GSP would reduce governmental receipts by $438 million in fiscal year 2000 and by $1,877 million over the 2000–2004 period, net of payroll and income tax offsets.

The Joint Committee on Taxation estimated the revenue impact of repealing the installment method of accounting and modifying the pledge rule for distributions of property.

Direct spending

This legislation would permit importers to file a weekly entry for certain merchandise entered into the United States through a foreign trade zone (FTZ). Under current law, most entries must be made on a daily basis. For each entry, an importer must pay a merchandise processing fee to the Customs Service equal to 0.21 percent of the value of the merchandise, up to $485. For users of FTZs that enter large quantities of goods more than once a week, this provision would lower the amounts of fees paid to the Customs Service. Because there are relatively few major importers in FTZs, CBO estimates that the loss of fees from current users of FTZs would total less than $500,000 annually.

Under current law, a firm's decision to use an FTZ involves many variables, including proximity to a zone, potential savings in Customs duties paid on products manufactured in a zone, and the cost and time required for the FTZ approval process. CBO expects that enacting this legislation would prompt some firms to use FTZs in order to reduce their payment of merchandise processing fees. The 1,000 largest importers account for more than half of all entries and would seem most likely to utilize FTZs because they could achieve the greatest savings. In some cases, savings to importers could total about $100,000 annually, depending on the frequency and size of entries under current law. Assuming that 30 companies, or just 3 percent of the largest 1,000 importers, join FTZs and save an average of $100,000 annually in merchandise processing fees, the government would lose about $3 million a year in fees (which are classified as offsetting receipts). If more companies choose to use FTZs, then the costs (from forgone fees) would be greater. Because the approval process for using an FTZ could take about a year in many cases, any significant loss of fees probably would not occur until fiscal year 2001.

Pay-as-you-go considerations

The Balanced Budget and Emergency Deficit Control Act sets up pay-as-you-go procedures for legislation affecting receipts or direct spending. The net changes in governmental receipts and outlays are shown in the following table. For the purposes of enforcing pay-as-you-go procedures, only the effects in the current year, the budget year, and the succeeding four years are counted.

	By fiscal year, in millions of dollars—										
	1999	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009
Changes in receipts ...	4	39	317	33	−136	−241	8	21	35	48	62
Changes in outlays	0	0	3	3	3	3	3	3	3	3	3

Estimated impact on state, local, and tribal governments

The bill contains no intergovernmental mandates as defined in UMRA and would not affect the budgets of state, local, or tribal governments.

Estimated impact on the private sector

The legislation contains a private-sector mandate that would prohibit the use of the installment method of accounting and modify

the pledge rule for dispositions of property. JCT estimates that the mandate would cost $1.9 billion over the 2000–2004 period, and that the costs would exceed the threshold for private-sector mandates established in UMRA ($100 million in 1996, adjusted annually for inflation) in fiscal years 2000 through 2003.

Estimate prepared by: Federal revenues: Hester Grippando; Federal spending: Mark Grabowicz.

Estimate approved by: Robert A. Sunshine, Deputy Assistant Director for Budget Analysis; G. Thomas Woodward, Assistant Director for Tax Analysis.

VI. REGULATORY IMPACT AND UNFUNDED MANDATES

A. REGULATORY IMPACT

In accordance with paragraph 11(b) of rule XXVI of the Standing Rules of the Senate, the Committee makes the following statement concerning the regulatory impact of the Generalized System of Preferences Extension Act.

1. Impact on individuals and businesses

The Committee states that the non-revenue offset portion of this Act does not alter any of the substantive or procedural requirements of the programs involved and would not, as a consequence, involve any new paperwork or regulatory burdens on individuals.

The Committee further states that the bill provides the following revenue offset: repeal of the installment method for most accrual basis taxpayers, effective for sales and other dispositions on or after the date of enactment. This revenue offset provision will increase the tax burden on the affected taxpayers.

2. Impact on personal privacy and paperwork

The Generalized System of Preferences Extension Act will have no impact on personal privacy or paperwork.

B. UNFUNDED MANDATES

This information is provided in accordance with section 423 of the Unfunded Mandates Reform Act of 1995 (Pub. L. 104–4). The Committee on Finance has reviewed the provisions of the Generalized System of Preferences as approved by the Committee on June 22, 1999. In accordance with the requirements of Public Law 104–4, the Committee has determined that the revenue provisions of the bill contain the following Federal private sector mandate:

> Modification of the installment method and to prohibit its use by accrual method taxpayers.

The Committee has determined that it is necessary to include this provision in the bill to provide a revenue offset for the trade initiatives approved by the Committee.

C. TAX COMPLEXITY ANALYSIS

Section 4022(b) of the Internal Revenue Service Reform and Restructuring Act of 1998 (the IRS Reform Act) requires the Joint Committee on Taxation (in consultation with the Internal Revenue Service and the Department of the Treasury) to provide a tax complexity analysis. The complexity analysis is required for all legisla-

tion reported by the Senate Committee on Finance, the House Committee on Ways and Means, or any committee of conference if the legislation includes a provision that directly or indirectly amends the Internal Revenue Code (the Code) and has widespread applicability to individuals or small businesses.

The staff of the Joint Committee on Taxation has determined that a complexity analysis is not required under section 4022(b) of the IRS Reform Act because the bill contains no provisions that amend the Internal Revenue Code and that have widespread applicability to individuals or small businesses.

VII. CHANGES IN EXISTING LAW

In compliance with paragraph 12 of rule XXVI of the Standing Rules of the Senate, changes in existing law made by the bill, as reported, are shown as follows (existing law proposed to be omitted is enclosed in black brackets, new matter is printed in italic, existing law in which no change is proposed is shown in roman):

TRADE ACT OF 1974

* * * * * * *

SEC. 505. DATE OF TERMINATION.

No duty-free treatment provided under this subchapter shall remain in effect after [June 30, 1999] *June 30, 2004.*

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TARIFF ACT OF 1930

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SEC. 484. ENTRY OF MERCHANDISE.

* * * * * * *

(i) SPECIAL RULE FOR FOREIGN TRADE ZONE OPERATIONS.—

(1) IN GENERAL.—Notwithstanding any other provision of law and except as provided in paragraph (3), all merchandise (including merchandise of different classes, types, and categories), withdrawn from a foreign trade zone during any 7-day period, shall, at the option of the operator or user of the zone, be the subject of a single estimated entry or release filed on or before the first day of the 7-day period in which the merchandise is to be withdrawn from the zone. The estimated entry or release shall be treated as a single entry and a single release of merchandise for purposes of section 13031(a)(9)(A) of the Consolidated Omnibus Budget Reconciliation Act of 1985 (19 U.S.C. 58c(a)(9)(A)) and all fee exclusions and limitations of such section 13031 shall apply, including the maximum and minimum fee amounts provided for under subsection (b)(8)(A)(i) of such section. The entry summary for the estimated entry or release shall cover only the merchandise actually withdrawn from the foreign trade zone during the 7-day period.

(2) OTHER REQUIREMENTS.—The Secretary of the Treasury may require that the operator or user of the zone—

(A) use an electronic data interchange approved by the Customs Service—

(i) to file the entries described in paragraph (1); and

(ii) to pay the applicable duties, fees, and taxes with respect to the entries; and

(B) satisfy the Customs Service that accounting, transportation, and other controls over the merchandise are adequate to protect the revenue and meet the requirements of other Federal agencies.

(3) EXCEPTION.—The provisions of paragraph (1) shall not apply to merchandise the entry of which is prohibited by law or merchandise for which the filing of an entry summary is required before the merchandise is released from customs custody.

(4) FOREIGN TRADE ZONE; ZONE.—In this subsection, the terms "foreign trade zone" and "zone" mean a zone established pursuant to the Act of June 18, 1934, commonly known as the foreign Trade Zones Act (19 U.S.C. 81a et seq.).

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INTERNAL REVENUE CODE OF 1986

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SEC. 453. INSTALLMENT METHOD.

[(a) GENERAL RULE.—Except as otherwise provided in this section, income from an installment sale shall be taken into account for purposes of this title under the installment method.]

(a) USE OF INSTALLMENT METHOD.—

(1) IN GENERAL.—Except as otherwise provided in this section, income from an installment sale shall be taken into account for purposes of this title under the installment method.

(2) ACCRUAL METHOD TAXPAYER.—The installment method shall not apply to income from an installment sale of such income would be reported under an accrual method of accounting without regard to this section. The preceding sentence shall not apply to a disposition described in subparagraph (A) or (B) of subsection (l)(2).

* * * * * * *

(d) ELECTION OUT.—

(1) IN GENERAL.—Subsection [(a)] *(a)(1)* shall not apply to any disposition if the taxpayer elects to have subsection [(a)] *(a)(1)* not apply to such disposition.

* * * * * * *

(i) Recognition of Recapture Income in Year of Disposition.—

(1) IN GENERAL.—In the case of any installment sale of property to which subsection [(a)] *(a)(1)* applies—

(A) notwithstanding subsection [(a)] *(a)(1)*, any recapture income shall be recognized in the year of the disposition, and

(B) any gain in excess of the recapture income shall be taken into account under the installment method.

* * * * * * *

(k) CURRENT INCLUSION IN CASE OF REVOLVING CREDIT PLANS, ETC.—

In the case of—

(1) any disposition of personal property under a revolving credit plan, or

(2) any installment obligation arising out of a sale of—

(A) stock or securities which are traded on an established securities market, or

(B) to the extent provided in regulations, property (other than stock or securities) of a kind regularly traded on an established market,

subsection [(a)] *(a)(1)* shall not apply, and for purposes of this title, all payments to be received shall be treated as received in the year of disposition. The Secretary may provide for the application of this subsection in whole or in part for transactions in which the rules of this subsection otherwise would be avoided through the use of related parties, pass-thru entities, or intermediaries.

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SEC. 453A. SPECIAL RULES FOR NONDEALERS.

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(d) PLEDGES, ETC., OF INSTALLMENT OBLIGATIONS.—(1) IN GENERAL.—For purposes of section 453, if any indebtedness (hereinafter in this subsection referred to as "secured indebtedness") is secured by an installment obligation to which this section applies, the net proceeds of the secured indebtedness shall be treated as a payment received on such installment obligation as of the later of—

* * * * * * *

(4) SECURED INDEBTEDNESS.—For purposes of this subsection indebtedness is secured by an installment obligation to the extent that payment of principal or interest on such indebtedness is directly secured (under the terms of the indebtedness or any underlying arrangements) by any interest in such installment obligation. *A payment shall be treated as directly secured by an interest in an installment obligation to the extent an arrangement allows the taxpayer to satisfy all or a portion of the indebtedness with the installment obligation.*

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