

107TH CONGRESS
1ST SESSION

H. R. 1398

To amend the Internal Revenue Code of 1986 to provide individual income tax rate reductions, tax relief to families with children, marriage penalty relief, and to immediately eliminate the estate tax for two-thirds of all decedents currently subject to the estate tax.

IN THE HOUSE OF REPRESENTATIVES

APRIL 4, 2001

Mr. RANGEL (for himself, Mr. BONIOR, Mrs. MINK of Hawaii, Mr. PASTOR, Mr. SAWYER, Mr. McNULTY, Mr. PASCRELL, Mr. MATSUI, Mr. BARRETT, and Mr. LEVIN) 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 individual income tax rate reductions, tax relief to families with children, marriage penalty relief, and to immediately eliminate the estate tax for two-thirds of all decedents currently subject to the estate tax.

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 “Tax Reduction 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 **TITLE I—INDIVIDUAL INCOME**
12 **TAX RATE REDUCTIONS; EX-**
13 **PANSION OF EARNED INCOME**
14 **CREDIT ASSISTANCE**

15 **SEC. 101. INDIVIDUAL INCOME TAX RATE REDUCTIONS.**

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

18 “(i) 12 PERCENT RATE BRACKET.—

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

21 “(A) the rate of tax under subsections (a),
22 (b), (c), and (d) on taxable income not over the
23 initial bracket amount shall be 12 percent, and

1 “(B) the 15 percent rate of tax shall apply
2 only to taxable income over the initial bracket
3 amount.

4 “(2) INITIAL BRACKET AMOUNT.—For purposes
5 of this subsection—

6 “(A) IN GENERAL.—Except as provided in
7 subparagraph (B), the initial bracket amount
8 is—

9 “(i) \$20,000 in the case of subsection
10 (a),

11 “(ii) 80 percent of the dollar amount
12 in clause (i) in the case of subsection (b),
13 and

14 “(iii) 50 percent of the dollar amount
15 in clause (i) in the case of subsections (c)
16 and (d).

17 “(B) PHASEIN.—The initial bracket
18 amount is—

19 “(i) $\frac{1}{4}$ the amount otherwise applica-
20 ble under subparagraph (A) in the case of
21 taxable years beginning during 2001, and

22 “(ii) $\frac{1}{2}$ such amount otherwise appli-
23 cable under subparagraph (A) in the case
24 of taxable years beginning during 2002.

25 “(3) INFLATION ADJUSTMENT.—

1 “(A) IN GENERAL.—In the case of any
2 taxable year beginning in a calendar year after
3 2003, the \$20,000 amount under paragraph
4 (2)(A)(i) shall be increased by an amount equal
5 to—

6 “(i) such dollar amount, multiplied by

7 “(ii) the cost-of-living adjustment de-
8 termined under subsection (f)(3) for the
9 calendar year in which the taxable year be-
10 gins, determined by substituting ‘calendar
11 year 2002’ for ‘calendar year 1992’ in sub-
12 paragraph (B) thereof.

13 “(B) ROUNDING RULES.—If any amount
14 after adjustment under subparagraph (A) is not
15 a multiple of \$50, such amount shall be round-
16 ed to the next lowest multiple of \$50.

17 “(4) ADJUSTMENT OF TABLES.—The Secretary
18 shall adjust the tables prescribed under subsection
19 (f) to carry out this subsection.”

20 (b) ADJUSTMENT IN COMPUTATION OF ALTER-
21 NATIVE MINIMUM TAX.—Paragraph (2) of section 55(a)
22 is amended to read as follows:

23 “(2) the sum of—

24 “(A) the regular tax for the taxable year,
25 plus

1 (1) IN GENERAL.—Subsection (b) of section 32
2 is amended to read as follows:

3 “(b) PERCENTAGES AND AMOUNTS.—

4 “(1) PERCENTAGES.—The credit percentage,
5 the initial phaseout percentage, and the final phase-
6 out percentage shall be determined as follows:

“In the case of an eligible indi- vidual with:	The credit per- centage is:	The initial phaseout per- centage is:	The final phaseout per- centage is:
1 qualifying child	34	15.98	18.98
2 or more qualifying children	40	21.06	24.06
No qualifying children	7.65	7.65	7.65

7 “(2) AMOUNTS.—

8 “(A) IN GENERAL.—The earned income
9 amount and the initial phaseout amount shall
10 be determined as follows:

“In the case of an eligible individual with:	The earned in- come amount is:	The initial phaseout amount is:
1 qualifying child	\$8,140	\$13,470
2 or more qualifying children	\$11,120	\$13,470
No qualifying children	\$4,900	\$6,130.

11 In the case of a joint return where there is at
12 least 1 qualifying child, the initial phaseout
13 amount shall be \$2,500 greater than the
14 amount otherwise applicable under the pre-
15 ceding sentence.

1 “(B) FINAL PHASEOUT AMOUNT.—The
2 final phaseout amount is \$26,000 (\$28,500 in
3 the case of a joint return).”

4 (2) MODIFICATION OF COMPUTATION OF
5 PHASEOUT.—Paragraph (2) of section 32(a) is
6 amended to read as follows:

7 “(2) PHASEOUT OF CREDIT.—The amount of
8 the credit allowable to a taxpayer under paragraph
9 (1) for any taxable year shall be reduced (but not
10 below zero) by the sum of—

11 “(A) the initial phaseout percentage of so
12 much of the total income (or, if greater, the
13 earned income) of the taxpayer for the taxable
14 year as exceeds the initial phaseout amount but
15 does not exceed the final phaseout amount, plus

16 “(B) the final phaseout percentage of so
17 much of the total income (or, if greater, the
18 earned income) of the taxpayer for the taxable
19 year as exceeds the final phaseout amount.”

20 (3) TOTAL INCOME.—Paragraph (5) of section
21 32(c) is amended to read as follows:

22 “(5) TOTAL INCOME.—The term ‘total income’
23 means adjusted gross income determined without re-
24 gard to—

1 “(A) the deductions referred to in para-
2 graphs (6), (7), (9), (10), (15), (16), and (17)
3 of section 62(a),

4 “(B) the deduction allowed by section
5 162(l), and

6 “(C) the deduction allowed by section
7 164(f).”

8 (4) CONFORMING AMENDMENTS.—

9 (A) Subsection (j) of section 32 is amend-
10 ed to read as follows:

11 “(j) INFLATION ADJUSTMENT.—

12 “(1) IN GENERAL.—In the case of any taxable
13 year beginning after 2002, each of the dollar
14 amounts in subsection (b)(2) shall be increased by
15 an amount equal to—

16 “(A) such dollar amount, multiplied by

17 “(B) the cost-of-living adjustment deter-
18 mined under section 1(f)(3), for the calendar
19 year in which the taxable year begins, deter-
20 mined by substituting ‘calendar year 2001’ for
21 ‘calendar year 1992’ in subparagraph (B)
22 thereof.

23 “(2) ROUNDING.—If any dollar amount, after
24 being increased under paragraph (1), is not a mul-

1 tiple of \$10, such dollar amount shall be rounded to
2 the nearest multiple of \$10.”

3 (B) Subparagraph (C) of section 32(e)(1)
4 is amended by striking “modified adjusted
5 gross income” and inserting “total income”.

6 (C) Paragraph (2) of section 32(f) is
7 amended to read as follows:

8 “(2) REQUIREMENTS FOR TABLES.—

9 “(A) IN GENERAL.—The provisions of sub-
10 section (a)(1) and the provisions of subsection
11 (a)(2) shall be reflected in separate tables pre-
12 scribed under paragraph (1).

13 “(B) SUBSECTION (a)(1) TABLE.—The ta-
14 bles prescribed under paragraph (1) to reflect
15 the provisions of subsection (a)(1) shall have in-
16 come brackets of not greater than \$50 each for
17 earned income between \$0 and the earned in-
18 come amount.

19 “(C) SUBSECTION (a)(2) TABLE.—The ta-
20 bles prescribed under paragraph (1) to reflect
21 the provisions of subsection (a)(2) shall have in-
22 come brackets of not greater than \$50 each for
23 total income (or, if greater, the earned income)
24 above the initial phaseout threshold.”

1 (b) REPEAL OF DENIAL OF CREDIT WHERE INVEST-
2 MENT INCOME.—Section 32 is amended by striking sub-
3 section (i).

4 (c) EARNED INCOME TO INCLUDE ONLY AMOUNTS
5 INCLUDIBLE IN GROSS INCOME.—

6 (1) IN GENERAL.—Section 32(c)(2)(A)(i) (de-
7 fining earned income) is amended by inserting “, but
8 only if such amounts are includible in gross income
9 for the taxable year” after “other employee com-
10 pensation”.

11 (2) CONFORMING AMENDMENT.—Section
12 32(c)(2)(B) is amended by striking “and” at the end
13 of clause (iv), by striking the period at the end of
14 clause (v) and inserting “, and”, and by adding at
15 the end the following new clause:

16 “(vi) the requirement under subparagraph
17 (A)(i) that an amount be includible in
18 gross income shall not apply if such
19 amount is exempt from tax under section
20 7873 or is derived directly from restricted
21 and allotted land under the Act of Feb-
22 ruary 8, 1887 (commonly known as the In-
23 dian General Allotment Act) (25 U.S.C.
24 331 et seq.) or from land held under Acts
25 or treaties containing an exception provi-

1 sion similar to the Indian General Allot-
2 ment Act.”

3 (d) MODIFICATION OF JOINT RETURN REQUIRE-
4 MENT.—Subsection (d) of section 32 is amended to read
5 as follows:

6 “(d) MARRIED INDIVIDUALS.—

7 “(1) IN GENERAL.—If the taxpayer is married
8 at the close of the taxable year, the credit shall be
9 allowed under subsection (a) only if the taxpayer
10 and his spouse file a joint return for the taxable
11 year.

12 “(2) MARITAL STATUS.—For purposes of para-
13 graph (1), an individual legally separated from his
14 spouse under a decree of divorce or of separate
15 maintenance shall not be considered as married.

16 “(3) CERTAIN MARRIED INDIVIDUALS LIVING
17 APART.—For purposes of paragraph (1), if—

18 “(A) an individual —

19 “(i) is married and files a separate re-
20 turn, and

21 “(ii) has a qualifying child who is a
22 son, daughter, stepson, or stepdaughter of
23 such individual, and

24 “(B) during the last 6 months of such tax-
25 able year, such individual and such individual’s

1 spouse do not have the same principal place of
2 abode,

3 such individual shall not be considered as married.”

4 (e) EXPANSION OF MATHEMATICAL ERROR AUTHOR-
5 ITY.—Paragraph (2) of section 6213(g) is amended by
6 striking “and” at the end of subparagraph (K), by striking
7 the period at the end of subparagraph (L) and inserting
8 “, and”, and by inserting after subparagraph (L) the fol-
9 lowing new subparagraph:

10 “(M) the entry on the return claiming the
11 credit under section 32 with respect to a child
12 if, according to the Federal Case Registry of
13 Child Support Orders established under section
14 453(h) of the Social Security Act, the taxpayer
15 is a noncustodial parent of such child.”

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

19 **TITLE II—MARRIAGE PENALTY** 20 **RELIEF**

21 **SEC. 201. MARRIAGE PENALTY RELIEF.**

22 (a) STANDARD DEDUCTION.—

23 (1) IN GENERAL.—Paragraph (2) of section
24 63(c) (relating to standard deduction) is amended—

1 (A) by striking “\$5,000” in subparagraph
2 (A) and inserting “twice the dollar amount in
3 effect under subparagraph (C) for the taxable
4 year”,

5 (B) by adding “or” at the end of subpara-
6 graph (B),

7 (C) by striking “in the case of” and all
8 that follows in subparagraph (C) and inserting
9 “in any other case.”, and

10 (D) by striking subparagraph (D).

11 (2) INCREASE ALLOWED AS DEDUCTION IN DE-
12 TERMINING MINIMUM TAX.—Subparagraph (E) of
13 section 56(b)(1) is amended by adding at the end
14 the following new sentence: “The preceding sentence
15 shall not apply to so much of the standard deduction
16 under subparagraph (A) of section 63(c)(2) as ex-
17 ceeds the amount which would be such deduction but
18 for the amendment made by section 201(a)(1) of the
19 Tax Reduction Act of 2001.

20 (3) TECHNICAL AMENDMENTS.—

21 (A) Subparagraph (B) of section 1(f)(6) is
22 amended by striking “(other than with” and all
23 that follows through “shall be applied” and in-
24 serting “(other than with respect to sections
25 63(c)(4) and 151(d)(4)(A)) shall be applied”.

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

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

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

9 **TITLE III—ESTATE TAX RELIEF**

10 **SEC. 301. INCREASE IN EXEMPTION EQUIVALENT OF UNI-** 11 **FIED CREDIT.**

12 (a) IN GENERAL.—Subsection (c) of section 2010
 13 (relating to applicable credit amount) is amended by strik-
 14 ing the table and inserting the following new table:

“In the case of estates of decedents dying, and gifts made, during:	The applicable exclusion amount is:
2002	\$2,000,000
2003 and 2004	\$2,100,000
2005 and 2006	\$2,200,000
2007 and 2008	\$2,300,000
2009	\$2,400,000
2010 or thereafter	\$2,500,000.”

15 (b) REPEAL OF SPECIAL BENEFIT FOR FAMILY-
 16 OWNED BUSINESS INTERESTS.—

17 (1) Section 2057 is hereby repealed.

18 (2) Paragraph (10) of section 2031(c) is
 19 amended by inserting “(as in effect on the day be-
 20 fore the date of the enactment of this parenthet-
 21 ical)” before the period.

1 legacy, or succession taxes actually paid to any State or
2 the District of Columbia, in respect of any property in-
3 cluded in the gross estate (not including any such taxes
4 paid with respect to the estate of a person other than the
5 decedent).

6 “(b) PERIOD OF LIMITATIONS.—The deduction al-
7 lowed by this section shall include only such taxes as were
8 actually paid and deduction therefor claimed within 4
9 years after the filing of the return required by section
10 6018, except that—

11 “(1) If a petition for redetermination of a defi-
12 ciency has been filed with the Tax Court within the
13 time prescribed in section 6213(a), then within such
14 4-year period or before the expiration of 60 days
15 after the decision of the Tax Court becomes final.

16 “(2) If, under section 6161 or 6166, an exten-
17 sion of time has been granted for payment of the tax
18 shown on the return, or of a deficiency, then within
19 such 4-year period or before the date of the expira-
20 tion of the period of the extension.

21 “(3) If a claim for refund or credit of an over-
22 payment of tax imposed by this chapter has been
23 filed within the time prescribed in section 6511, then
24 within such 4-year period or before the expiration of
25 60 days from the date of mailing by certified mail

1 or registered mail by the Secretary to the taxpayer
2 of a notice of the disallowance of any part of such
3 claim, or before the expiration of 60 days after a de-
4 cision by any court of competent jurisdiction be-
5 comes final with respect to a timely suit instituted
6 upon such claim, whichever is later.

7 Refund based on the deduction may (despite the provisions
8 of sections 6511 and 6512) be made if claim therefor is
9 filed within the period above provided. Any such refund
10 shall be made without interest.”

11 (c) CONFORMING AMENDMENTS.—

12 (1) Subsection (a) of section 2012 is amended
13 by striking “the credit for State death taxes pro-
14 vided by section 2011 and”.

15 (2) Subparagraph (A) of section 2013(c)(1) is
16 amended by striking “2011,”.

17 (3) Paragraph (2) of section 2014(b) is amend-
18 ed by striking “, 2011,”.

19 (4) Sections 2015 and 2016 are each amended
20 by striking “2011 or”.

21 (5) Subsection (d) of section 2053 is amended
22 to read as follows:

23 “(d) CERTAIN FOREIGN DEATH TAXES.—

24 “(1) IN GENERAL.—Notwithstanding the provi-
25 sions of subsection (c)(1)(B) of this section, for pur-

1 poses of the tax imposed by section 2001, the value
2 of the taxable estate may be determined, if the ex-
3 ecutor so elects before the expiration of the period
4 of limitation for assessment provided in section
5 6501, by deducting from the value of the gross es-
6 tate the amount (as determined in accordance with
7 regulations prescribed by the Secretary) of any es-
8 tate, succession, legacy, or inheritance tax imposed
9 by and actually paid to any foreign country, in re-
10 spect of any property situated within such foreign
11 country and included in the gross estate of a citizen
12 or resident of the United States, upon a transfer by
13 the decedent for public, charitable, or religious uses
14 described in section 2055. The determination under
15 this paragraph of the country within which property
16 is situated shall be made in accordance with the
17 rules applicable under subchapter B (sec. 2101 and
18 following) in determining whether property is situ-
19 ated within or without the United States. Any elec-
20 tion under this paragraph shall be exercised in ac-
21 cordance with regulations prescribed by the Sec-
22 retary.

23 “(2) CONDITION FOR ALLOWANCE OF DEDUC-
24 TION.—No deduction shall be allowed under para-
25 graph (1) for a foreign death tax specified therein

1 unless the decrease in the tax imposed by section
2 2001 which results from the deduction provided in
3 paragraph (1) will inure solely for the benefit of the
4 public, charitable, or religious transferees described
5 in section 2055 or section 2106(a)(2). In any case
6 where the tax imposed by section 2001 is equitably
7 apportioned among all the transferees of property
8 included in the gross estate, including those de-
9 scribed in sections 2055 and 2106(a)(2) (taking into
10 account any exemptions, credits, or deductions al-
11 lowed by this chapter), in determining such decrease,
12 there shall be disregarded any decrease in the Fed-
13 eral estate tax which any transferees other than
14 those described in sections 2055 and 2106(a)(2) are
15 required to pay.

16 “(3) EFFECT ON CREDIT FOR FOREIGN DEATH
17 TAXES OF DEDUCTION UNDER THIS SUBSECTION.—

18 “(A) ELECTION.—An election under this
19 subsection shall be deemed a waiver of the right
20 to claim a credit, against the Federal estate
21 tax, under a death tax convention with any for-
22 eign country for any tax or portion thereof in
23 respect of which a deduction is taken under this
24 subsection.

1 “(B) CROSS REFERENCE.—

“See section 2014(f) for the effect of a deduction taken under this paragraph on the credit for foreign death taxes.”

2 (6) Subparagraph (A) of section 2056A(b)(10)
3 is amended—

4 (A) by striking “2011,” and

5 (B) by inserting “2058,” after “2056,”.

6 (7)(A) Subsection (a) of section 2102 is amend-
7 ed to read as follows:

8 “(a) IN GENERAL.—The tax imposed by section 2101
9 shall be credited with the amounts determined in accord-
10 ance with sections 2012 and 2013 (relating to gift tax and
11 tax on prior transfers).”

12 (B) Section 2102 is amended by striking sub-
13 section (b) and by redesignating subsection (c) as
14 subsection (b).

15 (C) Section 2102(b)(5) (as redesignated by sub-
16 paragraph (B)) and section 2107(c)(3) are each
17 amended by striking “2011 to 2013, inclusive,” and
18 inserting “2012 and 2013”.

19 (8) Subsection (a) of section 2106 is amended
20 by adding at the end the following new paragraph:

21 “(4) STATE DEATH TAXES.—The amount which
22 bears the same ratio to the State death taxes as the
23 value of the property, as determined for purposes of
24 this chapter, upon which State death taxes were paid

1 and which is included in the gross estate under sec-
2 tion 2103 bears to the value of the total gross estate
3 under section 2103. For purposes of this paragraph,
4 the term ‘State death taxes’ means the taxes de-
5 scribed in section 2011(a).”

6 (9) Section 2201 is amended—

7 (A) by striking “as defined in section
8 2011(d)”, and

9 (B) by adding at the end the following new
10 flush sentence:

11 “For purposes of this section, the additional estate tax
12 is the difference between the tax imposed by section 2001
13 or 2101 and the amount equal to 125 percent of the max-
14 imum credit provided by section 2011(b), as in effect be-
15 fore its repeal by the Tax Reduction Act of 2001.”

16 (10) Paragraph (2) of section 6511(i) is amend-
17 ed by striking “2011(c), 2014(b),” and inserting
18 “2014(b)”.

19 (11) Subsection (c) of section 6612 is amended
20 by striking “section 2011(c) (relating to refunds due
21 to credit for State taxes),”.

22 (12) The table of sections for part II of sub-
23 chapter A of chapter 11 is amended by striking the
24 item relating to section 2011.

1 (13) The table of sections for part IV of sub-
 2 chapter A of chapter 11 is amended by adding at
 3 the end the following new item:

 “Sec. 2058. State death taxes.”

4 (d) EFFECTIVE DATE.—The amendments made by
 5 this section shall apply to estates of decedents dying after
 6 December 31, 2001.

7 **SEC. 303. VALUATION RULES FOR CERTAIN TRANSFERS OF**
 8 **NONBUSINESS ASSETS; LIMITATION ON MI-**
 9 **NORITY DISCOUNTS.**

10 (a) IN GENERAL.—Section 2031 (relating to defini-
 11 tion of gross estate) is amended by redesignating sub-
 12 section (d) as subsection (f) and by inserting after sub-
 13 section (c) the following new subsections:

14 “(d) VALUATION RULES FOR CERTAIN TRANSFERS
 15 OF NONBUSINESS ASSETS.—For purposes of this chapter
 16 and chapter 12—

17 “(1) IN GENERAL.—In the case of the transfer
 18 of any interest in an entity other than an interest
 19 which is actively traded (within the meaning of sec-
 20 tion 1092)—

21 “(A) the value of any nonbusiness assets
 22 held by the entity shall be determined as if the
 23 transferor had transferred such assets directly
 24 to the transferee (and no valuation discount

1 shall be allowed with respect to such nonbusi-
2 ness assets), and

3 “(B) the nonbusiness assets shall not be
4 taken into account in determining the value of
5 the interest in the entity.

6 “(2) NONBUSINESS ASSETS.—For purposes of
7 this subsection—

8 “(A) IN GENERAL.—The term ‘nonbusi-
9 ness asset’ means any asset which is not used
10 in the active conduct of 1 or more trades or
11 businesses.

12 “(B) EXCEPTION FOR CERTAIN PASSIVE
13 ASSETS.—Except as provided in subparagraph
14 (C), a passive asset shall not be treated for pur-
15 poses of subparagraph (A) as used in the active
16 conduct of a trade or business unless—

17 “(i) the asset is property described in
18 paragraph (1) or (4) of section 1221(a) or
19 is a hedge with respect to such property,
20 or

21 “(ii) the asset is real property used in
22 the active conduct of 1 or more real prop-
23 erty trades or businesses (within the mean-
24 ing of section 469(c)(7)(C)) in which the
25 transferor materially participates and with

1 respect to which the transferor meets the
2 requirements of section 469(c)(7)(B)(ii).

3 For purposes of clause (ii), material participa-
4 tion shall be determined under the rules of sec-
5 tion 469(h), except that section 469(h)(3) shall
6 be applied without regard to the limitation to
7 farming activity.

8 “(C) EXCEPTION FOR WORKING CAP-
9 ITAL.—Any asset (including a passive asset)
10 which is held as a part of the reasonably re-
11 quired working capital needs of a trade or busi-
12 ness shall be treated as used in the active con-
13 duct of a trade or business.

14 “(3) PASSIVE ASSET.—For purposes of this
15 subsection, the term ‘passive asset’ means any—

16 “(A) cash or cash equivalents,

17 “(B) except to the extent provided by the
18 Secretary, stock in a corporation or any other
19 equity, profits, or capital interest in any entity,

20 “(C) evidence of indebtedness, option, for-
21 ward or futures contract, notional principal con-
22 tract, or derivative,

23 “(D) asset described in clause (iii), (iv), or
24 (v) of section 351(e)(1)(B),

25 “(E) annuity,

1 “(F) real property used in 1 or more real
2 property trades or businesses (as defined in sec-
3 tion 469(e)(7)(C)),

4 “(G) asset (other than a patent, trade-
5 mark, or copyright) which produces royalty in-
6 come,

7 “(H) commodity,

8 “(I) collectible (within the meaning of sec-
9 tion 401(m)), or

10 “(J) any other asset specified in regula-
11 tions prescribed by the Secretary.

12 “(4) LOOK-THRU RULES.—

13 “(A) IN GENERAL.—If a nonbusiness asset
14 of an entity consists of a 10-percent interest in
15 any other entity, this subsection shall be ap-
16 plied by disregarding the 10-percent interest
17 and by treating the entity as holding directly its
18 ratable share of the assets of the other entity.
19 This subparagraph shall be applied successively
20 to any 10-percent interest of such other entity
21 in any other entity.

22 “(B) 10-PERCENT INTEREST.—The term
23 ‘10-percent interest’ means—

24 “(i) in the case of an interest in a cor-
25 poration, ownership of at least 10 percent

1 (by vote or value) of the stock in such cor-
2 poration,

3 “(ii) in the case of an interest in a
4 partnership, ownership of at least 10 per-
5 cent of the capital or profits interest in the
6 partnership, and

7 “(iii) in any other case, ownership of
8 at least 10 percent of the beneficial inter-
9 ests in the entity.

10 “(5) COORDINATION WITH SUBSECTION (b).—

11 Subsection (b) shall apply after the application of
12 this subsection.

13 “(e) LIMITATION ON MINORITY DISCOUNTS.—For
14 purposes of this chapter and chapter 12, in the case of
15 the transfer of any interest in an entity other than an in-
16 terest which is actively traded (within the meaning of sec-
17 tion 1092), no discount shall be allowed by reason of the
18 fact that the transferee does not have control of such enti-
19 ty if the transferee and members of the family (as defined
20 in section 2032A(e)(2)) of the transferee have control of
21 such entity.”

22 (b) EFFECTIVE DATE.—The amendments made by
23 this section shall apply to transfers after the date of the
24 enactment of this Act.

1 **SEC. 304. EXPANSION OF ESTATE TAX RULE FOR CON-**
2 **SERVATION EASEMENTS.**

3 (a) **REPEAL OF LOCATION REQUIREMENT.**—Sub-
4 paragraph (A) of section 2031(c)(8) (defining land subject
5 to a conservation easement) is amended by striking clause
6 (i) and redesignating clauses (ii) and (iii) as clauses (i)
7 and (ii), respectively.

8 (b) **CLARIFICATION OF DATE FOR DETERMINING**
9 **VALUE OF LAND AND EASEMENT.**—Section 2031(c)(2)
10 (defining applicable percentage) is amended by adding at
11 the end the following new sentence: “The values taken into
12 account under the preceding sentence shall be such values
13 as of the date of the contribution referred to in paragraph
14 (8)(B).”.

15 (c) **EFFECTIVE DATE.**—The amendments made by
16 this section shall apply to estates of decedents dying after
17 December 31, 2000.

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