To amend the Internal Revenue Code of 1986 and to extend the financing for the Airport and Airway Trust Fund, and for other purposes.

Be it enacted by the Senate and House of Representatives of the United States of America in Congress assembled,

SECTION 1. SHORT TITLE, ETC.

(a) Short Title.—This Act may be cited as the “American Infrastructure Investment and Improvement Act of 2007”.

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, ETC.
4 (a) Short Title.—This Act may be cited as the
5 “American Infrastructure Investment and Improvement
6 Act of 2007”.
(b) Amendment of 1986 Code.—Except as otherwise expressly provided, whenever in this Act an amendment or repeal is expressed in terms of an amendment to, or repeal of, a section or other provision, the reference shall be considered to be made to a section or other provision of the Internal Revenue Code of 1986.

e) Table of Contents.—The table of contents for this Act is as follows:

Sec. 1. Short title, etc.

TITLE I—AIRPORT AND AIRWAY TRUST FUND PROVISIONS AND RELATED TAXES

Sec. 101. Extension of taxes funding Airport and Airway Trust Fund.
Sec. 102. Extension of Airport and Airway Trust Fund expenditure authority.
Sec. 103. Modification of excise tax on kerosene used in aviation .
Sec. 104. Increase in tax on use of international air facilities.
Sec. 105. Air Traffic Control System Modernization Account.
Sec. 106. Treatment of fractional aircraft ownership programs.
Sec. 107. Termination of exemption for small aircraft on nonestablished lines.
Sec. 108. Transparency in passenger tax disclosures.
Sec. 109. Required funding of new accruals under air carrier pension plans.

TITLE II—INCREASED FUNDING FOR HIGHWAY TRUST FUND

Sec. 201. Replenish emergency spending from Highway Trust Fund.
Sec. 202. Suspension of transfers from highway trust fund for certain repayments and credit.
Sec. 203. Taxation of taxable fuels in foreign trade zones.
Sec. 204. Clarification of penalty for sale of fuel failing to meet EPA regulations.
Sec. 205. Treatment of qualified alcohol fuel mixtures and qualified biodiesel fuel mixtures as taxable fuels.
Sec. 206. Calculation of volume of alcohol for fuel credits.
Sec. 207. Bulk transfer exception not to apply to finished gasoline.
Sec. 208. Increase and extension of Oil Spill Liability Trust Fund tax.
Sec. 211. Fuel technical corrections.
Sec. 212. Motor fuel tax enforcement advisory commission.
Sec. 213. Highway Trust Fund conforming expenditure amendment.

TITLE III—ADDITIONAL INFRASTRUCTURE MODIFICATIONS AND REVENUE PROVISIONS
Sec. 301. Restructuring of New York Liberty Zone tax credits.
Sec. 302. Participants in government section 457 plans allowed to treat elective deferrals as Roth contributions.
Sec. 303. Increased information return penalties.
Sec. 304. Exemption of certain commercial cargo from harbor maintenance tax.
Sec. 305. Credit to holders of qualified rail infrastructure bonds.
Sec. 306. Repeal of suspension of certain penalties and interest.
Sec. 307. Denial of deduction for certain fines, penalties, and other amounts.
Sec. 308. Revision of tax rules on expatriation.

TITLE I—AIRPORT AND AIRWAY TRUST FUND PROVISIONS AND RELATED TAXES

SEC. 101. EXTENSION OF TAXES FUNDING AIRPORT AND AIRWAY TRUST FUND.

(a) FUEL TAXES.—Subparagraph (B) of section 4081(d)(2) is amended by striking “September 30, 2007” and inserting “September 30, 2011”.

(b) TICKET TAXES.—

(1) PERSONS.—Clause (ii) of section 4261(j)(1)(A) is amended by striking “September 30, 2007” and inserting “September 30, 2011”.

(2) PROPERTY.—Clause (ii) of section 4271(d)(1)(A) is amended by striking “September 30, 2007” and inserting “September 30, 2011”.

(c) EFFECTIVE DATE.—The amendments made by this section shall take effect on October 1, 2007.

SEC. 102. EXTENSION OF AIRPORT AND AIRWAY TRUST FUND EXPENDITURE AUTHORITY.

(a) IN GENERAL.—Paragraph (1) of section 9502(d) is amended—
(1) by striking “October 1, 2007” in the matter preceding subparagraph (A) and inserting “October 1, 2011”, and

(2) by striking the semicolon at the end of subparagraph (A) and inserting “or the Aviation Investment and Modernization Act of 2007;”.

(b) CONFORMING AMENDMENT.—Paragraph (2) of section 9502(f) is amended by striking “October 1, 2007” and inserting “October 1, 2011”.

(c) EFFECTIVE DATE.—The amendments made by this section shall take effect on October 1, 2007.

SEC. 103. MODIFICATION OF EXCISE TAX ON KEROSENE USED IN AVIATION.

(a) RATE OF TAX ON AVIATION-GRADE KEROSENE.—

(1) IN GENERAL.—Subparagraph (A) of section 4081(a)(2) (relating to rates of tax) is amended by striking “and” at the end of clause (ii), by striking the period at the end of clause (iii) and inserting “, and”, and by adding at the end the following new clause:

“(iv) in the case of aviation-grade kerosene, 35.9 cents per gallon.”.

(2) FUEL REMOVED DIRECTLY INTO FUEL TANK OF AIRPLANE USED IN NONCOMMERCIAL AVIA-
TION.—Subparagraph (C) of section 4081(a)(2) is amended to read as follows:

“(C) TAXES IMPOSED ON FUEL USED IN COMMERCIAL AVIATION.—In the case of aviation-grade kerosene which is removed from any refinery or terminal directly into the fuel tank of an aircraft for use in commercial aviation by a person registered for such use under section 4101, the rate of tax under subparagraph (A)(iv) shall be 4.3 cents per gallon.”.

(3) EXEMPTION FOR AVIATION-GRADE KEROSENE REMOVED INTO AN AIRCRAFT.—Subsection (e) of section 4082 is amended—

(A) by striking “kerosene” and inserting “aviation-grade kerosene”,

(B) by striking “section 4081(a)(2)(A)(iii)” and inserting “section 4081(a)(2)(A)(iv)”, and

(C) by striking “KEROSENE” in the heading and inserting “AVIATION-GRADE KEROSENE”.

(4) CONFORMING AMENDMENTS.—

(A) Clause (iii) of section 4081(a)(2)(A) is amended by inserting “other than aviation-grade kerosene” after “kerosene”.

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(B) The following provisions are each amended by striking “kerosene” and inserting “aviation-grade kerosene”:

(i) Section 4081(a)(3)(A)(ii).

(ii) Section 4081(a)(3)(A)(iv).

(iii) Section 4081(a)(3)(D).

(C) Section 4081(a)(3)(D) is amended—

(i) by striking “paragraph (2)(C)(i)” in clause (i) and inserting “paragraph (2)(C)(i)”, and

(ii) by striking “paragraph (2)(C)(ii)” in clause (ii) and inserting “paragraph (2)(A)(iv)”.

(D) Section 4081(a)(4) is amended—

(i) in the heading by striking “KEROSENE” and inserting “AVIATION-GRADE KEROSENE”, and

(ii) by striking “paragraph (2)(C)(i)” and inserting “paragraph (2)(C)”.

(E) Section 4081(d)(2) is amended by striking “(a)(2)(C)(ii)” and inserting “(a)(2)(A)(iv)”.

(b) RETAIL TAX ON AVIATION FUEL.—

(1) EXEMPTION FOR PREVIOUSLY TAXED FUEL.—Paragraph (2) of section 4041(e) is amend-
ed by inserting “at the rate specified in subsection (a)(2)(A)(iv) thereof” after “section 4081”.

(2) RATE OF TAX.—Paragraph (3) of section 4041(c) is amended to read as follows:

“(3) RATE OF TAX.—The rate of tax imposed by this subsection shall be the rate of tax in effect under section 4081(a)(2)(A)(iv) (4.3 cents per gallon with respect to any sale or use for commercial aviation).”.

(c) REFUNDS RELATING TO AVIATION-GRADE KEROSENE.—

(1) KEROSENE USED IN COMMERCIAL AVIATION.—Clause (ii) of section 6427(l)(4)(A) is amended by striking “specified in section 4041(c) or 4081(a)(2)(A)(iii), as the case may be,” and inserting “so imposed”.

(2) KEROSENE USED IN AVIATION.—Paragraph (4) of section 6427(l) is amended—

(A) by striking subparagraph (B) and redesignating subparagraph (C) as subparagraph (B), and
(B) by amending subparagraph (B), as redesignated by subparagraph (A), to read as follows:
“(B) Payments to ultimate, registered vendor.—With respect to any kerosene used in aviation (other than kerosene to which paragraph (6) applies), if the ultimate purchaser of such kerosene waives (at such time and in such form and manner as the Secretary shall prescribe) the right to payment under paragraph (1) and assigns such right to the ultimate vendor, then the Secretary shall pay (without interest) the amount which would be paid under paragraph (1) to such ultimate vendor, but only if such ultimate vendor—

“(i) is registered under section 4101, and

“(ii) meets the requirements of subparagraph (A), (B), or (D) of section 6416(a)(1).”.

(3) Aviation-grade kerosene not used in aviation.—Subsection (l) of section 6427 is amended by redesignating paragraph (5) as paragraph (6) and by inserting after paragraph (4) the following new paragraph:

“(5) Refunds for aviation-grade kerosene not used in aviation.—If tax has been imposed under section 4081 at the rate specified in
section 4081(a)(2)(A)(iv) and the fuel is used other
than in an aircraft, the Secretary shall pay (without
interest) to the ultimate purchaser of such fuel an
amount equal to the amount of tax imposed on such
fuel reduced by the amount of tax that would be im-
posed under section 4041 if no tax under section
4081 had been imposed.”.

(4) CONFORMING AMENDMENTS.—

(A) Section 4082(d)(2)(B) is amended by
striking “6427(l)(5)(B)” and inserting
“6427(l)(6)(B)”.

(B) Section 6427(i)(4) is amended—

(i) by striking “(4)(C)” the first two
places it occurs and inserting “(4)(B)”,
and

(ii) by striking “, (l)(4)(C)(ii), and”
and inserting “and”.

(C) The heading of section 6427(l) is
amended by striking “DIESEL FUEL AND KER-
oSENE” and inserting “DIESEL FUEL, KER-
oSENE, AND AVIATION FUEL”.

(D) Section 6427(l)(1) is amended by
striking “paragraph (4)(C)(i)” and inserting
“paragraph (4)(B)”.

(E) Section 6427(l)(4) is amended—
(i) by striking “KEROSENE USED IN AVIATION” in the heading and inserting “AVIATION-GRADE KEROSENE USED IN COMMERCIAL AVIATION”, and

(ii) in subparagraph (A)—

(I) by striking “kerosene” and inserting “aviation-grade kerosene”,

(II) by striking “KEROSENE USED IN COMMERCIAL AVIATION” in the heading and inserting “IN GENERAL”.

(d) TRANSFERS TO THE AIRPORT AND AIRWAY TRUST FUND.—

(1) IN GENERAL.—Subparagraph (C) of section 9502(b)(1) is amended to read as follows:

“(C) section 4081 with respect to aviation gasoline and aviation-grade kerosene, and”.

(2) TRANSFERS ON ACCOUNT OF CERTAIN REFUNDS.—

(A) IN GENERAL.—Subsection (d) of section 9502 is amended—

(i) in paragraph (2) by striking “(other than subsection (l)(4) thereof)”,

and
(ii) in paragraph (3) by striking ``(other than payments made by reason of paragraph (4) of section 6427(l))''.

(B) CONFORMING AMENDMENTS.—

(i) Section 9503(b)(4) is amended by striking ``or'' at the end of subparagraph (C), by striking the period at the end of subparagraph (D) and inserting a comma, and by inserting after subparagraph (D) the following:

``(E) section 4081 to the extent attributable to the rate specified in clause (ii) or (iv) of section 4081(a)(2)(A), or

(F) section 4041(c).''.

(ii) Section 9503(c) is amended by striking the last paragraph (relating to transfers from the Trust Fund for certain aviation fuel taxes).

(iii) Section 9502(a) is amended—

(I) by striking ``appropriated, credited, or paid into'' and inserting ``appropriated or credited to'', and

(II) by striking ``, section 9503(c)(7),''.
(c) Effective Date.—The amendments made by this section shall apply to fuels removed, entered, or sold after December 31, 2007.

(f) Floor Stocks Tax.—

(1) Imposition of Tax.—In the case of aviation fuel which is held on January 1, 2008, by any person, there is hereby imposed a floor stocks tax on aviation fuel equal to—

(A) the tax which would have been imposed before such date on such fuel had the amendments made by this section been in effect at all times before such date, reduced by

(B) the sum of—

(i) the tax imposed before such date on such fuel under section 4081 of the Internal Revenue Code of 1986, as in effect on such date, and

(ii) in the case of kerosene held exclusively for such person’s own use, the amount which such person would (but for this clause) reasonably expect (as of such date) to be paid as a refund under section 6427(l) of such Code with respect to such kerosene.
(2) LIABILITY FOR TAX AND METHOD OF PAYMENT.—

(A) LIABILITY FOR TAX.—A person holding aviation fuel on January 1, 2008, shall be liable for such tax.

(B) TIME AND METHOD OF PAYMENT.—The tax imposed by paragraph (1) shall be paid at such time and in such manner as the Secretary of the Treasury shall prescribe.

(3) TRANSFER OF FLOOR STOCK TAX REVENUES TO TRUST FUNDS.—For purposes of determining the amount transferred to the Airport and Airway Trust Fund, the tax imposed by this subsection shall be treated as imposed by section 4081(a)(2)(A)(iv) of the Internal Revenue Code of 1986.

(4) DEFINITIONS.—For purposes of this subsection—

(A) AVIATION FUEL.—The term “aviation fuel” means aviation-grade kerosene and aviation gasoline, as such terms are used within the meaning of section 4081 of the Internal Revenue Code of 1986.

(B) HELD BY A PERSON.—Aviation fuel shall be considered as held by a person if title
thereto has passed to such person (whether or not delivery to the person has been made).

(C) Secretary.—The term “Secretary” means the Secretary of the Treasury or the Secretary's delegate.

(5) Exception for exempt uses.—The tax imposed by paragraph (1) shall not apply to any aviation fuel held by any person exclusively for any use to the extent a credit or refund of the tax is allowable under the Internal Revenue Code of 1986 for such use.

(6) Exception for certain amounts of fuel.—

(A) In general.—No tax shall be imposed by paragraph (1) on any aviation fuel held on January 1, 2008, by any person if the aggregate amount of such aviation fuel held by such person on such date does not exceed 2,000 gallons. The preceding sentence shall apply only if such person submits to the Secretary (at the time and in the manner required by the Secretary) such information as the Secretary shall require for purposes of this subparagraph.

(B) Exempt fuel.—For purposes of subparagraph (A), there shall not be taken into ac-
count any aviation fuel held by any person which is exempt from the tax imposed by paragraph (1) by reason of paragraph (6).

(C) CONTROLLED GROUPS.—For purposes of this subsection—

(i) CORPORATIONS.—

(I) IN GENERAL.—All persons treated as a controlled group shall be treated as 1 person.

(II) CONTROLLED GROUP.—The term “controlled group” has the meaning given to such term by subsection (a) of section 1563 of the Internal Revenue Code of 1986; except that for such purposes the phrase “more than 50 percent” shall be substituted for the phrase “at least 80 percent” each place it appears in such subsection.

(ii) NONINCORPORATED PERSONS UNDER COMMON CONTROL.—Under regulations prescribed by the Secretary, principles similar to the principles of subparagraph (A) shall apply to a group of per-
sons under common control if 1 or more of such persons is not a corporation.

(7) Other Laws Applicable.—All provisions of law, including penalties, applicable with respect to the taxes imposed by section 4081 of the Internal Revenue Code of 1986 on the aviation fuel involved shall, insofar as applicable and not inconsistent with the provisions of this subsection, apply with respect to the floor stock taxes imposed by paragraph (1) to the same extent as if such taxes were imposed by such section.

SEC. 104. INCREASE IN TAX ON USE OF INTERNATIONAL AIR FACILITIES.

(a) In General.—Section 4261(c)(1) is amended by striking “$12.00” and inserting “$16.65”.

(b) Inflation Adjustment.—Section 4261(c)(4)(B) is amended—

(1) by striking “and” at the end of clause (i),

(2) by striking “amounts contained in subsection (e).” in clause (ii) and inserting “amount contained in subsection (e)(3), and”, and

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

“(iii) 2008 in the case of the dollar amount contained in subsection (e)(1).”.
(c) **Effective Date.**—The amendments made by this section shall take effect on January 1, 2008.

**SEC. 105. AIR TRAFFIC CONTROL SYSTEM MODERNIZATION ACCOUNT.**

(a) **In General.**—Section 9502 (relating to the Airport and Airway Trust Fund) is amended by adding at the end the following new subsection:

“(g) **Establishment of Air Traffic Control System Modernization Account.**—

“(1) **Creation of Account.**—There is established in the Airport and Airway Trust Fund a separate account to be known as the ‘Air Traffic Control System Modernization Account’ consisting of such amounts as may be transferred or credited to the Air Traffic Control System Modernization Account as provided in this subsection or section 9602(b).

“(2) **Transfers to Air Traffic Control System Modernization Account.**—The Secretary of the Treasury shall annually transfer from the Airport and Airway Trust Fund to the Air Traffic Control System Modernization Account an amount equal to $400,000,000.

“(3) **Expenditures from Account.**—Amounts in the Air Traffic Control System Modernization Account shall be available to the Adminis-
trator of the Federal Aviation Administration for ex-
penditures relating the modernization of the air traf-
fic control system (including facility and equipment
account expenditures) approved by the Air Traffic
Control Modernization Oversight Board.”.

(b) CONFORMING AMENDMENT.—Section 9502(d)(1)
is amended by striking “Amounts” and inserting “Except
as provided in subsection (g), amounts”.

(e) EFFECTIVE DATE.—The amendments made by
this section shall take effect on the date of the enactment
of this Act.

SEC. 106. TREATMENT OF FRACTIONAL AIRCRAFT OWNER-
SHIP PROGRAMS.

(a) DEPARTURE TAX IN LIEU OF PERSONS AND
PROPERTY TAX.—

(1) DEPARTURE TAX.—

(A) IN GENERAL.—Subchapter C of chap-
ter 33 is amended by redesignating part III as
part IV and by inserting after part II the fol-
lowing new part:

“PART III—DEPARTURES

Sec. 4266. Fractional aircraft ownership programs.
“SEC. 4266. FRACTIONAL AIRCRAFT OWNERSHIP PRO-
GRAMS.

“(a) IN GENERAL.—There is hereby imposed a tax
of $58 on each departure of an aircraft which is part of
a fractional ownership aircraft program.

“(b) FRACTIONAL OWNERSHIP AIRCRAFT PRO-
GRAM.—For purposes of this section—

“(1) IN GENERAL.—The term ‘fractional owner-
ship aircraft program’ means a program under
which—

“(A) a single fractional ownership program
manager provides fractional ownership program
management services on behalf of the fractional
owners,

“(B) 2 or more airworthy aircraft are part
of the program,

“(C) there are 1 or more fractional owners
per program aircraft, with at least 1 program
aircraft having more than 1 owner,

“(D) each fractional owner possesses at
least a minimum fractional ownership interest
in 1 or more program aircraft,

“(E) there exists a dry-lease exchange ar-
angement among all of the fractional owners,

and
“(F) there are multi-year program agreements covering the fractional ownership, fractional ownership program management services, and dry-lease aircraft exchange aspects of the program.

“(2) MINIMUM FRACTIONAL OWNERSHIP INTEREST.—The term ‘minimum fractional ownership interest’ means, with respect to each type of aircraft—

“(A) a fractional ownership interest equal to or greater than 1⁄16 of at least 1 subsonic, fixed wing or powered lift program aircraft, or

“(B) a fractional ownership interest equal to or greater than 1⁄32 of a least 1 rotorcraft program aircraft.

“(3) DRY-LEASE EXCHANGE ARRANGEMENT.—A ‘dry-lease aircraft exchange’ means an agreement, documented by the written program agreements, under which the program aircraft are available, on an as needed basis without crew, to each fractional owner.

“(c) APPLICATION OF TAXES.—

“(1) IN GENERAL.—The taxes imposed by this section shall apply to departures during the period beginning on January 1, 2008, and ending on September 30, 2011.”.
(B) Transfer of revenues to airport and airway trust fund.—Section 9502(b)(1)(B) is amended by striking “and 4271” and inserting “4266, and 4271”.

(C) Conforming amendments.—The table of parts for subchapter C of chapter 33 is amended by redesignating the item relating to part III as relating to part IV and by inserting after the item relating to part II the following new item:

“Part III. Departures.”.

(2) Exemption from tax on transportation of persons.—Section 4261, as amended by section 101(b)(1), is amended by redesignating subsection (j) as subsection (k) and by inserting after subsection (i) the following new subsection:

“(j) Exemption for aircraft in fractional ownership aircraft programs.—No tax shall be imposed by this section on any air transportation by an aircraft which is part of a fractional ownership aircraft program (as defined by section 4266(b)).”.

(b) Treatment of programs under fuel taxes.—Subsection (b) of section 4083 is amended by adding at the end the following new sentence: “Such term shall not include the use of any aircraft which is part of
a fractional ownership aircraft program (as defined by section 4266(b)).”

(c) Effective Dates.—

(1) Departure Tax.—The amendments made by subsection (a) shall apply to transportation beginning after December 31, 2007.

(2) Fuel Taxes.—The amendment made by subsection (b) shall apply to fuel sold or used after December 31, 2007.

SEC. 107. TERMINATION OF EXEMPTION FOR SMALL AIRCRAFT ON NONESTABLISHED LINES.

(a) In General.—Section 4281 is amended to read as follows:

“SEC. 4281. SMALL AIRCRAFT OPERATED SOLELY FOR SIGHTSEEING.

“The taxes imposed by sections 4261 and 4271 shall not apply to transportation by an aircraft having a maximum certificated takeoff weight of 6,000 pounds or less at any time during which such aircraft is being operated on a flight the sole purpose of which is sightseeing. For purposes of the preceding sentence, the term ‘maximum certificated takeoff weight’ means the maximum such weight contained in the type certificate or airworthiness certificate.”.
(b) CONFORMING AMENDMENT.—The item relating to section 4281 in the table of sections for part III of subchapter C of chapter 33 is amended by striking “on nonestablished lines” and inserting “operated solely for sightseeing”.

(c) EFFECTIVE DATE.—The amendments made by this section shall apply to transportation beginning after December 31, 2007.

SEC. 108. TRANSPARENCY IN PASSENGER TAX DISCLOSURES.

(a) IN GENERAL.—Section 7275 (relating to penalty for offenses relating to certain airline tickets and advertising) is amended—

(1) by redesignating subsection (c) as subsection (d),

(2) by striking “subsection (a) or (b)” in subsection (d), as so redesignated, and inserting “subsection (a), (b), or (c)”, and

(3) by inserting after subsection (b) the following new subsection:

“(c) NON-TAX CHARGES.—

“(1) IN GENERAL.—In the case of transportation by air for which disclosure on the ticket or advertising for such transportation of the amounts paid for passenger taxes is required by subsection
(a)(2) or (b)(1)(B), it shall be unlawful for the disclosure of the amount of such taxes on such ticket or advertising to include any amounts not attributable to the taxes imposed by subsection (a), (b), or (e) of section 4261.

“(2) INCLUSION IN TRANSPORTATION COST.—Nothing in this subsection shall prohibit the inclusion of amounts not attributable to the taxes imposed by subsection (a), (b), or (c) of section 4261 in the disclosure of the amount paid for transportation as required by subsection (a)(1) or (b)(1)(A), or in a separate disclosure of amounts not attributable to such taxes.”.

(b) EFFECTIVE DATE.—The amendments made by this section shall apply to transportation beginning after December 31, 2007.

SEC. 109. REQUIRED FUNDING OF NEW ACCRUALS UNDER AIR CARRIER PENSION PLANS.

(a) IN GENERAL.—Section 402(a) of the Pension Protection Act of 2006, as amended by section 6615(a) of the U. S. Troop Readiness, Veterans’ Care, Katrina Recovery, and Iraq Accountability Appropriations Act, 2007 (Public Law 110–28), is amended—

(1) in paragraph (2)—
(A) by striking “to its first taxable year beginning in 2008”,

(B) by striking “for such taxable year” and inserting “for its first plan year beginning in 2008”, and

(C) by striking “and by using, in determining the funding target for each of the 10 plan years during such period, an interest rate of 8.25 percent (rather than the segment rates calculated on the basis of the corporate bond yield curve)”, and

(2) by adding at the end the following new flush matter:

“If the plan sponsor of an eligible plan elects the application of paragraph (2), the plan sponsor may also elect, in determining the funding target for each of the 10 plan years during the period described in paragraph (2), to use an interest rate of 8.25 percent (rather than the segment rates calculated on the basis of the corporate bond yield curve). Notwithstanding the preceding sentence, in the case of any plan year of the eligible plan for which such 8.25 percent interest rate is used, the minimum required contribution under section 303 of such Act and section 430 of such Code shall in no event be less than the target normal cost of the plan for such plan year (as determined
under section 303(b) of such Act and section 430(b) of such Code). A plan sponsor may revoke the election to use the 8.25 percent interest rate and if the revocation is made, the revocation shall apply to the plan year for which made and all subsequent plan years and the plan sponsor may not elect to use the 8.25 percent interest rate for any subsequent plan year.”.

(b) EFFECTIVE DATE.—The amendments made by this section shall take effect as if included in the provisions of the Pension Protection Act of 2006 to which such amendments relate.

TITLE II—INCREASED FUNDING FOR HIGHWAY TRUST FUND

SEC. 201. REPLENISH EMERGENCY SPENDING FROM HIGHWAY TRUST FUND.

(a) IN GENERAL.—Section 9503(b) is amended—

(1) by adding at the end the following new paragraph:

“(7) EMERGENCY SPENDING REPLENISHMENT.—There is hereby appropriated to the Highway Trust Fund $3,400,000,000.”, and

(2) by striking “AMOUNTS EQUIVALENT TO CERTAIN TAXES AND PENALTIES” in the heading and inserting “CERTAIN AMOUNTS”.

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(b) Effective Date.—The amendments made by this section shall take effect on the date of the enactment of this Act.

SEC. 202. SUSPENSION OF TRANSFERS FROM HIGHWAY TRUST FUND FOR CERTAIN REPAYMENTS AND CREDIT.

Section 9503(c)(2) is amended by adding at the end the following new subparagraph:

“(D) Temporary suspension.—This paragraph shall not apply to amounts estimated by the Secretary to be attributable to the 6-month period beginning on the date of the enactment of the American Infrastructure Investment and Improvement Act of 2007.”.

SEC. 203. TAXATION OF TAXABLE FUELS IN FOREIGN TRADE ZONES.

(a) Tax imposed on removals and entries in foreign trade zones.—

(1) In general.—Subsection (a) of section 4083 (relating to definitions) is amended by adding at the end the following new paragraph:

“(4) United States.—The term ‘United States’ includes any foreign trade zone or bonded warehouse located in the United States.”. 
(2) **CONFORMING AMENDMENT.**—Section 4081(a)(1)(A) (relating to imposition of tax) is amended—

(A) in clause (i), by inserting “in the United States” after “refinery”; and

(B) in clause (ii), by inserting “in the United States” after “terminal”.

(b) **TREATMENT OF TAXABLE FUEL IN FOREIGN TRADE ZONES.**—Paragraph (2) of section 81c(a) of title 19, United States Code, is amended by inserting “(other than the provisions relating to taxable fuel (as defined under section 4083(a) of the Internal Revenue Code of 1986))” after “thereunder”.

(c) **EFFECTIVE DATES.**—

(1) **SUBSECTION (a).**—The amendments made by subsection (a) shall apply to removals and entries after December 31, 2007.

(2) **SUBSECTION (b).**—The amendment made by subsection (b) shall take effect on January 1, 2008.

**SEC. 204. CLARIFICATION OF PENALTY FOR SALE OF FUEL FAILING TO MEET EPA REGULATIONS.**

(a) **IN GENERAL.**—Subsection (a) of section 6720A (relating to penalty with respect to certain adulterated fuels) is amended by striking “applicable EPA regulations
(as defined in section 45H(c)(3))” and inserting “the re-
quirements for diesel fuel under section 211 of the Clean
Air Act, as determined by the Secretary,”.

(b) Effective Date.—The amendments made by
this section shall apply to any transfer, sale, or holding
out for sale or resale occurring after the date of the enact-
ment of this Act.

SEC. 205. TREATMENT OF QUALIFIED ALCOHOL FUEL MIX-
TURES AND QUALIFIED BIODIESEL FUEL MIX-
TURES AS TAXABLE FUELS.

(a) In General.—

(1) Qualified Alcohol Fuel Mixtures.—
Paragraph (2) of section 4083(a) (relating to gaso-
line) is amended—

(A) by striking “and” at the end of sub-
paragraph (A),
(B) by redesignating subparagraph (B) as
subparagraph (C), and
(C) by inserting after subparagraph (A)
the following new subparagraph:
“(B) includes any qualified mixture (as de-
efined in section 40(b)(1)(B)) which is a mixture
of alcohol and special fuel, and”.

(2) Qualified Biodiesel Fuel Mixtures.—
Subparagraph (A) of section 4083(a)(3) (relating to
diesel fuel) is amended by striking “and” at the end of clause (ii), by redesignating clause (iii) as clause (iv), and inserting after clause (ii) the following new clause:

“(iii) any qualified biodiesel mixture (as defined in section 40A(b)(1)(B)), and”.

(b) EFFECTIVE DATE.—The amendments made by this section shall apply to fuels removed, entered, or sold after December 31, 2007.

SEC. 206. CALCULATION OF VOLUME OF ALCOHOL FOR FUEL CREDITS.

(a) IN GENERAL.—Paragraph (4) of section 40(d) (relating to volume of alcohol) is amended by striking “the volume of alcohol” and all that follows and inserting “the volume of alcohol shall not include any denaturant added to such alcohol.”.

(b) CONFORMING AMENDMENT FOR EXCISE TAX CREDIT.—Section 6426(b) (relating to alcohol fuel mixture credit) is amended by redesignating paragraph (5) as paragraph (6) and by inserting after paragraph (4) the following new paragraph:

“(5) VOLUME OF ALCOHOL.—For purposes of determining under subsection (a) the number of gallons of alcohol with respect to which a credit is allowable under subsection (a), the volume of alcohol
shall not include any denaturant added to such alcohol.”.

(c) EFFECTIVE DATE.—The amendments made by this section shall apply to fuel sold or used after December 31, 2007.

SEC. 207. BULK TRANSFER EXCEPTION NOT TO APPLY TO FINISHED GASOLINE.

(a) IN GENERAL.—Subparagraph (B) of section 4081(a)(1) (relating to tax on removal, entry, or sale) is amended by adding at the end the following new clause:

“(iii) Exception for finished gasoline.—Clause (i) shall not apply to any finished gasoline.”.

(b) EXCEPTION TO TAX ON FINISHED GASOLINE FOR PRIOR TAXABLE REMOVALS.—Paragraph (1) of section 4081(a) is amended by adding at the end the following new subparagraph:

“(C) Exemption for previously taxed finished gasoline.—The tax imposed by this paragraph shall not apply to the removal of gasoline described in subparagraph (B)(iii) from any terminal if there was a prior taxable removal or entry of such fuel under clause (i), (ii), or (iii) of subparagraph (A). The preceding sentence shall not apply to the volume of any
product added to such gasoline at the terminal
unless there was a prior taxable removal or
entry of such product under clause (i), (ii), or
(iii) of subparagraph (A).”.

(c) EFFECTIVE DATE.—The amendment made by
this section shall apply to fuel removed, entered, or sold

SEC. 208. INCREASE AND EXTENSION OF OIL SPILL LIABILITY
TRUST FUND TAX.

(a) INCREASE IN RATE.—

(1) IN GENERAL.—Section 4611(c)(2)(B) (relat-
ing to rates) is amended by striking “5 cents”
and inserting “10 cents”.

(2) EFFECTIVE DATE.—The amendment made
by this subsection shall apply on and after the first
day of the first calendar quarter beginning more
than 60 days after the date of the enactment of this
Act.

(b) EXTENSION.—

(1) IN GENERAL.—Section 4611(f) (relating to
application of Oil Spill Liability Trust Fund financ-
ing rate) is amended by striking paragraphs (2) and
(3) and inserting the following new paragraph:
“(2) Termination.—The Oil Spill Liability Trust Fund financing rate shall not apply after December 31, 2017.”.

(2) Conforming Amendment.—Section 4611(f)(1) is amended by striking “paragraphs (2) and (3)” and inserting “paragraph (2)”.

(3) Effective Date.—The amendments made by this subsection shall take effect on the date of the enactment of this Act.

SEC. 209. APPLICATION OF RULES TREATING INVERTED CORPORATIONS AS DOMESTIC CORPORATIONS TO CERTAIN TRANSACTIONS OCCURRING AFTER MARCH 20, 2002.

(a) In General.—Section 7874(b) (relating to inverted corporations treated as domestic corporations) is amended to read as follows:

“(b) Inverted Corporations Treated as Domestic Corporations.—

“(1) In General.—Notwithstanding section 7701(a)(4), a foreign corporation shall be treated for purposes of this title as a domestic corporation if such corporation would be a surrogate foreign corporation if subsection (a)(2) were applied by substituting ‘80 percent’ for ‘60 percent’.
“(2) Special rule for certain transactions occurring after March 20, 2002.—

“(A) In general.—If—

“(i) paragraph (1) does not apply to a foreign corporation, but

“(ii) paragraph (1) would apply to such corporation if, in addition to the substitution under paragraph (1), subsection (a)(2) were applied by substituting ‘March 20, 2002’ for ‘March 4, 2003’ each place it appears,

then paragraph (1) shall apply to such corporation but only with respect to taxable years of such corporation beginning after the date of the enactment of the American Infrastructure Investment and Improvement Act of 2007.

“(B) Special rules.—Subject to such rules as the Secretary may prescribe, in the case of a corporation to which paragraph (1) applies by reason of this paragraph—

“(i) the corporation shall be treated, as of the close of its first taxable year ending after the date of the enactment of the American Infrastructure Investment and Improvement Act of 2007, as having trans-
ferred all of its assets, liabilities, and earnings and profits to a domestic corporation in a transaction with respect to which no tax is imposed under this title,

“(ii) the bases of the assets transferred in the transaction to the domestic corporation shall be the same as the bases of the assets in the hands of the foreign corporation, subject to any adjustments under this title for built-in losses,

“(iii) the basis of the stock of any shareholder in the domestic corporation shall be the same as the basis of the stock of the shareholder in the foreign corporation for which it is treated as exchanged, and

“(iv) the transfer of any earnings and profits by reason of clause (i) shall be disregarded in determining any deemed dividend or foreign tax creditable to the domestic corporation with respect to such transfer.

“(C) REGULATIONS.—The Secretary may prescribe such regulations as may be necessary or appropriate to carry out this paragraph, in-
cluding regulations to prevent the avoidance of
the purposes of this paragraph.”.

(b) Effective Date.—The amendment made by
this section shall apply to taxable years beginning after
the date of the enactment of this Act.

SEC. 210. DENIAL OF DEDUCTION FOR PUNITIVE DAMAGES.

(a) Disallowance of Deduction.—

(1) In General.—Section 162(g) (relating to
treble damage payments under the antitrust laws) is
amended—

(A) by redesignating paragraphs (1) and
(2) as subparagraphs (A) and (B), respectively,
(B) by striking “If” and inserting:
“(1) TREBLE DAMAGES.—If”’, and
(C) by adding at the end the following new
paragraph:
“(2) PUNITIVE DAMAGES.—No deduction shall
be allowed under this chapter for any amount paid
or incurred for punitive damages in connection with
any judgment in, or settlement of, any action. This
paragraph shall not apply to punitive damages de-
scribed in section 104(c).”.

(2) Conforming Amendment.—The heading
for section 162(g) is amended by inserting “OR PU-
NITIVE DAMAGES” after “LAWS”.

\S 2345 PCS
(b) **Inclusion in Income of Punitive Damages Paid by Insurer or Otherwise.**—

(1) **In General.**—Part II of subchapter B of chapter 1 (relating to items specifically included in gross income) is amended by adding at the end the following new section:

"**SEC. 91. Punitive Damages Compensated by Insurance or Otherwise.**

Gross income shall include any amount paid to or on behalf of a taxpayer as insurance or otherwise by reason of the taxpayer’s liability (or agreement) to pay punitive damages.”.

(2) **Reporting Requirements.**—Section 6041 (relating to information at source) is amended by adding at the end the following new subsection:

"(h) **Section To Apply to Punitive Damages Compensation.**—This section shall apply to payments by a person to or on behalf of another person as insurance or otherwise by reason of the other person’s liability (or agreement) to pay punitive damages.”.

(3) **Conforming Amendment.**—The table of sections for part II of subchapter B of chapter 1 is amended by adding at the end the following new item:

"Sec. 91. Punitive damages compensated by insurance or otherwise.”.
(c) Effective Date.—The amendments made by this section shall apply to damages paid or incurred on or after the date of the enactment of this Act.

SEC. 211. FUEL TECHNICAL CORRECTIONS.

(a) Amendments Related to Section 11113 of the Safe, Accountable, Flexible, Efficient Transportation Equity Act: A Legacy for Users.—

(1) Paragraph (3) of section 6427(i) is amended—

(A) by inserting “or under subsection (e)(2) by any person with respect to an alternative fuel (as defined in section 6426(d)(2))” after “section 6426” in subparagraph (A),

(B) by inserting “or (e)(2)” after “subsection (e)(1)” in subparagraphs (A)(i) and (B), and

(C) by inserting “AND ALTERNATIVE FUEL CREDIT” after “MIXTURE CREDIT” in the heading thereof.

(2)(A) Subparagraph (F) of section 6426(d)(2) is amended by striking “hydrocarbons” and inserting “fuel”.

(B) Section 6426 is amended by adding at the end the following new subsection:
“(h) DENIAL OF DOUBLE BENEFIT.—No credit shall be determined under subsection (d) or (e) with respect to any fuel which is described in subsection (b) or (c) or section 40 or 40A.”.

(3) The amendments made by this subsection shall take effect as if included in section 11113 of the SAFETEA–LU.

(b) AMENDMENTS RELATED TO THE ENERGY POLICY ACT OF 2005.—

(1) AMENDMENT RELATED TO SECTION 1342 OF THE ACT.—

(A) So much of subsection (b) of section 30C as precedes paragraph (1) thereof is amended to read as follows:

“(b) LIMITATION.—The credit allowed under subsection (a) with respect to all alternative fuel vehicle refueling property placed in service by the taxpayer during the taxable year at a location shall not exceed—”.

(B) Subsection (c) of section 30C is amended to read as follows:

“(c) QUALIFIED ALTERNATIVE FUEL VEHICLE REFUELING PROPERTY.—For purposes of this section, the term ‘qualified alternative fuel vehicle refueling property’ has the same meaning as the term ‘qualified clean-fuel ve-
vehicle refueling property’ would have under section 179A if—

“(1) paragraph (1) of section 179A(d) did not apply to property installed on property which is used as the principal residence (within the meaning of section 121) of the taxpayer, and

“(2) only the following were treated as clean burning fuels for purposes of section 179A(d):

“(A) Any fuel at least 85 percent of the volume of which consists of one or more of the following: ethanol, natural gas, compressed natural gas, liquefied natural gas, liquefied petroleum gas, or hydrogen.

“(B) Any mixture—

“(i) which consists of two or more of the following: biodiesel (as so defined), diesel fuel (as defined in section 4083(a)(3)), or kerosene, and

“(ii) at least 20 percent of the volume of which consists of biodiesel (as so defined) determined without regard to any kerosene in such mixture.”.

(2) Amendments related to section 1362 of the Act.—
(A)(i) Paragraph (1) of section 4041(d) is amended by adding at the end the following new sentence: “No tax shall be imposed under the preceding sentence on the sale or use of any liquid if tax was imposed with respect to such liquid under section 4081 at the Leaking Underground Storage Tank Trust Fund financing rate.”.

(ii) Paragraph (3) of section 4042(b) is amended to read as follows:

“(3) EXCEPTION FOR FUEL ON WHICH LEAKING UNDERGROUND STORAGE TANK TRUST FUND FINANCING RATE SEPARATELY IMPOSED.—The Leaking Underground Storage Tank Trust Fund financing rate under paragraph (2)(B) shall not apply to the use of any fuel if tax was imposed with respect to such fuel under section 4041(d) or 4081 at the Leaking Underground Storage Tank Trust Fund financing rate.”.

(iii) Notwithstanding section 6430 of the Internal Revenue Code of 1986, a refund, credit, or payment may be made under subchapter B of chapter 65 of such Code for taxes imposed with respect to any liquid after September 30, 2005, and before the date of the enactment of
this Act under section 4041(d)(1) or 4042 of such Code at the Leaking Underground Storage Tank Trust Fund financing rate to the extent that tax was imposed with respect to such liquid under section 4081 at the Leaking Underground Storage Tank Trust Fund financing rate.

(B)(i) Paragraph (5) of section 4041(d) is amended—

(I) by striking “(other than with respect to any sale for export under paragraph (3) thereof)”, and

(II) by adding at the end the following new sentence: “The preceding sentence shall not apply with respect to subsection (g)(3) and so much of subsection (g)(1) as relates to vessels (within the meaning of section 4221(d)(3)) employed in foreign trade or trade between the United States and any of its possessions.”

(ii) Section 4082 is amended—

(I) by striking “(other than such tax at the Leaking Underground Storage Tank Trust Fund financing rate imposed in all
cases other than for export)” in subsection (a), and 

(II) by redesignating subsections (f) and (g) as subsections (g) and (h) and by inserting after subsection (e) the following new subsection:

“(f) **Exception for Leaking Underground Storage Tank Trust Fund Financing Rate.**—

“(1) **In General.**—Subsection (a) shall not apply to the tax imposed under section 4081 at the Leaking Underground Storage Tank Trust Fund financing rate.

“(2) **Exception for Export, etc.**—Paragraph (1) shall not apply with respect to any fuel if the Secretary determines that such fuel is destined for export or for use by the purchaser as supplies for vessels (within the meaning of section 4221(d)(3)) employed in foreign trade or trade between the United States and any of its possessions.”.

(iii) Subsection (e) of section 4082, as amended by this Act, is amended—

(I) by striking “an aircraft, the rate of tax under section 4081(a)(2)(A)(iv) shall be zero.” and inserting “an aircraft—
“(1) the rate of tax under section 4081(a)(2)(A)(iv) shall be zero, and
“(2) if such aircraft is employed in foreign trade or trade between the United States and any of its possessions, the increase in such rate under section 4081(a)(2)(B) shall be zero.”; and
(II) by moving the last sentence flush with the margin of such subsection (following the paragraph (2) added by clause (i)).
(iv) Section 6430 is amended to read as follows:

SEC. 6430. TREATMENT OF TAX IMPOSED AT LEAKING UNDERGROUND STORAGE TANK TRUST FUND FINANCING RATE.

“No refunds, credits, or payments shall be made under this subchapter for any tax imposed at the Leaking Underground Storage Tank Trust Fund financing rate, except in the case of fuels—
“(1) which are exempt from tax under section 4081(a) by reason of section 4082(f)(2),
“(2) which are exempt from tax under section 4041(d) by reason of the last sentence of paragraph (5) thereof, or
“(3) with respect to which the rate increase under section 4081(a)(2)(B) is zero by reason of section 4082(e)(2).”.

(C) Paragraph (5) of section 4041(d) is amended by inserting “(b)(1)(A),” after “subsections”.

(3) Effective date.—

(A) In general.—Except as otherwise provided in this paragraph, the amendments made by this subsection shall take effect as if included in the provisions of the Energy Policy Act of 2005 to which they relate.

(B) Nonapplication of exemption for off-highway business use.—The amendment made by paragraph (2)(C) shall apply to fuel sold for use or used after the date of the enactment of this Act.

(C) Amendment made by the SAFETEA–LU.—The amendment made by paragraph (2)(B)(iii)(II) shall take effect as if included in section 11161 of the SAFETEA–LU.

(c) Amendments Related to Section 339 of the American Jobs Creation Act of 2004.—
(1)(A) Section 45H is amended by striking subsection (d) and by redesignating subsections (e), (f), and (g) as subsections (d), (e), and (f), respectively.

(B) Subsection (d) of section 280C is amended to read as follows:

“(d) CREDIT FOR LOW SULFUR DIESEL FUEL PRODUCTION.—The deductions otherwise allowed under this chapter for the taxable year shall be reduced by the amount of the credit determined for the taxable year under section 45H(a).”.

(C) Subsection (a) of section 1016 is amended by striking paragraph (31) and by redesignating paragraphs (32) through (37) as paragraphs (31) through (36), respectively.

(2)(A) Section 45H, as amended by paragraph (1), is amended by adding at the end the following new subsection:

“(g) ELECTION TO NOT TAKE CREDIT.—No credit shall be determined under subsection (a) for the taxable year if the taxpayer elects not to have subsection (a) apply to such taxable year.”.

(B) Subsection (m) of section 6501 is amended by inserting “45H(g),” after “45C(d)(4),”.

(3)(A) Subsections (b)(1)(A), (c)(2), (e)(1), and (e)(2) of section 45H (as amended by paragraph
(1)) and section 179B(a) are each amended by striking “qualified capital costs” and inserting “qualified costs”.

(B) The heading of paragraph (2) of section 45H(c) is amended by striking “CAPITAL”.

(C) Subsection (a) of section 179B is amended by inserting “and which are properly chargeable to capital account” before the period at the end.

(4) The amendments made by this subsection shall take effect as if included in section 339 of the American Jobs Creation Act of 2004.

SEC. 212. MOTOR FUEL TAX ENFORCEMENT ADVISORY COMMISSION.

(a) In General.—Section 11141 of the Safe, Accountable, Flexible, Efficient Transportation Equity Act: A Legacy for Users is amended to read as follows:

"SEC. 11141. MOTOR FUEL TAX ENFORCEMENT ADVISORY COMMISSION.

"(a) Establishment.—There is established a Motor Fuel Tax Enforcement Advisory Commission (in this section referred to as the ‘Commission’).

"(b) Membership.—

"(1) Appointment.—The Commission shall be composed of 14 members, of which—
“(A) 1 shall be appointed by the Administrator of the Federal Highway Administration as a representative of the Federal Highway Administration,

“(B) 1 shall be appointed by the Inspector General for the Department of Transportation as a representative the Office of Inspector General for the Department of Transportation,

“(C) 1 shall be appointed by the Secretary of Transportation as a representative of the Department of Transportation,

“(D) 1 shall be appointed by the Secretary of Homeland Security to be a representative of the Department of Homeland Security,

“(E) 1 shall be appointed by the Secretary of Defense to be a representative of the Department of Defense,

“(F) 1 shall be appointed by the Attorney General to be a representative of the Department of Justice,

“(G) 2 shall be appointed by the Chairman of the Committee on Finance of the Senate,

“(H) 2 shall be appointed by the Ranking Member of the Committee on Finance of the Senate,
“(I) 2 shall be appointed by Chairman of the Committee on Ways and Means of the House of Representatives, and

“(J) 2 shall be appointed by Ranking Member of the Committee on Ways and Means of the House of Representatives.

“(2) QUALIFICATION FOR CERTAIN MEMBERS.—Of the members appointed under subparagraphs (G), (H), (I) and (J)—

“(A) at least 1 shall be representative from the Federation of State Tax Administrators,

“(B) at least 1 shall be a representative from any State department of transportation,

“(C) at least 1 shall be a representative from industries relating to fuel distribution, and

“(D) at least 1 shall be a representative from industries relating to fuel distribution (such a refiners, distributors, pipeline operators, and terminal operators).

“(3) TERMS.—Members shall be appointed for the life of the Commission.

“(4) VACANCIES.—A vacancy in the Commission shall be filled in the manner in which the original appointment was made.
“(5) Travel Expenses.—Members of the Commission shall serve without pay but shall receive travel expenses, including per diem in lieu of subsistence, in accordance with sections 5702 and 5703 of title 5, United States Code.

“(6) Chairman.—The Chairman of the Commission shall be elected by the members.

“(c) Duties.—

“(1) In General.—The Commission shall—

“(A) review motor fuel revenue collections, historical and current;

“(B) review the progress of investigations;

“(C) develop and review legislative proposals with respect to motor fuel taxes;

“(D) monitor the progress of administrative regulation projects relating to motor fuel taxes;

“(E) evaluate and make recommendations to the President and Congress regarding—

“(i) the effectiveness of existing Federal enforcement programs regarding motor fuel taxes,

“(ii) enforcement personnel allocation,

and
“(iii) proposals for regulatory projects, legislation, and funding.

“(2) REPORT.—Not later than September 30, 2009, the Commission shall submit to Congress a final report that contains a detailed statement on the findings and conclusions of the Commission, together with recommendations for such legislation and administrative action as the Commission considers appropriate or necessary.

“(d) POWERS.—

“(1) HEARINGS.—The Commission may hold such hearings for the purpose of carrying out this Act, sit and act at such times and places, take such testimony, and receive such evidence as the Commission considers advisable to carry out this Act. The Commission may administer oaths and affirmations to witnesses appearing before the Commission.

“(2) OBTAINING DATA.—The Commission may secure directly from any department or agency of the United States, information (other than information required by any law to be kept confidential by such department or agency) necessary for the Commission to carry out its duties under this section. Upon request of the Commission, the head of that department or agency shall furnish such noncon-
fidential information to the Commission. The Com-
mission shall also gather evidence through such
means as it may determine appropriate, including
through holding hearings and soliciting comments by
means of Federal Register notices.

“(3) POSTAL SERVICES.—The Commission may
use the United States mails in the same manner and
under the same conditions as other departments and
agencies of the Federal Government.

“(4) GIFTS.—The Commission may accept,
hold, administer, and utilize gifts, donations, and re-
quests of property, both real and personal, for the
purposes of aiding or facilitating the work of the
Commission. Gifts and bequests of money, and the
proceeds from the sale of any other property re-
ceived as gifts or bequests, shall be deposited in the
Treasury in a separate fund and shall be disbursed
upon order of the Commission. For purposes of Fed-
eral income, estate, and gift taxation, property ac-
cepted under this section shall be considered as a
gift or bequest to or for the use of the United
States.

“(e) SUPPORT SERVICES.—

“(1) ADMINISTRATIVE SUPPORT SERVICES.—
Upon the request of the Commission, the Secretary
of Transportation shall provide to the Commission administrative support services necessary to enable the Commission to carry out its duties under this Act.

“(2) DETAIL OF GOVERNMENT EMPLOYEES.—Any Federal Government employee may be detailed to the Commission without reimbursement, and such detail shall be without interruption or loss of civil service status or privilege.

“(3) VOLUNTARY SERVICES.—

“(A) IN GENERAL.—Notwithstanding the provisions of section 1342 of title 31, United States Code, the Commission is authorized to accept and utilize the services of volunteers serving without compensation. The Commission may reimburse such volunteers for local travel and office supplies, and for other travel expenses, including per diem in lieu of subsistence as authorized by section 5703, United States Code.

“(B) TREATMENT OF VOLUNTEERS.—A person providing volunteer services to the Commission shall be considered an employee of the Federal Government in the performance of
those services for the purposes of the following provisions of law:

“(i) chapter 81 of title 5, United States Code, relating to compensation for work-related injuries;

“(ii) chapter 171 of title 28, United States Code, relating to tort claims; and

“(iii) chapter 11 of title 18, United States Code, relating to conflicts of interest.

“(4) CONSULTATION.—Upon request of the Commission, representatives of the Department of the Treasury and the Internal Revenue Service shall be available for consultation to assist the Commission in carrying out its duties under this section.

“(5) COOPERATION.—The staff of the Department of Transportation, the Department of Homeland Security, the Department of Justice, and the Department of Defense shall cooperate with the Commission as necessary.

“(f) INAPPLICABILITY OF FEDERAL ADVISORY COMMITTEE ACT.—The Federal Advisory Committee Act (5 U.S.C. App.) shall not apply to the Commission.

“(g) TERMINATION.—
“(1) IN GENERAL.—The Commission shall termi-
nate on the date that is 90 days after the date on
which the Commission submits the report required
under subsection (c)(2).

“(2) RECORDS.—Not later than the date on
which the Commission terminates, the Commission
shall transmit all records of the Commission to the
National Archives.”.

(b) EFFECTIVE DATE.—The amendment made by
this section shall take effect on the date of the enactment
of this Act.

SEC. 213. HIGHWAY TRUST FUND CONFORMING EXPENDI-
TURE AMENDMENT.

(a) IN GENERAL.—Subsections (e)(1) and (e)(3) of
section 9503 are each amended by inserting “, as amended
by An Act to authorize additional funds for emergency re-
pairs and reconstruction of the Interstate I-35 bridge lo-
cated in Minneapolis, Minnesota, that collapsed on August
1, 2007, to waive the $100,000,000 limitation on emer-
gency relief funds for those emergency repairs and recon-
struction, and for other purposes,” after “Users”.

(b) EFFECTIVE DATE.—The amendments made by
this section shall take effect as if included in the enact-
ment of An Act to authorize additional funds for emer-
gency repairs and reconstruction of the Interstate I-35
bridge located in Minneapolis, Minnesota, that collapsed on August 1, 2007, to waive the $100,000,000 limitation on emergency relief funds for those emergency repairs and reconstruction, and for other purposes.

TITLE III—ADDITIONAL INFRASTRUCTURE MODIFICATIONS AND REVENUE PROVISIONS

SEC. 301. RESTRUCTURING OF NEW YORK LIBERTY ZONE TAX CREDITS.

(a) In General.—Part I of subchapter Y of chapter 1 is amended by redesignating section 1400L as 1400K and by adding at the end the following new section:

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“SEC. 1400L. NEW YORK LIBERTY ZONE TAX CREDITS.

“(a) In General.—In the case of a New York Liberty Zone governmental unit, there shall be allowed as a credit against any taxes imposed for any payroll period by section 3402 for which such governmental unit is liable under section 3403 an amount equal to so much of the portion of the qualifying project expenditure amount allocated under subsection (b)(3) to such governmental unit for the calendar year as is allocated by such governmental unit to such period under subsection (b)(4).

“(b) Qualifying Project Expenditure Amount.—For purposes of this section—
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“(1) IN GENERAL.—The term ‘qualifying project expenditure amount’ means, with respect to any calendar year, the sum of—

“(A) the total expenditures paid or incurred during such calendar year by all New York Liberty Zone governmental units and the Port Authority of New York and New Jersey for any portion of qualifying projects located wholly within the City of New York, New York, and

“(B) any such expenditures—

“(i) paid or incurred in any preceding calendar year which begins after the date of enactment of this section, and

“(ii) not previously allocated under paragraph (3).

“(2) QUALIFYING PROJECT.—The term ‘qualifying project’ means any transportation infrastructure project, including highways, mass transit systems, railroads, airports, ports, and waterways, in or connecting with the New York Liberty Zone (as defined in section 1400K(h)), which is designated as a qualifying project under this section jointly by the Governor of the State of New York and the Mayor of the City of New York, New York.
“(3) General Allocation.—

“(A) In general.—The Governor of the State of New York and the Mayor of the City of New York, New York, shall jointly allocate to each New York Liberty Zone governmental unit the portion of the qualifying project expenditure amount which may be taken into account by such governmental unit under subsection (a) for any calendar year in the credit period.

“(B) Aggregate limit.—The aggregate amount which may be allocated under subparagraph (A) for all calendar years in the credit period shall not exceed $2,000,000,000.

“(C) Annual limit.—

“(i) In general.—The aggregate amount which may be allocated under subparagraph (A) for any calendar year in the credit period shall not exceed the sum of—

“(I) the applicable limit, plus

“(II) the aggregate amount authorized to be allocated under this paragraph for all preceding calendar years in the credit period which was not so allocated.
“(ii) Applicable limit.—For purposes of clause (i), the applicable limit for any calendar year in the credit period is $169,000,000 and in the case of any calendar year after 2019, zero.

“(D) Unallocated amounts at end of credit period.—If, as of the close of the credit period, the amount under subparagraph (B) exceeds the aggregate amount allocated under subparagraph (A) for all calendar years in the credit period, the Governor of the State of New York and the Mayor of the City of New York, New York, may jointly allocate to New York Liberty Zone governmental units for any calendar year in the 5-year period following the credit period an amount equal to—

“(i) the lesser of—

“(I) such excess, or

“(II) the qualifying project expenditure amount for such calendar year, reduced by

“(ii) the aggregate amount allocated under this subparagraph for all preceding calendar years.
“(4) Allocation to Payroll Periods.—
Each New York Liberty Zone governmental unit which has been allocated a portion of the qualifying project expenditure amount under paragraph (3) for a calendar year may allocate such portion to payroll periods beginning in such calendar year as such governmental unit determines appropriate.

“(c) Carryover of Unused Allocations.—
“(1) In general.—Except as provided in paragraph (2), if the amount allocated under subsection (b)(3) to a New York Liberty Zone governmental unit for any calendar year exceeds the aggregate taxes imposed by section 3402 for which such governmental unit is liable under section 3403 for periods beginning in such year, such excess shall be carried to the succeeding calendar year and added to the allocation of such governmental unit for such succeeding calendar year. No amount may be carried under the preceding sentence to a calendar year after 2024.

“(2) Reallocation.—If a New York Liberty Zone governmental unit does not use an amount allocated to it under subsection (b)(3) within the time prescribed by the Governor of the State of New York and the Mayor of the City of New York, New York,
then such amount shall after such time be treated
for purposes of subsection (b)(3) in the same man-
ner as if it had never been allocated.
“(d) Definitions and Special Rules.—For pur-
poses of this section—
“(1) Credit Period.—The term ‘credit period’
means the 12-year period beginning on January 1,
2008.
“(2) New York Liberty Zone Govern-
mental Unit.—The term ‘New York Liberty Zone
governmental unit’ means—
“(A) the State of New York,
“(B) the City of New York, New York, and
“(C) any agency or instrumentality of such
State or City.
“(3) Treatment of Funds.—Any expenditure
for a qualifying project taken into account for pur-
poses of the credit under this section shall be consid-
ered State and local funds for the purpose of any
Federal program.
“(4) Treatment of Credit Amounts For
Purposes of Withholding Taxes.—For purposes
of this title, a New York Liberty Zone governmental
unit shall be treated as having paid to the Secretary,
on the day on which wages are paid to employees,
an amount equal to the amount of the credit allowed
to such entity under subsection (a) with respect to
such wages, but only if such governmental unit de-
ducts and withholds wages for such payroll period
under section 3401 (relating to wage withholding).

“(e) REPORTING.—The Governor of the State of New
York and the Mayor of the City of New York, New York,
shall jointly submit to the Secretary an annual report—
“(1) which certifies—
“(A) the qualifying project expenditure
amount for the calendar year, and
“(B) the amount allocated to each New
York Liberty Zone governmental unit under
subsection (b)(3) for the calendar year, and
“(2) includes such other information as the
Secretary may require to carry out this section.

“(f) GUIDANCE.—The Secretary may prescribe such
guidance as may be necessary or appropriate to ensure
compliance with the purposes of this section.

“(g) TERMINATION.—No credit shall be allowed
under subsection (a) for any calendar year after 2024.”.

(b) TERMINATION OF SPECIAL ALLOWANCE AND EX-
PENSING.—Section 1400K(b)(2)(A)(v), as redesignated by
subsection (a), is amended by striking “the termination
date” and inserting “the date of the enactment of the
American Infrastructure Investment and Improvement Act of 2007 or the termination date if pursuant to a binding contract in effect on such enactment date”.

(c) CONFORMING AMENDMENTS.—

(1) Section 38(c)(3)(B) is amended by striking “section 1400L(a)” and inserting “section 1400K(a)”.

(2) Section 168(k)(2)(D)(ii) is amended by striking “section 1400L(e)(2)” and inserting “1400K(e)(2)”.

(3) The table of sections for part I of subchapter Y of chapter 1 is amended by striking “1400L” and inserting “1400K”.

(d) EFFECTIVE DATES.—

(1) IN GENERAL.—Except as provided in paragraph (2), the amendments made by this section shall apply to periods beginning after December 31, 2007.

(2) TERMINATION OF SPECIAL ALLOWANCE AND EXPENSING.—The amendment made by subsection (b) shall take effect on the date of the enactment of this Act.
SEC. 302. PARTICIPANTS IN GOVERNMENT SECTION 457 PLANS ALLOWED TO TREAT ELECTIVE DEFERRALS AS ROTH CONTRIBUTIONS.

(a) In General.—Section 402A(e)(1) (defining applicable retirement plan) is amended by striking “and” at the end of subparagraph (A), by striking the period at the end of subparagraph (B) and inserting “, and”, and by adding at the end the following:

“(C) an eligible deferred compensation plan (as defined in section 457(b)) of an eligible employer described in section 457(e)(1)(A).”.

(b) Elective Deferrals.—Section 402A(e)(2) (defining elective deferral) is amended to read as follows:

“(2) Elective deferral.—The term ‘elective deferral’ means—

“(A) any elective deferral described in subparagraph (A) or (C) of section 402(g)(3), and

“(B) any elective deferral of compensation by an individual under an eligible deferred compensation plan (as defined in section 457(b)) of an eligible employer described in section 457(e)(1)(A).”.

(c) Effective Date.—The amendments made by this section shall apply to taxable years beginning after December 31, 2007.
SEC. 303. INCREASED INFORMATION RETURN PENALTIES.

(a) Failure to File Correct Information Returns.—

(1) In general.—Section 6721(a)(1) (relating to imposition of penalty) is amended—

(A) by striking "$50" and inserting "$250", and

(B) by striking "$250,000" and inserting "$3,000,000".

(2) Reduction where correction in specified period.—

(A) Correction within 30 days.—Section 6721(b)(1) is amended—

(i) by striking "$15" and inserting "$50",

(ii) by striking "in lieu of $50" and inserting "in lieu of $250", and

(iii) by striking "$75,000" and inserting "$500,000".

(B) Failures corrected on or before August 1.—Section 6721(b)(2) is amended—

(i) by striking "$30" and inserting "$100",

(ii) by striking "$50" and inserting "$250", and
(iii) by striking "\$150,000" and inserting "\$1,500,000".

(3) **Lower Limitation for Persons with Gross Receipts of Not More Than \$5,000,000.**—Section 6721(d)(1) is amended—

(A) in subparagraph (A)—

(i) by striking "\$100,000" and inserting "\$1,000,000", and

(ii) by striking "\$250,000" and inserting "\$3,000,000",

(B) in subparagraph (B)—

(i) by striking "\$25,000" and inserting "\$175,000", and

(ii) by striking "\$75,000" and inserting "\$500,000", and

(C) in subparagraph (C)—

(i) by striking "\$50,000" and inserting "\$500,000", and

(ii) by striking "\$150,000" and inserting "\$1,500,000".

(4) **Penalty in Case of Intentional Disregard.**—Section 6721(e) is amended—

(A) by striking "\$100" in paragraph (2) and inserting "\$500", 

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(B) by striking "$250,000" in paragraph (3)(A) and inserting "$3,000,000".

(b) **Failure to Furnish Correct Payee Statements.**—

1. **In General.**—Section 6722(a) is amended—

   (A) by striking "$50" and inserting "$250", and

   (B) by striking "$100,000" and inserting "$1,000,000".

2. **Penalty in Case of Intentional Disregard.**—Section 6722(c) is amended—

   (A) by striking "$100" in paragraph (1) and inserting "$500", and

   (B) by striking "$100,000" in paragraph (2)(A) and inserting "$1,000,000".

(c) **Failure to Comply With Other Information Reporting Requirements.**—Section 6723 is amended—

1. by striking "$50" and inserting "$250", and

2. by striking "$100,000" and inserting "$1,000,000".
(d) Effective Date.—The amendments made by this section shall apply with respect to information returns required to be filed on or after January 1, 2008.

SEC. 304. EXEMPTION OF CERTAIN COMMERCIAL CARGO FROM HARBOR MAINTENANCE TAX.

(a) In General.—Section 4462 is amended—

(1) by redesignating subsection (i) as subsection (j), and

(2) by inserting after subsection (h) the following new subsection:

“(i) Exemption for Certain Cargo Transferred on the Great Lakes Saint Lawrence Seaway System.—

“(1) In general.—No tax shall be imposed under section 4461(a) with respect to—

“(A) commercial cargo (other than bulk cargo) loaded at a port in the United States located in the Great Lakes Saint Lawrence Seaway System and unloaded at another port in the United States located in such system, and

“(B) commercial cargo (other than bulk cargo) unloaded at a port in the United States located in the Great Lakes Saint Lawrence Seaway System which was loaded at a port in Canada located in such system.
“(2) Bulk cargo.—For purposes of this subsection, the term ‘bulk cargo’ shall have the meaning given such term by section 53101(1) of title 46, United States Code (as in effect on the date of the enactment of this section).

“(3) Great Lakes Saint Lawrence Seaway System.—For purposes of this subsection, the term ‘Great Lakes Saint Lawrence Seaway System’ means the waterway between Duluth, Minnesota and Sept. Iles, Quebec, encompassing the five Great Lakes, their connecting channels, and the Saint Lawrence River.”.

(b) Effective Date.—The amendments made by this section shall take effect on the date of the enactment of this Act.

SEC. 305. CREDIT TO HOLDERS OF QUALIFIED RAIL INFRASTRUCTURE BONDS.

(a) In General.—Subpart H of part IV of subchapter A of chapter 1 (relating to credits against tax) is amended by adding at the end the following new section:

“SEC. 54A. CREDIT TO HOLDERS OF QUALIFIED RAIL INFRASTRUCTURE BONDS.

“(a) Allowance of Credit.—If a taxpayer holds a qualified rail infrastructure bond on 1 or more credit allowance dates of the bond occurring during any taxable
year, there shall be allowed as a credit against the tax
imposed by this chapter for the taxable year an amount
equal to the sum of the credits determined under sub-
section (b) with respect to such dates.

“(b) AMOUNT OF CREDIT.—

“(1) IN GENERAL.—The amount of the credit
determined under this subsection with respect to any
credit allowance date for a qualified rail infrastruc-
ture bond is 25 percent of the annual credit deter-
dined with respect to such bond.

“(2) ANNUAL CREDIT.—The annual credit de-
determined with respect to any qualified rail infra-
structure bond is the product of—

“(A) the credit rate determined by the Sec-
retary under paragraph (3) for the day on
which such bond was sold, multiplied by

“(B) the outstanding face amount of the
bond.

“(3) DETERMINATION.—For purposes of para-
graph (2), with respect to any qualified rail infra-
structure bond, the Secretary shall determine daily
or cause to be determined daily a credit rate which
shall apply to the first day on which there is a bind-
ing, written contract for the sale or exchange of the
bond. The credit rate for any day is the credit rate
which the Secretary or the Secretary’s designee estimates will permit the issuance of qualified rail infrastructure bonds with a specified maturity or redemption date, without discount and without interest cost to the qualified issuer.

“(4) CREDIT ALLOWANCE DATE.—For purposes of this section, the term ‘credit allowance date’ means—

“(A) March 15,
“(B) June 15,
“(C) September 15, and
“(D) December 15.

Such term also includes the last day on which the bond is outstanding.

“(5) SPECIAL RULE FOR ISSUANCE AND REDEMPTION.—In the case of a bond which is issued during the 3-month period ending on a credit allowance date, the amount of the credit determined under this subsection with respect to such credit allowance date shall be a ratable portion of the credit otherwise determined based on the portion of the 3-month period during which the bond is outstanding. A similar rule shall apply when the bond is redeemed or matures.
“(c) LIMITATION BASED ON AMOUNT OF TAX.—The credit allowed under subsection (a) for any taxable year shall not exceed the excess of—

“(1) the sum of the regular tax liability (as defined in section 26(b)) plus the tax imposed by section 55, over

“(2) the sum of the credits allowable under this part (other than this subpart, subpart C, and section 1400N(l)).

“(d) QUALIFIED RAIL INFRASTRUCTURE BOND.—

For purposes of this section—

“(1) IN GENERAL.—The term ‘qualified rail infrastructure bond’ means any bond issued as part of an issue if—

“(A) the bond is issued by a qualified issuer pursuant to an allocation by the Secretary to such issuer of a portion of the national qualified rail infrastructure bond annual limitation under subsection (f)(2) by not later than the end of the calendar year following the year of such allocation,

“(B) 95 percent or more of the proceeds of such issue are to be used for capital expenditures incurred for 1 or more qualified projects,
“(C) the qualified issuer designates such bond for purposes of this section and the bond is in registered form, and
“(D) the issue meets the requirements of subsection (h).
“(2) QUALIFIED PROJECT; SPECIAL USE RULES.—
“(A) IN GENERAL.—The term ‘qualified project’ means a project eligible under subsection (b) of section 26101 of title 49, United States Code, which the Secretary determines was selected using the criteria of subsection (c) of such section 26101 by the Secretary of Transportation, that makes a substantial contribution to improving a rail transportation corridor for intercity passenger rail use.
“(B) CERTIFICATION REQUIRED REGARDING CERTAIN PROJECTS.—The Secretary shall not consider a project to be a qualified project unless an applicant certifies to the Secretary that—
“(i) if a project involves a rail transportation corridor which includes the use of rights-of-way owned by a freight railroad, the applicant has entered into a writ-
ten agreement with such freight railroad regarding the use of the rights-of-way and has received assurances that collective bargaining agreements between such freight railroad and its employees (including terms regarding the contracting of work performed on such corridor) shall remain in full force and effect during the term of such written agreement,

“(ii) any person which provides railroad transportation over infrastructure improved or acquired pursuant to this section, is a rail carrier as defined by section 10102 of title 49, United States Code, and

“(iii) the applicant shall, with respect to improvements to rail infrastructure made pursuant to this section, comply with the standards applicable to construction work in such title 49, in the same manner in which the National Railroad Passenger Corporation is required to comply with such standards.

“(C) REFINANCING RULES.—For purposes of paragraph (1)(B), a qualified project may be refinanced with proceeds of a qualified rail in-
frastucture bond only if the indebtedness being
refinanced (including any obligation directly or
indirectly refinanced by such indebtedness) was
originally incurred after the date of the enact-
ment of this section.

“(D) Reimbursement.—For purposes of
paragraph (1)(B), a qualified rail infrastructure
bond may be issued to reimburse for amounts
paid after the date of the enactment of this sec-
tion with respect to a qualified project, but only
if—

“(i) prior to the payment of the origi-
nal expenditure, the issuer declared its in-
tent to reimburse such expenditure with
the proceeds of a qualified rail infrastruc-
ture bond,

“(ii) not later than 60 days after pay-
ment of the original expenditure, the qual-
ified issuer adopts an official intent to re-
burse the original expenditure with such
proceeds, and

“(iii) the reimbursement is made not
later than 18 months after the date the
original expenditure is paid.
“(E) TREATMENT OF CHANGES IN USE.—

For purposes of paragraph (1)(B), the proceeds of an issue shall not be treated as used for a qualified project to the extent that a qualified issuer takes any action within its control which causes such proceeds not to be used for a qualified project. The Secretary shall prescribe regulations specifying remedial actions that may be taken (including conditions to taking such remedial actions) to prevent an action described in the preceding sentence from causing a bond to fail to be a qualified rail infrastructure bond.

“(e) MATURITY LIMITATIONS.—

“(1) DURATION OF TERM.—A bond shall not be treated as a qualified rail infrastructure bond if the maturity of such bond exceeds the maximum term determined by the Secretary under paragraph (2) with respect to such bond.

“(2) MAXIMUM TERM.—During each calendar month, the Secretary shall determine the maximum term permitted under this paragraph for bonds issued during the following calendar month. Such maximum term shall be the term which the Secretary estimates will result in the present value of the obligation to repay the principal on the bond
being equal to 50 percent of the face amount of such bond. Such present value shall be determined without regard to the requirements of paragraph (3) and using as a discount rate the average annual interest rate of tax-exempt obligations having a term of 10 years or more which are issued during the month. If the term as so determined is not a multiple of a whole year, such term shall be rounded to the next highest whole year.

“(3) Ratable principal amortization required.—A bond shall not be treated as a qualified rail infrastructure bond unless it is part of an issue which provides for an equal amount of principal to be paid by the qualified issuer during each calendar year that the issue is outstanding.

“(f) Annual limitation on amount of bonds designated.—

“(1) National annual limitation.—There is a national qualified rail infrastructure bond annual limitation for each calendar year. Such limitation is $900,000,000 for 2008, 2009, and 2010, and, except as provided in paragraph (3), zero thereafter.

“(2) Allocation by Secretary.—The national qualified rail infrastructure bond annual limitation for a calendar year shall be allocated by the
Secretary among qualified projects in such manner as the Secretary determines appropriate.

“(3) Carryover of unused limitation.—If for any calendar year, the national qualified rail infrastructure bond annual limitation for such year exceeds the amount of bonds allocated during such year, such limitation for the following calendar year shall be increased by the amount of such excess. Any carryforward of a limitation may be carried only to the first 2 years following the unused limitation year. For purposes of the preceding sentence, a limitation shall be treated as used on a first-in first-out basis.

“(g) Credit treated as interest.—For purposes of this title, the credit determined under subsection (a) shall be treated as interest which is includible in gross income.

“(h) Special rules relating to expenditures.—

“(1) In general.—An issue shall be treated as meeting the requirements of this subsection if, as of the date of issuance, the qualified issuer reasonably expects—

“(A) at least 95 percent of the proceeds of the issue are to be spent for 1 or more qualified
projects within the 5-year period beginning on
the date of issuance of the qualified rail infra-
structure bond,

“(B) a binding commitment with a third
party to spend at least 10 percent of the pro-
cceeds of the issue will be incurred within the 6-
month period beginning on the date of issuance
of the qualified rail infrastructure bond, and

“(C) such projects will be completed with
due diligence and the proceeds from the sale of
the issue will be spent with due diligence.

“(2) Extension of Period.—Upon submis-
sion of a request prior to the expiration of the period
described in paragraph (1)(A), the Secretary may
extend such period if the qualified issuer establishes
that the failure to satisfy the 5-year requirement is
due to reasonable cause and the related projects will
continue to proceed with due diligence.

“(3) Failure to Spend Required Amount
of Bond Proceeds Within 5 Years.—To the ex-
tent that less than 95 percent of the proceeds of
such issue are expended by the close of the 5-year
period beginning on the date of issuance (or if an
extension has been obtained under paragraph (2), by
the close of the extended period), the qualified issuer
shall redeem all of the nonqualified bonds within 90
days after the end of such period. For purposes of
this paragraph, the amount of the nonqualified
bonds required to be redeemed shall be determined
in the same manner as under section 142.
“(i) Special Rules Relating to Arbitrage.—A
bond which is part of an issue shall not be treated as a
qualified rail infrastructure bond unless, with respect to
the issue of which the bond is a part, the qualified issuer
satisfies the arbitrage requirements of section 148 with
respect to proceeds of the issue.
“(j) Special Rules Relating to Pool Bonds.—
No portion of a pooled financing bond may be allocable
to loan unless the borrower has entered into a written loan
commitment for such portion prior to the issue date of
such issue.
“(k) Other Definitions and Special Rules.—
For purposes of this section—
“(1) Bond.—The term ‘bond’ includes any ob-
ligation.
“(2) Pooled Financing Bond.—The term
‘pooled financing bond’ shall have the meaning given
such term by section 149(f)(4)(A).
“(3) QUALIFIED ISSUER.—The term ‘qualified issuer’ means 1 or more States or an interstate compact of States.

“(4) STATE.—The term ‘State’ includes the District of Columbia and any possession of the United States.

“(5) S CORPORATIONS AND PARTNERSHIPS.—In the case of a qualified rail infrastructure bond held by an S corporation or partnership, the allocation of the credit allowed by this section to the shareholders of the corporation or partners of such partnership shall be treated as a distribution.

“(6) BONDS HELD BY REGULATED INVESTMENT COMPANIES.—If any qualified rail infrastructure bond is held by a regulated investment company, the credit determined under subsection (a) shall be allowed to shareholders of such company under procedures prescribed by the Secretary.

“(7) REPORTING.—Issuers of qualified rail infrastructure bonds shall submit reports similar to the reports required under section 149(e).

“(8) TERMINATION.—This section shall not apply with respect to any bond issued after December 31, 2012.”.
(b) REPORTING.—Subsection (d) of section 6049 (relating to returns regarding payments of interest) is amended by adding at the end the following new paragraph:

“(9) REPORTING OF CREDIT ON QUALIFIED RAIL INFRASTRUCTURE BONDS.—

“(A) IN GENERAL.—For purposes of subsection (a), the term ‘interest’ includes amounts includible in gross income under section 54A(g) and such amounts shall be treated as paid on the credit allowance date (as defined in section 54A(b)(4)).

“(B) REPORTING TO CORPORATIONS, ETC.—Except as otherwise provided in regulations, in the case of any interest described in subparagraph (A), subsection (b)(4) shall be applied without regard to subparagraphs (A), (H), (I), (J), (K), and (L)(i) of such subsection.

“(C) REGULATORY AUTHORITY.—The Secretary may prescribe such regulations as are necessary or appropriate to carry out the purposes of this paragraph, including regulations which require more frequent or more detailed reporting.”.

(c) CONFORMING AMENDMENTS.—
(1) The table of sections for subpart H of part IV of subchapter A of chapter 1 is amended by adding at the end the following new item:

“Sec. 54A. Credit to holders of qualified rail infrastructure bonds.”.

(2) Section 54(c)(2) is amended by inserting “, section 54A,” after “subpart C”.

(d) ISSUANCE OF REGULATIONS.—The Secretary of Treasury shall issue regulations required under section 54A of the Internal Revenue Code of 1986 (as added by this section) not later than 120 days after the date of the enactment of this Act.

(e) EFFECTIVE DATE.—The amendments made by this section shall apply to bonds issued after the date of the enactment of this Act.

SEC. 306. REPEAL OF SUSPENSION OF CERTAIN PENALTIES AND INTEREST.

(a) IN GENERAL.—Section 6404 is amended by striking subsection (g).

(b) EFFECTIVE DATE.—

(1) IN GENERAL.—Except as provided in paragraph (2), the amendments made by this section shall apply to notices provided by the Secretary of the Treasury, or his delegate after the date which is 6 months after the date of the enactment of the Small Business and Work Opportunity Tax Act of 2007.
(2) Exception for certain taxpayers.—

The amendments made by this section shall not apply to any taxpayer with respect to whom a suspension of any interest, penalty, addition to tax, or other amount is in effect on the date which is 6 months after the date of the enactment of the Small Business and Work Opportunity Tax Act of 2007.

SEC. 307. Denial of deduction for certain fines, penalties, and other amounts.

(a) In General.—Subsection (f) of section 162 (relating to trade or business expenses) is amended to read as follows:

“(f) Fines, Penalties, and Other Amounts.—

“(1) In general.—Except as provided in paragraph (2), no deduction otherwise allowable shall be allowed under this chapter for any amount paid or incurred (whether by suit, agreement, or otherwise) to, or at the direction of, a government or entity described in paragraph (4) in relation to—

“(A) the violation of any law, or

“(B) an investigation or inquiry into the potential violation of any law which is initiated by such government or entity.

“(2) Exception for amounts constituting restitution or paid to come into compliance
WITH LAW.—Paragraph (1) shall not apply to any amount which—

“(A) the taxpayer establishes—

“(i) constitutes restitution (or remediation of property) for damage or harm caused by, or which may be caused by, the violation of any law or the potential violation of any law, or

“(ii) is paid to come into compliance with any law which was violated or involved in the investigation or inquiry, and

“(B) is identified as an amount described in clause (i) or (ii) of subparagraph (A), as the case may be, in the court order or settlement agreement, except that the requirement of this subparagraph shall not apply in the case of any settlement agreement which requires the taxpayer to pay or incur an amount not greater than $1,000,000.

A taxpayer shall not meet the requirements of subparagraph (A) solely by reason an identification under subparagraph (B). This paragraph shall not apply to any amount paid or incurred as reimbursement to the government or entity for the costs of any investigation or litigation unless such amount is
paid or incurred for a cost or fee regularly charged for any routine audit or other customary review performed by the government or entity.

“(3) Exception for amounts paid or incurred as the result of certain court orders.—Paragraph (1) shall not apply to any amount paid or incurred by order of a court in a suit in which no government or entity described in paragraph (4) is a party.

“(4) Certain nongovernmental regulatory entities.—An entity is described in this paragraph if it is—

“(A) a nongovernmental entity which exercises self-regulatory powers (including imposing sanctions) in connection with a qualified board or exchange (as defined in section 1256(g)(7)), or

“(B) to the extent provided in regulations, a nongovernmental entity which exercises self-regulatory powers (including imposing sanctions) as part of performing an essential governmental function.

“(5) Exception for taxes due.—Paragraph (1) shall not apply to any amount paid or incurred as taxes due.”.
(b) Reporting of Deductible Amounts.—

(1) In general.—Subpart B of part III of subchapter A of chapter 61 is amended by inserting after section 6050V the following new section:

"SEC. 6050W. INFORMATION WITH RESPECT TO CERTAIN FINES, PENALTIES, AND OTHER AMOUNTS."

"(a) Requirement of Reporting.—

"(1) In general.—The appropriate official of any government or entity which is described in section 162(f)(4) which is involved in a suit or agreement described in paragraph (2) shall make a return in such form as determined by the Secretary setting forth—

"(A) the amount required to be paid as a result of the suit or agreement to which paragraph (1) of section 162(f) applies,

"(B) any amount required to be paid as a result of the suit or agreement which constitutes restitution or remediation of property, and

"(C) any amount required to be paid as a result of the suit or agreement for the purpose of coming into compliance with any law which was violated or involved in the investigation or inquiry."
“(2) Suit or Agreement Described.—

“(A) In General.—A suit or agreement is described in this paragraph if—

“(i) it is—

“(I) a suit with respect to a violation of any law over which the government or entity has authority and with respect to which there has been a court order, or

“(II) an agreement which is entered into with respect to a violation of any law over which the government or entity has authority, or with respect to an investigation or inquiry by the government or entity into the potential violation of any law over which such government or entity has authority, and

“(ii) the aggregate amount involved in all court orders and agreements with respect to the violation, investigation, or inquiry is $600 or more.

“(B) Adjustment of Reporting Threshold.—The Secretary may adjust the $600 amount in subparagraph (A)(ii) as nec-
necessary in order to ensure the efficient administration of the internal revenue laws.

“(3) Time of filing.—The return required under this subsection shall be filed not later than—

“(A) 30 days after the date on which a court order is issued with respect to the suit or the date the agreement is entered into, as the case may be, or

“(B) the date specified by the Secretary.

“(b) Statements to be furnished to individuals involved in the settlement.—Every person required to make a return under subsection (a) shall furnish to each person who is a party to the suit or agreement a written statement showing—

“(1) the name of the government or entity, and

“(2) the information supplied to the Secretary under subsection (a)(1).

The written statement required under the preceding sentence shall be furnished to the person at the same time the government or entity provides the Secretary with the information required under subsection (a).

“(c) Appropriate official defined.—For purposes of this section, the term ‘appropriate official’ means the officer or employee having control of the suit, inves-
tigation, or inquiry or the person appropriately designated
for purposes of this section.”.

(2) CONFORMING AMENDMENT.—The table of
sections for subpart B of part III of subchapter A
of chapter 61 is amended by inserting after the item
relating to section 6050V the following new item:

“Sec. 6050W. Information with respect to certain fines, penalties, and other
amounts.”.

(c) EFFECTIVE DATE.—The amendments made by
this section shall apply to amounts paid or incurred on
or after the date of the enactment of this Act, except that
such amendments shall not apply to amounts paid or in-
curred under any binding order or agreement entered into
before such date. Such exception shall not apply to an
order or agreement requiring court approval unless the ap-
proval was obtained before such date.

SEC. 308. REVISION OF TAX RULES ON EXPATRIATION.

(a) IN GENERAL.—Subpart A of part II of sub-
chapter N of chapter 1 is amended by inserting after sec-
tion 877 the following new section:

“SEC. 877A. TAX RESPONSIBILITIES OF EXPATRIATION.

“(a) GENERAL RULES.—For purposes of this sub-
title—

“(1) MARK TO MARKET.—All property of a cov-
ered expatriate shall be treated as sold on the day
before the expatriation date for its fair market value.

“(2) Recognition of gain or loss.—In the case of any sale under paragraph (1)—

“(A) notwithstanding any other provision of this title, any gain arising from such sale shall be taken into account for the taxable year of the sale, and

“(B) any loss arising from such sale shall be taken into account for the taxable year of the sale to the extent otherwise provided by this title, except that section 1091 shall not apply to any such loss.

Proper adjustment shall be made in the amount of any gain or loss subsequently realized for gain or loss taken into account under the preceding sentence, determined without regard to paragraph (3).

“(3) Exclusion for certain gain.—

“(A) In general.—The amount which would (but for this paragraph) be includible in the gross income of any individual by reason of paragraph (1) shall be reduced (but not below zero) by $600,000.

“(B) Adjustment for inflation.—
“(i) In general.—In the case of any taxable year beginning in a calendar year after 2008, the dollar amount in subparagraph (A) shall be increased by an amount equal to—

“(I) such dollar amount, multiplied by

“(II) the cost-of-living adjustment determined under section 1(f)(3) for the calendar year in which the taxable year begins, by substituting ‘calendar year 2007’ for ‘calendar year 1992’ in subparagraph (B) thereof.

“(ii) Rounding.—If any amount as adjusted under clause (i) is not a multiple of $1,000, such amount shall be rounded to the nearest multiple of $1,000.

“(b) Election to defer tax.—

“(1) In general.—If the taxpayer elects the application of this subsection with respect to any property treated as sold by reason of subsection (a), the time for payment of the additional tax attributable to such property shall be extended until the due date of the return for the taxable year in which such property is disposed of (or, in the case of prope-
erty disposed of in a transaction in which gain is not recognized in whole or in part, until such other date as the Secretary may prescribe).

“(2) **Determination of Tax with Respect to Property.**—For purposes of paragraph (1), the additional tax attributable to any property is an amount which bears the same ratio to the additional tax imposed by this chapter for the taxable year solely by reason of subsection (a) as the gain taken into account under subsection (a) with respect to such property bears to the total gain taken into account under subsection (a) with respect to all property to which subsection (a) applies.

“(3) **Termination of Extension.**—The due date for payment of tax may not be extended under this subsection later than the due date for the return of tax imposed by this chapter for the taxable year which includes the date of death of the expatriate (or, if earlier, the time that the security provided with respect to the property fails to meet the requirements of paragraph (4), unless the taxpayer corrects such failure within the time specified by the Secretary).

“(4) **Security.**—
“(A) IN GENERAL.—No election may be made under paragraph (1) with respect to any property unless adequate security is provided with respect to such property.

“(B) ADEQUATE SECURITY.—For purposes of subparagraph (A), security with respect to any property shall be treated as adequate security if—

“(i) it is a bond which is furnished to, and accepted by, the Secretary, which is conditioned on the payment of tax (and interest thereon), and which meets the requirements of section 6325, or

“(ii) it is another form of security for such payment (including letters of credit) that meets such requirements as the Secretary may prescribe.

“(5) WAIVER OF CERTAIN RIGHTS.—No election may be made under paragraph (1) unless the taxpayer makes an irrevocable waiver of any right under any treaty of the United States which would preclude assessment or collection of any tax imposed by reason of this section.
“(6) Elections.—An election under paragraph (1) shall only apply to property described in the election and, once made, is irrevocable.

“(7) Interest.—For purposes of section 6601, the last date for the payment of tax shall be determined without regard to the election under this subsection.

“(c) Exception for Certain Property.—Subsection (a) shall not apply to—

“(1) any deferred compensation item (as defined in subsection (d)(4)),

“(2) any specified tax deferred account (as defined in subsection (e)(2)), and

“(3) any interest in a nongrantor trust (as defined in subsection (f)(3)).

“(d) Treatment of Deferred Compensation Items.—

“(1) Withholding on Eligible Deferred Compensation Items.—

“(A) In General.—In the case of any eligible deferred compensation item, the payor shall deduct and withhold from any taxable payment to a covered expatriate with respect to such item a tax equal to 30 percent thereof.
“(B) TAXABLE PAYMENT.—For purposes of subparagraph (A), the term ‘taxable payment’ means with respect to a covered expatriate any payment to the extent it would be includible in the gross income of the covered expatriate if such expatriate continued to be subject to tax as a citizen or resident of the United States. A deferred compensation item shall be taken into account as a payment under the preceding sentence when such item would be so includible.

“(2) OTHER DEFERRED COMPENSATION ITEMS.—In the case of any deferred compensation item which is not an eligible deferred compensation item—

“(A)(i) with respect to any deferred compensation item to which clause (ii) does not apply, an amount equal to the present value of the covered expatriate’s accrued benefit shall be treated as having been received by such individual on the day before the expatriation date as a distribution under the plan, and

“(ii) with respect to any deferred compensation item referred to in paragraph (4)(D), the rights of the covered expatriate to such item
shall be treated as becoming transferable and
not subject to a substantial risk of forfeiture on
the day before the expatriation date,

“(B) no early distribution tax shall apply
by reason of such treatment, and

“(C) appropriate adjustments shall be
made to subsequent distributions from the plan
to reflect such treatment.

“(3) ELIGIBLE DEFERRED COMPENSATION
ITEMS.—For purposes of this subsection, the term
‘eligible deferred compensation item’ means any de-
ferred compensation item with respect to which—

“(A) the payor of such item is—

“(i) a United States person, or

“(ii) a person who is not a United
States person but who elects to be treated
as a United States person for purposes of
paragraph (1) and meets such require-
ments as the Secretary may provide to en-
sure that the payor will meet the require-
ments of paragraph (1), and

“(B) the covered expatriate—

“(i) notifies the payor of his status as
a covered expatriate, and
“(ii) makes an irrevocable waiver of any right to claim any reduction under any treaty with the United States in withholding on such item.

“(4) DEFERRED COMPENSATION ITEM.—For purposes of this subsection, the term ‘deferred compensation item’ means—

“(A) any interest in a plan or arrangement described in section 219(g)(5),

“(B) any interest in a foreign pension plan or similar retirement arrangement or program,

“(C) any item of deferred compensation,

and

“(D) any property, or right to property, which the individual is entitled to receive in connection with the performance of services to the extent not previously taken into account under section 83 or in accordance with section 83.

“(5) EXCEPTION.—Paragraphs (1) and (2) shall not apply to any deferred compensation item which is attributable to services performed outside the United States while the covered expatriate was not a citizen or resident of the United States.

“(6) SPECIAL RULES.—
“(A) APPLICATION OF WITHHOLDING RULES.—Rules similar to the rules of sub-
chapter B of chapter 3 shall apply for purposes of this subsection.

“(B) APPLICATION OF TAX.—Any item subject to the withholding tax imposed under paragraph (1) shall be subject to tax under sec-
tion 871.

“(C) COORDINATION WITH OTHER WITHHOLDING REQUIREMENTS.—Any item subject to withholding under paragraph (1) shall not be subject to withholding under section 1441 or chapter 24.

“(e) TREATMENT OF SPECIFIED TAX DEFERRED AC-
COUNTS.—

“(1) ACCOUNT TREATED AS DISTRIBUTED.—In the case of any interest in a specified tax deferred account held by a covered expatriate on the day be-
fore the expatriation date—

“(A) the covered expatriate shall be treated as receiving a distribution of his entire inter-
est in such account on the day before the expa-
triation date,

“(B) no early distribution tax shall apply by reason of such treatment, and
“(C) appropriate adjustments shall be made to subsequent distributions from the account to reflect such treatment.

“(2) Specified Tax Deferred Account.—

For purposes of paragraph (1), the term ‘specified tax deferred account’ means an individual retirement plan (as defined in section 7701(a)(37)) other than any arrangement described in subsection (k) or (p) of section 408, a qualified tuition program (as defined in section 529), a Coverdell education savings account (as defined in section 530), a health savings account (as defined in section 223), and an Archer MSA (as defined in section 220).

“(f) Special Rules for Nongrantor Trusts.—

“(1) In General.—In the case of a distribution (directly or indirectly) of any property from a nongrantor trust to a covered expatriate—

“(A) the trustee shall deduct and withhold from such distribution an amount equal to 30 percent of the taxable portion of the distribution, and

“(B) if the fair market value of such property exceeds its adjusted basis in the hands of the trust, gain shall be recognized to the trust
as if such property were sold to the expatriate at its fair market value.

“(2) TAXABLE PORTION.—For purposes of this subsection, the term ‘taxable portion’ means, with respect to any distribution, that portion of the distribution which would be includible in the gross income of the covered expatriate if such expatriate continued to be subject to tax as a citizen or resident of the United States.

“(3) NONGRANTOR TRUST.—For purposes of this subsection, the term ‘nongrantor trust’ means the portion of any trust that the individual is not considered the owner of under subpart E of part I of subchapter J. The determination under the preceding sentence shall be made immediately before the expatriation date.

“(4) SPECIAL RULES RELATING TO WITHHOLDING.—For purposes of this subsection—

“(A) rules similar to the rules of subsection (d)(6) shall apply, and

“(B) the covered expatriate shall be treated as having waived any right to claim any reduction under any treaty with the United States in withholding on any distribution to which paragraph (1)(A) applies.
“(g) Definitions and Special Rules Relating to Expatriation.—For purposes of this section—

“(1) Covered expatriate.—

“(A) In general.—The term ‘covered expatriate’ means an expatriate who meets the requirements of subparagraph (A), (B), or (C) of section 877(a)(2).

“(B) Exceptions.—An individual shall not be treated as meeting the requirements of subparagraph (A) or (B) of section 877(a)(2) if—

“(i) the individual—

“(I) became at birth a citizen of the United States and a citizen of another country and, as of the expatriation date, continues to be a citizen of, and is taxed as a resident of, such other country, and

“(II) has been a resident of the United States (as defined in section 7701(b)(1)(A)(ii)) for not more than 10 taxable years during the 15-taxable year period ending with the taxable year during which the expatriation date occurs, or
“(ii)(I) the individual’s relinquishment of United States citizenship occurs before such individual attains age 18½, and

“(II) the individual has been a resident of the United States (as so defined) for not more than 10 taxable years before the date of relinquishment.

“(C) COVERED EXPATRIATES ALSO SUBJECT TO TAX AS CITIZENS OR RESIDENTS.—In the case of any covered expatriate who is subject to tax as a citizen or resident of the United States for any period beginning after the expatriation date, such individual shall not be treated as a covered expatriate during such period for purposes of subsections (d)(1) and (f) and section 2801.

“(2) EXPATRIATE.—The term ‘expatriate’ means—

“(A) any United States citizen who relinquishes his citizenship, and

“(B) any long-term resident of the United States who ceases to be a lawful permanent resident of the United States (within the meaning of section 7701(b)(6)).
“(3) EXPATRIATION DATE.—The term ‘expatriation date’ means—

“(A) the date an individual relinquishes United States citizenship, or

“(B) in the case of a long-term resident of the United States, the date on which the individual ceases to be a lawful permanent resident of the United States (within the meaning of section 7701(b)(6)).

“(4) RELINQUISHMENT OF CITIZENSHIP.—A citizen shall be treated as relinquishing his United States citizenship on the earliest of—

“(A) the date the individual renounces his United States nationality before a diplomatic or consular officer of the United States pursuant to paragraph (5) of section 349(a) of the Immigration and Nationality Act (8 U.S.C. 1481(a)(5)),

“(B) the date the individual furnishes to the United States Department of State a signed statement of voluntary relinquishment of United States nationality confirming the performance of an act of expatriation specified in paragraph (1), (2), (3), or (4) of section 349(a)
of the Immigration and Nationality Act (8 U.S.C. 1481(a)(1)–(4)),

“(C) the date the United States Department of State issues to the individual a certificate of loss of nationality, or

“(D) the date a court of the United States cancels a naturalized citizen’s certificate of naturalization.

Subparagraph (A) or (B) shall not apply to any individual unless the renunciation or voluntary relinquishment is subsequently approved by the issuance to the individual of a certificate of loss of nationality by the United States Department of State.

“(5) LONG-TERM RESIDENT.—The term ‘long-term resident’ has the meaning given to such term by section 877(e)(2).

“(6) EARLY DISTRIBUTION TAX.—The term ‘early distribution tax’ means any increase in tax imposed under section 72(t), 220(e)(4), 223(f)(4), 409A(a)(1)(B), 529(c)(6), or 530(d)(4).

“(h) OTHER RULES.—

“(1) TERMINATION OF DEFERRALS, ETC.—In the case of any covered expatriate, notwithstanding any other provision of this title—
“(A) any time period for acquiring property which would result in the reduction in the amount of gain recognized with respect to property disposed of by the taxpayer shall terminate on the day before the expatriation date, and

“(B) any extension of time for payment of tax shall cease to apply on the day before the expatriation date and the unpaid portion of such tax shall be due and payable at the time and in the manner prescribed by the Secretary.

“(2) Step-up in basis.—Solely for purposes of determining any tax imposed by reason of subsection (a), property which was held by an individual on the date the individual first became a resident of the United States (within the meaning of section 7701(b)) shall be treated as having a basis on such date of not less than the fair market value of such property on such date. The preceding sentence shall not apply if the individual elects not to have such sentence apply. Such an election, once made, shall be irrevocable.

“(3) Coordination with section 684.—If the expatriation of any individual would result in the recognition of gain under section 684, this section shall be applied after the application of section 684.
“(i) Regulations.—The Secretary shall prescribe such regulations as may be necessary or appropriate to carry out the purposes of this section.”.

(b) Tax on Gifts and Bequests Received by United States Citizens and Residents From Expatriates.—

(1) In General.—Subtitle B (relating to estate and gift taxes) is amended by inserting after chapter 14 the following new chapter:

“CHAPTER 15—GIFTS AND BEQUESTS FROM EXPATRIATES

Sec. 2801. Imposition of tax.

“SEC. 2801. IMPOSITION OF TAX.

“(a) In General.—If, during any calendar year, any United States citizen or resident receives any covered gift or bequest, there is hereby imposed a tax equal to the product of—

“(1) the highest rate of tax specified in the table contained in section 2001(c) as in effect on the date of such receipt (or, if greater, the highest rate of tax specified in the table applicable under section 2502(a) as in effect on the date), and

“(2) the value of such covered gift or bequest.
“(b) Tax To Be Paid by Recipient.—The tax imposed by subsection (a) on any covered gift or bequest shall be paid by the person receiving such gift or bequest.

“(c) Exception for Certain Gifts.—Subsection (a) shall apply only to the extent that the value of covered gifts and bequests received by any person during the calendar year exceeds $10,000.

“(d) Tax Reduced by Foreign Gift or Estate Tax.—The tax imposed by subsection (a) on any covered gift or bequest shall be reduced by the amount of any gift or estate tax paid to a foreign country with respect to such covered gift or bequest.

“(e) Covered Gift or Bequest.—

“(1) In General.—For purposes of this chapter, the term ‘covered gift or bequest’ means—

“(A) any property acquired by gift directly or indirectly from an individual who, at the time of such acquisition, is a covered expatriate, and

“(B) any property acquired directly or indirectly by reason of the death of an individual who, immediately before such death, was a covered expatriate.
“(2) Exceptions for transfers otherwise subject to estate or gift tax.—Such term shall not include—

“(A) any property shown on a timely filed return of tax imposed by chapter 12 which is a taxable gift by the covered expatriate, and

“(B) any property included in the gross estate of the covered expatriate for purposes of chapter 11 and shown on a timely filed return of tax imposed by chapter 11 of the estate of the covered expatriate.

“(3) Transfers in trust.—

“(A) Domestic trusts.—In the case of a covered gift or bequest made to a domestic trust—

“(i) subsection (a) shall apply in the same manner as if such trust were a United States citizen, and

“(ii) the tax imposed by subsection (a) on such gift or bequest shall be paid by such trust.

“(B) Foreign trusts.—

“(i) In general.—In the case of a covered gift or bequest made to a foreign trust, subsection (a) shall apply to any di-
tribution attributable to such gift or be-
quest from such trust (whether from in-
come or corpus) to a United States citizen
or resident in the same manner as if such
distribution were a covered gift or bequest.

“(ii) Deduction for tax paid by
recipient.—There shall be allowed as a
deduction under section 164 the amount of
tax imposed by this section which is paid
or accrued by a United States citizen or
resident by reason of a distribution from a
foreign trust, but only to the extent such
tax is imposed on the portion of such dis-
tribution which is included in the gross in-
come of such citizen or resident.

“(iii) Election to be treated as
domestic trust.—Solely for purposes of
this section, a foreign trust may elect to be
treated as a domestic trust. Such an elec-
tion may be revoked with the consent of
the Secretary.

“(f) Covered expatriate.—For purposes of this
section, the term ‘covered expatriate’ has the meaning
given to such term by section 877A(g)(1).”.
(2) CLERICAL AMENDMENT.—The table of chapters for subtitle B is amended by inserting after the item relating to chapter 14 the following new item:

"CHAPTER 15. GIFTS AND BEQUESTS FROM EXPATRIATES."

(c) DEFINITION OF TERMINATION OF UNITED STATES CITIZENSHIP.—

(1) IN GENERAL.—Section 7701(a) is amended by adding at the end the following new paragraph:

"(50) TERMINATION OF UNITED STATES CITIZENSHIP.—

"(A) IN GENERAL.—An individual shall not cease to be treated as a United States citizen before the date on which the individual's citizenship is treated as relinquished under section 877A(g)(4).

"(B) DUAL CITIZENS.—Under regulations prescribed by the Secretary, subparagraph (A) shall not apply to an individual who became at birth a citizen of the United States and a citizen of another country."

(2) CONFORMING AMENDMENTS.—

(A) Paragraph (1) of section 877(e) is amended to read as follows:

"(1) IN GENERAL.—Any long-term resident of the United States who ceases to be a lawful perma-
nent resident of the United States (within the mean-
ing of section 7701(b)(6)) shall be treated for pur-
poses of this section and sections 2107, 2501, and
6039G in the same manner as if such resident were
a citizen of the United States who lost United States
citizenship on the date of such cessation or com-
mencement.”.

(B) Paragraph (6) of section 7701(b) is
amended by adding at the end the following
flush sentence:

“An individual shall cease to be treated as a lawful
permanent resident of the United States if such in-
dividual commences to be treated as a resident of a
foreign country under the provisions of a tax treaty
between the United States and the foreign country,
does not waive the benefits of such treaty applicable
to residents of the foreign country, and notifies the
Secretary of the commencement of such treatment.”.

(C) Section 7701 is amended by striking
subsection (n) and by redesignating subsections
(o) and (p) as subsections (n) and (o), respec-
tively.

(d) INFORMATION RETURNS.—Section 6039G is
amended—
(1) by inserting “or 877A” after “section 877(b)” in subsection (a), and

(2) by inserting “or 877A” after “section 877(a)” in subsection (d).

(e) Clerical Amendment.—The table of sections for subpart A of part II of subchapter N of chapter 1 is amended by inserting after the item relating to section 877 the following new item:

“Sec. 877A. Tax responsibilities of expatriation.”.

(f) Effective Date.—

(1) In general.—Except as provided in this subsection, the amendments made by this section shall apply to expatriates (as defined in section 877A(g) of the Internal Revenue Code of 1986, as added by this section) whose expatriation date (as so defined) is on or after the date of the enactment of this Act.

(2) Gifts and bequests.—Chapter 15 of the Internal Revenue Code of 1986 (as added by subsection (b)) shall apply to covered gifts and bequests (as defined in section 2801 of such Code, as so added) received on or after the date of the enactment of this Act, regardless of when the transferor expatriated.
A BILL

To amend the Internal Revenue Code of 1986 and to extend the financing for the Airport and Airway Trust Fund, and for other purposes.

NOVEMBER 13, 2007

Read twice and placed on the calendar.