

107TH CONGRESS
1ST SESSION

H. R. 1018

To amend the Internal Revenue Code of 1986 to provide for economic growth
by providing tax relief.

IN THE HOUSE OF REPRESENTATIVES

MARCH 14, 2001

Mr. TOOMEY (for himself, Mr. RYAN of Wisconsin, Mr. ARMEY, Mr. FLAKE, Mr. SHADEGG, Mr. SAM JOHNSON of Texas, Mr. DEMINT, Mr. PENCE, Mr. BONILLA, Mr. SESSIONS, Mr. DOOLITTLE, Mr. RYUN of Kansas, Mr. SOUDER, Mr. LARGENT, Mr. Otter, Mr. TANCREDO, Mr. CHABOT, Mr. COX, Mrs. MYRICK, Mr. HAYWORTH, Mr. CANTOR, Mr. AKIN, Ms. HART, Mr. SCHAFFER, Mr. GARY MILLER of California, Mr. ISTOOK, Mr. HOSTETTLER, Mr. PITTS, Mr. BARTLETT of Maryland, Mr. HERGER, Mr. ISSA, Mr. HEFLEY, Mr. KIRK, Mr. KELLER, Mr. JONES of North Carolina, Mrs. JO ANN DAVIS of Virginia, and Mr. BARR of Georgia) introduced the following bill; which was referred to the Committee on Ways and Means

A BILL

To amend the Internal Revenue Code of 1986 to provide
for economic growth by providing tax relief.

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 (a) SHORT TITLE.—This Act may be cited as the
5 “Economic Recovery and Growth Act of 2001”.

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) SECTION 15 NOT TO APPLY.—No amendment
 8 made by this Act shall be treated as a change in a rate
 9 of tax for purposes of section 15 of the Internal Revenue
 10 Code of 1986.

11 (d) TABLE OF CONTENTS.—

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Sec. 102. Repeal of alternative minimum tax on individuals.

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Sec. 212. Catchup contributions to IRAs by individuals age 50 or over.

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- Sec. 235. Clarification of tax treatment of division of section 457 plan benefits upon divorce.
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- Sec. 251. Repeal of 150 percent of current liability funding limit.
- Sec. 252. Maximum contribution deduction rules modified and applied to all defined benefit plans.
- Sec. 253. Excise tax relief for sound pension funding.
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- Sec. 255. Treatment of multiemployer plans under section 415.
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- Sec. 261. Modification of timing of plan valuations.
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 Sec. 507. Repeal of occupational taxes relating to distilled spirits, wine, and beer.
 Sec. 508. Permanent extension of research credit.
 Sec. 509. Farm, fishing, and ranch risk management accounts.

1 **TITLE I—INDIVIDUAL INCOME**
 2 **TAX RELIEF**

3 **SEC. 101. REDUCTION IN MARGINAL INCOME TAX RATES**
 4 **FOR INDIVIDUALS.**

5 (a) IN GENERAL.—Section 1 is amended by adding
 6 at the end the following new subsection:

7 “(i) RATE REDUCTIONS AFTER 2000.—

8 “(1) NEW LOWEST RATE BRACKET.—

1 “(A) IN GENERAL.—In the case of taxable
2 years beginning after December 31, 2000—

3 “(i) the rate of tax under subsections
4 (a), (b), (c), and (d) on taxable income not
5 over the initial bracket amount shall be 12
6 percent (as modified by paragraph (2)),
7 and

8 “(ii) the 15 percent rate of tax shall
9 apply only to taxable income over the ini-
10 tial bracket amount.

11 “(B) INITIAL BRACKET AMOUNT.—For
12 purposes of this subsection, the initial bracket
13 amount is—

14 “(i) \$12,000 in the case of subsection
15 (a),

16 “(ii) \$10,000 in the case of subsection
17 (b), and

18 “(iii) $\frac{1}{2}$ the amount applicable under
19 clause (i) in the case of subsections (c) and
20 (d).

21 “(C) INFLATION ADJUSTMENT.—In pre-
22 scribing the tables under subsection (f) which
23 apply with respect to taxable years beginning in
24 calendar years after 2001—

1 “(i) the Secretary shall make no ad-
2 justment to the initial bracket amount for
3 any taxable year beginning before January
4 1, 2007,

5 “(ii) the cost-of-living adjustment
6 used in making adjustments to the initial
7 bracket amount for any taxable year begin-
8 ning after December 31, 2006, shall be de-
9 termined under subsection (f)(3) by sub-
10 stituting ‘2005’ for ‘1992’ in subparagraph
11 (B) thereof, and

12 “(iii) such adjustment shall not apply
13 to the amount referred to in subparagraph
14 (B)(iii).

15 If any amount after adjustment under the pre-
16 ceding sentence is not a multiple of \$50, such
17 amount shall be rounded to the next lowest
18 multiple of \$50.

19 “(2) ADDITIONAL REDUCTIONS.—In the case of
20 taxable years beginning in a calendar year after
21 2000, the corresponding percentage specified for
22 such calendar year in the following table shall be
23 substituted for the otherwise applicable tax rate in
24 the tables under subsections (a), (b), (c), (d), and,
25 to the extent applicable, (e).

“In the case of taxable years beginning during calendar year:	The corresponding percentages shall be substituted for the following percentages:					
	12%	15%	28%	31%	36%	39.6%
2001	12%	15%	26%	26%	34%	34%
2002	12%	15%	26%	26%	34%	34%
2003	12%	15%	26%	26%	34%	34%
2004	12%	15%	26%	26%	34%	34%
2005	11%	15%	26%	26%	34%	34%
2006	10%	15%	25%	25%	33%	33%
2007	10%	15%	25%	25%	33%	33%
2008	10%	15%	25%	25%	33%	33%
2009	10%	15%	25%	25%	33%	33%
2010	9.5%	14.2%	23.7%	23.7%	31.3%	31.3%
2011 and thereafter	9%	13.5%	22.5%	22.5%	29.7%	29.7%

1 “(3) ADJUSTMENT OF TABLES.—The Secretary
2 shall adjust the tables prescribed under subsection
3 (f) to carry out this subsection.”

4 (b) REPEAL OF REDUCTION OF REFUNDABLE TAX
5 CREDITS.—

6 (1) Subsection (d) of section 24 is amended by
7 striking paragraph (2) and redesignating paragraph
8 (3) as paragraph (2).

9 (2) Section 32 is amended by striking sub-
10 section (h).

11 (c) CONFORMING AMENDMENTS.—

12 (1) Subparagraph (B) of section 1(g)(7) is
13 amended—

14 (A) by striking “15 percent” in clause
15 (ii)(II) and inserting “the first bracket percent-
16 age”, and

17 (B) by adding at the end the following
18 flush sentence:

1 “For purposes of clause (ii), the first bracket
2 percentage is the percentage applicable to the
3 lowest income bracket in the table under sub-
4 section (c).”

5 (2) Section 1(h) is amended—

6 (A) by striking “28 percent” both places it
7 appears in paragraphs (1)(A)(ii)(I) and
8 (1)(B)(i) and inserting “21.2 percent”, and

9 (B) by striking paragraph (13).

10 (3) Section 15 is amended by adding at the end
11 the following new subsection:

12 “(f) RATE REDUCTIONS ENACTED BY ECONOMIC RE-
13 COVERY AND GROWTH ACT OF 2001.—This section shall
14 not apply to any change in rates under subsection (i) of
15 section 1 (relating to rate reductions after 2000).”

16 (4) Section 531 is amended by striking “equal
17 to” and all that follows and inserting “equal to the
18 product of the highest rate of tax under section 1(c)
19 and the accumulated taxable income.”.

20 (5) Section 541 of such Code is amended by
21 striking “equal to” and all that follows and inserting
22 “equal to the product of the highest rate of tax
23 under section 1(c) and the undistributed personal
24 holding company income.”.

1 (6) Section 3402(p)(1)(B) is amended by strik-
2 ing “7, 15, 28, or 31 percent” and inserting “7 per-
3 cent, any percentage applicable to any of the 3 low-
4 est income brackets in the table under section
5 1(c),”.

6 (7) Section 3402(p)(2) is amended by striking
7 “equal to 15 percent of such payment” and inserting
8 “equal to the product of the lowest rate of tax under
9 section 1(c) and such payment”.

10 (8) Section 3402(q)(1) is amended by striking
11 “equal to 28 percent of such payment” and inserting
12 “equal to the product of the third to the lowest rate
13 of tax under section 1(c) and such payment”.

14 (9) Section 3402(r)(3) is amended by striking
15 “31 percent” and inserting “the third to the lowest
16 rate of tax under section 1(c)”.

17 (10) Section 3406(a)(1) is amended by striking
18 “equal to 31 percent of such payment” and inserting
19 “equal to the product of the third to the lowest rate
20 of tax under section 1(c) and such payment”.

21 (11) Section 13273 of the Revenue Reconcili-
22 ation Act of 1993 is amended by striking “28 per-
23 cent” and inserting “the third to the lowest rate of
24 tax under section 1(c) of the Internal Revenue Code
25 of 1986”.

1 (d) EFFECTIVE DATES.—

2 (1) IN GENERAL.—Except as provided in para-
3 graph (2), the amendments made by this section
4 shall apply to taxable years beginning after Decem-
5 ber 31, 2000.

6 (2) AMENDMENTS TO WITHHOLDING PROVI-
7 SIONS.—The amendments made by paragraphs (6),
8 (7), (8), (9), (10), and (11) of subsection (c) shall
9 apply to amounts paid after the 60th day after the
10 date of the enactment of this Act.

11 **SEC. 102. REPEAL OF ALTERNATIVE MINIMUM TAX ON INDI-**
12 **VIDUALS.**

13 (a) IN GENERAL.—Subsection (a) of section 55 is
14 amended by adding at the end the following new flush sen-
15 tence:

16 “For purposes of this title, the tentative minimum tax on
17 any taxpayer other than a corporation for any taxable year
18 beginning after December 31, 2009, shall be zero.”.

19 (b) REDUCTION OF TAX ON INDIVIDUALS PRIOR TO
20 REPEAL.—Section 55 is amended by adding at the end
21 the following new subsection:

22 “(f) PHASEOUT OF TAX ON INDIVIDUALS.—

23 “(1) IN GENERAL.—The tax imposed by this
24 section on a taxpayer other than a corporation for
25 any taxable year beginning after December 31,

1 2000, and before January 1, 2010, shall be the ap-
 2 plicable percentage of the tax which would be im-
 3 posed but for this subsection.

4 “(2) APPLICABLE PERCENTAGE.—For purposes
 5 of paragraph (1), the applicable percentage shall be
 6 determined in accordance with the following table:

“For taxable years beginning in calendar year—	The applicable percentage is—
2001, 2002, or 2003	80
2004, 2005, or 2006	70
2007 or 2008	60
2009	50.”.

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

10 **TITLE II—INDIVIDUAL SAVINGS**
 11 **AND INVESTMENT TAX RE-**
 12 **LIEF; PENSION REFORM**

13 **Subtitle A—Individual Savings and**
 14 **Investment Tax Relief**

15 **SEC. 201. REDUCTION IN CAPITAL GAINS RATES.**

16 (a) IN GENERAL.—Subsection (h) of section 1 is
 17 amended—

18 (1) by striking “10 percent” in subparagraph

19 (B) and inserting “7.5 percent”,

20 (2) by striking “20 percent” in subparagraph

21 (C) and inserting “15 percent”,

1 (3) by striking “25 percent” in subparagraph
2 (D) and inserting “20 percent”, and
3 (4) by striking paragraph (2).

4 (b) EFFECTIVE DATE.—The amendments made by
5 this section shall apply to taxable years beginning after
6 December 31, 2001.

7 **SEC. 202. PHASEOUT OF ESTATE AND GIFT TAXES.**

8 (a) REPEAL OF ESTATE AND GIFT TAXES.—Subtitle
9 B (relating to estate and gift taxes) is repealed effective
10 with respect to estates of decedents dying, and gifts made,
11 after December 31, 2008.

12 (b) PHASEOUT OF TAX.—Subsection (c) of section
13 2001 (relating to imposition and rate of tax) is amended
14 by adding at the end the following new paragraph:

15 “(3) PHASEOUT OF TAX.—In the case of es-
16 tates of decedents dying, and gifts made, during any
17 calendar year after 2001 and before 2009—

18 “(A) IN GENERAL.—The tentative tax
19 under this subsection shall be determined by
20 using a table prescribed by the Secretary (in
21 lieu of using the table contained in paragraph
22 (1)) which is the same as such table; except
23 that—

24 “(i) each of the rates of tax shall be
25 reduced (but not below zero) by the num-

1 ber of percentage points determined under
 2 subparagraph (B), and

3 “(ii) the amounts setting forth the tax
 4 shall be adjusted to the extent necessary to
 5 reflect the adjustments under clause (i).

6 “(B) PERCENTAGE POINTS OF REDUC-
 7 TION.—

“For calendar year:	The number of percentage points is:
2002, 2003, 2004, or 2005	15
2006	20
2007	30
2008	40.

8 “(C) COORDINATION WITH PARAGRAPH
 9 (2).—Paragraph (2) shall be applied by reduc-
 10 ing the 55 percent percentage contained therein
 11 by the number of percentage points determined
 12 for such calendar year under subparagraph
 13 (B).”.

14 (c) EFFECTIVE DATE.—The amendments made by
 15 subsection (b) shall apply to estates of decedents dying,
 16 and gifts made, after December 31, 2001.

17 **Subtitle B—Pension Reform**
 18 **CHAPTER 1—INDIVIDUAL RETIREMENT**
 19 **ACCOUNTS**

20 **SEC. 211. MODIFICATION OF IRA CONTRIBUTION LIMITS.**

21 (a) INCREASE IN CONTRIBUTION LIMIT.—

22 (1) IN GENERAL.—Paragraph (1)(A) of section
 23 219(b) (relating to maximum amount of deduction)

1 is amended by striking “\$2,000” and inserting “the
 2 deductible amount”.

3 (2) DEDUCTIBLE AMOUNT.—Section 219(b) is
 4 amended by adding at the end the following new
 5 paragraph:

6 “(5) DEDUCTIBLE AMOUNT.—For purposes of
 7 paragraph (1)(A)—

8 “(A) IN GENERAL.—The deductible
 9 amount shall be determined in accordance with
 10 the following table:

“For taxable years beginning in:	The deductible amount is:
2002	\$3,000
2003	\$4,000
2004 and thereafter	\$5,000.

11 “(B) COST-OF-LIVING ADJUSTMENT.—

12 “(i) IN GENERAL.—In the case of any
 13 taxable year beginning in a calendar year
 14 after 2004, the \$5,000 amount under sub-
 15 paragraph (A) shall be increased by an
 16 amount equal to—

17 “(I) such dollar amount, multi-
 18 plied by

19 “(II) the cost-of-living adjust-
 20 ment determined under section
 21 1(f)(3) for the calendar year in which
 22 the taxable year begins, determined by
 23 substituting ‘calendar year 2003’ for

1 ‘calendar year 1992’ in subparagraph
2 (B) thereof.

3 “(ii) ROUNDING RULES.—If any
4 amount after adjustment under clause (i)
5 is not a multiple of \$100, such amount
6 shall be rounded to the next lower multiple
7 of \$100.”.

8 (b) CONFORMING AMENDMENTS.—

9 (1) Section 408(a)(1) is amended by striking
10 “in excess of \$2,000 on behalf of any individual”
11 and inserting “on behalf of any individual in excess
12 of the amount in effect for such taxable year under
13 section 219(b)(1)(A)”.

14 (2) Section 408(b)(2)(B) is amended by strik-
15 ing “\$2,000” and inserting “the dollar amount in
16 effect under section 219(b)(1)(A)”.

17 (3) Section 408(b) is amended by striking
18 “\$2,000” in the matter following paragraph (4) and
19 inserting “the dollar amount in effect under section
20 219(b)(1)(A)”.

21 (4) Section 408(j) is amended by striking
22 “\$2,000”.

23 (5) Section 408(p)(8) is amended by striking
24 “\$2,000” and inserting “the dollar amount in effect
25 under section 219(b)(1)(A)”.

1 (c) EFFECTIVE DATE.—The amendments made by
 2 this section shall apply to taxable years beginning after
 3 December 31, 2001.

4 **SEC. 212. CATCHUP CONTRIBUTIONS TO IRAS BY INDIVID-**
 5 **UALS AGE 50 OR OVER.**

6 (a) IN GENERAL.—Section 219(b) is amended fur-
 7 ther by adding at the end the following new paragraph:

8 “(6) CATCHUP CONTRIBUTIONS.—

9 “(A) IN GENERAL.—In the case of an indi-
 10 vidual who has attained the age of 50 before
 11 the close of the taxable year, the dollar amount
 12 in effect under paragraph (1)(A) for such tax-
 13 able year shall be equal to the applicable per-
 14 centage of such amount determined without re-
 15 gard to this paragraph.

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

“For taxable years beginning in:	The applicable percentage is:
2002	110 percent
2003	120 percent
2004	130 percent
2005	140 percent
2006 and thereafter	150 percent.”.

20 (b) EFFECTIVE DATE.—The amendment made by
 21 this section shall apply to contributions in taxable years
 22 beginning after December 31, 2001.

1 **SEC. 213. MODIFICATION OF INCOME LIMITS ON CON-**
2 **TRIBUTIONS AND ROLLOVERS TO ROTH IRAS.**

3 (a) **REPEAL OF AGI LIMIT ON CONTRIBUTIONS.**—
4 Section 408A(c)(3) (relating to limits based on modified
5 adjusted gross income) is amended—

6 (1) by striking clause (ii) of subparagraph (A)
7 and inserting:

8 “(ii) \$10,000.”, and

9 (2) by striking clause (ii) of subparagraph (C)
10 and inserting:

11 “(ii) the applicable dollar amount is—

12 “(I) \$200,000 in the case of a
13 taxpayer filing a joint return, and

14 “(II) \$100,000 in the case of any
15 other taxpayer.”.

16 (b) **INCREASE IN AGI LIMIT FOR ROLLOVER CON-**
17 **TRIBUTIONS.**—Section 408A(c)(3)(B) (relating to rollover
18 from IRA) is amended to read as follows:

19 “(B) **ROLLOVER FROM IRA.**—A taxpayer
20 shall not be allowed to make a qualified rollover
21 contribution from an individual retirement plan
22 other than a Roth IRA during any taxable year
23 if, for the taxable year of the distribution to
24 which the contribution relates, the taxpayer’s
25 adjusted gross income exceeds \$100,000

1 (\$200,000 in the case of a taxpayer filing a
2 joint return).”.

3 (c) EFFECTIVE DATES.—The amendments made by
4 this section shall apply to taxable years beginning after
5 December 31, 2001.

6 **SEC. 214. DEEMED IRAS UNDER EMPLOYER PLANS.**

7 (a) IN GENERAL.—Section 408 (relating to individual
8 retirement accounts) is amended by redesignating sub-
9 section (q) as subsection (r) and by inserting after sub-
10 section (p) the following new subsection:

11 “(q) DEEMED IRAS UNDER QUALIFIED EMPLOYER
12 PLANS.—

13 “(1) GENERAL RULE.—If—

14 “(A) a qualified employer plan elects to
15 allow employees to make voluntary employee
16 contributions to a separate account or annuity
17 established under the plan, and

18 “(B) under the terms of the qualified em-
19 ployer plan, such account or annuity meets the
20 applicable requirements of this section or sec-
21 tion 408A for an individual retirement account
22 or annuity,

23 then such account or annuity shall be treated for
24 purposes of this title in the same manner as an indi-
25 vidual retirement plan (and contributions to such ac-

1 count or annuity as contributions to an individual
2 retirement plan). For purposes of subparagraph (B),
3 the requirements of subsection (a)(5) shall not
4 apply.

5 “(2) SPECIAL RULES FOR QUALIFIED EM-
6 PLOYER PLANS.—For purposes of this title—

7 “(A) a qualified employer plan shall not
8 fail to meet any requirement of this title solely
9 by reason of establishing and maintaining a
10 program described in paragraph (1), and

11 “(B) any account or annuity described in
12 paragraph (1), and any contribution to the ac-
13 count or annuity, shall not be subject to any re-
14 quirement of this title applicable to a qualified
15 employer plan or taken into account in applying
16 any such requirement to any other contribu-
17 tions under the plan.

18 “(3) DEFINITIONS.—For purposes of this
19 subsection—

20 “(A) QUALIFIED EMPLOYER PLAN.—The
21 term ‘qualified employer plan’ has the meaning
22 given such term by section 72(p)(4).

23 “(B) VOLUNTARY EMPLOYEE CONTRIBU-
24 TION.—The term ‘voluntary employee contribu-
25 tion’ means any contribution (other than a

1 mandatory contribution within the meaning of
2 section 411(c)(2)(C)—

3 “(i) which is made by an individual as
4 an employee under a qualified employer
5 plan which allows employees to elect to
6 make contributions described in paragraph
7 (1), and

8 “(ii) with respect to which the indi-
9 vidual has designated the contribution as a
10 contribution to which this subsection ap-
11 plies.”.

12 (b) AMENDMENT OF ERISA.—

13 (1) IN GENERAL.—Section 4 of the Employee
14 Retirement Income Security Act of 1974 (29 U.S.C.
15 1003) is amended by adding at the end the following
16 new subsection:

17 “(c) If a pension plan allows an employee to elect to
18 make voluntary employee contributions to accounts and
19 annuities as provided in section 408(q) of the Internal
20 Revenue Code of 1986, such accounts and annuities (and
21 contributions thereto) shall not be treated as part of such
22 plan (or as a separate pension plan) for purposes of any
23 provision of this title other than section 403(e), 404, or
24 405 (relating to exclusive benefit, and fiduciary and co-
25 fiduciary responsibilities).”.

1 (2) CONFORMING AMENDMENT.—Section 4(a)
2 of such Act (29 U.S.C. 1003(a)) is amended by in-
3 serting “or (c)” after “subsection (b)”.

4 (c) EFFECTIVE DATE.—The amendments made by
5 this section shall apply to plan years beginning after De-
6 cember 31, 2001.

7 **CHAPTER 2—EXPANDING COVERAGE**

8 **SEC. 221. INCREASE IN BENEFIT AND CONTRIBUTION** 9 **LIMITS.**

10 (a) DEFINED BENEFIT PLANS.—

11 (1) DOLLAR LIMIT.—

12 (A) Subparagraph (A) of section 415(b)(1)
13 (relating to limitation for defined benefit plans)
14 is amended by striking “\$90,000” and inserting
15 “\$160,000”.

16 (B) Subparagraphs (C) and (D) of section
17 415(b)(2) are each amended by striking
18 “\$90,000” each place it appears in the head-
19 ings and the text and inserting “\$160,000”.

20 (C) Paragraph (7) of section 415(b) (relat-
21 ing to benefits under certain collectively bar-
22 gained plans) is amended by striking “the
23 greater of \$68,212 or one-half the amount oth-
24 erwise applicable for such year under paragraph
25 (1)(A) for ‘\$90,000’” and inserting “one-half

1 the amount otherwise applicable for such year
2 under paragraph (1)(A) for ‘\$160,000’”.

3 (2) LIMIT REDUCED WHEN BENEFIT BEGINS
4 BEFORE AGE 62.—Subparagraph (C) of section
5 415(b)(2) is amended by striking “the social security
6 retirement age” each place it appears in the heading
7 and text and inserting “age 62”.

8 (3) LIMIT INCREASED WHEN BENEFIT BEGINS
9 AFTER AGE 65.—Subparagraph (D) of section
10 415(b)(2) is amended by striking “the social security
11 retirement age” each place it appears in the heading
12 and text and inserting “age 65”.

13 (4) COST-OF-LIVING ADJUSTMENTS.—Sub-
14 section (d) of section 415 (related to cost-of-living
15 adjustments) is amended—

16 (A) by striking “\$90,000” in paragraph
17 (1)(A) and inserting “\$160,000”; and

18 (B) in paragraph (3)(A)—

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

21 (ii) by striking “October 1, 1986” and
22 inserting “July 1, 2001”.

23 (5) CONFORMING AMENDMENT.—Section
24 415(b)(2) is amended by striking subparagraph (F).

25 (b) DEFINED CONTRIBUTION PLANS.—

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

5 (2) COST-OF-LIVING ADJUSTMENTS.—Sub-
6 section (d) of section 415 (related to cost-of-living
7 adjustments) is amended—

8 (A) by striking “\$30,000” in paragraph
9 (1)(C) and inserting “\$40,000”; and

10 (B) in paragraph (3)(D)—

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

13 (ii) by striking “October 1, 1993” and
14 inserting “July 1, 2001”.

15 (c) QUALIFIED TRUSTS.—

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

20 (2) BASE PERIOD AND ROUNDING OF COST-OF-
21 LIVING ADJUSTMENT.—Subparagraph (B) of section
22 401(a)(17) is amended—

23 (A) by striking “October 1, 1993” and in-
24 serting “July 1, 2001”; and

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

3 (d) ELECTIVE DEFERRALS.—

4 (1) IN GENERAL.—Paragraph (1) of section
 5 402(g) (relating to limitation on exclusion for elec-
 6 tive deferrals) is amended to read as follows:

7 “(1) IN GENERAL.—

8 “(A) LIMITATION.—Notwithstanding sub-
 9 sections (e)(3) and (h)(1)(B), the elective defer-
 10 rals of any individual for any taxable year shall
 11 be included in such individual’s gross income to
 12 the extent the amount of such deferrals for the
 13 taxable year exceeds the applicable dollar
 14 amount.

15 “(B) APPLICABLE DOLLAR AMOUNT.—For
 16 purposes of subparagraph (A), the applicable
 17 dollar amount shall be the amount determined
 18 in accordance with the following table:

“For taxable years beginning in calendar year:	The applicable dollar amount:
2002	\$11,000
2003	\$12,000
2004	\$13,000
2005	\$14,000
2006 or thereafter	\$15,000.”.

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

1 “(5) COST-OF-LIVING ADJUSTMENT.—In the
2 case of taxable years beginning after December 31,
3 2006, the Secretary shall adjust the \$15,000
4 amount under paragraph (1)(B) at the same time
5 and in the same manner as under section 415(d),
6 except that the base period shall be the calendar
7 quarter beginning July 1, 2005, and any increase
8 under this paragraph which is not a multiple of
9 \$500 shall be rounded to the next lowest multiple of
10 \$500.”.

11 (3) CONFORMING AMENDMENTS.—

12 (A) Section 402(g) (relating to limitation
13 on exclusion for elective deferrals), as amended
14 by paragraphs (1) and (2), is further amended
15 by striking paragraph (4) and redesignating
16 paragraphs (5), (6), (7), (8), and (9) as para-
17 graphs (4), (5), (6), (7), and (8), respectively.

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

21 (C) Clause (iii) of section 501(c)(18)(D) is
22 amended by striking “(other than paragraph
23 (4) thereof)”.

1 (e) DEFERRED COMPENSATION PLANS OF STATE
 2 AND LOCAL GOVERNMENTS AND TAX-EXEMPT ORGANI-
 3 ZATIONS.—

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

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

10 (B) in subsection (b)(3)(A) by striking
 11 “\$15,000” and inserting “twice the dollar
 12 amount in effect under subsection (b)(2)(A)”.

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

16 “(15) APPLICABLE DOLLAR AMOUNT.—

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

“For taxable years beginning in calendar year:	The applicable dollar amount:
2002	\$11,000
2003	\$12,000
2004	\$13,000
2005	\$14,000
2006 or thereafter	\$15,000.

20 “(B) COST-OF-LIVING ADJUSTMENTS.—In
 21 the case of taxable years beginning after De-

1 cember 31, 2006, the Secretary shall adjust the
2 \$15,000 amount specified in the table in sub-
3 paragraph (A) at the same time and in the
4 same manner as under section 415(d), except
5 that the base period shall be the calendar quar-
6 ter beginning July 1, 2005, and any increase
7 under this paragraph which is not a multiple of
8 \$500 shall be rounded to the next lowest mul-
9 tiple of \$500.”.

10 (f) SIMPLE RETIREMENT ACCOUNTS.—

11 (1) LIMITATION.—Clause (ii) of section
12 408(p)(2)(A) (relating to general rule for qualified
13 salary reduction arrangement) is amended by strik-
14 ing “\$6,000” and inserting “the applicable dollar
15 amount”.

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

19 “(E) APPLICABLE DOLLAR AMOUNT; COST-
20 OF-LIVING ADJUSTMENT.—

21 “(i) IN GENERAL.—For purposes of
22 subparagraph (A)(ii), the applicable dollar
23 amount shall be the amount determined in
24 accordance with the following table:

“For taxable years beginning in calendar year:	The applicable dollar amount:
2002	\$7,000
2003	\$8,000
2004	\$9,000
2005 or thereafter	\$10,000.

1 “(ii) COST-OF-LIVING ADJUSTMENT.—

2 In the case of a year beginning after De-
3 cember 31, 2005, the Secretary shall ad-
4 just the \$10,000 amount under clause (i)
5 at the same time and in the same manner
6 as under section 415(d), except that the
7 base period taken into account shall be the
8 calendar quarter beginning July 1, 2004,
9 and any increase under this subparagraph
10 which is not a multiple of \$500 shall be
11 rounded to the next lower multiple of
12 \$500.”.

13 (3) CONFORMING AMENDMENTS.—

14 (A) Clause (I) of section 401(k)(11)(B)(i)
15 is amended by striking “\$6,000” and inserting
16 “the amount in effect under section
17 408(p)(2)(A)(ii)”.

18 (B) Section 401(k)(11) is amended by
19 striking subparagraph (E).

20 (g) ROUNDING RULE RELATING TO DEFINED BEN-
21 EFIT PLANS AND DEFINED CONTRIBUTION PLANS.—

1 Paragraph (4) of section 415(d) is amended to read as
2 follows:

3 “(4) ROUNDING.—

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

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

12 (h) EFFECTIVE DATE.—The amendments made by
13 this section shall apply to years beginning after December
14 31, 2001.

15 **SEC. 222. PLAN LOANS FOR SUBCHAPTER S OWNERS, PART-**
16 **NERS, AND SOLE PROPRIETORS.**

17 (a) IN GENERAL.—Subparagraph (B) of section
18 4975(f)(6) (relating to exemptions not to apply to certain
19 transactions) is amended by adding at the end the fol-
20 lowing new clause:

21 “(iii) LOAN EXCEPTION.—For pur-
22 poses of subparagraph (A)(i), the term
23 ‘owner-employee’ shall only include a per-
24 son described in subclause (II) or (III) of
25 clause (i).”.

1 (b) EFFECTIVE DATE.—The amendment made by
2 this section shall apply to loans made after December 31,
3 2001.

4 **SEC. 223. MODIFICATION OF TOP-HEAVY RULES.**

5 (a) SIMPLIFICATION OF DEFINITION OF KEY EM-
6 PLOYEE.—

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

9 (A) by striking “or any of the 4 preceding
10 plan years” in the matter preceding clause (i);

11 (B) by striking clause (i) and inserting the
12 following:

13 “(i) an officer of the employer having
14 an annual compensation greater than
15 \$150,000,”;

16 (C) by striking clause (ii) and redesign-
17 ating clauses (iii) and (iv) as clauses (ii) and
18 (iii), respectively; and

19 (D) by striking the second sentence in the
20 matter following clause (iii), as redesignated by
21 subparagraph (C).

22 (2) CONFORMING AMENDMENT.—Section
23 416(i)(1)(B)(iii) is amended by striking “and sub-
24 paragraph (A)(ii)”.

1 (b) MATCHING CONTRIBUTIONS TAKEN INTO AC-
2 COUNT FOR MINIMUM CONTRIBUTION REQUIREMENTS.—
3 Section 416(c)(2)(A) (relating to defined contribution
4 plans) is amended by adding at the end the following:
5 “Employer matching contributions (as defined in section
6 401(m)(4)(A)) shall be taken into account for purposes
7 of this subparagraph.”.

8 (c) DISTRIBUTIONS DURING LAST YEAR BEFORE
9 DETERMINATION DATE TAKEN INTO ACCOUNT.—

10 (1) IN GENERAL.—Paragraph (3) of section
11 416(g) is amended to read as follows:

12 “(3) DISTRIBUTIONS DURING LAST YEAR BE-
13 FORE DETERMINATION DATE TAKEN INTO AC-
14 COUNT.—

15 “(A) IN GENERAL.—For purposes of
16 determining—

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

19 “(ii) the amount of the account of any
20 employee,

21 such present value or amount shall be increased
22 by the aggregate distributions made with re-
23 spect to such employee under the plan during
24 the 1-year period ending on the determination
25 date. The preceding sentence shall also apply to

1 distributions under a terminated plan which if
2 it had not been terminated would have been re-
3 quired to be included in an aggregation group.

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

10 (2) BENEFITS NOT TAKEN INTO ACCOUNT.—

11 Subparagraph (E) of section 416(g)(4) is
12 amended—

13 (A) by striking “LAST 5 YEARS” in the
14 heading and inserting “LAST YEAR BEFORE DE-
15 TERMINATION DATE”; and

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

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

22 “(H) CASH OR DEFERRED ARRANGEMENTS
23 USING ALTERNATIVE METHODS OF MEETING
24 NONDISCRIMINATION REQUIREMENTS.—The

1 term ‘top-heavy plan’ shall not include a plan
2 which consists solely of—

3 “(i) a cash or deferred arrangement
4 which meets the requirements of section
5 401(k)(12), and

6 “(ii) matching contributions with re-
7 spect to which the requirements of section
8 401(m)(11) are met.

9 If, but for this subparagraph, a plan would be
10 treated as a top-heavy plan because it is a
11 member of an aggregation group which is a top-
12 heavy group, contributions under the plan may
13 be taken into account in determining whether
14 any other plan in the group meets the require-
15 ments of subsection (c)(2).”.

16 (e) FROZEN PLAN EXEMPT FROM MINIMUM BEN-
17 EFIT REQUIREMENT.—Subparagraph (C) of section
18 416(c)(1) (relating to defined benefit plans) is amended—

19 (A) by striking “clause (ii)” in clause (i)
20 and inserting “clause (ii) or (iii)”; and

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

22 “(iii) EXCEPTION FOR FROZEN
23 PLAN.—For purposes of determining an
24 employee’s years of service with the em-
25 ployer, any service with the employer shall

1 be disregarded to the extent that such
2 service occurs during a plan year when the
3 plan benefits (within the meaning of sec-
4 tion 410(b)) no employee or former em-
5 ployee.”.

6 (f) ELIMINATION OF FAMILY ATTRIBUTION.—Sec-
7 tion 416(i)(1)(B) (defining 5-percent owner) is amended
8 by adding at the end the following new clause:

9 “(iv) FAMILY ATTRIBUTION DIS-
10 REGARDED.—Solely for purposes of apply-
11 ing this paragraph (and not for purposes
12 of any provision of this title which incor-
13 porates by reference the definition of a key
14 employee or 5-percent owner under this
15 paragraph), section 318 shall be applied
16 without regard to subsection (a)(1) thereof
17 in determining whether any person is a 5-
18 percent owner.”.

19 (g) EFFECTIVE DATE.—The amendments made by
20 this section shall apply to years beginning after December
21 31, 2001.

1 **SEC. 224. ELECTIVE DEFERRALS NOT TAKEN INTO AC-**
2 **COUNT FOR PURPOSES OF DEDUCTION LIM-**
3 **ITS.**

4 (a) IN GENERAL.—Section 404 (relating to deduction
5 for contributions of an employer to an employees’ trust
6 or annuity plan and compensation under a deferred pay-
7 ment plan) is amended by adding at the end the following
8 new subsection:

9 “(n) ELECTIVE DEFERRALS NOT TAKEN INTO AC-
10 COUNT FOR PURPOSES OF DEDUCTION LIMITS.—Elective
11 deferrals (as defined in section 402(g)(3)) shall not be
12 subject to any limitation contained in paragraph (3), (7),
13 or (9) of subsection (a), and such elective deferrals shall
14 not be taken into account in applying any such limitation
15 to any other contributions.”

16 (b) EFFECTIVE DATE.—The amendment made by
17 this section shall apply to years beginning after December
18 31, 2001.

19 **SEC. 225. REPEAL OF COORDINATION REQUIREMENTS FOR**
20 **DEFERRED COMPENSATION PLANS OF STATE**
21 **AND LOCAL GOVERNMENTS AND TAX-EX-**
22 **EMPT ORGANIZATIONS.**

23 (a) IN GENERAL.—Subsection (c) of section 457 (re-
24 lating to deferred compensation plans of State and local
25 governments and tax-exempt organizations), as amended
26 by section 201, is amended to read as follows:

1 “(c) LIMITATION.—The maximum amount of the
2 compensation of any one individual which may be deferred
3 under subsection (a) during any taxable year shall not ex-
4 ceed the amount in effect under subsection (b)(2)(A) (as
5 modified by any adjustment provided under subsection
6 (b)(3)).”.

7 (b) EFFECTIVE DATE.—The amendment made by
8 subsection (a) shall apply to years beginning after Decem-
9 ber 31, 2001.

10 **SEC. 226. ELIMINATION OF USER FEE FOR REQUESTS TO**
11 **IRS REGARDING PENSION PLANS.**

12 (a) ELIMINATION OF CERTAIN USER FEES.—The
13 Secretary of the Treasury or the Secretary’s delegate shall
14 not require payment of user fees under the program estab-
15 lished under section 7527 of the Internal Revenue Code
16 of 1986 for requests to the Internal Revenue Service for
17 determination letters with respect to the qualified status
18 of a pension benefit plan maintained solely by one or more
19 eligible employers or any trust which is part of the plan.
20 The preceding sentence shall not apply to any request—

21 (1) made after the fifth plan year the pension
22 benefit plan is in existence; or

23 (2) made by the sponsor of any prototype or
24 similar plan which the sponsor intends to market to
25 participating employers.

1 (b) PENSION BENEFIT PLAN.—For purposes of this
2 section, the term “pension benefit plan” means a pension,
3 profit-sharing, stock bonus, annuity, or employee stock
4 ownership plan.

5 (c) ELIGIBLE EMPLOYER.—For purposes of this sec-
6 tion, the term “eligible employer” has the same meaning
7 given such term in section 408(p)(2)(C)(i)(I) of the Inter-
8 nal Revenue Code of 1986. The determination of whether
9 an employer is an eligible employer under this section shall
10 be made as of the date of the request described in sub-
11 section (a).

12 (d) EFFECTIVE DATE.—The provisions of this sec-
13 tion shall apply with respect to requests made after De-
14 cember 31, 2001.

15 **SEC. 227. DEDUCTION LIMITS.**

16 (a) IN GENERAL.—

17 (1) STOCK BONUS AND PROFIT SHARING
18 TRUSTS.—Subclause (I) of section 404(a)(3)(A)(i)
19 (relating to stock bonus and profit sharing trusts) is
20 amended by striking “15 percent” and inserting “20
21 percent”.

22 (2) COMPENSATION.—Section 404(a) (relating
23 to general rule) is amended by adding at the end the
24 following:

1 “(12) DEFINITION OF COMPENSATION.—For
2 purposes of paragraphs (3), (7), (8), and (9), the
3 term ‘compensation otherwise paid or accrued dur-
4 ing the taxable year’ shall include amounts treated
5 as ‘participant’s compensation’ under subparagraph
6 (C) or (D) of section 415(c)(3).”.

7 (b) CONFORMING AMENDMENTS.—

8 (1) Subparagraph (B) of section 404(a)(3) is
9 amended by striking the last sentence thereof.

10 (2) Subparagraph (C) of section 404(h)(1) is
11 amended by striking “15 percent” each place it ap-
12 pears and inserting “20 percent”.

13 (3) Clause (i) of section 4972(c)(6)(B) is
14 amended by striking “(within the meaning of section
15 404(a))” and inserting “(within the meaning of sec-
16 tion 404(a) and as adjusted under section
17 404(a)(12))”.

18 (c) EFFECTIVE DATE.—The amendments made by
19 this section shall apply to years beginning after December
20 31, 2001.

21 **SEC. 228. OPTION TO TREAT ELECTIVE DEFERRALS AS**
22 **AFTER-TAX CONTRIBUTIONS.**

23 (a) IN GENERAL.—Subpart A of part I of subchapter
24 D of chapter 1 (relating to deferred compensation, etc.)

1 tribution program unless the applicable retirement
2 plan—

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

7 “(B) maintains separate recordkeeping
8 with respect to each account.

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

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

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

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

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

24 “(A) the maximum amount of elective de-
25 ferrals excludable from gross income of the em-

1 ployee for the taxable year (without regard to
2 this section), over

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

7 “(3) ROLLOVER CONTRIBUTIONS.—

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

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

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

17 “(B) COORDINATION WITH LIMIT.—Any
18 rollover contribution to a designated plus ac-
19 count under subparagraph (A) shall not be
20 taken into account for purposes of paragraph
21 (1).

22 “(d) DISTRIBUTION RULES.—For purposes of this
23 title—

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

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

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

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

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

21 “(ii) if a rollover contribution was
22 made to such designated plus account from
23 a designated plus account previously estab-
24 lished for such individual under another
25 applicable retirement plan, the first taxable

1 year for which the individual made a des-
2 ignated plus contribution to such pre-
3 viously established account.

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

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

13 “(e) OTHER DEFINITIONS.—For purposes of this
14 section—

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

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

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

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

1 (b) EXCESS DEFERRALS.—Section 402(g) (relating
2 to limitation on exclusion for elective deferrals) is
3 amended—

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

9 (2) by inserting “(or would be included but for
10 the last sentence thereof)” after “paragraph (1)” in
11 paragraph (2)(A).

12 (c) ROLLOVERS.—Subparagraph (B) of section
13 402(c)(8) is amended by adding at the end the following:

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

21 (d) REPORTING REQUIREMENTS.—

22 (1) W-2 INFORMATION.—Section 6051(a)(8) is
23 amended by inserting “, including the amount of
24 designated plus contributions (as defined in section
25 402A)” before the comma at the end.

1 **CHAPTER 3—ENHANCING FAIRNESS FOR**
2 **WOMEN**

3 **SEC. 231. CATCH-UP CONTRIBUTIONS FOR INDIVIDUALS**
4 **AGE 50 OR OVER.**

5 (a) IN GENERAL.—Section 414 (relating to defini-
6 tions and special rules) is amended by adding at the end
7 the following new subsection:

8 “(v) CATCH-UP CONTRIBUTIONS FOR INDIVIDUALS
9 AGE 50 OR OVER.—

10 “(1) IN GENERAL.—An applicable employer
11 plan shall not be treated as failing to meet any re-
12 quirement of this title solely because the plan per-
13 mits an eligible participant to make additional elec-
14 tive deferrals in any plan year.

15 “(2) LIMITATION ON AMOUNT OF ADDITIONAL
16 DEFERRALS.—A plan shall not permit additional
17 elective deferrals under paragraph (1) for any year
18 in an amount greater than the lesser of—

19 “(A) \$5,000, or

20 “(B) the excess (if any) of—

21 “(i) the participant’s compensation for
22 the year, over

23 “(ii) any other elective deferrals of the
24 participant for such year which are made
25 without regard to this subsection.

1 “(3) TREATMENT OF CONTRIBUTIONS.—In the
2 case of any contribution to a plan under paragraph
3 (1), such contribution shall not, with respect to the
4 year in which the contribution is made—

5 “(A) be subject to any otherwise applicable
6 limitation contained in section 402(g),
7 402(h)(2), 404(a), 404(h), 408(p)(2)(A)(ii),
8 415, or 457, or

9 “(B) be taken into account in applying
10 such limitations to other contributions or bene-
11 fits under such plan or any other such plan.

12 “(4) ELIGIBLE PARTICIPANT.—For purposes of
13 this subsection, the term ‘eligible participant’ means,
14 with respect to any plan year, a participant in a
15 plan—

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

18 “(B) with respect to whom no other elec-
19 tive deferrals may (without regard to this sub-
20 section) be made to the plan for the plan year
21 by reason of the application of any limitation or
22 other restriction described in paragraph (3) or
23 comparable limitation contained in the terms of
24 the plan.

1 “(5) OTHER DEFINITIONS AND RULES.—For
2 purposes of this subsection—

3 “(A) APPLICABLE EMPLOYER PLAN.—The
4 term ‘applicable employer plan’ means—

5 “(i) an employees’ trust described in
6 section 401(a) which is exempt from tax
7 under section 501(a),

8 “(ii) a plan under which amounts are
9 contributed by an individual’s employer for
10 an annuity contract described in section
11 403(b),

12 “(iii) an eligible deferred compensa-
13 tion plan under section 457 of an eligible
14 employer as defined in section
15 457(e)(1)(A), and

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

18 “(B) ELECTIVE DEFERRAL.—The term
19 ‘elective deferral’ has the meaning given such
20 term by subsection (u)(2)(C).

21 “(C) EXCEPTION FOR SECTION 457
22 PLANS.—This subsection shall not apply to an
23 applicable employer plan described in subpara-
24 graph (A)(iii) for any year to which section
25 457(b)(3) applies.

1 “(D) COST-OF-LIVING ADJUSTMENT.—For
2 years beginning after December 31, 2005, the
3 Secretary shall adjust annually the \$5,000
4 amount in subparagraph (A) for increases in
5 the cost-of-living at the same time and in the
6 same manner as adjustments under section
7 415(d); except that the base period shall be the
8 calendar quarter beginning July 1, 2004, and
9 any increase which is not a multiple of \$500
10 shall be rounded to the next lowest multiple of
11 \$500.”.

12 (b) EFFECTIVE DATE.—The amendment made by
13 this section shall apply to contributions in taxable years
14 beginning after December 31, 2001.

15 **SEC. 232. EQUITABLE TREATMENT FOR CONTRIBUTIONS OF**
16 **EMPLOYEES TO DEFINED CONTRIBUTION**
17 **PLANS.**

18 (a) EQUITABLE TREATMENT.—

19 (1) IN GENERAL.—Subparagraph (B) of section
20 415(c)(1) (relating to limitation for defined con-
21 tribution plans) is amended by striking “25 percent”
22 and inserting “100 percent”.

23 (2) APPLICATION TO SECTION 403(b).—Section
24 403(b) is amended—

1 (A) by striking “the exclusion allowance
2 for such taxable year” in paragraph (1) and in-
3 sserting “the applicable limit under section
4 415”;

5 (B) by striking paragraph (2); and

6 (C) by inserting “or any amount received
7 by a former employee after the fifth taxable
8 year following the taxable year in which such
9 employee was terminated” before the period at
10 the end of the second sentence of paragraph
11 (3).

12 (3) CONFORMING AMENDMENTS.—

13 (A) Subsection (f) of section 72 is amend-
14 ed by striking “section 403(b)(2)(D)(iii)” and
15 inserting “section 403(b)(2)(D)(iii), as in effect
16 before the enactment of the Comprehensive Re-
17 tirement Security and Pension Reform Act of
18 2000”.

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

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

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

3 “(E) ANNUITY CONTRACTS.—In the case
4 of an annuity contract described in section
5 403(b), the term ‘participant’s compensation’
6 means the participant’s includible compensation
7 determined under section 403(b)(3).”.

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

10 (F) Section 415(c)(7) is amended to read
11 as follows:

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

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

1 itation of paragraph (1) if such annual addition
2 is not in excess of \$10,000.

3 “(B) \$40,000 AGGREGATE LIMITATION.—
4 The total amount of additions with respect to
5 any participant which may be taken into ac-
6 count for purposes of this subparagraph for all
7 years may not exceed \$40,000.

8 “(C) ANNUAL ADDITION.—For purposes of
9 this paragraph, the term ‘annual addition’ has
10 the meaning given such term by paragraph
11 (2).”.

12 (G) Subparagraph (B) of section 402(g)(7)
13 (as redesignated by section 211) is amended by
14 inserting before the period at the end the fol-
15 lowing: “(as in effect before the enactment of
16 the Comprehensive Retirement Security and
17 Pension Reform Act of 2000)”.

18 (3) EFFECTIVE DATE.—The amendments made
19 by this subsection shall apply to years beginning
20 after December 31, 2001.

21 (b) SPECIAL RULES FOR SECTIONS 403(b) AND
22 408.—

23 (1) IN GENERAL.—Subsection (k) of section
24 415 is amended by adding at the end the following
25 new paragraph:

1 “(4) SPECIAL RULES FOR SECTIONS 403(b) AND
2 408.—For purposes of this section, any annuity con-
3 tract described in section 403(b) for the benefit of
4 a participant shall be treated as a defined contribu-
5 tion plan maintained by each employer with respect
6 to which the participant has the control required
7 under subsection (b) or (c) of section 414 (as modi-
8 fied by subsection (h)). For purposes of this section,
9 any contribution by an employer to a simplified em-
10 ployee pension plan for an individual for a taxable
11 year shall be treated as an employer contribution to
12 a defined contribution plan for such individual for
13 such year.”.

14 (2) EFFECTIVE DATE.—

15 (A) IN GENERAL.—The amendment made
16 by paragraph (1) shall apply to limitation years
17 beginning after December 31, 2001.

18 (B) EXCLUSION ALLOWANCE.—Effective
19 for limitation years beginning in 2002, in the
20 case of any annuity contract described in sec-
21 tion 403(b) of the Internal Revenue Code of
22 1986, the amount of the contribution disquali-
23 fied by reason of section 415(g) of such Code
24 shall reduce the exclusion allowance as provided
25 in section 403(b)(2) of such Code.

1 (3) MODIFICATION OF 403(b) EXCLUSION AL-
2 LOWANCE TO CONFORM TO 415 MODIFICATION.—The
3 Secretary of the Treasury shall modify the regula-
4 tions regarding the exclusion allowance under section
5 403(b)(2) of the Internal Revenue Code of 1986 to
6 render void the requirement that contributions to a
7 defined benefit pension plan be treated as previously
8 excluded amounts for purposes of the exclusion al-
9 lowance. For taxable years beginning after Decem-
10 ber 31, 2001, such regulations shall be applied as if
11 such requirement were void.

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

15 (1) IN GENERAL.—Subparagraph (B) of section
16 457(b)(2) (relating to salary limitation on eligible
17 deferred compensation plans) is amended by striking
18 “33 $\frac{1}{3}$ percent” and inserting “100 percent”.

19 (2) EFFECTIVE DATE.—The amendment made
20 by this subsection shall apply to years beginning
21 after December 31, 2001.

22 **SEC. 233. FASTER VESTING OF CERTAIN EMPLOYER**
23 **MATCHING CONTRIBUTIONS.**

24 (a) IN GENERAL.—Section 411(a) (relating to min-
25 imum vesting standards) is amended—

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

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

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

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

11 “(B) by substituting the following table for
 12 the table contained in subparagraph (B):

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

13 (b) EFFECTIVE DATES.—

14 (1) IN GENERAL.—Except as provided in para-
 15 graph (2), the amendments made by this section
 16 shall apply to contributions for plan years beginning
 17 after December 31, 2001.

18 (2) COLLECTIVE BARGAINING AGREEMENTS.—
 19 In the case of a plan maintained pursuant to one or
 20 more collective bargaining agreements between em-
 21 ployee representatives and one or more employers
 22 ratified by the date of the enactment of this Act, the

1 amendments made by this section shall not apply to
2 contributions on behalf of employees covered by any
3 such agreement for plan years beginning before the
4 earlier of—

5 (A) the later of—

6 (i) the date on which the last of such
7 collective bargaining agreements termi-
8 nates (determined without regard to any
9 extension thereof on or after such date of
10 the enactment); or

11 (ii) January 1, 2001; or

12 (B) January 1, 2005.

13 (3) SERVICE REQUIRED.—With respect to any
14 plan, the amendments made by this section shall not
15 apply to any employee before the date that such em-
16 ployee has 1 hour of service under such plan in any
17 plan year to which the amendments made by this
18 section apply.

19 **SEC. 234. SIMPLIFY AND UPDATE THE MINIMUM DISTRIBU-**
20 **TION RULES.**

21 (a) SIMPLIFICATION AND FINALIZATION OF MIN-
22 IMUM DISTRIBUTION REQUIREMENTS.—

23 (1) IN GENERAL.—The Secretary of the Treas-
24 ury shall—

1 (A) simplify and finalize the regulations re-
2 lating to minimum distribution requirements
3 under sections 401(a)(9), 408 (a)(6) and
4 (b)(3), 403(b)(10), and 457(d)(2) of the Inter-
5 nal Revenue Code of 1986; and

6 (B) modify such regulations to—

7 (i) reflect current life expectancy; and

8 (ii) revise the required distribution
9 methods so that, under reasonable assump-
10 tions, the amount of the required minimum
11 distribution does not decrease over a par-
12 ticipant's life expectancy.

13 (2) FRESH START.—Notwithstanding subpara-
14 graph (D) of section 401(a)(9) of such Code, during
15 the first year that regulations are in effect under
16 this subsection, required distributions for future
17 years may be redetermined to reflect changes under
18 such regulations. Such redetermination shall include
19 the opportunity to choose a new designated bene-
20 ficiary and to elect a new method of calculating life
21 expectancy.

22 (3) EFFECTIVE DATE FOR REGULATIONS.—

23 Regulations referred to in paragraph (1) shall be ef-
24 fective for years beginning after December 31, 2001,
25 and shall apply in such years without regard to

1 whether an individual had previously begun receiving
2 minimum distributions.

3 (b) REPEAL OF RULE WHERE DISTRIBUTIONS HAD
4 BEGUN BEFORE DEATH OCCURS.—

5 (1) IN GENERAL.—Subparagraph (B) of section
6 401(a)(9) is amended by striking clause (i) and re-
7 designating clauses (ii), (iii), and (iv) as clauses (i),
8 (ii), and (iii), respectively.

9 (2) CONFORMING CHANGES.—

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

12 (i) by striking “FOR OTHER CASES” in
13 the heading; and

14 (ii) by striking “the distribution of the
15 employee’s interest has begun in accord-
16 ance with subparagraph (A)(ii)” and in-
17 serting “his entire interest has been dis-
18 tributed to him”.

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

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

24 (i) by striking “clause (iii)(I)” and in-
25 serting “clause (ii)(I)”;

1 (ii) by striking “clause (iii)(III)” in
2 subclause (I) and inserting “clause
3 (ii)(III)”;

4 (iii) by striking “the date on which
5 the employee would have attained age
6 70½,” in subclause (I) and inserting
7 “April 1 of the calendar year following the
8 calendar year in which the spouse attains
9 70½,”; and

10 (iv) by striking “the distributions to
11 such spouse begin,” in subclause (II) and
12 inserting “his entire interest has been dis-
13 tributed to him,”.

14 (3) EFFECTIVE DATE.—The amendments made
15 by this subsection shall apply to years beginning
16 after December 31, 2001.

17 (c) REDUCTION IN EXCISE TAX.—

18 (1) IN GENERAL.—Subsection (a) of section
19 4974 is amended by striking “50 percent” and in-
20 serting “10 percent”.

21 (2) EFFECTIVE DATE.—The amendment made
22 by this subsection shall apply to years beginning
23 after December 31, 2001.

1 **SEC. 235. CLARIFICATION OF TAX TREATMENT OF DIVISION**
2 **OF SECTION 457 PLAN BENEFITS UPON DI-**
3 **VORCE.**

4 (a) **IN GENERAL.**—Section 414(p)(11) (relating to
5 application of rules to governmental and church plans) is
6 amended—

7 (1) by inserting “or an eligible deferred com-
8 pensation plan (within the meaning of section
9 457(b))” after “subsection (e)”; and

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

13 (b) **WAIVER OF CERTAIN DISTRIBUTION REQUIRE-**
14 **MENTS.**—Paragraph (10) of section 414(p) is amended by
15 striking “and section 409(d)” and inserting “section
16 409(d), and section 457(d)”.

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

22 “(12) **TAX TREATMENT OF PAYMENTS FROM A**
23 **SECTION 457 PLAN.**—If a distribution or payment
24 from an eligible deferred compensation plan de-
25 scribed in section 457(b) is made pursuant to a
26 qualified domestic relations order, rules similar to

1 the rules of section 402(e)(1)(A) shall apply to such
2 distribution or payment.”.

3 (d) EFFECTIVE DATE.—The amendments made by
4 this section shall apply to transfers, distributions, and
5 payments made after December 31, 2001.

6 **SEC. 236. MODIFICATION OF SAFE HARBOR RELIEF FOR**
7 **HARDSHIP WITHDRAWALS FROM CASH OR**
8 **DEFERRED ARRANGEMENTS.**

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

16 (b) EFFECTIVE DATE.—The revised regulations
17 under subsection (a) shall apply to years beginning after
18 December 31, 2001.

19 **CHAPTER 4—INCREASING PORTABILITY**
20 **FOR PARTICIPANTS**

21 **SEC. 241. ROLLOVERS ALLOWED AMONG VARIOUS TYPES**
22 **OF PLANS.**

23 (a) ROLLOVERS FROM AND TO SECTION 457
24 PLANS.—

25 (1) ROLLOVERS FROM SECTION 457 PLANS.—

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

4 “(16) ROLLOVER AMOUNTS.—

5 “(A) GENERAL RULE.—In the case of an
6 eligible deferred compensation plan established
7 and maintained by an employer described in
8 subsection (e)(1)(A), if—

9 “(i) any portion of the balance to the
10 credit of an employee in such plan is paid
11 to such employee in an eligible rollover dis-
12 tribution (within the meaning of section
13 402(c)(4) without regard to subparagraph
14 (C) thereof),

15 “(ii) the employee transfers any por-
16 tion of the property such employee receives
17 in such distribution to an eligible retire-
18 ment plan described in section
19 402(c)(8)(B), and

20 “(iii) in the case of a distribution of
21 property other than money, the amount so
22 transferred consists of the property distrib-
23 uted,

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

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

9 “(C) REPORTING.—Rollovers under this
10 paragraph shall be reported to the Secretary in
11 the same manner as rollovers from qualified re-
12 tirement plans (as defined in section
13 4974(c)).”.

14 (B) DEFERRAL LIMIT DETERMINED WITH-
15 OUT REGARD TO ROLLOVER AMOUNTS.—Section
16 457(b)(2) (defining eligible deferred compensa-
17 tion plan) is amended by inserting “(other than
18 rollover amounts)” after “taxable year”.

19 (C) DIRECT ROLLOVER.—Paragraph (1) of
20 section 457(d) is amended by striking “and” at
21 the end of subparagraph (A), by striking the
22 period at the end of subparagraph (B) and in-
23 serting “, and”, and by inserting after subpara-
24 graph (B) the following:

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

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

9 (D) WITHHOLDING.—

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

13 “(E) under or to an eligible deferred com-
14 pensation plan which, at the time of such pay-
15 ment, is a plan described in section 457(b)
16 maintained by an employer described in section
17 457(e)(1)(A); or”.

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

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

24 (iii) LIABILITY FOR WITHHOLDING.—

25 Subparagraph (B) of section 3405(d)(2) is

1 amended by striking “or” at the end of
2 clause (ii), by striking the period at the
3 end of clause (iii) and inserting “, or”, and
4 by adding at the end the following:

5 “(iv) section 457(b).”.

6 (2) ROLLOVERS TO SECTION 457 PLANS.—

7 (A) IN GENERAL.—Section 402(c)(8)(B)
8 (defining eligible retirement plan) is amended
9 by striking “and” at the end of clause (iii), by
10 striking the period at the end of clause (iv) and
11 inserting “, and”, and by inserting after clause
12 (iv) the following new clause:

13 “(v) an eligible deferred compensation
14 plan described in section 457(b) of an em-
15 ployer described in section 457(e)(1)(A).”.

16 (B) SEPARATE ACCOUNTING.—Section
17 402(c) is amended by adding at the end the fol-
18 lowing new paragraph:

19 “(11) SEPARATE ACCOUNTING.—Unless a plan
20 described in clause (v) of paragraph (8)(B) agrees to
21 separately account for amounts rolled into such plan
22 from eligible retirement plans not described in such
23 clause, the plan described in such clause may not ac-
24 cept transfers or rollovers from such retirement
25 plans.”.

1 (C) 10 PERCENT ADDITIONAL TAX.—Sub-
2 section (t) of section 72 (relating to 10-percent
3 additional tax on early distributions from quali-
4 fied retirement plans) is amended by adding at
5 the end the following new paragraph:

6 “(9) SPECIAL RULE FOR ROLLOVERS TO SEC-
7 TION 457 PLANS.—For purposes of this subsection,
8 a distribution from an eligible deferred compensation
9 plan (as defined in section 457(b)) of an employer
10 described in section 457(e)(1)(A) shall be treated as
11 a distribution from a qualified retirement plan de-
12 scribed in 4974(c)(1) to the extent that such dis-
13 tribution is attributable to an amount transferred to
14 an eligible deferred compensation plan from a quali-
15 fied retirement plan (as defined in section
16 4974(c)).”.

17 (b) ALLOWANCE OF ROLLOVERS FROM AND TO
18 403(b) PLANS.—

19 (1) ROLLOVERS FROM SECTION 403(b)
20 PLANS.—Section 403(b)(8)(A)(ii) (relating to roll-
21 over amounts) is amended by striking “such dis-
22 tribution” and all that follows and inserting “such
23 distribution to an eligible retirement plan described
24 in section 402(c)(8)(B), and”.

1 (2) ROLLOVERS TO SECTION 403(b) PLANS.—
2 Section 402(c)(8)(B) (defining eligible retirement
3 plan), as amended by subsection (a), is amended by
4 striking “and” at the end of clause (iv), by striking
5 the period at the end of clause (v) and inserting “,
6 and”, and by inserting after clause (v) the following
7 new clause:

8 “(vi) an annuity contract described in
9 section 403(b).”.

10 (c) EXPANDED EXPLANATION TO RECIPIENTS OF
11 ROLLOVER DISTRIBUTIONS.—Paragraph (1) of section
12 402(f) (relating to written explanation to recipients of dis-
13 tributions eligible for rollover treatment) is amended by
14 striking “and” at the end of subparagraph (C), by striking
15 the period at the end of subparagraph (D) and inserting
16 “, and”, and by adding at the end the following new sub-
17 paragraph:

18 “(E) of the provisions under which dis-
19 tributions from the eligible retirement plan re-
20 ceiving the distribution may be subject to re-
21 strictions and tax consequences which are dif-
22 ferent from those applicable to distributions
23 from the plan making such distribution.”.

24 (d) SPOUSAL ROLLOVERS.—Section 402(c)(9) (relat-
25 ing to rollover where spouse receives distribution after

1 death of employee) is amended by striking “; except that”
2 and all that follows up to the end period.

3 (e) CONFORMING AMENDMENTS.—

4 (1) Section 72(o)(4) is amended by striking
5 “and 408(d)(3)” and inserting “403(b)(8),
6 408(d)(3), and 457(e)(16)”.

7 (2) Section 219(d)(2) is amended by striking
8 “or 408(d)(3)” and inserting “408(d)(3), or
9 457(e)(16)”.

10 (3) Section 401(a)(31)(B) is amended by strik-
11 ing “and 403(a)(4)” and inserting “, 403(a)(4),
12 403(b)(8), and 457(e)(16)”.

13 (4) Subparagraph (A) of section 402(f)(2) is
14 amended by striking “or paragraph (4) of section
15 403(a)” and inserting “, paragraph (4) of section
16 403(a), subparagraph (A) of section 403(b)(8), or
17 subparagraph (A) of section 457(e)(16)”.

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

20 (6) Subparagraphs (A) and (B) of section
21 402(f)(1) are amended by striking “another eligible
22 retirement plan” and inserting “an eligible retire-
23 ment plan”.

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

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

7 (8) Section 408(a)(1) is amended by striking
8 “or 403(b)(8),” and inserting “403(b)(8), or
9 457(e)(16)”.

10 (9) Subparagraphs (A) and (B) of section
11 415(b)(2) are each amended by striking “and
12 408(d)(3)” and inserting “403(b)(8), 408(d)(3), and
13 457(e)(16)”.

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

17 (11) Section 4973(b)(1)(A) is amended by
18 striking “or 408(d)(3)” and inserting “408(d)(3), or
19 457(e)(16)”.

20 (f) EFFECTIVE DATE; SPECIAL RULE.—

21 (1) EFFECTIVE DATE.—The amendments made
22 by this section shall apply to distributions after De-
23 cember 31, 2001.

24 (2) SPECIAL RULE.—Notwithstanding any other
25 provision of law, subsections (h)(3) and (h)(5) of

1 section 1122 of the Tax Reform Act of 1986 shall
2 not apply to any distribution from an eligible retire-
3 ment plan (as defined in clause (iii) or (iv) of section
4 402(c)(8)(B) of the Internal Revenue Code of 1986)
5 on behalf of an individual if there was a rollover to
6 such plan on behalf of such individual which is per-
7 mitted solely by reason of any amendment made by
8 this section.

9 **SEC. 242. ROLLOVERS OF IRAS INTO WORKPLACE RETIRE-**
10 **MENT PLANS.**

11 (a) IN GENERAL.—Subparagraph (A) of section
12 408(d)(3) (relating to rollover amounts) is amended by
13 adding “or” at the end of clause (i), by striking clauses
14 (ii) and (iii), and by adding at the end the following:

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

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

5 (b) CONFORMING AMENDMENTS.—

6 (1) Paragraph (1) of section 403(b) is amended
7 by striking “section 408(d)(3)(A)(iii)” and inserting
8 “section 408(d)(3)(A)(ii)”.

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

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

14 “(G) SIMPLE RETIREMENT ACCOUNTS.—In
15 the case of any payment or distribution out of
16 a simple retirement account (as defined in sub-
17 section (p)) to which section 72(t)(6) applies,
18 this paragraph shall not apply unless such pay-
19 ment or distribution is paid into another simple
20 retirement account.”.

21 (c) EFFECTIVE DATE; SPECIAL RULE.—

22 (1) EFFECTIVE DATE.—The amendments made
23 by this section shall apply to distributions after De-
24 cember 31, 2001.

1 (2) SPECIAL RULE.—Notwithstanding any other
2 provision of law, subsections (h)(3) and (h)(5) of
3 section 1122 of the Tax Reform Act of 1986 shall
4 not apply to any distribution from an eligible retire-
5 ment plan (as defined in clause (iii) or (iv) of section
6 402(c)(8)(B) of the Internal Revenue Code of 1986)
7 on behalf of an individual if there was a rollover to
8 such plan on behalf of such individual which is per-
9 mitted solely by reason of the amendments made by
10 this section.

11 **SEC. 243. ROLLOVERS OF AFTER-TAX CONTRIBUTIONS.**

12 (a) ROLLOVERS FROM EXEMPT TRUSTS.—Para-
13 graph (2) of section 402(c) (relating to maximum amount
14 which may be rolled over) is amended by adding at the
15 end the following: “The preceding sentence shall not apply
16 to such distribution to the extent—

17 “(A) such portion is transferred in a direct
18 trustee-to-trustee transfer to a qualified trust
19 which is part of a plan which is a defined con-
20 tribution plan and which agrees to separately
21 account for amounts so transferred, including
22 separately accounting for the portion of such
23 distribution which is includible in gross income
24 and the portion of such distribution which is
25 not so includible, or

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

4 (b) OPTIONAL DIRECT TRANSFER OF ELIGIBLE
5 ROLLOVER DISTRIBUTIONS.—Subparagraph (B) of sec-
6 tion 401(a)(31) (relating to limitation) is amended by add-
7 ing at the end the following: “The preceding sentence shall
8 not apply to such distribution if the plan to which such
9 distribution is transferred—

10 “(i) agrees to separately account for
11 amounts so transferred, including sepa-
12 rately accounting for the portion of such
13 distribution which is includible in gross in-
14 come and the portion of such distribution
15 which is not so includible, or

16 “(ii) is an eligible retirement plan de-
17 scribed in clause (i) or (ii) of section
18 402(c)(8)(B).”.

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

23 “(H) APPLICATION OF SECTION 72.—

24 “(i) IN GENERAL.—If—

1 “(I) a distribution is made from
2 an individual retirement plan, and

3 “(II) a rollover contribution is
4 made to an eligible retirement plan
5 described in section 402(c)(8)(B)(iii),
6 (iv), (v), or (vi) with respect to all or
7 part of such distribution,

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

11 “(ii) APPLICABLE RULES.—In the
12 case of a distribution described in clause
13 (i)—

14 “(I) section 72 shall be applied
15 separately to such distribution,

16 “(II) notwithstanding the pro
17 rata allocation of income on, and in-
18 vestment in, the contract to distribu-
19 tions under section 72, the portion of
20 such distribution rolled over to an eli-
21 gible retirement plan described in
22 clause (i) shall be treated as from in-
23 come on the contract (to the extent of
24 the aggregate income on the contract

1 from all individual retirement plans of
2 the distributee), and

3 “(III) appropriate adjustments
4 shall be made in applying section 72
5 to other distributions in such taxable
6 year and subsequent taxable years.”.

7 (d) EFFECTIVE DATE.—The amendments made by
8 this section shall apply to distributions made after Decem-
9 ber 31, 2001.

10 **SEC. 244. HARDSHIP EXCEPTION TO 60-DAY RULE.**

11 (a) EXEMPT TRUSTS.—Paragraph (3) of section
12 402(c) (relating to transfer must be made within 60 days
13 of receipt) is amended to read as follows:

14 “(3) TRANSFER MUST BE MADE WITHIN 60
15 DAYS OF RECEIPT.—

16 “(A) IN GENERAL.—Except as provided in
17 subparagraph (B), paragraph (1) shall not
18 apply to any transfer of a distribution made
19 after the 60th day following the day on which
20 the distributee received the property distrib-
21 uted.

22 “(B) HARDSHIP EXCEPTION.—The Sec-
23 retary may waive the 60-day requirement under
24 subparagraph (A) where the failure to waive
25 such requirement would be against equity or

1 good conscience, including casualty, disaster, or
2 other events beyond the reasonable control of
3 the individual subject to such requirement.”.

4 (b) IRAS.—Paragraph (3) of section 408(d) (relating
5 to rollover contributions), as amended by section 403, is
6 amended by adding after subparagraph (H) the following
7 new subparagraph:

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

16 (c) EFFECTIVE DATE.—The amendments made by
17 this section shall apply to distributions after December 31,
18 2001.

19 **SEC. 245. TREATMENT OF FORMS OF DISTRIBUTION.**

20 (a) PLAN TRANSFERS.—

21 (1) IN GENERAL.—Paragraph (6) of section
22 411(d) (relating to accrued benefit not to be de-
23 creased by amendment) is amended by adding at the
24 end the following:

25 “(D) PLAN TRANSFERS.—

1 “(i) IN GENERAL.—A defined con-
2 tribution plan (in this subparagraph re-
3 ferred to as the ‘transferee plan’) shall not
4 be treated as failing to meet the require-
5 ments of this subsection merely because
6 the transferee plan does not provide some
7 or all of the forms of distribution pre-
8 viously available under another defined
9 contribution plan (in this subparagraph re-
10 ferred to as the ‘transferor plan’) to the
11 extent that—

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

21 “(II) the terms of both the trans-
22 feror plan and the transferee plan au-
23 thorize the transfer described in sub-
24 clause (I),

1 “(III) the transfer described in
2 subclause (I) was made pursuant to a
3 voluntary election by the participant
4 or beneficiary whose account was
5 transferred to the transferee plan,

6 “(IV) the election described in
7 subclause (III) was made after the
8 participant or beneficiary received a
9 notice describing the consequences of
10 making the election,

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

20 “(VI) the transferee plan allows
21 the participant or beneficiary de-
22 scribed in subclause (III) to receive
23 any distribution to which the partici-
24 pant or beneficiary is entitled under

1 the transferee plan in the form of a
2 single sum distribution.

3 “(ii) EXCEPTION.—Clause (i) shall
4 apply to plan mergers and other trans-
5 actions having the effect of a direct trans-
6 fer, including consolidations of benefits at-
7 tributable to different employers within a
8 multiple employer plan.

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

17 “(i) a single sum payment is available
18 to such participant at the same time or
19 times as the form of distribution being
20 eliminated, and
21 eliminated, and

22 “(ii) such single sum payment is
23 based on the same or greater portion of
24 the participant’s account as the form of
25 distribution being eliminated.”.

1 (2) EFFECTIVE DATE.—The amendment made
2 by this subsection shall apply to years beginning
3 after December 31, 2001.

4 (b) REGULATIONS.—

5 (1) IN GENERAL.—The last sentence of para-
6 graph (6)(B) of section 411(d) (relating to accrued
7 benefit not to be decreased by amendment) is
8 amended to read as follows: “The Secretary shall by
9 regulations provide that this subparagraph shall not
10 apply to any plan amendment that does not ad-
11 versely affect the rights of participants in a material
12 manner.”.

13 (2) SECRETARY DIRECTED.—Not later than
14 December 31, 2002, the Secretary of the Treasury
15 is directed to issue final regulations under section
16 411(d)(6) of the Internal Revenue Code of 1986, in-
17 cluding the regulations required by the amendments
18 made by this subsection. Such regulations shall
19 apply to plan years beginning after December 31,
20 2002, or such earlier date as is specified by the Sec-
21 retary of the Treasury.

22 **SEC. 246. RATIONALIZATION OF RESTRICTIONS ON DIS-**
23 **TRIBUTIONS.**

24 (a) MODIFICATION OF SAME DESK EXCEPTION.—

25 (1) SECTION 401(k).—

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

5 (B) Subparagraph (A) of section
6 401(k)(10) (relating to distributions upon ter-
7 mination of plan or disposition of assets or sub-
8 sidiary) is amended to read as follows:

9 “(A) IN GENERAL.—An event described in
10 this subparagraph is the termination of the
11 plan without establishment or maintenance of
12 another defined contribution plan (other than
13 an employee stock ownership plan as defined in
14 section 4975(e)(7)).”.

15 (C) Section 401(k)(10) is amended—

16 (i) in subparagraph (B)—

17 (I) by striking “An event” in
18 clause (i) and inserting “A termi-
19 nation”; and

20 (II) by striking “the event” in
21 clause (i) and inserting “the termi-
22 nation”;

23 (ii) by striking subparagraph (C); and

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

1 (2) SECTION 403(b).—

2 (A) Paragraphs (7)(A)(ii) and (11)(A) of
3 section 403(b) are each amended by striking
4 “separates from service” and inserting “has a
5 severance from employment”.

6 (B) The heading for paragraph (11) of
7 section 403(b) is amended by striking “SEPARA-
8 TION FROM SERVICE” and inserting “SEVER-
9 ANCE FROM EMPLOYMENT”.

10 (3) SECTION 457.—Clause (ii) of section
11 457(d)(1)(A) is amended by striking “is separated
12 from service” and inserting “has a severance from
13 employment”.

14 (b) EFFECTIVE DATE.—The amendments made by
15 this section shall apply to distributions after December 31,
16 2001.

17 **SEC. 247. PURCHASE OF SERVICE CREDIT IN GOVERN-**
18 **MENTAL DEFINED BENEFIT PLANS.**

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

22 “(13) TRUSTEE-TO-TRUSTEE TRANSFERS TO
23 PURCHASE PERMISSIVE SERVICE CREDIT.—No
24 amount shall be includible in gross income by reason
25 of a direct trustee-to-trustee transfer to a defined

1 benefit governmental plan (as defined in section
2 414(d)) if such transfer is—

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

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

9 (b) 457 PLANS.—Subsection (e) of section 457 is
10 amended by adding after paragraph (16) the following
11 new paragraph:

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

18 “(A) for the purchase of permissive service
19 credit (as defined in section 415(n)(3)(A))
20 under such plan, or

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

1 (c) EFFECTIVE DATE.—The amendments made by
2 this section shall apply to trustee-to-trustee transfers after
3 December 31, 2001.

4 **SEC. 248. EMPLOYERS MAY DISREGARD ROLLOVERS FOR**
5 **PURPOSES OF CASH-OUT AMOUNTS.**

6 (a) QUALIFIED PLANS.—Section 411(a)(11) (relating
7 to restrictions on certain mandatory distributions) is
8 amended by adding at the end the following:

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

21 (b) ELIGIBLE DEFERRED COMPENSATION PLANS.—
22 Clause (i) of section 457(e)(9)(A) is amended by striking
23 “such amount” and inserting “the portion of such amount
24 which is not attributable to rollover contributions (as de-
25 fined in section 411(a)(11)(D))”.

1 (c) EFFECTIVE DATE.—The amendments made by
2 this section shall apply to distributions after December 31,
3 2001.

4 **SEC. 249. MINIMUM DISTRIBUTION AND INCLUSION RE-**
5 **QUIREMENTS FOR SECTION 457 PLANS.**

6 (a) MINIMUM DISTRIBUTION REQUIREMENTS.—
7 Paragraph (2) of section 457(d) (relating to distribution
8 requirements) is amended to read as follows:

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

13 (b) INCLUSION IN GROSS INCOME.—

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

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

18 “(1) IN GENERAL.—Any amount of compensa-
19 tion deferred under an eligible deferred compensa-
20 tion plan, and any income attributable to the
21 amounts so deferred, shall be includible in gross in-
22 come only for the taxable year in which such com-
23 pensation or other income—

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

4 “(B) is paid or otherwise made available to
5 the participant or other beneficiary, in the case
6 of a plan of an eligible employer described in
7 subsection (e)(1)(B).

8 “(2) SPECIAL RULE FOR ROLLOVER
9 AMOUNTS.—To the extent provided in section
10 72(t)(9), section 72(t) shall apply to any amount in-
11 cludible in gross income under this subsection.”.

12 (2) CONFORMING AMENDMENTS.—

13 (A) So much of paragraph (9) of section
14 457(e) as precedes subparagraph (A) is amend-
15 ed to read as follows:

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

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

23 “(3) SPECIAL RULE FOR GOVERNMENT PLAN.—
24 An eligible deferred compensation plan of an em-
25 ployer described in subsection (e)(1)(A) shall not be

1 treated as failing to meet the requirements of this
 2 subsection solely by reason of making a distribution
 3 described in subsection (e)(9)(A).”.

4 (c) EFFECTIVE DATE.—The amendments made by
 5 this section shall apply to distributions after December 31,
 6 2001.

7 **CHAPTER 5—STRENGTHENING PENSION**
 8 **SECURITY AND ENFORCEMENT**

9 **SEC. 251. REPEAL OF 150 PERCENT OF CURRENT LIABILITY**
 10 **FUNDING LIMIT.**

11 (a) IN GENERAL.—Section 412(c)(7) (relating to
 12 full-funding limitation) is amended—

13 (1) by striking “the applicable percentage” in
 14 subparagraph (A)(i)(I) and inserting “in the case of
 15 plan years beginning before January 1, 2005, the
 16 applicable percentage”; and

17 (2) by amending subparagraph (F) to read as
 18 follows:

19 “(F) APPLICABLE PERCENTAGE.—For
 20 purposes of subparagraph (A)(i)(I), the applica-
 21 ble percentage shall be determined in accord-
 22 ance with the following table:

“In the case of any plan year beginning in—	The applicable percentage is—
2002	160
2003	165
2004	170.”.

1 (b) EFFECTIVE DATE.—The amendments made by
2 this section shall apply to plan years beginning after De-
3 cember 31, 2001.

4 **SEC. 252. MAXIMUM CONTRIBUTION DEDUCTION RULES**
5 **MODIFIED AND APPLIED TO ALL DEFINED**
6 **BENEFIT PLANS.**

7 (a) IN GENERAL.—Subparagraph (D) of section
8 404(a)(1) (relating to special rule in case of certain plans)
9 is amended to read as follows:

10 “(D) SPECIAL RULE IN CASE OF CERTAIN
11 PLANS.—

12 “(i) IN GENERAL.—In the case of any
13 defined benefit plan, except as provided in
14 regulations, the maximum amount deduct-
15 ible under the limitations of this paragraph
16 shall not be less than the unfunded termi-
17 nation liability (determined as if the pro-
18 posed termination date referred to in sec-
19 tion 4041(b)(2)(A)(i)(II) of the Employee
20 Retirement Income Security Act of 1974
21 were the last day of the plan year).

22 “(ii) PLANS WITH LESS THAN 100
23 PARTICIPANTS.—For purposes of this sub-
24 paragraph, in the case of a plan which has
25 less than 100 participants for the plan

1 year, termination liability shall not include
2 the liability attributable to benefit in-
3 creases for highly compensated employees
4 (as defined in section 414(q)) resulting
5 from a plan amendment which is made or
6 becomes effective, whichever is later, within
7 the last 2 years before the termination
8 date.

9 “(iii) RULE FOR DETERMINING NUM-
10 BER OF PARTICIPANTS.—For purposes of
11 determining whether a plan has more than
12 100 participants, all defined benefit plans
13 maintained by the same employer (or any
14 member of such employer’s controlled
15 group (within the meaning of section
16 412(l)(8)(C))) shall be treated as one plan,
17 but only employees of such member or em-
18 ployer shall be taken into account.

19 “(iv) PLANS ESTABLISHED AND MAIN-
20 TAINED BY PROFESSIONAL SERVICE EM-
21 PLOYERS.—Clause (i) shall not apply to a
22 plan described in section 4021(b)(13) of
23 the Employee Retirement Income Security
24 Act of 1974.”.

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

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

10 “(A) the amount of contributions not in
11 excess of 6 percent of compensation (within the
12 meaning of section 404(a)) paid or accrued
13 (during the taxable year for which the contribu-
14 tions were made) to beneficiaries under the
15 plans, or

16 “(B) the sum of—

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

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

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

1 (c) EFFECTIVE DATE.—The amendments made by
2 this section shall apply to plan years beginning after De-
3 cember 31, 2001.

4 **SEC. 253. EXCISE TAX RELIEF FOR SOUND PENSION FUND-**
5 **ING.**

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

9 “(7) DEFINED BENEFIT PLAN EXCEPTION.—In
10 determining the amount of nondeductible contribu-
11 tions for any taxable year, an employer may elect for
12 such year not to take into account any contributions
13 to a defined benefit plan except to the extent that
14 such contributions exceed the full-funding limitation
15 (as defined in section 412(c)(7), determined without
16 regard to subparagraph (A)(i)(I) thereof). For pur-
17 poses of this paragraph, the deductible limits under
18 section 404(a)(7) shall first be applied to amounts
19 contributed to defined contribution plans and then
20 to amounts described in this paragraph. If an em-
21 ployer makes an election under this paragraph for a
22 taxable year, paragraph (6) shall not apply to such
23 employer for such taxable year.”.

1 (b) EFFECTIVE DATE.—The amendment made by
2 this section shall apply to years beginning after December
3 31, 2001.

4 **SEC. 254. EXCISE TAX ON FAILURE TO PROVIDE NOTICE BY**
5 **DEFINED BENEFIT PLANS SIGNIFICANTLY**
6 **REDUCING FUTURE BENEFIT ACCRUALS.**

7 (a) IN GENERAL.—Chapter 43 (relating to qualified
8 pension, etc., plans) is amended by adding at the end the
9 following new section:

10 **“SEC. 4980F. FAILURE OF APPLICABLE PLANS REDUCING**
11 **BENEFIT ACCRUALS TO SATISFY NOTICE RE-**
12 **QUIREMENTS.**

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

17 “(b) AMOUNT OF TAX.—

18 “(1) IN GENERAL.—The amount of the tax im-
19 posed by subsection (a) on any failure with respect
20 to any applicable individual shall be \$100 for each
21 day in the noncompliance period with respect to such
22 failure.

23 “(2) NONCOMPLIANCE PERIOD.—For purposes
24 of this section, the term ‘noncompliance period’
25 means, with respect to any failure, the period begin-

1 ning on the date the failure first occurs and ending
2 on the date the failure is corrected.

3 “(c) LIMITATIONS ON AMOUNT OF TAX.—

4 “(1) OVERALL LIMITATION FOR UNINTEN-
5 TIONAL FAILURES.—In the case of failures that are
6 due to reasonable cause and not to willful neglect,
7 the tax imposed by subsection (a) for failures during
8 the taxable year of the employer (or, in the case of
9 a multiemployer plan, the taxable year of the trust
10 forming part of the plan) shall not exceed \$500,000.
11 For purposes of the preceding sentence, all multiem-
12 ployer plans of which the same trust forms a part
13 shall be treated as one plan. For purposes of this
14 paragraph, if not all persons who are treated as a
15 single employer for purposes of this section have the
16 same taxable year, the taxable years taken into ac-
17 count shall be determined under principles similar to
18 the principles of section 1561.

19 “(2) WAIVER BY SECRETARY.—In the case of a
20 failure which is due to reasonable cause and not to
21 willful neglect, the Secretary may waive part or all
22 of the tax imposed by subsection (a) to the extent
23 that the payment of such tax would be excessive rel-
24 ative to the failure involved.

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

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

5 “(2) In the case of a multiemployer plan, the
6 plan.

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

9 “(1) IN GENERAL.—If an applicable pension
10 plan is amended to provide for a significant reduc-
11 tion in the rate of future benefit accrual, the plan
12 administrator shall provide written notice to each
13 applicable individual (and to each employee organi-
14 zation representing applicable individuals).

15 “(2) NOTICE.—The notice required by para-
16 graph (1) shall be written in a manner calculated to
17 be understood by the average plan participant and
18 shall provide sufficient information (as determined
19 in accordance with regulations prescribed by the
20 Secretary) to allow applicable individuals to under-
21 stand the effect of the plan amendment.

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

1 “(4) DESIGNEEES.—Any notice under paragraph
2 (1) may be provided to a person designated, in writ-
3 ing, by the person to which it would otherwise be
4 provided.

5 “(5) NOTICE BEFORE ADOPTION OF AMEND-
6 MENT.—A plan shall not be treated as failing to
7 meet the requirements of paragraph (1) merely be-
8 cause notice is provided before the adoption of the
9 plan amendment if no material modification of the
10 amendment occurs before the amendment is adopt-
11 ed.

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

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

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

18 “(B) any beneficiary who is an alternate
19 payee (within the meaning of section 414(p)(8))
20 under an applicable qualified domestic relations
21 order (within the meaning of section
22 414(p)(1)(A)),

23 who may reasonably be expected to be affected by
24 such plan amendment.

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

3 “(A) any defined benefit plan, or

4 “(B) an individual account plan which is
5 subject to the funding standards of section 412,
6 which had 100 or more participants who had ac-
7 crued a benefit, or with respect to whom contribu-
8 tions were made, under the plan (whether or not
9 vested) as of the last day of the plan year preceding
10 the plan year in which the plan amendment becomes
11 effective. Such term shall not include a governmental
12 plan (within the meaning of section 414(d)) or a
13 church plan (within the meaning of section 414(e))
14 with respect to which the election provided by sec-
15 tion 410(d) has not been made.”.

16 (b) CLERICAL AMENDMENT.—The table of sections
17 for chapter 43 is amended by adding at the end the fol-
18 lowing new item:

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

19 (c) EFFECTIVE DATES.—

20 (1) IN GENERAL.—The amendments made by
21 this section shall apply to plan amendments taking
22 effect on or after the date of the enactment of this
23 Act.

1 (2) TRANSITION.—Until such time as the Sec-
2 retary of the Treasury issues regulations under sec-
3 tions 4980F(e)(2) and (3) of the Internal Revenue
4 Code of 1986 (as added by the amendments made
5 by this section), a plan shall be treated as meeting
6 the requirements of such sections if it makes a good
7 faith effort to comply with such requirements.

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

12 (d) STUDY.—The Secretary of the Treasury shall
13 prepare a report on the effects of conversions of tradi-
14 tional defined benefit plans to cash balance or hybrid for-
15 mula plans. Such study shall examine the effect of such
16 conversions on longer service participants, including the
17 incidence and effects of “wear away” provisions under
18 which participants earn no additional benefits for a period
19 of time after the conversion. As soon as practicable, but
20 not later than 60 days after the date of the enactment
21 of this Act, the Secretary shall submit such report, to-
22 gether with recommendations thereon, to the Committee
23 on Ways and Means of the House of Representatives and
24 the Committee on Finance of the Senate.

1 **SEC. 255. TREATMENT OF MULTIEMPLOYER PLANS UNDER**
2 **SECTION 415.**

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

6 “(11) SPECIAL LIMITATION RULE FOR GOVERN-
7 MENTAL AND MULTIEMPLOYER PLANS.—In the case
8 of a governmental plan (as defined in section
9 414(d)) or a multiemployer plan (as defined in sec-
10 tion 414(f)), subparagraph (B) of paragraph (1)
11 shall not apply.”.

12 (b) COMBINING AND AGGREGATION OF PLANS.—

13 (1) COMBINING OF PLANS.—Subsection (f) of
14 section 415 (relating to combining of plans) is
15 amended by adding at the end the following:

16 “(3) EXCEPTION FOR MULTIEMPLOYER
17 PLANS.—Notwithstanding paragraph (1) and sub-
18 section (g), a multiemployer plan (as defined in sec-
19 tion 414(f)) shall not be combined or aggregated
20 with any other plan maintained by an employer for
21 purposes of applying the limitations established in
22 this section, except that such plan shall be combined
23 or aggregated with another plan which is not such
24 a multiemployer plan solely for purposes of deter-
25 mining whether such other plan meets the require-
26 ments of subsections (b)(1)(A) and (c).”.

1 (2) CONFORMING AMENDMENT FOR AGGREGA-
2 TION OF PLANS.—Subsection (g) of section 415 (re-
3 lating to aggregation of plans) is amended by strik-
4 ing “The Secretary” and inserting “Except as pro-
5 vided in subsection (f)(3), the Secretary”.

6 (c) EFFECTIVE DATE.—The amendments made by
7 this section shall apply to years beginning after December
8 31, 2001.

9 **SEC. 256. PROHIBITED ALLOCATIONS OF STOCK IN S COR-**
10 **PORATION ESOP.**

11 (a) IN GENERAL.—Section 409 (relating to qualifica-
12 tions for tax credit employee stock ownership plans) is
13 amended by redesignating subsection (p) as subsection (q)
14 and by inserting after subsection (o) the following new
15 subsection:

16 “(p) PROHIBITED ALLOCATIONS OF SECURITIES IN
17 AN S CORPORATION.—

18 “(1) IN GENERAL.—An employee stock owner-
19 ship plan holding employer securities consisting of
20 stock in an S corporation shall provide that no por-
21 tion of the assets of the plan attributable to (or allo-
22 cable in lieu of) such employer securities may, dur-
23 ing a nonallocation year, accrue (or be allocated di-
24 rectly or indirectly under any plan of the employer

1 meeting the requirements of section 401(a)) for the
2 benefit of any disqualified person.

3 “(2) FAILURE TO MEET REQUIREMENTS.—

4 “(A) IN GENERAL.—If a plan fails to meet
5 the requirements of paragraph (1), the plan
6 shall be treated as having distributed to any
7 disqualified person the amount allocated to the
8 account of such person in violation of para-
9 graph (1) at the time of such allocation.

10 “(B) CROSS REFERENCE.—

“**For excise tax relating to violations of paragraph
(1) and ownership of synthetic equity, see section
4979A.**

11 “(3) NONALLOCATION YEAR.—For purposes of
12 this subsection—

13 “(A) IN GENERAL.—The term ‘nonalloca-
14 tion year’ means any plan year of an employee
15 stock ownership plan if, at any time during
16 such plan year—

17 “(i) such plan holds employer securi-
18 ties consisting of stock in an S corpora-
19 tion, and

20 “(ii) disqualified persons own at least
21 50 percent of the number of shares of
22 stock in the S corporation.

23 “(B) CONTRIBUTION RULES.—For purposes
24 of subparagraph (A)—

1 “(i) IN GENERAL.—The rules of sec-
2 tion 318(a) shall apply for purposes of de-
3 termining ownership, except that—

4 “(I) in applying paragraph (1)
5 thereof, the members of an individ-
6 ual’s family shall include members of
7 the family described in paragraph
8 (4)(D), and

9 “(II) paragraph (4) thereof shall
10 not apply.

11 “(ii) DEEMED-OWNED SHARES.—Not-
12 withstanding the employee trust exception
13 in section 318(a)(2)(B)(i), individual shall
14 be treated as owning deemed-owned shares
15 of the individual.

16 Solely for purposes of applying paragraph (5),
17 this subparagraph shall be applied after the at-
18 tribution rules of paragraph (5) have been ap-
19 plied.

20 “(4) DISQUALIFIED PERSON.—For purposes of
21 this subsection—

22 “(A) IN GENERAL.—The term ‘disqualified
23 person’ means any person if—

24 “(i) the aggregate number of deemed-
25 owned shares of such person and the mem-

1 bers of such person’s family is at least 20
2 percent of the number of deemed-owned
3 shares of stock in the S corporation, or

4 “(ii) in the case of a person not de-
5 scribed in clause (i), the number of
6 deemed-owned shares of such person is at
7 least 10 percent of the number of deemed-
8 owned shares of stock in such corporation.

9 “(B) TREATMENT OF FAMILY MEMBERS.—

10 In the case of a disqualified person described in
11 subparagraph (A)(i), any member of such per-
12 son’s family with deemed-owned shares shall be
13 treated as a disqualified person if not otherwise
14 treated as a disqualified person under subpara-
15 graph (A).

16 “(C) DEEMED-OWNED SHARES.—

17 “(i) IN GENERAL.—The term
18 ‘deemed-owned shares’ means, with respect
19 to any person—

20 “(I) the stock in the S corpora-
21 tion constituting employer securities
22 of an employee stock ownership plan
23 which is allocated to such person
24 under the plan, and

1 “(II) such person’s share of the
2 stock in such corporation which is
3 held by such plan but which is not al-
4 located under the plan to participants.

5 “(ii) PERSON’S SHARE OF
6 UNALLOCATED STOCK.—For purposes of
7 clause (i)(II), a person’s share of
8 unallocated S corporation stock held by
9 such plan is the amount of the unallocated
10 stock which would be allocated to such per-
11 son if the unallocated stock were allocated
12 to all participants in the same proportions
13 as the most recent stock allocation under
14 the plan.

15 “(D) MEMBER OF FAMILY.—For purposes
16 of this paragraph, the term ‘member of the
17 family’ means, with respect to any individual—

18 “(i) the spouse of the individual,

19 “(ii) an ancestor or lineal descendant
20 of the individual or the individual’s spouse,

21 “(iii) a brother or sister of the indi-
22 vidual or the individual’s spouse and any
23 lineal descendant of the brother or sister,
24 and

1 “(iv) the spouse of any individual de-
2 scribed in clause (ii) or (iii).

3 A spouse of an individual who is legally sepa-
4 rated from such individual under a decree of di-
5 vorce or separate maintenance shall not be
6 treated as such individual’s spouse for purposes
7 of this subparagraph.

8 “(5) TREATMENT OF SYNTHETIC EQUITY.—For
9 purposes of paragraphs (3) and (4), in the case of
10 a person who owns synthetic equity in the S corpora-
11 tion, except to the extent provided in regulations, the
12 shares of stock in such corporation on which such
13 synthetic equity is based shall be treated as out-
14 standing stock in such corporation and deemed-
15 owned shares of such person if such treatment of
16 synthetic equity of 1 or more such persons results
17 in—

18 “(A) the treatment of any person as a dis-
19 qualified person, or

20 “(B) the treatment of any year as a non-
21 allocation year.

22 For purposes of this paragraph, synthetic equity
23 shall be treated as owned by a person in the same
24 manner as stock is treated as owned by a person
25 under the rules of paragraphs (2) and (3) of section

1 318(a). If, without regard to this paragraph, a per-
2 son is treated as a disqualified person or a year is
3 treated as a nonallocation year, this paragraph shall
4 not be construed to result in the person or year not
5 being so treated.

6 “(6) DEFINITIONS.—For purposes of this
7 subsection—

8 “(A) EMPLOYEE STOCK OWNERSHIP
9 PLAN.—The term ‘employee stock ownership
10 plan’ has the meaning given such term by sec-
11 tion 4975(e)(7).

12 “(B) EMPLOYER SECURITIES.—The term
13 ‘employer security’ has the meaning given such
14 term by section 409(l).

15 “(C) SYNTHETIC EQUITY.—The term ‘syn-
16 thetic equity’ means any stock option, warrant,
17 restricted stock, deferred issuance stock right,
18 or similar interest or right that gives the holder
19 the right to acquire or receive stock of the S
20 corporation in the future. Except to the extent
21 provided in regulations, synthetic equity also in-
22 cludes a stock appreciation right, phantom
23 stock unit, or similar right to a future cash
24 payment based on the value of such stock or
25 appreciation in such value.

1 “(7) REGULATIONS.—The Secretary shall pre-
2 scribe such regulations as may be necessary to carry
3 out the purposes of this subsection.”.

4 (b) COORDINATION WITH SECTION 4975(e)(7).—The
5 last sentence of section 4975(e)(7) (defining employee
6 stock ownership plan) is amended by inserting “, section
7 409(p),” after “409(n)”.

8 (c) EXCISE TAX.—

9 (1) APPLICATION OF TAX.—Subsection (a) of
10 section 4979A (relating to tax on certain prohibited
11 allocations of employer securities) is amended—

12 (A) by striking “or” at the end of para-
13 graph (1), and

14 (B) by striking all that follows paragraph
15 (2) and inserting the following:

16 “(3) there is any allocation of employer securi-
17 ties which violates the provisions of section 409(p),
18 or a nonallocation year described in subsection
19 (e)(2)(C) with respect to an employee stock owner-
20 ship plan, or

21 “(4) any synthetic equity is owned by a dis-
22 qualified person in any nonallocation year,
23 there is hereby imposed a tax on such allocation or owner-
24 ship equal to 50 percent of the amount involved.”.

1 (2) LIABILITY.—Section 4979A(c) (defining li-
2 ability for tax) is amended to read as follows:

3 “(c) LIABILITY FOR TAX.—The tax imposed by this
4 section shall be paid—

5 “(1) in the case of an allocation referred to in
6 paragraph (1) or (2) of subsection (a), by—

7 “(A) the employer sponsoring such plan, or

8 “(B) the eligible worker-owned cooperative,
9 which made the written statement described in sec-
10 tion 664(g)(1)(E) or in section 1042(b)(3)(B) (as
11 the case may be), and

12 “(2) in the case of an allocation or ownership
13 referred to in paragraph (3) or (4) of subsection (a),
14 by the S corporation the stock in which was so allo-
15 cated or owned.”.

16 (3) DEFINITIONS.—Section 4979A(e) (relating
17 to definitions) is amended to read as follows:

18 “(e) DEFINITIONS AND SPECIAL RULES.—For pur-
19 poses of this section—

20 “(1) DEFINITIONS.—Except as provided in
21 paragraph (2), terms used in this section have the
22 same respective meanings as when used in sections
23 409 and 4978.

1 “(2) SPECIAL RULES RELATING TO TAX IM-
2 POSED BY REASON OF PARAGRAPH (3) OR (4) OF
3 SUBSECTION (a).—

4 “(A) PROHIBITED ALLOCATIONS.—The
5 amount involved with respect to any tax im-
6 posed by reason of subsection (a)(3) is the
7 amount allocated to the account of any person
8 in violation of section 409(p)(1).

9 “(B) SYNTHETIC EQUITY.—The amount
10 involved with respect to any tax imposed by rea-
11 son of subsection (a)(4) is the value of the
12 shares on which the synthetic equity is based.

13 “(C) SPECIAL RULE DURING FIRST NON-
14 ALLOCATION YEAR.—For purposes of subpara-
15 graph (A), the amount involved for the first
16 nonallocation year of any employee stock owner-
17 ship plan shall be determined by taking into ac-
18 count the total value of all the deemed-owned
19 shares of all disqualified persons with respect to
20 such plan.

21 “(D) STATUTE OF LIMITATIONS.—The
22 statutory period for the assessment of any tax
23 imposed by this section by reason of paragraph
24 (3) or (4) of subsection (a) shall not expire be-

1 fore the date which is 3 years from the later
2 of—

3 “(i) the allocation or ownership re-
4 ferred to in such paragraph giving rise to
5 such tax, or

6 “(ii) the date on which the Secretary
7 is notified of such allocation or owner-
8 ship.”.

9 (d) EFFECTIVE DATES.—

10 (1) IN GENERAL.—The amendments made by
11 this section shall apply to plan years beginning after
12 December 31, 2001.

13 (2) EXCEPTION FOR CERTAIN PLANS.—In the
14 case of any—

15 (A) employee stock ownership plan estab-
16 lished after July 11, 2000, or

17 (B) employee stock ownership plan estab-
18 lished on or before such date if employer securi-
19 ties held by the plan consist of stock in a cor-
20 poration with respect to which an election under
21 section 1362(a) of the Internal Revenue Code
22 of 1986 is not in effect on such date,

23 the amendments made by this section shall apply to
24 plan years ending after July 11, 2001.

1 **CHAPTER 6—REDUCING REGULATORY**
2 **BURDENS**

3 **SEC. 261. MODIFICATION OF TIMING OF PLAN VALUATIONS.**

4 (a) IN GENERAL.—Paragraph (9) of section
5 412(c)(9) (relating to annual valuation) is amended to
6 read as follows:

7 “(9) ANNUAL VALUATION.—

8 “(A) IN GENERAL.—For purposes of this
9 section, a determination of experience gains and
10 losses and a valuation of the plan’s liability
11 shall be made not less frequently than once
12 every year, except that such determination shall
13 be made more frequently to the extent required
14 in particular cases under regulations prescribed
15 by the Secretary.

16 “(B) VALUATION DATE.—

17 “(i) CURRENT YEAR.—Except as pro-
18 vided in clause (ii), the valuation referred
19 to in subparagraph (A) shall be made as of
20 a date within the plan year to which the
21 valuation refers or within one month prior
22 to the beginning of such year.

23 “(ii) ELECTION TO USE PRIOR YEAR
24 VALUATION.—The valuation referred to in
25 subparagraph (A) may be made as of a

1 date within the plan year prior to the year
2 to which the valuation refers if—

3 “(I) an election is in effect under
4 this clause with respect to the plan,
5 and

6 “(II) as of such date, the value
7 of the assets of the plan are not less
8 than 125 percent of the plan’s current
9 liability (as defined in paragraph
10 (7)(B)).

11 “(iii) ADJUSTMENTS.—Information
12 under clause (ii) shall, in accordance with
13 regulations, be actuarially adjusted to re-
14 flect significant differences in participants.

15 “(iv) ELECTION.—An election under
16 clause (ii), once made, shall be irrevocable
17 without the consent of the Secretary.”.

18 (b) EFFECTIVE DATE.—The amendments made by
19 this section shall apply to plan years beginning after De-
20 cember 31, 2001.

21 **SEC. 262. 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, 2001.

13 **SEC. 263. 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, 2001.

20 **SEC. 264. 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. 265. 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, 2001.

1 **SEC. 266. 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. 267. 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. 268. REPEAL OF THE MULTIPLE USE TEST.**

2 (a) IN GENERAL.—Paragraph (9) of section 401(m)
3 is amended to read as follows:

4 “(9) REGULATIONS.—The Secretary shall pre-
5 scribe such regulations as may be necessary to carry
6 out the purposes of this subsection and subsection
7 (k), including regulations permitting appropriate ag-
8 gregation of plans and contributions.”.

9 (b) EFFECTIVE DATE.—The amendment made by
10 this section shall apply to years beginning after December
11 31, 2001.

12 **SEC. 269. FLEXIBILITY IN NONDISCRIMINATION, COV-**
13 **ERAGE, AND LINE OF BUSINESS RULES.**

14 (a) NONDISCRIMINATION.—

15 (1) IN GENERAL.—The Secretary of the Treas-
16 ury shall, by regulation, provide that a plan shall be
17 deemed to satisfy the requirements of section
18 401(a)(4) of the Internal Revenue Code of 1986 if
19 such plan satisfies the facts and circumstances test
20 under section 401(a)(4) of such Code, as in effect
21 before January 1, 1994, but only if—

22 (A) the plan satisfies conditions prescribed
23 by the Secretary to appropriately limit the
24 availability of such test; and

1 (B) the plan is submitted to the Secretary
2 for a determination of whether it satisfies such
3 test.

4 Subparagraph (B) shall only apply to the extent pro-
5 vided by the Secretary.

6 (2) EFFECTIVE DATES.—

7 (A) REGULATIONS.—The regulation re-
8 quired by paragraph (1) shall apply to years be-
9 ginning after December 31, 2001.

10 (B) CONDITIONS OF AVAILABILITY.—Any
11 condition of availability prescribed by the Sec-
12 retary under paragraph (1)(A) shall not apply
13 before the first year beginning not less than
14 120 days after the date on which such condition
15 is prescribed.

16 (b) COVERAGE TEST.—

17 (1) IN GENERAL.—Section 410(b)(1) (relating
18 to minimum coverage requirements) is amended by
19 adding at the end the following:

20 “(D) In the case that the plan fails to
21 meet the requirements of subparagraphs (A),
22 (B) and (C), the plan—

23 “(i) satisfies subparagraph (B), as in
24 effect immediately before the enactment of
25 the Tax Reform Act of 1986,

1 “(ii) is submitted to the Secretary for
2 a determination of whether it satisfies the
3 requirement described in clause (i), and

4 “(iii) satisfies conditions prescribed by
5 the Secretary by regulation that appro-
6 priately limit the availability of this sub-
7 paragraph.

8 Clause (ii) shall apply only to the extent pro-
9 vided by the Secretary.”.

10 (2) EFFECTIVE DATES.—

11 (A) IN GENERAL.—The amendment made
12 by paragraph (1) shall apply to years beginning
13 after December 31, 2001.

14 (B) CONDITIONS OF AVAILABILITY.—Any
15 condition of availability prescribed by the Sec-
16 retary under regulations prescribed by the Sec-
17 retary under section 410(b)(1)(D) of the Inter-
18 nal Revenue Code of 1986 shall not apply be-
19 fore the first year beginning not less than 120
20 days after the date on which such condition is
21 prescribed.

22 (c) LINE OF BUSINESS RULES.—The Secretary of
23 the Treasury shall, on or before December 31, 2001, mod-
24 ify the existing regulations issued under section 414(r) of
25 the Internal Revenue Code of 1986 in order to expand

1 (to the extent that the Secretary determines appropriate)
2 the ability of a pension plan to demonstrate compliance
3 with the line of business requirements based upon the
4 facts and circumstances surrounding the design and oper-
5 ation of the plan, even though the plan is unable to satisfy
6 the mechanical tests currently used to determine compli-
7 ance.

8 **SEC. 270. EXTENSION TO ALL GOVERNMENTAL PLANS OF**
9 **MORATORIUM ON APPLICATION OF CERTAIN**
10 **NONDISCRIMINATION RULES APPLICABLE TO**
11 **STATE AND LOCAL PLANS.**

12 (a) IN GENERAL.—

13 (1) Subparagraph (G) of section 401(a)(5) and
14 subparagraph (H) of section 401(a)(26) are each
15 amended by striking “section 414(d)” and all that
16 follows and inserting “section 414(d).”.

17 (2) Subparagraph (G) of section 401(k)(3) and
18 paragraph (2) of section 1505(d) of the Taxpayer
19 Relief Act of 1997 are each amended by striking
20 “maintained by a State or local government or polit-
21 ical subdivision thereof (or agency or instrumentality
22 thereof)”.

23 (b) CONFORMING AMENDMENTS.—

1 (3) EFFECTIVE DATE.—The amendment made
2 by paragraph (1) and the modifications required by
3 paragraph (2) shall apply to years beginning after
4 December 31, 2001.

5 (b) CONSENT REGULATION INAPPLICABLE TO CER-
6 TAIN DISTRIBUTIONS.—

7 (1) IN GENERAL.—The Secretary of the Treas-
8 ury shall modify the regulations under section
9 411(a)(11) of the Internal Revenue Code of 1986 to
10 provide that the description of a participant’s right,
11 if any, to defer receipt of a distribution shall also de-
12 scribe the consequences of failing to defer such re-
13 ceipt.

14 (2) EFFECTIVE DATE.—The modifications re-
15 quired by paragraph (1) shall apply to years begin-
16 ning after December 31, 2001.

17 **CHAPTER 7—PLAN AMENDMENTS**

18 **SEC. 281. PROVISIONS RELATING TO PLAN AMENDMENTS.**

19 (a) IN GENERAL.—If this section applies to any plan
20 or contract amendment—

21 (1) such plan or contract shall be treated as
22 being operated in accordance with the terms of the
23 plan during the period described in subsection
24 (b)(2)(A); and

1 (2) such plan shall not fail to meet the require-
2 ments of section 411(d)(6) of the Internal Revenue
3 Code of 1986 by reason of such amendment.

4 (b) AMENDMENTS TO WHICH SECTION APPLIES.—

5 (1) IN GENERAL.—This section shall apply to
6 any amendment to any plan or annuity contract
7 which is made—

8 (A) pursuant to any amendment made by
9 this title, or pursuant to any regulation issued
10 under this title, and

11 (B) on or before the last day of the first
12 plan year beginning on or after January 1,
13 2003.

14 In the case of a governmental plan (as defined in
15 section 414(d) of the Internal Revenue Code of
16 1986), this paragraph shall be applied by sub-
17 stituting “2005” for “2003”.

18 (2) CONDITIONS.—This section shall not apply
19 to any amendment unless—

20 (A) during the period—

21 (i) beginning on the date the legisla-
22 tive or regulatory amendment described in
23 paragraph (1)(A) takes effect (or in the
24 case of a plan or contract amendment not
25 required by such legislative or regulatory

1 amendment, the effective date specified by
2 the plan); and

3 (ii) ending on the date described in
4 paragraph (1)(B) (or, if earlier, the date
5 the plan or contract amendment is adopt-
6 ed),

7 the plan or contract is operated as if such plan
8 or contract amendment were in effect; and

9 (B) such plan or contract amendment ap-
10 plies retroactively for such period.

11 **TITLE III—FAMILY TAX RELIEF**

12 **SEC. 301. ELIMINATION OF MARRIAGE PENALTY IN STAND-** 13 **ARD DEDUCTION.**

14 (a) IN GENERAL.—Paragraph (2) of section 63(c)
15 (relating to standard deduction) is amended—

16 (1) by striking “\$5,000” in subparagraph (A)
17 and inserting “200 percent of the dollar amount in
18 effect under subparagraph (C) for the taxable year”,

19 (2) by adding “or” at the end of subparagraph
20 (B),

21 (3) by striking “in the case of” and all that fol-
22 lows in subparagraph (C) and inserting “in any
23 other case.”, and

24 (4) by striking subparagraph (D).

1 (b) PHASE-IN.—Subsection (c) of section 63 is
2 amended by adding at the end the following new para-
3 graph:

4 “(7) PHASE-IN OF INCREASE IN BASIC STAND-
5 ARD DEDUCTION.—In the case of taxable years be-
6 ginning before January 1, 2009—

7 “(A) paragraph (2)(A) shall be applied by
8 substituting for ‘200 percent’—

9 “(i) ‘175 percent’ in the case of tax-
10 able years beginning after 2000 and before
11 2007, and

12 “(ii) ‘190 percent’ in the case of tax-
13 able years beginning after 2006 and before
14 2009, and

15 “(B) the basic standard deduction for a
16 married individual filing a separate return shall
17 be one-half of the amount applicable under
18 paragraph (2)(A).

19 If any amount determined under subparagraph (A)
20 is not a multiple of \$50, such amount shall be
21 rounded to the next lowest multiple of \$50.”.

22 (c) TECHNICAL AMENDMENTS.—

23 (1) Subparagraph (B) of section 1(f)(6) is
24 amended by striking “(other than with” and all that
25 follows through “shall be applied” and inserting

1 “(other than with respect to sections 63(c)(4) and
2 151(d)(4)(A)) shall be applied”.

3 (2) Paragraph (4) of section 63(c) is amended
4 by adding at the end the following flush sentence:

5 “The preceding sentence shall not apply to the
6 amount referred to in paragraph (2)(A).”.

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

10 **SEC. 302. PHASEOUT OF MARRIAGE PENALTY IN INCOME**
11 **TAX RATE BRACKETS.**

12 (a) IN GENERAL.—Subsection (f) of section 1 (relat-
13 ing to adjustments in tax tables so that inflation will not
14 result in tax increases) is amended by adding at the end
15 the following new paragraph:

16 “(8) PHASEOUT OF MARRIAGE PENALTY
17 BRACKETS.—

18 “(A) IN GENERAL.—With respect to tax-
19 able years beginning after December 31, 2000,
20 in prescribing the tables under paragraph (1)—

21 “(i) the minimum and maximum tax-
22 able income amounts in each rate bracket
23 in the table contained in subsection (a)
24 shall be the applicable percentage of the
25 comparable taxable income amounts in the

1 table contained in subsection (c) (after any
 2 other adjustment under this subsection),
 3 and

4 “(ii) the comparable taxable income
 5 amounts in the table contained in sub-
 6 section (d) shall be $\frac{1}{2}$ of the amounts de-
 7 termined under clause (i).

8 “(B) APPLICABLE PERCENTAGE.—For
 9 purposes of subparagraph (A), the applicable
 10 percentage shall be determined in accordance
 11 with the following table:

“For taxable years beginning in calendar year—	The applicable percentage is—
2001, 2002, 2003, 2004, 2005, and 2006	175
2007 and 2008	190
2009 and thereafter	200.

12 “(C) ROUNDING.—If any amount deter-
 13 mined under subparagraph (A)(i) is not a mul-
 14 tiple of \$50, such amount shall be rounded to
 15 the next lowest multiple of \$50.”.

16 (b) TECHNICAL AMENDMENTS.—

17 (1) Subparagraph (A) of section 1(f)(2) is
 18 amended by inserting “except as provided in para-
 19 graph (8),” before “by increasing”.

20 (2) The heading for subsection (f) of section 1
 21 is amended by inserting “PHASEOUT OF MARRIAGE
 22 PENALTY IN RATE BRACKETS;” before “ADJUST-
 23 MENTS”.

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

4 **SEC. 303. MODIFICATIONS OF CHILD TAX CREDIT.**

5 (a) IN GENERAL.—Subsection (a) of section 24 (re-
 6 lating to child tax credit) is amended to read as follows:

7 “(a) ALLOWANCE OF CREDIT.—

8 “(1) IN GENERAL.—There shall be allowed as a
 9 credit against the tax imposed by this chapter for
 10 the taxable year with respect to each qualifying child
 11 of the taxpayer an amount equal to the applicable
 12 dollar amount for the calendar year in which such
 13 taxable year begins.

14 “(2) APPLICABLE DOLLAR AMOUNT.—For pur-
 15 poses of paragraph (1), the applicable dollar amount
 16 for any calendar year shall be determined under the
 17 following table:

“Calendar year:	Applicable Dollar Amount:
2002	\$600
2003	\$700
2004	\$800
2005	\$900
2006 and thereafter	\$1,000.”.

18 (b) INCREASE IN PHASE-OUT THRESHOLD.—

19 (1) BEFORE 2006.—Section 24(b)(2) is
 20 amended—

21 (A) by inserting “, increased by \$18,000
 22 with respect to each taxable year beginning

1 after December 31, 2001” after “return” in
2 subparagraph (A),

3 (B) by inserting “, increased by \$25,000
4 with respect to each taxable year beginning
5 after December 31, 2001” after “married” in
6 subparagraph (B), and

7 (C) by inserting “, increased by \$9,000
8 with respect to each taxable year beginning
9 after December 31, 2001” after “return” in
10 subparagraph (C).

11 (2) AFTER 2005.—Paragraph (2) of section
12 24(b) is amended to read as follows:

13 “(2) THRESHOLD AMOUNT.—For purposes of
14 paragraph (1), the term ‘threshold amount’ means
15 \$200,000 (\$100,000 in the case of a married indi-
16 vidual (as determined under section 7703) filing a
17 separate return).”.

18 (c) REDUCTION IN PHASE-OUT RATE.—Section
19 24(b)(1) is amended by striking “\$50” and inserting
20 “\$20”.

21 (d) REPEAL OF REDUCTION OF CREDIT FOR TAX-
22 PAYERS SUBJECT TO ALTERNATIVE MINIMUM TAX.—
23 Subsection (d) of section 24 is amended by striking para-
24 graph (2) and by redesignating paragraph (3) as para-
25 graph (2).

1 (e) EFFECTIVE DATES.—

2 (1) IN GENERAL.—The amendments made by
3 subsections (a), (b)(1), and (d) shall apply to taxable
4 years beginning after December 31, 2001.

5 (2) 2006 PHASE-OUT RATE AND AMOUNT.—The
6 amendments made by subsections (b)(2) and (c)
7 shall apply to taxable years beginning after Decem-
8 ber 31, 2005.

9 **SEC. 304. EXPANSION OF EDUCATION IRAS.**

10 (a) TAX-FREE EXPENDITURES FOR ELEMENTARY
11 AND SECONDARY SCHOOL EXPENSES.—

12 (1) IN GENERAL.—Section 530(b)(2) (defining
13 qualified higher education expenses) is amended to
14 read as follows:

15 “(2) QUALIFIED EDUCATION EXPENSES.—

16 “(A) IN GENERAL.—The term ‘qualified
17 education expenses’ means—

18 “(i) qualified higher education ex-
19 penses (as defined in section 529(e)(3));
20 and

21 “(ii) qualified elementary and sec-
22 ondary education expenses (as defined in
23 paragraph (4)).

24 Such expenses shall be reduced as provided in
25 section 25A(g)(2).

1 “(B) QUALIFIED STATE TUITION PRO-
2 GRAMS.—Such term shall include amounts paid
3 or incurred to purchase tuition credits or cer-
4 tificates, or to make contributions to an ac-
5 count, under a qualified State tuition program
6 (as defined in section 529(b)) for the benefit of
7 the beneficiary of the account.”.

8 (2) QUALIFIED ELEMENTARY AND SECONDARY
9 EDUCATION EXPENSES.—Section 530(b) (relating to
10 definitions and special rules) is amended by adding
11 at the end the following new paragraph:

12 “(4) QUALIFIED ELEMENTARY AND SECONDARY
13 EDUCATION EXPENSES.—

14 “(A) IN GENERAL.—The term ‘qualified el-
15 elementary and secondary education expenses’
16 means—

17 “(i) expenses for tuition, fees, aca-
18 demic tutoring, special needs services,
19 books, supplies, computer equipment (in-
20 cluding related software and services), and
21 other equipment which are incurred in con-
22 nection with the enrollment or attendance
23 of the designated beneficiary of the trust
24 as an elementary or secondary school stu-

1 dent at a public, private, or religious
2 school, or

3 “(ii) expenses for room and board,
4 uniforms, transportation, and supple-
5 mentary items and services (including ex-
6 tended day programs) which are required
7 or provided by a public, private, or reli-
8 gious school in connection with such enroll-
9 ment or attendance.

10 “(B) SPECIAL RULE FOR
11 HOMESCHOOLING.—Such term shall include ex-
12 penses described in subparagraph (A)(i) in con-
13 nection with education provided by
14 homeschooling if the requirements of any appli-
15 cable State or local law are met with respect to
16 such education.

17 “(C) SCHOOL.—The term ‘school’ means
18 any school which provides elementary education
19 or secondary education (kindergarten through
20 grade 12), as determined under State law.”.

21 (3) CONFORMING AMENDMENTS.—Subsections
22 (b)(1) and (d)(2) of section 530 are each amended
23 by striking “higher” each place it appears in the
24 text and heading thereof.

25 (b) MAXIMUM ANNUAL CONTRIBUTIONS.—

1 (1) IN GENERAL.—Section 530(b)(1)(A)(iii)
 2 (defining education individual retirement account) is
 3 amended by striking “\$500” and inserting “the ap-
 4 plicable dollar amount for the calendar year in which
 5 such taxable year begins”.

6 (2) APPLICABLE DOLLAR AMOUNT.—Section
 7 530(b) is amended by adding at the end the fol-
 8 lowing new paragraph:

9 “(4) APPLICABLE DOLLAR AMOUNT.—For pur-
 10 poses of paragraph (1)(A)(iii), the applicable dollar
 11 amount for any calendar year shall be determined
 12 under the following table:

“Calendar year:	Applicable Dollar Amount:
2002	\$1,000
2003	\$2,000
2004	\$3,000
2005	\$4,000
2006 and thereafter	\$5,000.”.

13 (3) CONFORMING AMENDMENT.—Section
 14 4973(e)(1)(A) is amended by striking “\$500” and
 15 inserting “the applicable dollar amount for the cal-
 16 endar year in which such taxable year begins”.

17 (c) EFFECTIVE DATE.—The amendments made by
 18 this section shall apply to taxable years beginning after
 19 December 31, 2001.

1 **SEC. 305. ELIGIBLE EDUCATIONAL INSTITUTIONS PER-**
2 **MITTED TO MAINTAIN QUALIFIED TUITION**
3 **PROGRAMS.**

4 (a) IN GENERAL.—Section 529(b)(1) (defining quali-
5 fied State tuition program) is amended by inserting “or
6 by 1 or more eligible educational institutions or a consor-
7 tium that consists solely of eligible educational institu-
8 tions” after “maintained by a State or agency or instru-
9 mentality thereof”.

10 (b) PRIVATE QUALIFIED TUITION PROGRAMS LIM-
11 ITED TO BENEFIT PLANS.—Clause (ii) of section
12 529(b)(1)(A) is amended by inserting “in the case of a
13 program established and maintained by a State or agency
14 or instrumentality thereof” before “may make”.

15 (c) CONFORMING AMENDMENTS.—

16 (1) The text and headings of each of the sec-
17 tions 72(e)(9), 135(c)(2)(C), 135(d)(1)(D), 529,
18 530(b)(2)(B), 4973(e), and 6693(a)(2)(C) is amend-
19 ed by striking “qualified State tuition” each place it
20 appears and inserting “qualified tuition”.

21 (2)(A) The section heading of section 529 is
22 amended to read as follows:

23 **“SEC. 529. QUALIFIED TUITION PROGRAMS.”.**

24 (B) The item relating to section 529 in the
25 table of sections for part VIII of subchapter F of
26 chapter 1 is amended by striking “State”.

1 (d) EFFECTIVE DATE.—The amendments made by
2 this section shall apply to taxable years beginning after
3 December 31, 2001.

4 **SEC. 306. EXCLUSION FROM GROSS INCOME OF EDUCATION**
5 **DISTRIBUTIONS FROM QUALIFIED TUITION**
6 **PROGRAMS.**

7 (a) IN GENERAL.—Section 529(c)(3)(B) (relating to
8 distributions) is amended to read as follows:

9 “(B) DISTRIBUTIONS FOR QUALIFIED
10 HIGHER EDUCATION EXPENSES.—

11 “(i) IN GENERAL.—If a distributee
12 elects the application of this clause for any
13 taxable year—

14 “(I) no amount shall be includ-
15 ible in gross income under subpara-
16 graph (A) by reason of a distribution
17 which consists of providing a benefit
18 to the distributee which, if paid for by
19 the distributee, would constitute pay-
20 ment of a qualified higher education
21 expense, and

22 “(II) the amount which (but for
23 the election) would be includible in
24 gross income under subparagraph (A)
25 by reason of any other distribution

1 shall not be so includible in an
2 amount which bears the same ratio to
3 the amount which would be so includ-
4 ible as such expenses bear to such ag-
5 gregate distributions.

6 “(ii) IN-KIND DISTRIBUTIONS.—Any
7 benefit furnished to a designated bene-
8 ficiary under a qualified State tuition pro-
9 gram shall be treated as a distribution to
10 the beneficiary for purposes of this para-
11 graph.

12 “(iii) DISALLOWANCE OF EXCLUDED
13 AMOUNTS AS CREDIT OR DEDUCTION.—No
14 deduction or credit shall be allowed to the
15 taxpayer under any other section of this
16 chapter for any qualified higher education
17 expenses to the extent taken into account
18 in determining the amount of the exclusion
19 under this subparagraph.”.

20 (b) BENEFICIARY MAY CHANGE PROGRAM.—Section
21 529(e)(3)(C) (relating to change in beneficiaries) is
22 amended—

23 (1) in clause (i), by inserting “to another quali-
24 fied tuition program for the benefit of the des-
25 ignated beneficiary or” after “transferred”, and

1 (2) in the heading, by inserting “OR PRO-
2 GRAMS” after “BENEFICIARIES”.

3 (c) ADDITIONAL TAX ON AMOUNTS NOT USED FOR
4 HIGHER EDUCATION EXPENSES.—Section 529(c)(3) (re-
5 lating to distributions) is amended by adding at the end
6 the following:

7 “(E) ADDITIONAL TAX ON AMOUNTS NOT
8 USED FOR HIGHER EDUCATION EXPENSES.—
9 The tax imposed by section 530(d)(4) shall
10 apply to payments and distributions from quali-
11 fied tuition programs in the same manner as
12 such tax applies to education individual retire-
13 ment accounts.”.

14 (d) COORDINATION WITH EDUCATION CREDITS.—
15 Section 25A(e)(2) (relating to coordination with exclu-
16 sions) is amended—

17 (1) by inserting “a qualified tuition program
18 or” before “an education individual retirement ac-
19 count”, and

20 (2) by striking “section 530(d)(2)” and insert-
21 ing “section 529(c)(3)(B) or 530(d)(2)”.

22 (e) EFFECTIVE DATES.—

23 (1) IN GENERAL.—Except as provided in para-
24 graph (2), the amendments made by this section
25 shall apply to distributions made after December 31,

1 2001, for education furnished in academic periods
2 beginning after such date.

3 (2) PRIVATE PROGRAMS.—In the case of a
4 qualified tuition program established and maintained
5 by an entity other than a State or agency or instru-
6 mentality thereof, the amendments made by sub-
7 sections (a), (c), and (d) shall apply to distributions
8 made after December 31, 2005, for education fur-
9 nished in academic periods beginning after such
10 date.

11 **SEC. 307. QUALIFIED TUITION PROGRAMS INCLUDED IN SE-**
12 **CURITIES EXEMPTION.**

13 (a) EXEMPTED SECURITIES.—Section 3(a)(4) of the
14 Securities Act of 1933 (15 U.S.C. 77c(a)(4)) is amended
15 by striking “individual;” and inserting “individual or any
16 security issued by a prepaid tuition program described in
17 section 529 of the Internal Revenue Code of 1986;”.

18 (b) QUALIFIED TUITION PROGRAMS NOT INVEST-
19 MENT COMPANIES.—Section 3(c) of the Investment Com-
20 pany Act of 1940 (15 U.S.C. 80a–3(c)) is amended by
21 adding at the end the following:

22 “(15) Any prepaid tuition program described in
23 section 529 of the Internal Revenue Code of 1986.”.

1 **SEC. 308. EXPANSION OF CREDIT FOR ADOPTION EX-**
 2 **PENSES.**

3 (a) INCREASE IN EXPENSES ALLOWABLE FOR ADOP-
 4 TION.—Paragraph (1) of section 23(b) (relating to dollar
 5 limitation) is amended to read as follows:

6 “(1) DOLLAR LIMITATION.—

7 “(A) IN GENERAL.—The aggregate
 8 amount of qualified adoption expenses which
 9 may be taken into account under subsection (a)
 10 for all taxable years with respect to the adop-
 11 tion of a child by the taxpayer shall not exceed
 12 the applicable amount.

13 “(B) APPLICABLE AMOUNT.—For purposes
 14 of subparagraph (A)—

15 “(i) CHILD WITH SPECIAL NEEDS.—
 16 In the case of a child with special needs,
 17 the applicable amount for a taxable year
 18 shall be the amount determined in accord-
 19 ance with the following table:

“For taxable years beginning in:	The applicable amount is:
2002	\$8,000
2003	\$10,000
2004 and thereafter	\$12,000.

20 “(ii) OTHER CHILDREN.—In the case
 21 of a child who is not a child with special
 22 needs, the applicable amount for a taxable

1 year shall be the amount determined in ac-
2 cordance with the following table:

“For taxable years beginning in:	The applicable amount is:
2002	\$6,000
2003	\$7,000
2004	\$8,000
2005	\$9,000
2006 and thereafter	\$10,000.”.

3 (b) INCREASE IN INCOME LIMITATION.—Clause (i) of
4 section 23(b)(2)(A) (relating to income limitation) is
5 amended by striking “\$75,000” and inserting
6 “\$150,000”.

7 (c) EXTENSION OF SUNSET.—Subparagraph (B) of
8 section 23(d)(2) (relating to eligible child) is amended by
9 striking “2001” and inserting “2005”.

10 (d) EFFECTIVE DATE.—The amendments made by
11 this section shall apply to taxable years beginning after
12 December 31, 2001.

13 **TITLE IV—CHARITABLE GIVING** 14 **TAX RELIEF**

15 **SEC. 401. DEDUCTION FOR PORTION OF CHARITABLE CON-** 16 **TRIBUTIONS TO BE ALLOWED TO INDIVID-** 17 **UALS WHO DO NOT ITEMIZE DEDUCTIONS.**

18 (a) IN GENERAL.—Subsection (b) of section 63 is
19 amended by striking “and” at the end of paragraph (1),
20 by striking the period at the end of paragraph (2) and
21 inserting “, and”, and by adding at the end the following:

1 “(3) the applicable percentage of the deduction
 2 provided by section 170 (relating to charitable, etc.,
 3 contributions and gifts), in an amount not to exceed
 4 the standard deduction.

5 For purposes of paragraph (3), the applicable percentage
 6 shall be determined under the following table:

“For taxable years beginning in calendar year:	The applicable percentage is:
2002	20
2003	40
2004	60
2005	80
2006 and thereafter	100.”.

7 (b) CONFORMING AMENDMENT.—Subsection (d) of
 8 section 63 is amended by striking “and” at the end of
 9 paragraph (1), by striking the period at the end of para-
 10 graph (2) and inserting “, and”, and by adding at the
 11 end thereof the following new paragraph:

12 “(3) the deduction provided by section 170 as
 13 determined under subsection (b)(3).”.

14 (c) EFFECTIVE DATE.—The amendments made by
 15 this section shall apply to taxable years beginning after
 16 December 31, 2001.

17 **SEC. 402. TAX-FREE DISTRIBUTIONS FROM INDIVIDUAL RE-**
 18 **TIREMENT ACCOUNTS FOR CHARITABLE**
 19 **PURPOSES.**

20 (a) IN GENERAL.—Subsection (d) of section 408 (re-
 21 lating to individual retirement accounts) is amended by
 22 adding at the end the following new paragraph:

1 “(8) DISTRIBUTIONS FOR CHARITABLE PUR-
2 POSES.—

3 “(A) IN GENERAL.—No amount shall be
4 includible in gross income by reason of a quali-
5 fied charitable distribution from an individual
6 retirement account to an organization described
7 in section 170(c).

8 “(B) QUALIFIED CHARITABLE DISTRIBUTION.—For purposes of this paragraph, the
9 term ‘qualified charitable distribution’ means
10 any distribution from an individual retirement
11 account—
12 account—

13 “(i) which is made on or after the
14 date that the individual for whose benefit
15 the account is maintained has attained age
16 59½, and

17 “(ii) which is made directly from the
18 account to an organization described in
19 section 170(c).

20 “(C) DENIAL OF DEDUCTION.—The
21 amount allowable as a deduction under section
22 170 to the taxpayer for the taxable year shall
23 be reduced (but not below zero) by the sum of
24 the amounts of the qualified charitable distribu-
25 tions during such year which would be includ-

1 ible in the gross income of the taxpayer for
2 such year but for this paragraph.”.

3 (b) **EFFECTIVE DATE.**—The amendment made by
4 this section shall apply to taxable years beginning after
5 December 31, 2001.

6 **SEC. 403. HIGHER LIMITATION ON CORPORATE CHARIT-**
7 **TABLE CONTRIBUTIONS.**

8 (a) **IN GENERAL.**—Paragraph (2) of section 170(b)
9 (relating to percentage limitations) is amended by striking
10 “10 percent” and inserting “15 percent”.

11 (b) **EFFECTIVE DATE.**—The amendment made by
12 this section shall apply to taxable years beginning after
13 December 31, 2001.

14 **TITLE V—MISCELLANEOUS TAX**
15 **RELIEF**

16 **SEC. 501. REPEAL OF 1993 INCOME TAX INCREASE ON SO-**
17 **CIAL SECURITY BENEFITS.**

18 (a) **REDUCTION OF INCREASE.**—Clause (i) of section
19 86(a)(2)(A) is amended by striking “85 percent” and in-
20 serting “85 percent (75 percent in the case of taxable
21 years beginning after 2001 and before 2009 and 50 per-
22 cent in the case of taxable years beginning before 2010)”.

23 (b) **RESTORATION OF PRIOR LAW FORMULA IN**
24 **2010.**—Subsection (a) of section 86 is amended to read
25 as follows:

1 “(a) IN GENERAL.—Gross income for the taxable
2 year of any taxpayer described in subsection (b) (notwith-
3 standing section 207 of the Social Security Act) includes
4 Social Security benefits in an amount equal to the lesser
5 of—

6 “(1) one-half of the Social Security benefits re-
7 ceived during the taxable year, or

8 “(2) one-half of the excess described in sub-
9 section (b)(1).”

10 (c) REPEAL OF ADJUSTED BASE AMOUNT.—Sub-
11 section (c) of section 86 is amended to read as follows:

12 “(c) BASE AMOUNT.—For purposes of this section,
13 the term ‘base amount’ means—

14 “(1) except as otherwise provided in this sub-
15 section, \$25,000,

16 “(2) \$32,000 in the case of a joint return, and

17 “(3) zero in the case of a taxpayer who—

18 “(A) is married as of the close of the tax-
19 able year (within the meaning of section 7703)
20 but does not file a joint return for such year,
21 and

22 “(B) does not live apart from his spouse at
23 all times during the taxable year.”

24 (d) CONFORMING AMENDMENTS.—

1 (1) Subparagraph (A) of section 871(a)(3) is
2 amended by striking “85 percent” and inserting “50
3 percent”.

4 (2)(A) Subparagraph (A) of section 121(e)(1)
5 of the Social Security Amendments of 1983 (Public
6 Law 98–21) is amended—

7 (i) by striking “(A) There” and inserting
8 “There”;

9 (ii) by striking “(i)” immediately following
10 “amounts equivalent to”; and

11 (iii) by striking “, less (ii)” and all that
12 follows and inserting a period.

13 (B) Paragraph (1) of section 121(e) of such Act
14 is amended by striking subparagraph (B).

15 (C) Paragraph (3) of section 121(e) of such Act
16 is amended by striking subparagraph (B) and by re-
17 designating subparagraph (C) as subparagraph (B).

18 (D) Paragraph (2) of section 121(e) of such
19 Act is amended in the first sentence by striking
20 “paragraph (1)(A)” and inserting “paragraph (1)”.

21 (e) EFFECTIVE DATE.—

22 (1) IN GENERAL.—Except as otherwise pro-
23 vided in this subsection, the amendments made by
24 this section shall apply to taxable years beginning
25 after December 31, 2009.

1 (2) SUBSECTION (a).—The amendment made
2 by subsection (a) shall apply to taxable years begin-
3 ning after December 31, 2001.

4 (3) SUBSECTION (c)(1).—The amendment made
5 by subsection (c)(1) shall apply to benefits paid after
6 December 31, 2009.

7 (4) SUBSECTION (c)(2).—The amendments
8 made by subsection (c)(2) shall apply to tax liabil-
9 ities for taxable years beginning after December 31,
10 2000.

11 (e) MAINTENANCE OF TRANSFERS TO HOSPITAL IN-
12 SURANCE TRUST FUND.—

13 (1) IN GENERAL.—There are hereby appro-
14 priated to the Hospital Insurance Trust Fund estab-
15 lished under section 1817 of the Social Security Act
16 amounts equal to the reduction in revenues to the
17 Treasury by reason of the enactment of this section.
18 Amounts appropriated by the preceding sentence
19 shall be transferred from the general fund at such
20 times and in such manner as to replicate to the ex-
21 tent possible the transfers which would have oc-
22 curred to such Trust Fund had this Act not been
23 enacted.

24 (2) REPORTS.—The Secretary of the Treasury
25 or the Secretary's delegate shall annually report to

1 the Committee on Ways and Means of the House of
2 Representatives and the Committee on Finance of
3 the Senate the amounts and timing of the transfers
4 under this section.

5 **SEC. 502. REPEAL OF FEDERAL COMMUNICATIONS EXCISE**
6 **TAX.**

7 (a) IN GENERAL.—Chapter 33 (relating to facilities
8 and services) is amended by striking subchapter B.

9 (b) CONFORMING AMENDMENTS.—

10 (1) Section 4293 is amended by striking “chap-
11 ter 32 (other than the taxes imposed by sections
12 4064 and 4121) and subchapter B of chapter 33,”
13 and inserting “and chapter 32 (other than the taxes
14 imposed by sections 4064 and 4121),”.

15 (2)(A) Paragraph (1) of section 6302(e) is
16 amended by striking “section 4251 or”.

17 (B) Paragraph (2) of section 6302(e) is amend-
18 ed by striking “imposed by—” and all that follows
19 through “with respect to” and inserting “imposed by
20 section 4261 or 4271 with respect to”.

21 (C) The subsection heading for section 6302(e)
22 is amended by striking “COMMUNICATIONS SERV-
23 ICES AND”.

1 (3) Section 6415 is amended by striking “4251,
2 4261, or 4271” each place it appears and inserting
3 “4261 or 4271”.

4 (4) Paragraph (2) of section 7871(a) is amend-
5 ed by inserting “or” at the end of subparagraph
6 (B), by striking subparagraph (C), and by redesignig-
7 nating subparagraph (D) as subparagraph (C).

8 (5) The table of subchapters for chapter 33 is
9 amended by striking the item relating to subchapter
10 B.

11 (d) EFFECTIVE DATES.—The amendments made by
12 this section shall apply to amounts paid pursuant to bills
13 first rendered after September 30, 2001.

14 **SEC. 503. DEDUCTION FOR 100 PERCENT OF HEALTH IN-**
15 **SURANCE COSTS OF SELF-EMPLOYED INDI-**
16 **VIDUALS.**

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

19 “(1) ALLOWANCE OF DEDUCTION.—In the case
20 of an individual who is an employee within the
21 meaning of section 401(c)(1), there shall be allowed
22 as a deduction under this section an amount equal
23 to 100 percent of the amount paid during the tax-
24 able year for insurance which constitutes medical

1 care for the taxpayer and the taxpayer's spouse and
2 dependents.”.

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

11 (c) EFFECTIVE DATE.—The amendments made by
12 this section shall apply to taxable years beginning after
13 December 31, 2001.

14 **SEC. 504. INCREASED DEDUCTION FOR MEAL EXPENSES.**

15 (a) IN GENERAL.—Paragraph (1) of section 274(n)
16 (relating to only 50 percent of meal and entertainment
17 expenses allowed as deduction) is amended by striking “50
18 percent” in the text and inserting “the allowable percent-
19 age”.

20 (b) ALLOWABLE PERCENTAGES.—Subsection (n) of
21 section 274 is amended by redesignating paragraphs (2)
22 and (3) as paragraphs (3) and (4), respectively, and by
23 inserting after paragraph (1) the following new paragraph:

24 “(2) ALLOWABLE PERCENTAGE.—For purposes
25 of paragraph (1), the allowable percentage is—

1 “(A) in the case of amounts for items de-
2 scribed in paragraph (1)(B), 50 percent, and

3 “(B) in the case of expenses for food or
4 beverages, 80 percent (60 percent for taxable
5 years beginning after 2001 and before 2010).”

6 (c) CONFORMING AMENDMENT.—The heading for
7 subsection (n) of section 274 is amended by striking “50
8 PERCENT” and inserting “LIMITED PERCENTAGES”.

9 (d) EFFECTIVE DATE.—

10 (1) The amendments made by this section shall
11 apply to taxable years beginning after December 31,
12 2002.

13 (2) Section 274(n)(2)(B) of the Internal Rev-
14 enue Code of 1986 (as added by subsection (b))
15 shall apply to expenses incurred after the date of the
16 enactment of this Act.

17 **SEC. 505. INCREASE IN EXPENSE TREATMENT FOR SMALL**
18 **BUSINESSES.**

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

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

1 (b) EFFECTIVE DATE.—The amendment made by
2 this section shall apply to taxable years beginning after
3 December 31, 2002.

4 **SEC. 506. INCOME AVERAGING FOR FARMERS AND FISHER-**
5 **MEN NOT TO INCREASE ALTERNATIVE MIN-**
6 **IMUM TAX LIABILITY.**

7 (a) IN GENERAL.—Section 55(c) (defining regular
8 tax) is amended by redesignating paragraph (2) as para-
9 graph (3) and by inserting after paragraph (1) the fol-
10 lowing:

11 “(2) COORDINATION WITH INCOME AVERAGING
12 FOR FARMERS AND FISHERMEN.—Solely for pur-
13 poses of this section, section 1301 (relating to aver-
14 aging of farm and fishing income) shall not apply in
15 computing the regular tax.”.

16 (b) ALLOWING INCOME AVERAGING FOR FISHER-
17 MEN.—

18 (1) IN GENERAL.—Section 1301(a) is amended
19 by striking “farming business” and inserting “farm-
20 ing business or fishing business,”.

21 (2) DEFINITION OF ELECTED FARM INCOME.—

22 (A) IN GENERAL.—Clause (i) of section
23 1301(b)(1)(A) is amended by inserting “or fish-
24 ing business” before the semicolon.

1 (B) CONFORMING AMENDMENT.—Subpara-
2 graph (B) of section 1301(b)(1) is amended by
3 inserting “or fishing business” after “farming
4 business” both places it occurs.

5 (3) DEFINITION OF FISHING BUSINESS.—Sec-
6 tion 1301(b) is amended by adding at the end the
7 following new paragraph:

8 “(4) FISHING BUSINESS.—The term ‘fishing
9 business’ means the conduct of commercial fishing
10 as defined in section 3 of the Magnuson-Stevens
11 Fishery Conservation and Management Act (16
12 U.S.C. 1802).”.

13 (c) EFFECTIVE DATE.—The amendments made by
14 this section shall apply to taxable years beginning after
15 December 31, 2002.

16 **SEC. 507. REPEAL OF OCCUPATIONAL TAXES RELATING TO**
17 **DISTILLED SPIRITS, WINE, AND BEER.**

18 (a) REPEAL OF OCCUPATIONAL TAXES.—

19 (1) IN GENERAL.—The following provisions of
20 part II of subchapter A of chapter 51 of the Internal
21 Revenue Code of 1986 (relating to occupational
22 taxes) are hereby repealed:

23 (A) Subpart A (relating to proprietors of
24 distilled spirits plants, bonded wine cellars,
25 etc.).

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

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

4 (D) Subpart E (relating to retail dealers)
5 (other than section 5124).

6 (E) Subpart G (relating to general provi-
7 sions) (other than sections 5142, 5143, 5145,
8 and 5146).

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

12 (3) INDUSTRIAL USE OF DISTILLED SPIRITS.—
13 Section 5276 is hereby repealed.

14 (b) CONFORMING AMENDMENTS.—

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

18 **“PART II—MISCELLANEOUS PROVISIONS**

“Subpart A. Manufacturers of stills.

“Subpart B. Nonbeverage domestic drawback claimants.

“Subpart C. Recordkeeping by dealers.

“Subpart D. Other provisions.”

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

“Part II. Miscellaneous provisions.”

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

4 (3)(A) Subpart F of such part II (relating to
5 nonbeverage domestic drawback claimants) is reded-
6 igned as subpart B and sections 5131 through
7 5134 are redesignated as sections 5111 through
8 5114, respectively.

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

11 (i) by redesignating the items relating to
12 sections 5131 through 5134 as relating to sec-
13 tions 5111 through 5114, respectively, and

14 (ii) by striking “and rate of tax” in the
15 item relating to section 5111, as so reded-
16 igned.

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

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

21 (ii) by striking “(a) ELIGIBILITY FOR
22 DRAWBACK.—”, and

23 (iii) by striking subsection (b).

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

4 **“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.”

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

8 (B) Section 5114 is amended—

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

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

12 and

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

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

18 **“(1) WHOLESALE DEALER IN LIQUORS.—**The
19 term ‘wholesale dealer in liquors’ means any dealer
20 (other than a wholesale dealer in beer) who sells, or
21 offers for sale, distilled spirits, wines, or beer, to an-
22 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 in section
9 5121(e))” 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)”, and

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:

**“For provisions requiring recordkeeping by
wholesale liquor dealers, see section 5112, and by
retail liquor dealers, see section 5122.”**

19 (15) Subsection (b) of section 5402 is amended
20 by striking “section 5092” and inserting “section
21 5052(d)”.

22 (16) Section 5671 is amended by striking “or
23 5091”.

1 (17)(A) Part V of subchapter J of chapter 51
2 is hereby repealed.

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

5 (18)(A) Sections 5142, 5143, and 5145 are
6 moved to subchapter D of chapter 52, inserted after
7 section 5731, redesignated as sections 5732, 5733,
8 and 5734, respectively, and amended—

9 (i) by striking “this part” each place it ap-
10 pears and inserting “this subchapter”, and

11 (ii) by striking “this subpart” in section
12 5732(c)(2) (as so redesignated) and inserting
13 “this subchapter”.

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

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 (21) The table of sections for subchapter D of
14 chapter 51 is amended by striking the item relating
15 to section 5276.

16 (c) EFFECTIVE DATE.—The amendments made by
17 this section shall take effect on July 1, 2002, but shall
18 not apply to taxes imposed for periods before such date.

19 **SEC. 508. PERMANENT EXTENSION OF RESEARCH CREDIT.**

20 (a) IN GENERAL.—Section 41 (relating to credit for
21 increasing research activities) is amended by striking sub-
22 section (h).

23 (b) CONFORMING AMENDMENT.—Paragraph (1) of
24 section 45C(b) is amended by striking subparagraph (D).

1 (c) EFFECTIVE DATE.—The amendments made by
2 this section shall apply to amounts paid or incurred after
3 the date of the enactment of this Act.

4 **SEC. 509. FARM, FISHING, AND RANCH RISK MANAGEMENT**
5 **ACCOUNTS.**

6 (a) IN GENERAL.—Subpart C of part II of sub-
7 chapter E of chapter 1 (relating to taxable year for which
8 deductions taken) is amended by inserting after section
9 468B the following new section:

10 **“SEC. 468C. FARM, FISHING, AND RANCH RISK MANAGE-**
11 **MENT ACCOUNTS.**

12 “(a) DEDUCTION ALLOWED.—In the case of an indi-
13 vidual engaged in an eligible farming business or commer-
14 cial fishing, there shall be allowed as a deduction for any
15 taxable year the amount paid in cash by the taxpayer dur-
16 ing the taxable year to a Farm, Fishing, and Ranch Risk
17 Management Account (hereinafter referred to as the
18 ‘FFARRM Account’).

19 “(b) LIMITATION.—

20 “(1) CONTRIBUTIONS.—The amount which a
21 taxpayer may pay into the FFARRM Account for
22 any taxable year shall not exceed 20 percent of so
23 much of the taxable income of the taxpayer (deter-
24 mined without regard to this section) which is at-
25 tributable (determined in the manner applicable

1 under section 1301) to any eligible farming business
2 or commercial fishing.

3 “(2) DISTRIBUTIONS.—Distributions from a
4 FFARRM Account may not be used to purchase,
5 lease, or finance any new fishing vessel, add capacity
6 to any fishery, or otherwise contribute to the over-
7 capitalization of any fishery. The Secretary of Com-
8 merce shall implement regulations to enforce this
9 paragraph.

10 “(c) ELIGIBLE BUSINESSES.—For purposes of this
11 section—

12 “(1) ELIGIBLE FARMING BUSINESS.—The term
13 ‘eligible farming business’ means any farming busi-
14 ness (as defined in section 263A(e)(4)) which is not
15 a passive activity (within the meaning of section
16 469(c)) of the taxpayer.

17 “(2) COMMERCIAL FISHING.—The term ‘com-
18 mercial fishing’ has the meaning given such term by
19 section (3) of the Magnuson-Stevens Fishery Con-
20 servation and Management Act (16 U.S.C. 1802)
21 but only if such fishing is not a passive activity
22 (within the meaning of section 469(c)) of the tax-
23 payer.

24 “(d) FFARRM ACCOUNT.—For purposes of this
25 section—

1 “(1) IN GENERAL.—The term ‘FFARRM Ac-
2 count’ means a trust created or organized in the
3 United States for the exclusive benefit of the tax-
4 payer, but only if the written governing instrument
5 creating the trust meets the following requirements:

6 “(A) No contribution will be accepted for
7 any taxable year in excess of the amount al-
8 lowed as a deduction under subsection (a) for
9 such year.

10 “(B) The trustee is a bank (as defined in
11 section 408(n)) or another person who dem-
12 onstrates to the satisfaction of the Secretary
13 that the manner in which such person will ad-
14 minister the trust will be consistent with the re-
15 quirements of this section.

16 “(C) The assets of the trust consist en-
17 tirely of cash or of obligations which have ade-
18 quate stated interest (as defined in section
19 1274(c)(2)) and which pay such interest not
20 less often than annually.

21 “(D) All income of the trust is distributed
22 currently to the grantor.

23 “(E) The assets of the trust will not be
24 commingled with other property except in a

1 common trust fund or common investment
2 fund.

3 “(2) ACCOUNT TAXED AS GRANTOR TRUST.—

4 The grantor of a FFARRM Account shall be treated
5 for purposes of this title as the owner of such Ac-
6 count and shall be subject to tax thereon in accord-
7 ance with subpart E of part I of subchapter J of
8 this chapter (relating to grantors and others treated
9 as substantial owners).

10 “(e) INCLUSION OF AMOUNTS DISTRIBUTED.—

11 “(1) IN GENERAL.—Except as provided in para-
12 graph (2), there shall be includible in the gross in-
13 come of the taxpayer for any taxable year—

14 “(A) any amount distributed from a
15 FFARRM Account of the taxpayer during such
16 taxable year, and

17 “(B) any deemed distribution under—

18 “(i) subsection (f)(1) (relating to de-
19 posits not distributed within 5 years),

20 “(ii) subsection (f)(2) (relating to ces-
21 sation in eligible farming business), and

22 “(iii) subparagraph (B) or (C) of sub-
23 section (f)(3) (relating to prohibited trans-
24 actions and pledging account as security).

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

3 “(A) any distribution to the extent attrib-
4 utable to income of the Account, and

5 “(B) the distribution of any contribution
6 paid during a taxable year to a FFARRM Ac-
7 count to the extent that such contribution ex-
8 ceeds the limitation applicable under subsection
9 (b) if requirements similar to the requirements
10 of section 408(d)(4) are met.

11 For purposes of subparagraph (A), distributions
12 shall be treated as first attributable to income and
13 then to other amounts.

14 “(f) SPECIAL RULES.—

15 “(1) TAX ON DEPOSITS IN ACCOUNT WHICH
16 ARE NOT DISTRIBUTED WITHIN 5 YEARS.—

17 “(A) IN GENERAL.—If, at the close of any
18 taxable year, there is a nonqualified balance in
19 any FFARRM Account—

20 “(i) there shall be deemed distributed
21 from such Account during such taxable
22 year an amount equal to such balance, and

23 “(ii) the taxpayer’s tax imposed by
24 this chapter for such taxable year shall be

1 increased by 10 percent of such deemed
2 distribution.

3 The preceding sentence shall not apply if an
4 amount equal to such nonqualified balance is
5 distributed from such Account to the taxpayer
6 before the due date (including extensions) for
7 filing the return of tax imposed by this chapter
8 for such year (or, if earlier, the date the tax-
9 payer files such return for such year).

10 “(B) NONQUALIFIED BALANCE.—For pur-
11 poses of subparagraph (A), the term ‘non-
12 qualified balance’ means any balance in the Ac-
13 count on the last day of the taxable year which
14 is attributable to amounts deposited in such Ac-
15 count before the 4th preceding taxable year.

16 “(C) ORDERING RULE.—For purposes of
17 this paragraph, distributions from a FFARRM
18 Account (other than distributions of current in-
19 come) shall be treated as made from deposits in
20 the order in which such deposits were made, be-
21 ginning with the earliest deposits.

22 “(2) CESSATION IN ELIGIBLE BUSINESS.—At
23 the close of the first disqualification period after a
24 period for which the taxpayer was engaged in an eli-
25 gible farming business or commercial fishing, there

1 shall be deemed distributed from the FFARRM Ac-
2 count of the taxpayer an amount equal to the bal-
3 ance in such Account (if any) at the close of such
4 disqualification period. For purposes of the pre-
5 ceding sentence, the term ‘disqualification period’
6 means any period of 2 consecutive taxable years for
7 which the taxpayer is not engaged in an eligible
8 farming business or commercial fishing.

9 “(3) CERTAIN RULES TO APPLY.—Rules similar
10 to the following rules shall apply for purposes of this
11 section:

12 “(A) Section 220(f)(8) (relating to treat-
13 ment on death).

14 “(B) Section 408(e)(2) (relating to loss of
15 exemption of account where individual engages
16 in prohibited transaction).

17 “(C) Section 408(e)(4) (relating to effect
18 of pledging account as security).

19 “(D) Section 408(g) (relating to commu-
20 nity property laws).

21 “(E) Section 408(h) (relating to custodial
22 accounts).

23 “(4) TIME WHEN PAYMENTS DEEMED MADE.—
24 For purposes of this section, a taxpayer shall be
25 deemed to have made a payment to a FFARRM Ac-

1 count on the last day of a taxable year if such pay-
2 ment is made on account of such taxable year and
3 is made on or before the due date (without regard
4 to extensions) for filing the return of tax for such
5 taxable year.

6 “(5) INDIVIDUAL.—For purposes of this sec-
7 tion, the term ‘individual’ shall not include an estate
8 or trust.

9 “(6) DEDUCTION NOT ALLOWED FOR SELF-EM-
10 PLOYMENT TAX.—The deduction allowable by reason
11 of subsection (a) shall not be taken into account in
12 determining an individual’s net earnings from self-
13 employment (within the meaning of section 1402(a))
14 for purposes of chapter 2.

15 “(g) REPORTS.—The trustee of a FFARRM Account
16 shall make such reports regarding such Account to the
17 Secretary and to the person for whose benefit the Account
18 is maintained with respect to contributions, distributions,
19 and such other matters as the Secretary may require
20 under regulations. The reports required by this subsection
21 shall be filed at such time and in such manner and fur-
22 nished to such persons at such time and in such manner
23 as may be required by such regulations.”.

24 (b) TAX ON EXCESS CONTRIBUTIONS.—

1 (1) Subsection (a) of section 4973 (relating to
2 tax on excess contributions to certain tax-favored ac-
3 counts and annuities) is amended by striking “or”
4 at the end of paragraph (3), by redesignating para-
5 graph (4) as paragraph (5), and by inserting after
6 paragraph (3) the following new paragraph:

7 “(4) a FFARRM Account (within the meaning
8 of section 468C(d)), or”.

9 (2) Section 4973 is amended by adding at the
10 end the following new subsection:

11 “(g) EXCESS CONTRIBUTIONS TO FFARRM AC-
12 COUNTS.—For purposes of this section, in the case of a
13 FFARRM Account (within the meaning of section
14 468C(d)), the term ‘excess contributions’ means the
15 amount by which the amount contributed for the taxable
16 year to the Account exceeds the amount which may be con-
17 tributed to the Account under section 468C(b) for such
18 taxable year. For purposes of this subsection, any con-
19 tribution which is distributed out of the FFARRM Ac-
20 count in a distribution to which section 468C(e)(2)(B) ap-
21 plies shall be treated as an amount not contributed.”.

22 (3) The section heading for section 4973 is
23 amended to read as follows:

1 **“SEC. 4973. EXCESS CONTRIBUTIONS TO CERTAIN AC-**
2 **COUNTS, ANNUITIES, ETC.”.**

3 (4) The table of sections for chapter 43 is
4 amended by striking the item relating to section
5 4973 and inserting the following new item:

“Sec. 4973. Excess contributions to certain accounts, annuities,
etc.”.

6 **(c) TAX ON PROHIBITED TRANSACTIONS.—**

7 (1) Subsection (c) of section 4975 (relating to
8 tax on prohibited transactions) is amended by add-
9 ing at the end the following new paragraph:

10 **“(6) SPECIAL RULE FOR FFARRM ACCOUNTS.—**

11 A person for whose benefit a FFARRM Account
12 (within the meaning of section 468C(d)) is estab-
13 lished shall be exempt from the tax imposed by this
14 section with respect to any transaction concerning
15 such account (which would otherwise be taxable
16 under this section) if, with respect to such trans-
17 action, the account ceases to be a FFARRM Ac-
18 count by reason of the application of section
19 468C(f)(3)(A) to such account.”.

20 (2) Paragraph (1) of section 4975(e) is amend-
21 ed by redesignating subparagraphs (E) and (F) as
22 subparagraphs (F) and (G), respectively, and by in-
23 serting after subparagraph (D) the following new
24 subparagraph:

1 “(E) a FFARRM Account described in
2 section 468C(d),”.

3 (d) FAILURE TO PROVIDE REPORTS ON FFARRM
4 ACCOUNTS.—Paragraph (2) of section 6693(a) (relating
5 to failure to provide reports on certain tax-favored ac-
6 counts or annuities) is amended by redesignating subpara-
7 graphs (C) and (D) as subparagraphs (D) and (E), re-
8 spectively, and by inserting after subparagraph (B) the
9 following new subparagraph:

10 “(C) section 468C(g) (relating to
11 FFARRM Accounts),”.

12 (e) CLERICAL AMENDMENT.—The table of sections
13 for subpart C of part II of subchapter E of chapter 1 is
14 amended by inserting after the item relating to section
15 468B the following new item:

 “Sec. 468C. Farm, Fishing and Ranch Risk Management Ac-
 counts.”.

16 (f) EFFECTIVE DATE.—The amendments made by
17 this section shall apply to taxable years beginning after
18 December 31, 2001.

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