

So the resolution was agreed to.

A motion to reconsider the vote whereby said resolution was agreed to was, by unanimous consent, laid on the table.

¶74.6 ORDER OF BUSINESS—VOTES IN THE HOUSE

On motion of Mr. LINDER, by unanimous consent,

Ordered. That if an electronic vote on House Concurrent Resolution 108 occurs immediately after an electronic vote on another question, the minimum time for that electronic vote on agreeing to the concurrent resolution may be five minutes.

¶74.7 PROVIDING FOR THE ADJOURNMENT OF THE TWO HOUSES

Mr. SOLOMON, pursuant to House Resolution 176, called up the following privileged concurrent resolution (H. Con. Res. 108):

Resolved by the House of Representatives (the Senate concurring), That when the House adjourns on the legislative day of Thursday, June 26, 1997, it stand adjourned until 12:30 p.m. on Tuesday, July 8, 1997, or until noon on the second day after Members are notified to reassemble pursuant to section 2 of this concurrent resolution, whichever occurs first; and that when the Senate recesses or adjourns at the close of business on Thursday, June 26, 1997, Friday, June 27, 1997, Saturday, June 28, 1997, or Sunday, June 29, 1997, pursuant to a motion made by the Majority Leader, or his designee, in accordance with this concurrent resolution, it stand recessed or adjourned until noon on Monday, July 7, 1997, or such time on that day as may be specified by the Majority Leader or his designee in the motion to recess or adjourn, or until noon on the second day after members are notified to reassemble pursuant to section 2 of this concurrent resolution, whichever occurs first.

SEC. 2. The Speaker of the House and the Majority Leader of the Senate, acting jointly after consultation with the Minority Leader of the House and the Minority Leader of the Senate, shall notify the Members of the House and the Senate, respectively, to reassemble whenever, in their opinion, the public interest shall warrant it.

When said concurrent resolution was considered and agreed to.

A motion to reconsider the vote whereby said concurrent resolution was agreed to was, by unanimous consent, laid on the table.

Ordered. That the Clerk request the concurrence of the Senate in said concurrent resolution.

¶74.8 BUDGET RECONCILIATION TAX CUT

The SPEAKER pro tempore, Mr. ROGAN, pursuant to House Resolution 174 and rule XXIII, declared the House resolved into the Committee of the Whole House on the state of the Union for the consideration of the bill (H.R. 2014) to provide for reconciliation pursuant to subsections (b)(2) and (d) of section 105 of the concurrent resolution on the budget for fiscal year 1998.

The SPEAKER pro tempore, Mr. ROGAN, by unanimous consent, designated Mr. GOODLATTE as Chairman of the Committee of the Whole; and after some time spent therein,

¶74.9 RECORDED VOTE

A recorded vote by electronic device was ordered in the Committee of the Whole on the following amendment in the nature of a substitute submitted by Mr. RANGEL:

SECTION 1. SHORT TITLE; AMENDMENT OF 1986 CODE.

(a) SHORT TITLE.—This Act may be cited as the “Revenue Reconciliation Act of 1997”.

(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.

(c) TABLE OF CONTENTS.—

Sec. 1. Short title; amendment of 1986 Code.
Sec. 2. Modifications of certain requirements.

TITLE I—TAX INCENTIVES FOR HIGHER EDUCATION

Sec. 101. Hope scholarship credits.
Sec. 102. Employer-provided educational assistance programs.

TITLE II—PUBLIC-PRIVATE EDUCATION PARTNERSHIPS

Sec. 201. Purpose.
Sec. 202. Incentives for education zones.

TITLE III—FAMILY TAX RELIEF

Sec. 301. Credit for families with young children.

TITLE IV—CAPITAL GAINS RELIEF

Subtitle A—Exemption From Tax for Gain on Sale of Principal Residence

Sec. 401. Exemption from tax for gain on sale of principal residence.
Sec. 402. Capital loss deduction allowed with respect to sale or exchange of principal residence.

Subtitle B—Lifetime Capital Gains Rate Reduction for Nontradable Property

Sec. 411. Lifetime capital gains rate reduction for nontradable property.

TITLE V—ESTATE TAX RELIEF

Sec. 501. Family-owned business exclusion.

TITLE VI—EXTENSION OF EXPIRING PROVISIONS

Sec. 601. Research credit.
Sec. 602. Orphan drug credit made permanent.
Sec. 603. Contributions of appreciated stock.
Sec. 604. Extension and modification of work opportunity credit.

TITLE VII—EMPOWERMENT ZONES, ETC.

Subtitle A—Empowerment Zones

Sec. 701. Additional empowerment zones with current law benefits.
Sec. 702. Designation of additional empowerment zones and enterprise communities.
Sec. 703. Volume cap not to apply to enterprise zone facility bonds with respect to new empowerment zones.
Sec. 704. Modifications to enterprise zone facility bond rules for all empowerment zones and enterprise communities.
Sec. 705. Modifications to enterprise zone business definition for all empowerment zones and enterprise communities.

Subtitle B—Brownfields

Sec. 711. Expensing of environmental remediation costs.
Sec. 712. Use of redevelopment bonds for environmental remediation.

Subtitle C—Welfare to Work Credit

Sec. 721. Welfare to work credit.

Subtitle D—Community Development Financial Institutions

Sec. 731. Credit for qualified equity investments in community development financial institutions.

TITLE VIII—OTHER TAX RELIEF

Sec. 801. Suspension of statute of limitations on filing refund claims during periods of disability.
Sec. 802. Modifications of Puerto Rico economic activity credit.
Sec. 803. Treatment of software as FSC export property.

TITLE IX—INCENTIVES FOR THE DISTRICT OF COLUMBIA

Sec. 901. Tax incentives for revitalization of the District of Columbia.

TITLE X—REVENUES

Subtitle A—Financial Products

Sec. 1001. Constructive sales treatment for appreciated financial positions.
Sec. 1002. Limitation on exception for investment companies under section 351.
Sec. 1003. Modification of rules for allocating interest expense to tax-exempt interest.
Sec. 1004. Gains and losses from certain terminations with respect to property.
Sec. 1005. Determination of original issue discount where pooled debt obligations subject to acceleration.
Sec. 1006. Denial of interest deductions on certain debt instruments.

Subtitle B—Corporate Organizations and Reorganizations

Sec. 1011. Tax treatment of certain extraordinary dividends.
Sec. 1012. Application of section 355 to distributions followed by acquisitions and to intragroup transactions.
Sec. 1013. Tax treatment of redemptions involving related corporations.
Sec. 1014. Modification of holding period applicable to dividends received deduction.

Subtitle C—Other Corporate Provisions

Sec. 1021. Registration and other provisions relating to confidential corporate tax shelters.
Sec. 1022. Certain preferred stock treated as boot.

Subtitle D—Administrative Provisions

Sec. 1031. Reporting of certain payments made to attorneys.
Sec. 1032. Decrease of threshold for reporting payments to corporations performing services for Federal agencies.
Sec. 1033. Disclosure of return information for administration of certain veterans programs.
Sec. 1034. Continuous levy on certain payments.
Sec. 1035. Returns of beneficiaries of estates and trusts required to file returns consistent with estate or trust return or to notify Secretary of inconsistency.

Subtitle E—Excise and Employment Tax Provisions

Sec. 1041. Extension and modification of Airport and Airway Trust Fund taxes.
Sec. 1042. Credit for tire tax in lieu of exclusion of value of tires in computing price.
Sec. 1043. Restoration of Leaking Underground Storage Tank Trust Fund taxes.
Sec. 1044. Reinstatement of Oil Spill Liability Trust Fund tax.

Sec. 1045. Extension of Federal unemployment surtax.

Subtitle F—Provisions Relating to Tax-Exempt Entities

Sec. 1051. Expansion of look-thru rule for interest, annuities, royalties, and rents derived by subsidiaries of tax-exempt organizations.

Subtitle G—Foreign-Related Provisions

Sec. 1061. Definition of foreign personal holding company income.

Sec. 1062. Personal property used predominantly in the United States treated as not property of a like kind with respect to property used predominantly outside the United States.

Sec. 1063. Holding period requirement for certain foreign taxes.

Sec. 1064. Penalties for failure to disclose position that certain international transportation income is not includible in gross income.

Sec. 1065. Interest on underpayments not reduced by foreign tax credit carrybacks.

Subtitle H—Other Revenue Provisions

Sec. 1071. Termination of suspense accounts for family corporations required to use accrual method of accounting.

Sec. 1072. Allocation of basis among properties distributed by partnership.

Sec. 1073. Repeal of requirement that inventory be substantially appreciated.

Sec. 1074. Extension of time for taxing precontribution gain.

Sec. 1075. Limitation on property for which income forecast method may be used.

Sec. 1076. Repeal of special rule for rental use of vacation homes, etc., for less than 15 days.

Sec. 1077. Expansion of requirement that involuntarily converted property be replaced with property acquired from an unrelated person.

Sec. 1078. Treatment of exception from installment sales rules for sales of property by a manufacturer to a dealer.

SEC. 2. MODIFICATIONS OF CERTAIN REQUIREMENTS.

(a) MODIFICATION OF DEPOSIT OF AIRLINE TICKET TAX REVENUES.—Deposits of taxes imposed by section 4261 of the Internal Revenue Code of 1986 which (but for this subsection) would be required to be made on or after July 1, 2001, and before October 1, 2001, shall be made on October 10, 2001.

(b) MODIFICATION OF ESTIMATED TAX PROVISIONS.—Subparagraph (C) of section 6654(d)(1) of the Internal Revenue Code of 1986 shall not apply in determining the amount of any required installment for a taxable year beginning in calendar year 2001.

TITLE I—TAX INCENTIVES FOR HIGHER EDUCATION

SEC. 101. HOPE SCHOLARSHIP CREDITS.

(a) IN GENERAL.—Subpart A of part IV of subchapter A of chapter 1 (relating to non-refundable personal credits) is amended by inserting after section 23 the following new section:

“SEC. 24. HOPE SCHOLARSHIP CREDITS.

“(a) ALLOWANCE OF CREDIT.—In the case of an individual, there shall be allowed as a credit against the tax imposed by this chapter for the taxable year the amount equal to the sum of—

“(1) the 100-Percent Hope Scholarship Credit, and

“(2) the 20-Percent Hope Scholarship Credit.

“(b) AMOUNT OF CREDITS.—For purposes of this section—

“(1) HOPE CREDIT.—

“(A) IN GENERAL.—The 100-Percent Hope Scholarship Credit is the amount of the qualified higher education expenses paid by the taxpayer during the taxable year for education furnished to an individual during any academic period beginning in such taxable year, but only if this paragraph applies to such individual for such taxable year.

“(B) DOLLAR LIMITATION.—The amount of the 100-Percent Hope Scholarship Credit determined under this paragraph with respect to any individual shall not exceed—

“(i) \$1,100 for taxable years beginning in 1997, 1998, or 1999,

“(ii) \$1,200 for taxable years beginning in 2000, or

“(iii) \$1,500 for taxable years beginning in 2001 or thereafter.

“(C) 100-PERCENT HOPE SCHOLARSHIP CREDIT ALLOWED FOR ONLY 2 TAXABLE YEARS.—This paragraph shall apply for a taxable year with respect to the qualified higher education expenses of an individual only if the taxpayer elects to have this section apply with respect to such individual for such year. An election under this subparagraph shall not take effect with respect to an individual for any taxable year if an election under this subparagraph (by the taxpayer or any other individual) is in effect with respect to such individual for any 2 prior taxable years.

“(D) 100-PERCENT HOPE SCHOLARSHIP CREDIT ALLOWED ONLY FOR FIRST 2 YEARS OF POSTSECONDARY EDUCATION.—This paragraph shall not apply for a taxable year with respect to the qualified higher education expenses of an individual if the individual has completed (before the beginning of such taxable year) the first 2 years of postsecondary education at an institution of higher education.

“(2) 20-PERCENT HOPE SCHOLARSHIP CREDIT.—

“(A) IN GENERAL.—The 20-Percent Hope Scholarship Credit is 20 percent of the qualified higher education expenses paid by the taxpayer during the taxable year for education furnished to an individual during any academic period beginning in such taxable year. Education expenses with respect to an individual for whom a Hope credit is determined for the taxable year shall not be taken into account under this paragraph.

“(B) DOLLAR LIMITATION.—The amount of qualified higher education expenses taken into account under subparagraph (A) for any taxable year shall not exceed—

“(i) \$4,000 for taxable years beginning in 1997, 1998, or 1999,

“(ii) \$5,000 for taxable years beginning in 2000,

“(iii) \$7,500 for taxable years beginning in 2001, or

“(iv) \$10,000 for taxable years beginning in 2002 or thereafter.

“(3) CREDIT ALLOWED FOR YEAR ONLY IF INDIVIDUAL IS AT LEAST ½ TIME STUDENT FOR PORTION OF YEAR.—No credit shall be allowed under subsection (a) for a taxable year with respect to the qualified higher education expenses of an individual unless such individual is an eligible student for at least one academic period which begins during such year.

“(c) LIMITATION BASED ON MODIFIED ADJUSTED GROSS INCOME.—

“(1) IN GENERAL.—The amount which would (but for this section) be allowed as a credit under subsection (a) for the taxable year shall be reduced (but not below zero) by the amount determined under paragraph (2).

“(2) AMOUNT OF REDUCTION.—The amount determined under this paragraph is the amount which bears the same ratio to the credit which would be so allowed as—

“(A) the excess of—

“(i) the taxpayer's modified adjusted gross income for such taxable year, over

“(ii) \$50,000 (\$80,000 in the case of a joint return), bears to

“(B) \$20,000.

“(3) MODIFIED ADJUSTED GROSS INCOME.—The term ‘modified adjusted gross income’ means the adjusted gross income of the taxpayer for the taxable year increased by any amount excluded from gross income under section 911, 931, or 933.

“(d) DEFINITIONS.—For purposes of this section—

“(1) QUALIFIED HIGHER EDUCATION EXPENSES.—

“(A) IN GENERAL.—The term ‘qualified higher education expenses’ means tuition and fees required for the enrollment or attendance of—

“(i) the taxpayer,

“(ii) the taxpayer's spouse, or

“(iii) any dependent of the taxpayer with respect to whom the taxpayer is allowed a deduction under section 151,

at an institution of higher education.

“(B) EXCEPTION FOR EDUCATION INVOLVING SPORTS, ETC.—Such term does not include expenses with respect to any course or other education involving sports, games, or hobbies, unless such course or other education is part of the individual's degree program.

“(C) EXCEPTION FOR NONACADEMIC FEES.—Such term does not include student activity fees, athletic fees, insurance expenses, or other expenses unrelated to an individual's academic course of instruction.

“(2) INSTITUTION OF HIGHER EDUCATION.—The term ‘institution of higher education’ means an institution—

“(A) which is described in section 481 of the Higher Education Act of 1965 (20 U.S.C. 1088), as in effect on the date of the enactment of this section, and

“(B) which is eligible to participate in a program under title IV of such Act.

“(3) ELIGIBLE STUDENT.—The term ‘eligible student’ means, with respect to any academic period, a student who—

“(A) meets the requirements of section 484(a)(1) of the Higher Education Act of 1965 (20 U.S.C. 1091(a)(1)), as in effect on the date of the enactment of this section, and

“(B) is carrying at least ½ the normal full-time work load for the course of study the student is pursuing.

“(e) TREATMENT OF EXPENSES PAID BY DEPENDENT.—If a deduction under section 151 with respect to an individual is allowed to another taxpayer for a taxable year beginning in the calendar year in which such individual's taxable year begins—

“(1) no credit shall be allowed under subsection (a) to such individual for such individual's taxable year, and

“(2) qualified higher education expenses paid by such individual during such individual's taxable year shall be treated for purposes of this section as paid by such other taxpayer.

“(f) TREATMENT OF CERTAIN PREPAYMENTS.—If qualified higher education expenses are paid by the taxpayer during a taxable year for an academic period which begins during the first 3 months following such taxable year, such academic period shall be treated for purposes of this section as beginning during such taxable year.

“(g) SPECIAL RULES.—

“(1) DENIAL OF CREDIT IF INDIVIDUAL CONVICTED OF DRUG OFFENSE.—No credit shall be allowed under subsection (a) with respect to the qualified higher education expenses of an individual for any taxable year if the individual has been convicted before the end of such year of a Federal or State felony offense consisting of the possession or distribution of a controlled substance.

“(2) DENIAL OF CREDIT IF INDIVIDUAL FAILS TO MAKE SATISFACTORY ACADEMIC PROGRESS.—If—

“(A) if a credit is allowable under this section with respect to the qualified higher education expenses of an individual for any taxable year, and

“(B) such individual failed to make satisfactory academic progress described in section 484(c) of the Higher Education Act of 1965 during such year.

no credit shall be allowed under subsection (a) with respect to qualified higher education expenses of such individual for a succeeding taxable year.

“(3) NO DOUBLE BENEFIT.—No credit shall be allowed under subsection (a) for any taxable year for any expense for which a deduction is allowed under any other provision of this chapter.

“(4) IDENTIFICATION REQUIREMENT.—No credit shall be allowed under subsection (a) to a taxpayer with respect to the qualified higher education expenses of an individual unless the taxpayer includes the name and taxpayer identification number of such individual on the return of tax for the taxable year.

“(5) ADJUSTMENT FOR CERTAIN SCHOLARSHIPS.—The amount of qualified higher education expenses otherwise taken into account under subsection (b) with respect to an individual for an academic period shall be reduced (before the application of any dollar limitation under this section) by the sum of—

“(A) any amounts paid for the benefit of such individual which are allocable to such period as—

“(i) a qualified scholarship which is excludable from gross income under section 117,

“(ii) an educational assistance allowance under chapter 30, 31, 32, 34, or 35 of title 38, United States Code, or under chapter 1606 of title 10, United States Code,

“(iii) a payment which is excludable from gross income under section 127, or

“(iv) a payment (other than a gift, bequest, devise, or inheritance within the meaning of section 102(a)) for such individual's educational expenses, or attributable to such individual's enrollment at an institution of higher education, which is excludable from gross income under any law of the United States, and

“(B) the amount excludable from gross income under section 135 which is allocable to such expenses with respect to such individual for such period.

“(6) NO CREDIT FOR MARRIED INDIVIDUALS FILING SEPARATE RETURNS.—If the taxpayer is a married individual (within the meaning of section 7703), this section shall apply only if the taxpayer and the taxpayer's spouse file a joint return for the taxable year.

“(7) NONRESIDENT ALIENS.—If the taxpayer is a nonresident alien individual for any portion of the taxable year, this section shall apply only if such individual is treated as a resident alien of the United States for purposes of this chapter by reason of an election under subsection (g) or (h) of section 6013.

“(h) INFLATION ADJUSTMENTS.—

“(1) DOLLAR LIMITATION ON AMOUNT OF CREDIT.—

“(A) IN GENERAL.—In the case of a taxable year beginning after 2001, each applicable dollar amount contained in subsection (b) 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, determined by substituting ‘calendar year 2000’ for ‘calendar year 1992’ in subparagraph (B) thereof.

“(B) ROUNDING.—If any amount as adjusted under subparagraph (A) is not a multiple of

\$50, such amount shall be rounded to the next lowest multiple of \$50.

“(2) INCOME LIMITS.—

“(A) IN GENERAL.—In the case of a taxable year beginning after 2000, the \$50,000 and \$80,000 amounts in subsection (c)(2) shall each 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, determined by substituting ‘calendar year 1999’ for ‘calendar year 1992’ in subparagraph (B) thereof.

“(B) ROUNDING.—If any amount as adjusted under subparagraph (A) is not a multiple of \$5,000, such amount shall be rounded to the next lowest multiple of \$5,000.

“(i) REGULATIONS.—The Secretary may prescribe such regulations as may be necessary or appropriate to carry out this section, including regulations providing for a recapture of credit allowed under this section in cases where there is a refund in a subsequent taxable year of any amount which was taken into account in determining the amount of such credit.”

(b) EXTENSION OF PROCEDURES APPLICABLE TO MATHEMATICAL OR CLERICAL ERRORS.—Paragraph (2) of section 6213(g) (relating to the definition of mathematical or clerical errors) is amended by striking “and” at the end of subparagraph (G), by striking the period at the end of subparagraph (H) and inserting “, and”, and by inserting after subparagraph (H) the following new subparagraph:

“(I) an omission of a correct TIN required under section 24(g)(4) (relating to higher education tuition and fees) to be included on a return.”

(c) RETURNS RELATING TO HIGHER EDUCATION EXPENSES.—

(1) IN GENERAL.—Subpart B of part III of subchapter A of chapter 61 (relating to information concerning transactions with other persons) is amended by inserting after section 6050R the following new section:

“SEC. 6050S. RETURNS RELATING TO HIGHER EDUCATION EXPENSES.

“(a) IN GENERAL.—Any person—

“(1) which is an institution of higher education which receives payments for qualified higher education expenses with respect to any individual for any calendar year, or

“(2) which is engaged in a trade or business which, in the course of such trade or business makes payments during any calendar year to any individual which constitute reimbursements or refunds (or similar amounts) of qualified higher education expenses of such individual,

shall make the return described in subsection (b) with respect to the individual at such time as the Secretary may by regulations prescribe.

“(b) FORM AND MANNER OF RETURNS.—A return is described in this subsection if such return—

“(1) is in such form as the Secretary may prescribe,

“(2) contains—

“(A) the name, address, and TIN of the individual with respect to whom payments described in subsection (a) were received from (or were paid to),

“(B) the name, address, and TIN of any individual certified by the individual described in subparagraph (A) as the taxpayer who will claim the individual as a dependent for purposes of the deduction allowable under section 151 for any taxable year ending with or within the calendar year,

“(C) the—

“(i) aggregate amount of payments for qualified higher education expenses received with respect to the individual described in subparagraph (A) during the calendar year, and

“(ii) aggregate amount of reimbursements or refunds (or similar amounts) paid to such individual during the calendar year, and

“(D) such other information as the Secretary may prescribe.

“(c) APPLICATION TO GOVERNMENTAL UNITS.—For purposes of this section—

“(1) a governmental unit or any agency or instrumentality thereof shall be treated as a person, and

“(2) any return required under subsection (a) by such governmental entity shall be made by the officer or employee appropriately designated for the purpose of making such return.

(d) STATEMENTS TO BE FURNISHED TO INDIVIDUALS WITH RESPECT TO WHOM INFORMATION IS REQUIRED.—Every person required to make a return under subsection (a) shall furnish to each individual whose name is required to be set forth in such return under subparagraph (A) or (B) of subsection (b)(2) a written statement showing—

“(1) the name, address, and phone number of the information contact of the person required to make such return, and

“(2) the aggregate amounts described in subparagraph (C) of subsection (b)(2).

The written statement required under the preceding sentence shall be furnished on or before January 31 of the year following the calendar year for which the return under subsection (a) was required to be made.

“(e) DEFINITIONS.—For purposes of this section, the terms ‘institution of higher education’ and ‘qualified higher education expenses’ have the respective meanings given such terms by section 24.

“(f) RETURNS WHICH WOULD BE REQUIRED TO BE MADE BY 2 OR MORE PERSONS.—Except to the extent provided in regulations prescribed by the Secretary, in the case of any amount received by any person on behalf of another person, only the person first receiving such amount shall be required to make the return under subsection (a).

“(g) REGULATIONS.—The Secretary shall prescribe such regulations as may be necessary to carry out the provisions of this section. No penalties shall be imposed under section 6724 with respect to any return or statement required under this section until such time as such regulations are issued.”

(2) ASSESSABLE PENALTIES.—Section 6724(d) (relating to definitions) is amended—

(A) in paragraph (1)(B) by redesignating clauses (x) through (xv) as clauses (xi) through (xvi), respectively, and by inserting after clause (ix) of such paragraph the following new clause:

“(x) section 6050S (relating to returns relating to payments for qualified higher education expenses),”, and

(B) in paragraph (2) by striking “or” at the end of the next to last subparagraph, by striking the period at the end of the last subparagraph and inserting “, or”, and by adding at the end the following new subparagraph:

“(Z) section 6050S(d) (relating to returns relating to qualified higher education expenses).”

(3) CLERICAL 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 6050R the following new item:

“Sec. 6050S. Returns relating to higher education expenses.”

(d) CONFORMING AMENDMENT.—The table of sections for subpart A of part IV of subchapter A of chapter 1 is amended by inserting after the item relating to section 23 the following new item:

“Sec. 24. Hope scholarship credits.”

(e) CREDIT ALLOWED AGAINST MINIMUM TAX.—Section 26 is amended by adding at the end the following new subsection:

“(c) SCHOLARSHIP CREDITS ALLOWED AGAINST MINIMUM TAX.—Subsection (a) shall not apply to the credit allowable under section 24, but the amount of the credit allowed by that section shall not exceed the sum of—

“(1) the regular tax liability for the taxable year reduced by the sum of the credits allowable under this subpart (other than section 24), and

“(2) the minimum tax imposed by section 55.”

(f) EFFECTIVE DATE.—The amendments made by this section shall apply to expenses paid after December 31, 1996 (in taxable years ending after such date), for education furnished in academic periods beginning after June 30, 1997.

SEC. 102. EMPLOYER-PROVIDED EDUCATIONAL ASSISTANCE PROGRAMS.

(a) PERMANENT EXTENSION.—Section 127 (relating to exclusion for educational assistance programs) is amended by striking subsection (d) and by redesignating subsection (e) as subsection (d).

(b) REPEAL OF LIMITATION ON GRADUATE EDUCATION.—The last sentence of section 127(c)(1) is amended by striking “, and such term also does not include any payment for, or the provision of any benefits with respect to, any graduate level course of a kind normally taken by an individual pursuing a program leading to a law, business, medical, or other advanced academic or professional degree”.

(c) EFFECTIVE DATES.—

(1) EXTENSION.—The amendment made by subsection (a) shall apply to taxable years beginning after December 31, 1996.

(2) GRADUATE EDUCATION.—The amendment made by subsection (b) shall apply with respect to expenses relating to courses beginning after June 30, 1997.

TITLE II—PUBLIC-PRIVATE EDUCATION PARTNERSHIPS

SEC. 201. PURPOSE.

The purpose of this title is to facilitate the establishment of working partnerships of public school educators, businesses, labor, and community groups to—

(1) enhance the academic curriculum for education and training below the postsecondary level,

(2) increase graduation and employment rates,

(3) better prepare students for the rigors of college and the increasingly complex workforce, and

(4) promote the global leadership position of the United States economy,

by providing a no-cost source of capital to eligible local education agencies for the cost of establishing specialized academies in distressed areas (referred to as “education zones”).

SEC. 202. INCENTIVES FOR EDUCATION ZONES.

(a) IN GENERAL.—Part III of subchapter U of chapter 1 (relating to additional incentives for empowerment zones), as amended by subsection (b), is amended by inserting after subpart B the following new subpart:

“Subpart C—Incentives for Education Zones

“Sec. 1397B. Credit to holders of qualified zone academy bonds.”

“SEC. 1397B. CREDIT TO HOLDERS OF QUALIFIED ZONE ACADEMY BONDS.

“(a) ALLOWANCE OF CREDIT.—In the case of a taxpayer who holds a qualified zone academy bond on the credit allowance date of such bond which occurs during the taxable year, there shall be allowed as a credit against the tax imposed by this chapter for such taxable year the amount determined under subsection (b).

“(b) AMOUNT OF CREDIT.—

“(1) IN GENERAL.—The amount of the credit determined under this subsection with respect to any qualified zone academy bond is the amount equal to the product of—

“(A) the credit rate determined by the Secretary under paragraph (2) for the month in which such bond was issued, multiplied by

“(B) the face amount of the bond held by the taxpayer on the credit allowance date.

“(2) DETERMINATION.—During each calendar month, the Secretary shall determine a credit rate which shall apply to bonds issued during the following calendar month. The credit rate for any month is the percentage which the Secretary estimates will permit the issuance of qualified zone academy bonds without discount and without interest cost to the issuer.

“(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 part IV of subchapter A (other than subpart C thereof, relating to refundable credits).

“(d) QUALIFIED ZONE ACADEMY BOND.—For purposes of this section—

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

“(A) 95 percent or more of the proceeds of such issue are to be used for a qualified purpose with respect to a qualified zone academy established by an eligible local education agency,

“(B) the bond is issued by a State or local government within the jurisdiction of which such academy is located,

“(C) the issuer—

“(i) designates such bond for purposes of this section,

“(ii) certifies that it has written assurances that the private business contribution requirement of paragraph (2) will be met with respect to such academy, and

“(iii) certifies that it has the written approval of the eligible local education agency for such bond issuance, and

“(D) the term of each bond which is part of such issue does not exceed the maximum term permitted under paragraph (3).

“(2) PRIVATE BUSINESS CONTRIBUTION REQUIREMENT.—

“(A) IN GENERAL.—For purposes of paragraph (1), the private business contribution requirement of this paragraph is met with respect to any issue if the eligible local education agency that established the qualified zone academy has written commitments from private entities to make qualified contributions having a present value (as of the date of issuance of the issue) of not less than 10 percent of the proceeds of the issue.

“(B) QUALIFIED CONTRIBUTIONS.—For purposes of subparagraph (A), the term ‘qualified contribution’ means any contribution (of a type and quality acceptable to the eligible local education agency) of—

“(i) equipment for use in the qualified zone academy (including state-of-the-art technology and vocational equipment),

“(ii) technical assistance in developing curriculum or in training teachers in order to promote appropriate market driven technology in the classroom,

“(iii) services of employees as volunteer mentors,

“(iv) internships, field trips, or other educational opportunities outside the academy for students, or

“(v) any other property or service specified by the eligible local education agency.

“(3) TERM REQUIREMENT.—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 the bond. Such present value shall be determined 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.

“(4) QUALIFIED ZONE ACADEMY.—

“(A) IN GENERAL.—The term ‘qualified zone academy’ means any public school (or academic program within a public school) which is established by and operated under the supervision of an eligible local education agency to provide education or training below the postsecondary level if—

“(i) such public school or program (as the case may be) is designed in cooperation with business to enhance the academic curriculum, increase graduation and employment rates, and better prepare students for the rigors of college and the increasingly complex workforce,

“(ii) students in such public school or program (as the case may be) will be subject to the same academic standards and assessments as other students educated by the eligible local education agency,

“(iii) the comprehensive education plan of such public school or program is approved by the eligible local education agency, and

“(iv)(I) such public school is located in an empowerment zone or enterprise community (including any such zone or community designated after the date of the enactment of this section), or

“(II) there is a reasonable expectation (as of the date of issuance of the bonds) that at least 35 percent of the students attending such school or participating in such program (as the case may be) will be eligible for free or reduced-cost lunches under the school lunch program established under the National School Lunch Act.

“(B) ELIGIBLE LOCAL EDUCATION AGENCY.—The term ‘eligible local education agency’ means any local education agency as defined in section 14101 of the Elementary and Secondary Education Act of 1965.

“(5) QUALIFIED PURPOSE.—The term ‘qualified purpose’ means, with respect to any qualified zone academy—

“(A) constructing or renovating the public school facility in which the academy is established,

“(B) providing equipment for use at such academy,

“(C) developing course materials for education to be provided at such academy, and

“(D) training teachers and other school personnel in such academy.

“(e) LIMITATION ON AMOUNT OF BONDS DESIGNATED.—

“(1) NATIONAL LIMITATION.—There is a national zone academy bond limitation for each calendar year. Such limitation is \$10,000,000,000 for 1998, 1999, 2000, 2001, and 2002, and zero thereafter.

“(2) ALLOCATION OF LIMITATION.—The national zone academy bond limitation for a calendar year shall be allocated by the Secretary among the States on the basis of their respective populations of individuals below the poverty line (as defined by the Office of Management and Budget). The limitation amount allocated to a State under the preceding sentence shall be allocated by the State education agency to qualified zone academies within such State.

“(3) DESIGNATION SUBJECT TO LIMITATION AMOUNT.—The maximum aggregate face amount of bonds issued during any calendar year which may be designated under subsection (d)(1) with respect to any qualified zone academy shall not exceed the limitation amount allocated to such academy under paragraph (2) for such calendar year.

“(4) CARRYOVER OF USED LIMITATION.—If for any calendar year—

“(A) the limitation amount for any State, exceeds

“(B) the amount of bonds issued during such year which are designated under subsection (d)(1) with respect to qualified zone academies within such State,

the limitation amount for such State for the following calendar year shall be increased by the amount of such excess.

“(f) OTHER DEFINITIONS.—For purposes of this section—

“(1) CREDIT ALLOWANCE DATE.—The term ‘credit allowance date’ means, with respect to any issue, the last day of the 1-year period beginning on the date of issuance of such issue and the last day of each successive 1-year period thereafter.

“(2) BOND.—The term ‘bond’ includes any obligation.

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

“(g) CREDIT INCLUDED IN GROSS INCOME.—Gross income includes the amount of the credit allowed to the taxpayer under this section.”

(b) CONFORMING AMENDMENTS.—

(1) Subchapter U of chapter 1 (as in effect before the amendment made by subsection (a)) is amended by redesignating subpart C as subpart D, and by redesignating sections 1397B, 1397C, and 1397D as sections 1397D, 1397E, and 1397F, respectively.

(2) Subsection (b) of section 1394 is amended—

(A) by striking “section 1397C” in paragraph (2) and inserting “section 1397E”, and

(B) by striking “section 1397B” in paragraph (3) and inserting “section 1397D”.

(3) The table of subparts for part III of subchapter U of chapter 1 is amended by striking the last item and inserting the following:

“Subpart C. Incentives for education zones.

“Subpart D. General provisions.”

(4) The table of sections for subpart D of such part III, as so redesignated, is amended to read as follows:

“Sec. 1397D. Enterprise zone business defined.

“Sec. 1397E. Qualified zone property defined.”

(5) The table of sections for part IV of subchapter U of chapter 1 is amended to read as follows:

“Sec. 1397F. Regulations.”

(c) EFFECTIVE DATE.—The amendments made by this section shall apply to obligations issued after December 31, 1997.

TITLE III—FAMILY TAX RELIEF

SEC. 301. CREDIT FOR FAMILIES WITH YOUNG CHILDREN.

(a) IN GENERAL.—Subpart C of part IV of subchapter A of chapter 1 (relating to refundable credits) is amended by inserting after section 34 the following new section:

“SEC. 34A. FAMILIES WITH YOUNG CHILDREN.

“(1) ALLOWANCE OF CREDIT.—

“(A) IN GENERAL.—In the case of an individual, there shall be allowed as a credit against the tax imposed by this subtitle for the taxable year an amount equal to \$500 multiplied by the number of eligible children of the taxpayer for the taxable year.

“(2) PHASE-IN OF CREDIT.—In the case of taxable years beginning before January 1, 2001, paragraph (1) shall be applied by substituting ‘\$300’ for ‘\$500’.

“(b) PHASEOUT OF CREDIT.—

“(1) IN GENERAL.—The amount of the credit allowed under subsection (a) shall be reduced (but not below zero) by the amount determined under paragraph (2).

“(2) AMOUNT OF REDUCTION.—The amount determined under this paragraph equals the amount which bears the same ratio to the credit (determined without regard to this subsection) as—

“(A) the excess of—

“(i) the taxpayer’s adjusted gross income for such taxable year, over

“(ii) \$60,000, bears to

“(B) \$15,000.

Any amount determined under this paragraph which is not a multiple of \$10 shall be rounded to the next lowest \$10.

“(3) ADJUSTED GROSS INCOME.—For purposes of this subsection, adjusted gross income of any taxpayer shall be increased by any amount excluded from gross income under section 911, 931, or 933.

“(c) ELIGIBLE CHILD.—For purposes of this section, the term ‘eligible child’ means any child (as defined in section 151(c)(3)) of the taxpayer—

“(1) who has not attained age 18 as of the close of the calendar year in which the taxable year of the taxpayer begins,

“(2) who is a dependent of the taxpayer with respect to whom the taxpayer is allowed a deduction under section 151 for such taxable year, and

“(3) whose TIN is included on the taxpayer’s return for such taxable year.

“(d) LIMITATION BASED ON AMOUNT OF TAX.—

“(1) IN GENERAL.—The credit allowed by subsection (a) for the taxable year shall not exceed the sum of—

“(A) the tax imposed by this chapter for the taxable year (reduced by the sum of the other credits allowable under this part against such tax other than under this subpart, relating to refundable credits), and

“(B) the taxpayer’s social security taxes for such taxable year.

“(2) SOCIAL SECURITY TAXES.—For purposes of paragraph (1)—

“(A) IN GENERAL.—The term ‘social security taxes’ means, with respect to any taxpayer for any taxable year—

“(i) the amount of the taxes imposed by sections 3101 and 3201(a) on amounts received by the taxpayer during the calendar year in which the taxable year begins,

“(ii) ½ of the amount of the taxes imposed by section 1401 on the self-employment income of the taxpayer for the taxable year, and

“(iii) ½ of the amount of the taxes imposed by section 3211(a)(1) on amounts received by the taxpayer during the calendar year in which the taxable year begins.

“(B) COORDINATION WITH SPECIAL REFUND OF SOCIAL SECURITY TAXES.—The term ‘social security taxes’ shall not include any taxes to the extent the taxpayer is entitled to a special refund of such taxes under section 6413(c).

“(C) SPECIAL RULE.—Any amounts paid pursuant to an agreement under section 3121(l) (relating to agreements entered into by American employers with respect to foreign affiliates) which are equivalent to the taxes referred to in subparagraph (A)(i) shall be treated as taxes referred to in such subparagraph.

“(e) INFLATION ADJUSTMENTS.—In the case of a taxable year beginning in a calendar year after 2000—

“(1) IN GENERAL.—The \$500 and \$60,000 amounts contained in subsections (a)(1) and (b)(2) shall each be increased by an amount equal to—

“(A) such dollar amount, multiplied by

“(B) the cost-of-living adjustment determined under section 1(f)(3) for the calendar year in which the taxable year begins, determined by substituting ‘calendar year 1999’ for ‘calendar year 1992’ in subparagraph (B) thereof.

“(2) INCREASE IN PHASEOUT RANGE.—If the dollar amount in effect under subsection (a)(1) for any taxable year exceeds \$500, subsection (b)(2)(B) shall be applied by substituting an amount equal to 30 times such dollar amount for ‘\$15,000’.

“(3) ROUNDING.—If any amount as adjusted under paragraph (1) is not a multiple of \$100, such amount shall be rounded to the next lowest multiple of \$100.

“(f) SPECIAL RULES.—

“(1) AMOUNT OF CREDIT MAY BE DETERMINED UNDER TABLES.—The amount of the credit allowed by this section may be determined under tables prescribed by the Secretary.

“(2) CERTAIN OTHER RULES APPLY.—Rules similar to the rules of subsections (c)(1)(E) and (F), (d), and (e) of section 32 shall apply for purposes of this section.”

(b) CLERICAL AMENDMENT.—The table of sections for subpart C of part IV of subchapter A of chapter 1 is amended by inserting after the item relating to section 34 the following new item:

“Sec. 34A. Families with young children.”

(c) CONFORMING AMENDMENT.—Paragraph (2) of section 1324(b) of title 31, United States Code, is amended by inserting before the period “, or from section 34A of such Code”.

(d) EFFECTIVE DATE.—The amendments made by this section shall apply to taxable years beginning after December 31, 1997.

TITLE IV—CAPITAL GAINS RELIEF

Subtitle A—Exemption From Tax for Gain on Sale of Principal Residence

SEC. 401. EXEMPTION FROM TAX FOR GAIN ON SALE OF PRINCIPAL RESIDENCE.

(a) IN GENERAL.—Section 121 (relating to one-time exclusion of gain from sale of principal residence by individual who has attained age 55) is amended to read as follows: “SEC. 121. EXCLUSION OF GAIN FROM SALE OF PRINCIPAL RESIDENCE.

“(a) EXCLUSION.—Gross income shall not include gain from the sale or exchange of property if, during the 5-year period ending on the date of the sale or exchange, such property has been owned and used by the taxpayer as the taxpayer’s principal residence for periods aggregating 2 years or more.

“(b) LIMITATIONS.—

“(1) DOLLAR LIMITATION.—The amount of gain excluded from gross income under subsection (a) with respect to any sale or exchange shall not exceed \$250,000 (\$500,000 in the case of a joint return where both spouses meet the use requirement of subsection (a)).

“(2) APPLICATION TO ONLY 1 SALE OR EXCHANGE EVERY 2 YEARS.—

“(A) IN GENERAL.—Subsection (a) shall not apply to any sale or exchange by the taxpayer if, during the 2-year period ending on the date of such sale or exchange, there was any other sale or exchange by the taxpayer to which subsection (a) applied.

“(B) PRIOR SALES BY SPOUSE NOT TAKEN INTO ACCOUNT.—If, but for this subparagraph, subsection (a) would not apply to a sale or exchange by a married individual filing a joint return solely by reason of a prior sale or exchange by such individual’s spouse—

“(i) subparagraph (A) shall be applied without regard to the sale or exchange by such individual’s spouse or any ownership or use by such spouse, but

“(ii) the amount of gain excluded from gross income under subsection (a) with respect to the sale or exchange by such individual shall not exceed \$250,000.

“(C) PRE-EFFECTIVE DATE SALES NOT TAKEN INTO ACCOUNT.—Subparagraph (A) shall be applied without regard to any sale or exchange before May 7, 1997.

“(c) EXCLUSION FOR TAXPAYERS FAILING TO MEET CERTAIN REQUIREMENTS.—

“(1) IN GENERAL.—In the case of a sale or exchange to which this subsection applies,

the ownership and use requirements of subsection (a) shall not apply and subsection (b)(2) shall not apply; but the amount of gain excluded from gross income under subsection (a) with respect to such sale or exchange shall not exceed—

“(A) the amount which bears the same ratio to the amount which would be so excluded if such requirements had been met, as

“(B) the shorter of—

“(i) the aggregate periods, during the 5-year period ending on the date of such sale or exchange, such property has been owned and used by the taxpayer as the taxpayer's principal residence, or

“(ii) the period after the date of the most recent prior sale or exchange by the taxpayer or his spouse to which subsection (a) applied and before the date of such sale or exchange,

bears to 2 years.

“(2) SALES AND EXCHANGES TO WHICH SUBSECTION APPLIES.—This subsection shall apply to any sale or exchange if—

“(A) subsection (a) would not (but for this subsection) apply to such sale or exchange by reason of—

“(i) a failure to meet the ownership and use requirements of subsection (a), or

“(ii) subsection (b)(2), and

“(B) such sale or exchange is by reason of a change in place of employment, health, or other unforeseen circumstances.

“(d) SPECIAL RULES.—

“(1) JOINT RETURNS.—For purposes of this section, if a husband and wife make a joint return for the taxable year of the sale or exchange of property, both spouses shall be treated as meeting the ownership requirement of subsection (a) with respect to such property if either spouse meets such requirement.

“(2) PROPERTY OF DECEASED SPOUSE.—For purposes of this section, in the case of an unmarried individual whose spouse is deceased on the date of the sale or exchange of property, the period such unmarried individual owned such property shall include the period such deceased spouse held such property before death.

“(3) TENANT-STOCKHOLDER IN COOPERATIVE HOUSING CORPORATION.—For purposes of this section, if the taxpayer holds stock as a tenant-stockholder (as defined in section 216) in a cooperative housing corporation (as defined in such section), then—

“(A) the holding requirements of subsection (a) shall be applied to the holding of such stock, and

“(B) the use requirements of subsection (a) shall be applied to the house or apartment which the taxpayer was entitled to occupy as such stockholder.

“(4) INVOLUNTARY CONVERSIONS.—

“(A) IN GENERAL.—For purposes of this section, the destruction, theft, seizure, requisition, or condemnation of property shall be treated as the sale of such property.

“(B) APPLICATION OF SECTION 1033.—In applying section 1033 (relating to involuntary conversions), the amount realized from the sale or exchange of property shall be treated as being the amount determined without regard to this section, reduced by the amount of gain not included in gross income pursuant to this section.

“(C) PROPERTY ACQUIRED AFTER INVOLUNTARY CONVERSION.—If the basis of the property sold or exchanged is determined (in whole or in part) under section 1033(b) (relating to basis of property acquired through involuntary conversion), then the holding and use by the taxpayer of the converted property shall be treated for purposes of this section as holding and use by the taxpayer of the property sold or exchanged.

“(5) RECOGNITION OF GAIN ATTRIBUTABLE TO DEPRECIATION.—Subsection (a) shall not

apply to so much of the gain from the sale of any property as does not exceed the portion of the depreciation adjustments (as defined in section 1250(b)(3)) attributable to periods after December 31, 1996, in respect of such property.

“(6) DETERMINATION OF USE DURING PERIODS OF OUT-OF-RESIDENCE CARE.—In the case of a taxpayer who—

“(A) becomes physically or mentally incapable of self-care, and

“(B) owns property and uses such property as the taxpayer's principal residence during the 5-year period described in subsection (a) for periods aggregating at least 1 year,

then the taxpayer shall be treated as using such property as the taxpayer's principal residence during any time during such 5-year period in which the taxpayer owns the property and resides in any facility (including a nursing home) licensed by a State or political subdivision to care for an individual in the taxpayer's condition.

“(7) DETERMINATION OF MARITAL STATUS.—In the case of any sale or exchange, for purposes of this section—

“(A) the determination of whether an individual is married shall be made as of the date of the sale or exchange, and

“(B) an individual legally separated from his spouse under a decree of divorce or of separate maintenance shall not be considered as married.

“(e) ELECTION TO HAVE SECTION NOT APPLY.—This section shall not apply to any sale or exchange with respect to which the taxpayer elects not to have this section apply.

“(f) RESIDENCES ACQUIRED IN ROLLOVERS UNDER SECTION 1034.—For purposes of this section, in the case of property the acquisition of which by the taxpayer resulted under section 1034 (as in effect on the day before the date of the enactment of this sentence) in the nonrecognition of any part of the gain realized on the sale or exchange of another residence, in determining the period for which the taxpayer has owned and used such property as the taxpayer's principal residence, there shall be included the aggregate periods for which such other residence (and each prior residence taken into account under section 1223(7) in determining the holding period of such property) had been so owned and used.”

(b) REPEAL OF NONRECOGNITION OF GAIN ON ROLLOVER OF PRINCIPAL RESIDENCE.—Section 1034 (relating to rollover of gain on sale of principal residence) is hereby repealed.

(c) CONFORMING AMENDMENTS.—

(1) The following provisions of the Internal Revenue Code of 1986 are each amended by striking “section 1034” and inserting “section 121”: sections 25(e)(7), 56(e)(1)(A), 56(e)(3)(B)(i), 143(i)(1)(C)(i)(I), 163(h)(4)(A)(i)(I), 280A(d)(4)(A), 464(f)(3)(B)(i), 1033(k)(3), 1274(c)(3)(B), 6334(a)(13), and 7872(f)(11)(A).

(2) Paragraph (4) of section 32(c) is amended by striking “(as defined in section 1034(h)(3))” and by adding at the end the following new sentence: “For purposes of the preceding sentence, the term ‘extended active duty’ means any period of active duty pursuant to a call or order to such duty for a period in excess of 90 days or for an indefinite period.”

(3) Subparagraph (A) of 143(m)(6) is amended by inserting “(as in effect on the day before the date of the enactment of the Revenue Reconciliation Act of 1997)” after “1034(e)”.

(4) Subsection (e) of section 216 is amended by striking “such exchange qualifies for nonrecognition of gain under section 1034(f)” and inserting “such dwelling unit is used as his principal residence (within the meaning of section 121)”.

(5) Section 512(a)(3)(D) is amended by inserting “(as in effect on the day before the date of the enactment of the Revenue Reconciliation Act of 1997)” after “1034”.

(6) Paragraph (7) of section 1016(a) is amended by inserting “(as in effect on the day before the date of the enactment of the Revenue Reconciliation Act of 1997)” after “1034” and by inserting “(as so in effect)” after “1034(e)”.

(7) Paragraph (3) of section 1033(k) is amended to read as follows:

“(3) For exclusion from gross income of gain from involuntary conversion of principal residence, see section 121.”

(8) Subsection (e) of section 1038 is amended to read as follows:

“(e) PRINCIPAL RESIDENCES.—If—

“(1) subsection (a) applies to a reacquisition of real property with respect to the sale of which gain was not recognized under section 121 (relating to gain on sale of principal residence), and

“(2) within 1 year after the date of the reacquisition of such property by the seller, such property is resold by him,

then, under regulations prescribed by the Secretary, subsections (b), (c), and (d) of this section shall not apply to the reacquisition of such property and, for purposes of applying section 121, the resale of such property shall be treated as a part of the transaction constituting the original sale of such property.”

(9) Paragraph (7) of section 1223 is amended by inserting “(as in effect on the day before the date of the enactment of the Revenue Reconciliation Act of 1997)” after “1034”.

(10) Section 1250(d)(7) is amended to read as follows:

“(7) PRINCIPAL RESIDENCE.—Subsection (a) shall not apply to a disposition to the extent that gain from the disposition is excluded from gross income under section 121.”

(11) Paragraph (2) of section 6212(c) is amended by striking subparagraph (C) and by redesignating the succeeding subparagraphs accordingly.

(12) Section 6504 is amended by striking paragraph (4) and by redesignating the succeeding paragraphs accordingly.

(13) The item relating to section 121 in the table of sections for part III of subchapter B of chapter 1 is amended to read as follows:

“Sec. 121. Exclusion of gain from sale of principal residence.”

(14) The table of sections for part III of subchapter O of chapter 1 is amended by striking the item relating to section 1034.

(d) EFFECTIVE DATE.—

(1) IN GENERAL.—The amendments made by this section shall apply to sales and exchanges on or after May 7, 1997.

(2) TRANSITIONAL RULE.—At the election of the taxpayer, the amendments made by this section shall not apply to—

(A) a sale or exchange on or before the date of the enactment of this Act, or

(B) a sale or exchange after such date of enactment, if—

(i) such sale or exchange is pursuant to a contract which was binding on such date, and at all times thereafter before such sale or exchange, or

(ii) without regard to such amendments, gain would not be recognized under section 1034 of the Internal Revenue Code of 1986 (as in effect on the day before the date of the enactment of this Act) on such sale or exchange by reason of a new residence acquired on or before such date.

SEC. 402. CAPITAL LOSS DEDUCTION ALLOWED WITH RESPECT TO SALE OR EXCHANGE OF PRINCIPAL RESIDENCE.

(a) IN GENERAL.—Subsection (c) of section 165 (relating to limitation on losses of individuals) is amended by striking “and” at the

end of paragraph (2), by striking the period at the end of paragraph (3) and inserting “; and”, and by adding at the end the following new paragraph:

“(4) losses (not in excess of \$250,000) arising from the sale or exchange of the principal residence (within the meaning of section 121) of the taxpayer.”

(b) EFFECTIVE DATE.—The amendment made by subsection (a) shall apply to sales and exchanges on or after May 7, 1997, in taxable years ending after such date.

**Subtitle B—Lifetime Capital Gains Rate
Reduction for Nontradable Property**
**SEC. 411. LIFETIME CAPITAL GAINS RATE REDUC-
TION FOR NONTRADABLE PROP-
ERTY.**

(a) IN GENERAL.—Subsection (h) of section 1 (relating to maximum capital gains rate) is amended to read as follows:

“(h) MAXIMUM CAPITAL GAINS RATE.—If a taxpayer has a net capital gain for any taxable year, the tax imposed by this section for such taxable year shall not exceed the sum of—

“(1) a tax computed at the rates and in the manner as if this subsection had not been enacted on the greater of—

“(A) taxable income reduced by the amount of the net capital gain, or

“(B) the amount of taxable income taxed at a rate below 18 percent, plus

“(2) the sum of—

“(A) 18 percent of the lifetime qualified net capital gain (or if lesser, the amount of taxable income in excess of the amount taxed under paragraph (1)), plus

“(B) 28 percent of the excess of the net capital gain (or if lesser, the amount of taxable income in excess of the amount taxed under paragraph (1)) over the lifetime qualified net capital gain for the taxable year.

For purposes of the preceding sentence, the net capital gain for any taxable year shall be reduced (but not below zero) by the amount which the taxpayer elects to take into account as investment income for the taxable year under section 163(d)(4)(B)(iii). In the case of a taxpayer only subject to tax under this section at the 15 percent rate, the amount of the tax under paragraph (1)(B) on net capital gain shall be determined at a rate of 7.5 percent.”

(b) DEFINITION.—Section 1 is amended by adding at the end thereof the following new subsection:

“(i) LIFETIME QUALIFIED NET CAPITAL GAIN

“(1) IN GENERAL.—For purposes of subsection (h), the lifetime qualified net capital gain is the qualified net gain for the taxable year.

“(2) LIMITATION.—

“(A) IN GENERAL.—The amount of the qualified net gain taken into account under paragraph (1) for any taxable year shall not exceed \$600,000 reduced by the aggregate amount of the qualified net gain taken into account under this subsection by the taxpayer for prior taxable years.

“(B) SPECIAL RULE FOR JOINT RETURNS.—The amount of the qualified net gain taken into account under this subsection on a joint return for any taxable year shall be allocated equally between the spouses for purposes of determining the limitation under subparagraph (A) for any succeeding taxable year.

“(3) QUALIFIED NET GAIN.—For purposes of paragraph (1), the term ‘qualified net gain’ means the lesser of—

“(A) the net capital gain for the taxable year, or

“(B) the net capital gain for the taxable year determined by only taking into account gains and losses from sales and exchanges on or after May 7, 1997, of qualified assets.

A taxpayer may elect for any taxable year not to take into account under this sub-

section all (or any portion) of the qualified net gain for such taxable year. Such an election, once made, shall be irrevocable.

“(4) QUALIFIED ASSETS.—For purposes of this subsection, the term ‘qualified assets’ means any property held for more than 3 years other than—

“(A) stock or securities for which there is a market on an established securities market or otherwise, and

“(B) property (other than stock or securities) of a kind regularly traded on an established market.

Such term shall not include any qualified small business stock (as defined in section 1202) nor the principal residence of the taxpayer.

“(5) SUBSECTION NOT TO APPLY TO CERTAIN INDIVIDUALS.—This subsection shall not apply to any individual who has not attained age 25 before the close of the taxable year.

“(6) SUBSECTION NOT TO APPLY TO CERTAIN TAXPAYERS.—This subsection shall not apply to—

“(A) a married individual (within the meaning of section 7703) filing a separate return for the taxable year, or

“(B) an estate or trust.

“(7) SPECIAL RULES.—

“(A) TREATMENT OF CERTAIN SALES OF INTERESTS IN PARTNERSHIPS, ETC.—For purposes of this subsection, any gain from the sale or exchange of a qualified asset which is an interest in a partnership, S corporation, or trust shall not be treated as gain from the sale or exchange of a qualified asset to the extent such gain is attributable to unrealized appreciation in the value of property described in subparagraph (A) or (B) of paragraph (4) which is held by such entity. Rules similar to the rules of section 751(f) shall apply for purposes of the preceding sentence.

“(B) SPECIAL RULE FOR PASS-THRU ENTITIES.—

“(i) IN GENERAL.—In applying this subsection with respect to any pass-thru entity—

“(I) the determination of when the sale or exchange occurs shall be made at the entity level, and

“(II) any gain attributable to such entity shall in no event be treated as gain from sale or exchange of a qualified asset if interests in such entity are described in subparagraph (A) or (B) of paragraph (4).

“(ii) PASS-THRU ENTITY DEFINED.—For purposes of clause (i), the term ‘pass-thru-entity’ means—

“(I) a regulated investment company,

“(II) a real estate investment trust,

“(III) an S corporation,

“(IV) a partnership,

“(V) an estate or trust, and

“(VI) a common trust fund.”

(c) TREATMENT OF COLLECTIBLES.—

(1) IN GENERAL.—Section 1222 is amended by inserting after paragraph (11) the following new paragraph:

“(12) SPECIAL RULE FOR COLLECTIBLES.—

“(A) IN GENERAL.—Any gain or loss from the sale or exchange of a collectible shall be treated as a short-term capital gain or loss (as the case may be), without regard to the period such asset was held. The preceding sentence shall apply only to the extent the gain or loss is taken into account in computing taxable income.

“(B) TREATMENT OF CERTAIN SALES OF INTERESTS IN PARTNERSHIPS, ETC.—For purposes of subparagraph (A), any gain from the sale or exchange of an interest in a partnership, S corporation, or trust which is attributable to unrealized appreciation in the value of collectibles held by such entity shall be treated as gain from the sale or exchange of a collectible. Rules similar to the rules of section 751(f) shall apply for purposes of the preceding sentence.

“(C) COLLECTIBLE.—For purposes of this paragraph, the term ‘collectible’ means any capital asset which is a collectible (as defined in section 408(m) without regard to paragraph (3) thereof).”

(2) CHARITABLE DEDUCTION NOT AFFECTED.—

(A) Paragraph (1) of section 170(e) is amended by adding at the end thereof the following new sentence: “For purposes of this paragraph, section 1222 shall be applied without regard to paragraph (12) thereof (relating to special rule for collectibles).”

(B) Clause (iv) of section 170(b)(1)(C) is amended by inserting before the period at the end thereof the following: “and section 1222 shall be applied without regard to paragraph (12) thereof (relating to special rule for collectibles).”

(d) MINIMUM TAX TREATMENT.—Clause (i) of section 55(b)(1)(A) is amended to read as follows:

“(i) IN GENERAL.—In the case of a taxpayer other than a corporation, the tentative minimum tax for the taxable year is the sum of—

“(I) 18 percent of so much of the taxable excess as does not exceed the lifetime qualified net capital gain for the taxable year,

“(II) 26 percent of so much of the ordinary taxable excess as does not exceed \$175,000, plus

“(III) 28 percent of so much of the ordinary taxable excess as exceeds \$175,000.

For purposes of the preceding sentence, the term ‘ordinary taxable excess’ means the taxable excess reduced by the lifetime qualified net capital gain. The amount determined under this clause shall be reduced by the alternative minimum tax foreign tax credit for the taxable year.”

(e) EFFECTIVE DATE.—Except as provided in paragraph (2), the amendments made by this section shall apply to taxable years ending on or after May 7, 1997.

TITLE V—ESTATE TAX RELIEF

SEC. 501. FAMILY-OWNED BUSINESS EXCLUSION.

(a) IN GENERAL.—Part III of subchapter A of chapter 11 (relating to gross estate) is amended by inserting after section 2033 the following new section:

“SEC. 2033A. FAMILY-OWNED BUSINESS EXCLUSION.

“(a) IN GENERAL.—In the case of an estate of a decedent to which this section applies, the value of the gross estate shall not include the lesser of—

“(1) the adjusted value of the qualified family-owned business interests of the decedent otherwise includible in the estate, or

“(2) \$400,000, increased by the amount (if any) of the limitation under this paragraph not claimed by the estate of a previously deceased spouse of the decedent.

“(b) ESTATES TO WHICH SECTION APPLIES.—

“(1) IN GENERAL.—This section shall apply to an estate if—

“(A) the decedent was (at the date of the decedent’s death) a citizen or resident of the United States,

“(B) the sum of—

“(i) the adjusted value of the qualified family-owned business interests described in paragraph (2), plus

“(ii) the amount of the gifts of such interests determined under paragraph (3),

exceeds 50 percent of the adjusted gross estate, and

“(C) during the 8-year period ending on the date of the decedent’s death there have been periods aggregating 5 years or more during which—

“(i) such interests were owned by the decedent or a member of the decedent’s family, and

“(ii) there was material participation (within the meaning of section 2032A(e)(6)) by the decedent or a member of the dece-

dent's family in the operation of the business to which such interests relate.

“(2) INCLUDIBLE QUALIFIED FAMILY-OWNED BUSINESS INTERESTS.—The qualified family-owned business interests described in this paragraph are the interests which—

“(A) are included in determining the value of the gross estate (without regard to this section), and

“(B) are acquired by any qualified heir from, or passed to any qualified heir from, the decedent (within the meaning of section 2032A(e)(9)).

“(3) INCLUDIBLE GIFTS OF INTERESTS.—The amount of the gifts of qualified family-owned business interests determined under this paragraph is the excess of—

“(A) the sum of—

“(i) the amount of such gifts from the decedent to members of the decedent's family taken into account under subsection 2001(b)(1)(B), plus

“(ii) the amount of such gifts otherwise excluded under section 2503(b),

to the extent such interests are continuously held by members of such family (other than the decedent's spouse) between the date of the gift and the date of the decedent's death, over

“(B) the amount of such gifts from the decedent to members of the decedent's family otherwise included in the gross estate.

“(c) ADJUSTED GROSS ESTATE.—For purposes of this section, the term ‘adjusted gross estate’ means the value of the gross estate (determined without regard to this section)—

“(1) reduced by any amount deductible under paragraph (3) or (4) of section 2053(a), and

“(2) increased by the excess of—

“(A) the sum of—

“(i) the amount of gifts determined under subsection (b)(3),

“(ii) the amount (if more than de minimis) of other transfers from the decedent to the decedent's spouse (at the time of the transfer) within 10 years of the date of the decedent's death, plus

“(iii) the amount of other gifts (not included under clause (i) or (ii)) from the decedent within 3 years of such date, other than gifts to members of the decedent's family otherwise excluded under section 2503(b), over

“(B) the sum of the amounts described in clauses (i), (ii), and (iii) of subparagraph (A) which are otherwise includible in the gross estate.

For purposes of the preceding sentence, the Secretary may provide that de minimis gifts to persons other than members of the decedent's family shall not be taken into account.

“(d) ADJUSTED VALUE OF THE QUALIFIED FAMILY-OWNED BUSINESS INTERESTS.—For purposes of this section, the adjusted value of any qualified family-owned business interest is the value of such interest for purposes of this chapter (determined without regard to this section), reduced by the excess of—

“(1) any amount deductible under paragraph (3) or (4) of section 2053(a), over

“(2) the sum of—

“(A) any indebtedness on any qualified residence of the decedent the interest on which is deductible under section 163(h)(3),

“(B) any indebtedness to the extent the taxpayer establishes that the proceeds of such indebtedness were used for the payment of educational and medical expenses of the decedent, the decedent's spouse, or the decedent's dependents (within the meaning of section 152), plus

“(C) any indebtedness not described in clause (i) or (ii), to the extent such indebtedness does not exceed \$10,000.

“(e) QUALIFIED FAMILY-OWNED BUSINESS INTEREST.—

“(1) IN GENERAL.—For purposes of this section, the term ‘qualified family-owned business interest’ means—

“(A) an interest as a proprietor in a trade or business carried on as a proprietorship, or

“(B) an interest in an entity carrying on a trade or business, if—

“(i) at least—

“(I) 50 percent of such entity is owned (directly or indirectly) by the decedent and members of the decedent's family,

“(II) 70 percent of such entity is so owned by members of 2 families, or

“(III) 90 percent of such entity is so owned by members of 3 families, and

“(ii) for purposes of subclause (II) or (III) of clause (i), at least 30 percent of such entity is so owned by the decedent and members of the decedent's family.

“(2) LIMITATION.—Such term shall not include—

“(A) any interest in a trade or business the principal place of business of which is not located in the United States,

“(B) any interest in an entity, if the stock or debt of such entity or a controlled group (as defined in section 267(f)(1)) of which such entity was a member was readily tradable on an established securities market or secondary market (as defined by the Secretary) at any time within 3 years of the date of the decedent's death,

“(C) any interest in a trade or business not described in section 542(c)(2), if more than 35 percent of the adjusted ordinary gross income of such trade or business for the taxable year which includes the date of the decedent's death would qualify as personal holding company income (as defined in section 543(a)), or

“(D) that portion of an interest in a trade or business that is attributable to—

“(i) cash or marketable securities, or both, in excess of the reasonably expected day-to-day working capital needs of such trade or business, and

“(ii) any other assets of the trade or business (other than assets used in the active conduct of a trade or business described in section 542(c)(2)), the income of which is described in section 543(a) or in subparagraph (B), (C), (D), or (E) of section 954(c)(1) (determined by substituting ‘trade or business’ for ‘controlled foreign corporation’).

“(3) RULES REGARDING OWNERSHIP.—

“(A) OWNERSHIP OF ENTITIES.—For purposes of paragraph (1)(B)—

“(i) CORPORATIONS.—Ownership of a corporation shall be determined by the holding of stock possessing the appropriate percentage of the total combined voting power of all classes of stock entitled to vote and the appropriate percentage of the total value of shares of all classes of stock.

“(ii) PARTNERSHIPS.—Ownership of a partnership shall be determined by the owning of the appropriate percentage of the capital interest in such partnership.

“(B) OWNERSHIP OF TIERED ENTITIES.—For purposes of this section, if by reason of holding an interest in a trade or business, a decedent, any member of the decedent's family, any qualified heir, or any member of any qualified heir's family is treated as holding an interest in any other trade or business—

“(i) such ownership interest in the other trade or business shall be disregarded in determining if the ownership interest in the first trade or business is a qualified family-owned business interest, and

“(ii) this section shall be applied separately in determining if such interest in any other trade or business is a qualified family-owned business interest.

“(C) INDIVIDUAL OWNERSHIP RULES.—For purposes of this section, an interest owned, directly or indirectly, by or for an entity described in paragraph (1)(B) shall be considered as being owned proportionately by or

for the entity's shareholders, partners, or beneficiaries. A person shall be treated as a beneficiary of any trust only if such person has a present interest in such trust.

“(f) TAX TREATMENT OF FAILURE TO MATERIALLY PARTICIPATE IN BUSINESS OR DISPOSITIONS OF INTERESTS.—

“(1) IN GENERAL.—There is imposed an additional estate tax if, within 10 years after the date of the decedent's death and before the date of the qualified heir's death—

“(A) the material participation requirements described in section 2032A(c)(6)(B) are not met with respect to the qualified family-owned business interest which was acquired (or passed) from the decedent,

“(B) the qualified heir disposes of any portion of a qualified family-owned business interest (other than by a disposition to a member of the qualified heir's family or through a qualified conservation contribution under section 170(h)),

“(C) the qualified heir loses United States citizenship (within the meaning of section 877) or with respect to whom an event described in subparagraph (A) or (B) of section 877(e)(1) occurs, and such heir does not comply with the requirements of subsection (g), or

“(D) the principal place of business of a trade or business of the qualified family-owned business interest ceases to be located in the United States.

“(2) ADDITIONAL ESTATE TAX.—

“(A) IN GENERAL.—The amount of the additional estate tax imposed by paragraph (1) shall be equal to—

“(i) the applicable percentage of the adjusted tax difference attributable to the qualified family-owned business interest (as determined under rules similar to the rules of section 2032A(c)(2)(B)), plus

“(ii) interest on the amount determined under clause (i) at the underpayment rate established under section 6621 for the period beginning on the date the estate tax liability was due under this chapter and ending on the date such additional estate tax is due.

“(B) APPLICABLE PERCENTAGE.—For purposes of this paragraph, the applicable percentage shall be determined under the following table:

“If the event described in paragraph (1) occurs in the following year of material participation:	The applicable percentage is:
1 through 6	100
7	80
8	60
9	40
10	20.

“(g) SECURITY REQUIREMENTS FOR NONCITIZEN QUALIFIED HEIRS.—

“(1) IN GENERAL.—Except upon the application of subparagraph (F) or (M) of subsection (h)(3), if a qualified heir is not a citizen of the United States, any interest under this section passing to or acquired by such heir (including any interest held by such heir at a time described in subsection (f)(1)(C)) shall be treated as a qualified family-owned business interest only if the interest passes or is acquired (or is held) in a qualified trust.

“(2) QUALIFIED TRUST.—The term ‘qualified trust’ means a trust—

“(A) which is organized under, and governed by, the laws of the United States or a State, and

“(B) except as otherwise provided in regulations, with respect to which the trust instrument requires that at least 1 trustee of the trust be an individual citizen of the United States or a domestic corporation.

“(h) OTHER DEFINITIONS AND APPLICABLE RULES.—For purposes of this section—

“(1) QUALIFIED HEIR.—The term ‘qualified heir’—

“(A) has the meaning given to such term by section 2032A(e)(1), and

"(B) includes any active employee of the trade or business to which the qualified family-owned business interest relates if such employee has been employed by such trade or business for a period of at least 10 years before the date of the decedent's death.

"(2) MEMBER OF THE FAMILY.—The term 'member of the family' has the meaning given to such term by section 2032A(e)(2).

"(3) APPLICABLE RULES.—Rules similar to the following rules shall apply:

"(A) Section 2032A(b)(4) (relating to decedents who are retired or disabled).

"(B) Section 2032A(b)(5) (relating to special rules for surviving spouses).

"(C) Section 2032A(c)(2)(D) (relating to partial dispositions).

"(D) Section 2032A(c)(3) (relating to only 1 additional tax imposed with respect to any 1 portion).

"(E) Section 2032A(c)(4) (relating to due date).

"(F) Section 2032A(c)(5) (relating to liability for tax; furnishing of bond).

"(G) Section 2032A(c)(7) (relating to no tax if use begins within 2 years; active management by eligible qualified heir treated as material participation).

"(H) Section 2032A(e)(10) (relating to community property).

"(I) Section 2032A(e)(14) (relating to treatment of replacement property acquired in section 1031 or 1033 transactions).

"(J) Section 2032A(f) (relating to statute of limitations).

"(K) Section 6166(b)(3) (relating to farmhouses and certain other structures taken into account).

"(L) Subparagraphs (B), (C), and (D) of section 6166(g)(1) (relating to acceleration of payment).

"(M) Section 6324B (relating to special lien for additional estate tax)."

(b) CLERICAL AMENDMENT.—The table of sections for part III of subchapter A of chapter 11 is amended by inserting after the item relating to section 2033 the following new item:

"Sec. 2033A. Family-owned business exclusion."

(c) EFFECTIVE DATE.—The amendments made by this section shall apply to estates of decedents dying after December 31, 1997.

TITLE VI—EXTENSION OF EXPIRING PROVISIONS

SEC. 601. RESEARCH CREDIT.

(a) IN GENERAL.—Section 41(h)(1) is amended—

(1) by striking "May 31, 1997" and inserting "May 31, 1998", and

(2) by striking the last sentence.

(b) CONFORMING AMENDMENT.—Section 45C(b)(1)(D) is amended by striking "1997" and inserting "1998".

(c) EFFECTIVE DATE.—The amendment made by subsection (a) shall apply to taxable years ending after May 31, 1997.

SEC. 602. ORPHAN DRUG CREDIT MADE PERMANENT.

(a) IN GENERAL.—Subsection (e) of section 45C is hereby repealed.

(b) EFFECTIVE DATE.—The amendment made by subsection (a) shall apply to amounts paid or incurred in taxable years ending after May 31, 1997.

SEC. 603. CONTRIBUTIONS OF APPRECIATED STOCK.

(a) IN GENERAL.—Clause (ii) of section 170(e)(5)(D) is amended by striking "May 31, 1997" and inserting "May 31, 1998".

(b) EFFECTIVE DATE.—The amendment made by subsection (a) shall apply to contributions made after May 31, 1997.

SEC. 604. EXTENSION AND MODIFICATION OF WORK OPPORTUNITY CREDIT.

(a) EXTENSION OF CREDIT.—Subparagraph (B) of section 51(c)(4) (relating to termi-

nation) is amended by striking "September 30, 1997" and inserting "September 30, 1998".

(b) PERCENTAGE OF WAGES ALLOWED AS CREDIT.—

(1) IN GENERAL.—Subsection (a) of section 51 (relating to determination of amount) is amended by striking "35 percent" and inserting "40 percent".

(2) APPLICATION OF CREDIT FOR INDIVIDUALS PERFORMING FEWER THAN 400 HOURS OF SERVICES.—Paragraph (3) of section 51(i) is amended to read as follows:

"(3) INDIVIDUALS NOT MEETING MINIMUM EMPLOYMENT PERIODS.—

"(A) REDUCTION OF CREDIT FOR INDIVIDUALS PERFORMING FEWER THAN 400 HOURS OF SERVICES.—In the case of an individual who has completed at least 120 hours, but less than 400 hours, of services performed for the employer, subsection (a) shall be applied by substituting '25 percent' for '40 percent'.

"(B) DENIAL OF CREDIT FOR INDIVIDUALS PERFORMING FEWER THAN 120 HOURS OF SERVICES.—No wages shall be taken into account under subsection (a) with respect to any individual unless such individual has completed at least 120 hours of services performed for the employer."

(c) MODIFICATION OF ELIGIBILITY REQUIREMENT BASED ON PERIOD ON WELFARE.—Subparagraph (A) of section 51(d)(2) (defining qualified IV-A recipient) is amended by striking all that follows "a IV-A program" and inserting "for any 9 months during the 18-month period ending on the hiring date."

(d) CERTAIN OLDER FOOD STAMP RECIPIENTS TREATED AS MEMBERS OF TARGETED GROUP.—Paragraph (8) of section 51(d) (defining qualified food stamp recipient) is amended to read as follows:

"(8) QUALIFIED FOOD STAMP RECIPIENT.—

"(A) IN GENERAL.—The term 'qualified food stamp recipient' means any individual who is certified by the designated local agency—

"(i) as having attained age 18 but not age 25 on the hiring date, and

"(ii) as being a member of a family receiving assistance under a food stamp program under the Food Stamp Act of 1977 for the 6-month period ending on the hiring date.

"(B) CERTAIN OLDER RECIPIENTS.—The term 'qualified food stamp recipient' includes any individual who is certified by the designated local agency—

"(i) as having attained age 18 but not age 50 on the hiring date,

"(ii) as being a recipient of benefits under the food stamp program who is affected by section 6(o) of the Food Stamp Act of 1977 but who has not been made ineligible for refusing to work in accordance with section 6(o)(2)(A) of such Act, or failing to comply with the requirements of a work program under subparagraph (B), (C), or (D) of section 6(o)(2)(A) of such Act, and

"(iii) as having a hiring date which is not more than 1 year after the date of such cessation.

"(C) TERMINATION.—In lieu of applying subsection (c)(4), this subsection shall not apply to amounts paid or incurred with respect to an individual who begins work for the employer after September 30, 2000."

(e) EFFECTIVE DATE.—The amendments made by this section shall apply to individuals who begin work for the employer after the date of the enactment of this Act.

TITLE VII—EMPOWERMENT ZONES, ETC.

Subtitle A—Empowerment Zones

SEC. 701. ADDITIONAL EMPOWERMENT ZONES WITH CURRENT LAW BENEFITS.

(a) IN GENERAL.—Paragraph (2) of section 1391(b) (relating to designations of empowerment zones and enterprise communities) is amended—

(1) by striking "9" and inserting "11",

(2) by striking "6" and inserting "8", and

(3) by striking "750,000" and inserting "1,000,000".

(b) EFFECTIVE DATE.—The amendments made by this section shall take effect on the date of the enactment of this Act, except that designations of new empowerment zones made pursuant to such amendments shall be made during the 180-day period beginning on the date of the enactment of this Act.

SEC. 702. DESIGNATION OF ADDITIONAL EMPOWERMENT ZONES AND ENTERPRISE COMMUNITIES.

(a) IN GENERAL.—Section 1391 (relating to designation procedure for empowerment zones and enterprise communities) is amended by adding at the end the following new subsection:

"(g) ADDITIONAL DESIGNATIONS PERMITTED.—

"(1) IN GENERAL.—In addition to the areas designated under subsection (a)—

"(A) ENTERPRISE COMMUNITIES.—The appropriate Secretaries may designate in the aggregate an additional 80 nominated areas as enterprise communities under this section, subject to the availability of eligible nominated areas. Of that number, not more than 50 may be designated in urban areas and not more than 30 may be designated in rural areas.

"(B) EMPOWERMENT ZONES.—The appropriate Secretaries may designate in the aggregate an additional 20 nominated areas as empowerment zones under this section, subject to the availability of eligible nominated areas. Of that number, not more than 15 may be designated in urban areas and not more than 5 may be designated in rural areas.

"(2) PERIOD DESIGNATIONS MAY BE MADE.—A designation may be made under this subsection after the date of the enactment of this subsection and before January 1, 1999.

"(3) MODIFICATIONS TO ELIGIBILITY CRITERIA, ETC.—

"(A) POVERTY RATE REQUIREMENT.—

"(i) IN GENERAL.—A nominated area shall be eligible for designation under this subsection only if the poverty rate for each population census tract within the nominated area is not less than 20 percent and the poverty rate for at least 90 percent of the population census tracts within the nominated area is not less than 25 percent.

"(ii) TREATMENT OF CENSUS TRACTS WITH SMALL POPULATIONS.—A population census tract with a population of less than 2,000 shall be treated as having a poverty rate of not less than 25 percent if—

"(I) more than 75 percent of such tract is zoned for commercial or industrial use, and

"(II) such tract is contiguous to 1 or more other population census tracts which have a poverty rate of not less than 25 percent (determined without regard to this clause).

"(iii) EXCEPTION FOR DEVELOPABLE SITES.—Clause (i) shall not apply to up to 3 noncontiguous parcels in a nominated area which may be developed for commercial or industrial purposes. The aggregate area of noncontiguous parcels to which the preceding sentence applies with respect to any nominated area shall not exceed 1,000 acres (2,000 acres in the case of an empowerment zone).

"(iv) CERTAIN PROVISIONS NOT TO APPLY.—Section 1392(a)(4) (and so much of paragraphs (1) and (2) of section 1392(b) as relate to section 1392(a)(4)) shall not apply to an area nominated for designation under this subsection.

"(v) SPECIAL RULE FOR RURAL EMPOWERMENT ZONES AND ENTERPRISE COMMUNITIES.—The Secretary of Agriculture may designate not more than 1 empowerment zone, and not more than 5 enterprise communities, in rural areas without regard to clause (i) if such areas satisfy emigration criteria specified by the Secretary of Agriculture.

"(B) SIZE LIMITATION.—

"(i) IN GENERAL.—The parcels described in subparagraph (A)(iii) shall not be taken into

account in determining whether the requirement of subparagraph (A) or (B) of section 1392(a)(3) is met.

“(i) SPECIAL RULE FOR RURAL AREAS.—If a population census tract (or equivalent division under section 1392(b)(4)) in a rural area exceeds 1,000 square miles or includes a substantial amount of land owned by the Federal, State, or local government, the nominated area may exclude such excess square mileage or governmentally owned land and the exclusion of that area will not be treated as violating the continuous boundary requirement of section 1392(a)(3)(B).

“(C) AGGREGATE POPULATION LIMITATION.—The aggregate population limitation under the last sentence of subsection (b)(2) shall not apply to a designation under paragraph (1)(B).

“(D) PREVIOUSLY DESIGNATED ENTERPRISE COMMUNITIES MAY BE INCLUDED.—Subsection (e)(5) shall not apply to any enterprise community designated under subsection (a) that is also nominated for designation under this subsection.

“(E) INDIAN RESERVATIONS MAY BE NOMINATED.—

“(i) IN GENERAL.—Section 1393(a)(4) shall not apply to an area nominated for designation under this subsection.

“(ii) SPECIAL RULE.—An area in an Indian reservation shall be treated as nominated by a State and a local government if it is nominated by the reservation governing body (as determined by the Secretary of Interior).”

(b) EMPLOYMENT CREDIT NOT TO APPLY TO NEW EMPOWERMENT ZONES.—Section 1396 (relating to empowerment zone employment credit) is amended by adding at the end the following new subsection:

“(e) CREDIT NOT TO APPLY TO EMPOWERMENT ZONES DESIGNATED UNDER SECTION 1391(g).—This section shall be applied without regard to any empowerment zone designated under section 1391(g).”

(c) INCREASED EXPENSING UNDER SECTION 179 NOT TO APPLY IN DEVELOPABLE SITES.—Section 1397A (relating to increase in expensing under section 179) is amended by adding at the end the following new subsection:

“(C) LIMITATION.—For purposes of this section, qualified zone property shall not include any property substantially all of the use of which is in any parcel described in section 1391(g)(3)(A)(iii).”

(d) SET ASIDE FOR AREAS WITH EMPLOYMENT LOSSES IN FINANCIAL SERVICE INDUSTRIES.—Section 1391 is amended by adding at the end the following new subsection:

“(g) SET ASIDE FOR AREAS WITH EMPLOYMENT LOSSES IN FINANCIAL SERVICE INDUSTRIES.—

“(1) IN GENERAL.—At least 3 of the additional empowerment zones authorized under this section by reason of the enactment of the Revenue Reconciliation Act of 1997 shall be nominated areas described in paragraph (2).

“(2) DESCRIPTION.—A nominated area is described in this paragraph if—

“(A) at least 12 percent of the wages attributable to private, nonagricultural employment in the area during 1989, and subject to tax under section 3301 during such year, were in the financial institution and real estate sectors, and

“(B) the employment in such area in such sectors for the calendar year preceding the calendar year in which such area is nominated for designation is 10 percent (or, if lesser, 5,000 full-time equivalent jobs) less than such employment during 1989.

The requirement of subparagraph (B) shall not be met if substantially all of such decline in employment is attributable to 1 employer. Data for the labor market area which includes the nominated area may be used for purposes of this paragraph if data is not separately available for the nominated area.

“(3) CENTRAL BUSINESS DISTRICT ELIGIBLE.—Subparagraph (D) of section 1392(a)(3) shall not apply to a nominated area described in paragraph (2).

“(4) FINANCIAL SERVICES BUSINESSES ELIGIBLE.—For purposes of this part, the term ‘enterprise zone business’ includes any entity (or portion of an entity) if substantially all the activities of such entity (or portion thereof) consists of engaging in a banking, insurance, financing, or similar business in an empowerment zone designated by reason of this subsection.”

(e) CONFORMING AMENDMENTS.—

(1) Subsections (e) and (f) of section 1391 are each amended by striking “subsection (a)” and inserting “this section”.

(2) Section 1391(c) is amended by striking “this section” and inserting “subsection (a)”.

SEC. 703. VOLUME CAP NOT TO APPLY TO ENTERPRISE ZONE FACILITY BONDS WITH RESPECT TO NEW EMPOWERMENT ZONES.

(a) IN GENERAL.—Section 1394 (relating to tax-exempt enterprise zone facility bonds) is amended by adding at the end the following new subsection:

“(f) BONDS FOR EMPOWERMENT ZONES DESIGNATED UNDER SECTION 1391(g).—

“(1) IN GENERAL.—In the case of a new empowerment zone facility bond—

“(A) such bond shall not be treated as a private activity bond for purposes of section 146, and

“(B) subsection (c) of this section shall not apply.

“(2) LIMITATION ON AMOUNT OF BONDS.—

“(A) IN GENERAL.—Paragraph (1) shall apply to a new empowerment zone facility bond only if such bond is designated for purposes of this subsection by the local government which nominated the area to which such bond relates.

“(B) LIMITATION ON BONDS DESIGNATED.—The aggregate face amount of bonds which may be designated under subparagraph (A) with respect to any empowerment zone shall not exceed—

“(i) \$60,000,000 if such zone is in a rural area,

“(ii) \$130,000,000 if such zone is in an urban area and the zone has a population of less than 100,000, and

“(iii) \$230,000,000 if such zone is in an urban area and the zone has a population of at least 100,000.

“(C) SPECIAL RULES.—

“(i) COORDINATION WITH LIMITATION IN SUBSECTION (c).—Bonds to which paragraph (1) applies shall not be taken into account in applying the limitation of subsection (c) to other bonds.

“(ii) CURRENT REFUNDING NOT TAKEN INTO ACCOUNT.—In the case of a refunding (or series of refundings) of a bond designated under this paragraph, the refunding obligation shall be treated as designated under this paragraph (and shall not be taken into account in applying subparagraph (B)) if—

“(I) the amount of the refunding bond does not exceed the outstanding amount of the refunded bond, and

“(II) the refunded bond is redeemed not later than 90 days after the date of issuance of the refunding bond.

“(3) NEW EMPOWERMENT ZONE FACILITY BOND.—For purposes of this subsection, the term ‘new empowerment zone facility bond’ means any bond which would be described in subsection (a) if only empowerment zones designated under section 1391(g) were taken into account under sections 1397B and 1397C.”

(b) EFFECTIVE DATE.—The amendment made by this section shall apply to obligations issued after the date of the enactment of this Act.

SEC. 704. MODIFICATIONS TO ENTERPRISE ZONE FACILITY BOND RULES FOR ALL EMPOWERMENT ZONES AND ENTERPRISE COMMUNITIES.

(a) MODIFICATIONS RELATING TO ENTERPRISE ZONE BUSINESS.—Paragraph (3) of section 1394(b) (defining enterprise zone business) is amended to read as follows:

“(3) ENTERPRISE ZONE BUSINESS.—

“(A) IN GENERAL.—Except as modified in this paragraph, the term ‘enterprise zone business’ has the meaning given such term by section 1397B.

“(B) MODIFICATIONS.—In applying section 1397B for purposes of this section—

“(i) BUSINESSES IN ENTERPRISE COMMUNITIES ELIGIBLE.—References in section 1397B to empowerment zones shall be treated as including references to enterprise communities.

“(ii) WAIVER OF REQUIREMENTS DURING STARTUP PERIOD.—A business shall not fail to be treated as an enterprise zone business during the startup period if—

“(I) as of the beginning of the startup period, it is reasonably expected that such business will be an enterprise zone business (as defined in section 1397B as modified by this paragraph) at the end of such period, and

“(II) such business makes bona fide efforts to be such a business.

“(iii) REDUCED REQUIREMENTS AFTER TESTING PERIOD.—A business shall not fail to be treated as an enterprise zone business for any taxable year beginning after the testing period by reason of failing to meet any requirement of subsection (b) or (c) of section 1397B if at least 35 percent of the employees of such business for such year are residents of an empowerment zone or an enterprise community. The preceding sentence shall not apply to any business which is not a qualified business by reason of paragraph (1), (4), or (5) of section 1397B(d).

“(C) DEFINITIONS RELATING TO SUBPARAGRAPH (B).—For purposes of subparagraph (B)—

“(i) STARTUP PERIOD.—The term ‘startup period’ means, with respect to any property being provided for any business, the period before the first taxable year beginning more than 2 years after the later of—

“(I) the date of issuance of the issue providing such property, or

“(II) the date such property is first placed in service after such issuance (or, if earlier, the date which is 3 years after the date described in subclause (I)).

“(ii) TESTING PERIOD.—The term ‘testing period’ means the first 3 taxable years beginning after the startup period.

“(D) PORTIONS OF BUSINESS MAY BE ENTERPRISE ZONE BUSINESS.—The term ‘enterprise zone business’ includes any trades or businesses which would qualify as an enterprise zone business (determined after the modifications of subparagraph (B)) if such trades or businesses were separately incorporated.”

(b) MODIFICATIONS RELATING TO QUALIFIED ZONE PROPERTY.—Paragraph (2) of section 1394(b) (defining qualified zone property) is amended to read as follows:

“(2) QUALIFIED ZONE PROPERTY.—The term ‘qualified zone property’ has the meaning given such term by section 1397C; except that—

“(A) the references to empowerment zones shall be treated as including references to enterprise communities, and

“(B) section 1397C(a)(2) shall be applied by substituting ‘an amount equal to 15 percent of the adjusted basis’ for ‘an amount equal to the adjusted basis.’”

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

SEC. 705. MODIFICATIONS TO ENTERPRISE ZONE BUSINESS DEFINITION FOR ALL EMPOWERMENT ZONES AND ENTERPRISE COMMUNITIES.

(a) IN GENERAL.—Section 1397B (defining enterprise zone business) is amended—

(1) by striking “80 percent” in subsections (b)(2) and (c)(1) and inserting “50 percent”,

(2) by striking “substantially all” each place it appears in subsections (b) and (c) and inserting “a substantial portion”,

(3) by striking “, and exclusively related to,” in subsections (b)(4) and (c)(3),

(4) by adding at the end of subsection (d)(2) the following new flush sentence:

“For purposes of subparagraph (B), the lessor of the property may rely on a lessee’s certification that such lessee is an enterprise zone business.”

(5) by striking “substantially all” in subsection (d)(3) and inserting “at least 50 percent”, and

(6) by adding at the end the following new subsection:

“(f) TREATMENT OF BUSINESSES STRADDLING CENSUS TRACT LINES.—For purposes of this section, if—

“(1) a business entity or proprietorship uses real property located within an empowerment zone,

“(2) the business entity or proprietorship also uses real property located outside the empowerment zone,

“(3) the amount of real property described in paragraph (1) is substantial compared to the amount of real property described in paragraph (2), and

“(4) the real property described in paragraph (2) is contiguous to part or all of the real property described in paragraph (1),

then all the services performed by employees, all business activities, all tangible property, and all intangible property of the business entity or proprietorship that occur in or is located on the real property described in paragraphs (1) and (2) shall be treated as occurring or situated in an empowerment zone.”

(b) EFFECTIVE DATES.—

(1) IN GENERAL.—The amendments made by this section shall apply to taxable years beginning on or after the date of the enactment of this Act.

(2) SPECIAL RULE FOR ENTERPRISE ZONE FACILITY BONDS.—For purposes of section 1394(b) of the Internal Revenue Code of 1986, the amendments made by this section shall apply to obligations issued after the date of the enactment of this Act.

Subtitle B—Brownfields

SEC. 711. EXPENSING OF ENVIRONMENTAL REMEDIATION COSTS.

(a) IN GENERAL.—Part VI of subchapter B of chapter 1 is amended by adding at the end the following new section:

“SEC. 198. EXPENSING OF ENVIRONMENTAL REMEDIATION COSTS.

“(a) IN GENERAL.—A taxpayer may elect to treat any qualified environmental remediation expenditure which is paid or incurred by the taxpayer as an expense which is not chargeable to capital account. Any expenditure which is so treated shall be allowed as a deduction for the taxable year in which it is paid or incurred.

“(b) QUALIFIED ENVIRONMENTAL REMEDIATION EXPENDITURE.—For purposes of this section—

“(1) IN GENERAL.—The term ‘qualified environmental remediation expenditure’ means any expenditure—

“(A) which is otherwise chargeable to capital account, and

“(B) which is paid or incurred in connection with the abatement or control of hazardous substances at a qualified contaminated site.

“(2) SPECIAL RULE FOR EXPENDITURES FOR DEPRECIABLE PROPERTY.—Such term shall

not include any expenditure for the acquisition of property of a character subject to the allowance for depreciation which is used in connection with the abatement or control of hazardous substances at a qualified contaminated site; except that the portion of the allowance under section 167 for such property which is otherwise allocated to such site shall be treated as a qualified environmental remediation expenditure.

“(c) QUALIFIED CONTAMINATED SITE.—For purposes of this section—

“(1) QUALIFIED CONTAMINATED SITE.—

“(A) IN GENERAL.—The term ‘qualified contaminated site’ means any area—

“(i) which is held by the taxpayer for use in a trade or business or for the production of income, or which is property described in section 1221(i) in the hands of the taxpayer,

“(ii) which is within a targeted area, and

“(iii) at or on which there has been a release (or threat of release) or disposal of any hazardous substance.

“(B) TAXPAYER MUST RECEIVE STATEMENT FROM STATE ENVIRONMENTAL AGENCY.—An area shall be treated as a qualified contaminated site with respect to expenditures paid or incurred during any taxable year only if the taxpayer receives a statement from the appropriate agency of the State in which such area is located that such area meets the requirements of clauses (ii) and (iii) of subparagraph (A).

“(C) APPROPRIATE STATE AGENCY.—For purposes of subparagraph (B), the appropriate agency of a State is the agency designated by the Administrator of the Environmental Protection Agency for purposes of this section. If no agency of a State is designated under the preceding sentence, the appropriate agency for such State shall be the Environmental Protection Agency.

“(2) TARGETED AREA.—

“(A) IN GENERAL.—The term ‘targeted area’ means—

“(i) any population census tract with a poverty rate of not less than 20 percent,

“(ii) a population census tract with a population of less than 2,000 if—

“(I) more than 75 percent of such tract is zoned for commercial or industrial use, and

“(II) such tract is contiguous to 1 or more other population census tracts which meet the requirement of clause (i) without regard to this clause,

“(iii) any empowerment zone or enterprise community (and any supplemental zone designated on December 21, 1994), and

“(iv) any site announced before February 1, 1997, as being included as a brownfields pilot project of the Environmental Protection Agency.

“(B) NATIONAL PRIORITIES LISTED SITES NOT INCLUDED.—Such term shall not include any site which is on, or proposed for, the national priorities list under section 105(a)(8)(B) of the Comprehensive Environmental Response, Compensation, and Liability Act of 1980 (as in effect on the date of the enactment of this section).

“(C) CERTAIN RULES TO APPLY.—For purposes of this paragraph the rules of sections 1392(b)(4) and 1393(a)(9) shall apply.

“(d) HAZARDOUS SUBSTANCE.—For purposes of this section—

“(1) IN GENERAL.—The term ‘hazardous substance’ means—

“(A) any substance which is a hazardous substance as defined in section 101(14) of the Comprehensive Environmental Response, Compensation, and Liability Act of 1980, and

“(B) any substance which is designated as a hazardous substance under section 102 of such Act.

“(2) EXCEPTION.—Such term shall not include any substance with respect to which a removal or remedial action is not permitted under section 104 of such Act by reason of subsection (a)(3) thereof.

“(e) DEDUCTION RECAPTURED AS ORDINARY INCOME ON SALE, ETC.—Solely for purposes of section 1245, in the case of property to which a qualified environmental remediation expenditure would have been capitalized but for this section—

“(1) the deduction allowed by this section for such expenditure shall be treated as a deduction for depreciation, and

“(2) such property (if not otherwise section 1245 property) shall be treated as section 1245 property solely for purposes of applying section 1245 to such deduction.

“(f) COORDINATION WITH OTHER PROVISIONS.—Sections 280B and 468 shall not apply to amounts which are treated as expenses under this section.

“(g) REGULATIONS.—The Secretary shall prescribe such regulations as may be necessary or appropriate to carry out the purposes of this section.”

(b) CLERICAL AMENDMENT.—The table of sections for part VI of subchapter B of chapter 1 is amended by adding at the end the following new item:

“Sec. 198. Expensing of environmental remediation costs.”

(c) EFFECTIVE DATE.—The amendments made by this section shall apply to expenditures paid or incurred after the date of the enactment of this Act, in taxable years ending after such date.

SEC. 712. USE OF REDEVELOPMENT BONDS FOR ENVIRONMENTAL REMEDIATION.

(a) ENVIRONMENTAL REMEDIATION INCLUDED AS REDEVELOPMENT PURPOSE.—Subparagraph (A) of section 144(c)(3) (relating to redevelopment purposes) is amended by striking “and” at the end of clause (iii), by striking the period at the end of clause (iv) and inserting “, and”, and by adding at the end the following new clause:

“(v) costs incurred in connection with abatement or control of hazardous substances at a qualified contaminated site (as defined in section 198(c)) if such costs are incurred pursuant to an environmental remediation plan which was approved by the Administrator of the Environmental Protection Agency or by the head of any State or local government agency designated by the Administrator to carry out the Administrator’s functions under this clause.”

(b) CERTAIN REQUIREMENTS NOT TO APPLY TO REDEVELOPMENT BONDS FOR ENVIRONMENTAL REMEDIATION.—Subsection (c) of section 144 is amended by adding at the end the following new paragraph:

“(9) CERTAIN REQUIREMENTS NOT TO APPLY TO REDEVELOPMENT BONDS FOR ENVIRONMENTAL REMEDIATION.—In the case of any bond issued as part of an issue 95 percent or more of the proceeds of which are to finance costs referred to in paragraph (3)(A)(v)—

“(A) paragraph (2)(A)(i) shall not apply,

“(B) paragraph (2)(A)(ii) shall not apply to any issue issued by the governing body described in paragraph (4)(A) with respect to the area which includes the site,

“(C) the requirement of paragraph (2)(B)(ii) shall be treated as met if—

“(i) the payment of the principal and interest on such issue is secured by taxes imposed by a governmental unit, or

“(ii) such issue is approved by the applicable elected representative (as defined in section 147(f)(2)(E)) of the governmental unit which issued such issue (or on behalf of which such issue was issued),

“(D) subparagraphs (C) and (D) of paragraph (2) shall not apply,

“(E) subparagraphs (C) and (D) of paragraph (4) shall not apply, and

“(F) if the real property referred to in clause (iii) of paragraph (3)(A) is 1 or more dwelling units, such clause shall apply only if the requirements of section 142(d) or 143

(as the case may be) are met with respect to such units."

(c) **PENALTY FOR FAILURE TO SATISFACTORILY COMPLETE REMEDIATION PLAN.**—Subsection (b) of section 150 is amended by adding at the end thereof the following new paragraph:

"(7) **QUALIFIED CONTAMINATED SITE REMEDIATION BONDS.**—In the case of financing provided for costs described in section 144(c)(3)(A)(v), no deduction shall be allowed under this chapter for interest on such financing during any period during which there is a determination by the Administrator of the Environmental Protection Agency (or by the head of any State or local government agency designated by the Administrator to carry out the Administrator's functions under this paragraph) that the remediation plan under which such costs were incurred was not satisfactorily completed."

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

Subtitle C—Welfare to Work Credit

SEC. 721. WELFARE TO WORK CREDIT.

(a) **ADDITIONAL TEMPORARY INCENTIVES FOR EMPLOYING LONG-TERM FAMILY ASSISTANCE RECIPIENTS.**—Section 51 (relating to amount of work opportunity credit) is amended by inserting after subsection (d) the following new subsection:

"(e) **ADDITIONAL TEMPORARY INCENTIVES FOR EMPLOYING LONG-TERM FAMILY ASSISTANCE RECIPIENTS.**—

"(1) **TREATMENT AS MEMBER OF TARGETED GROUP.**—A long-term family assistance recipient shall be treated for purposes of this section as a member of a targeted group.

"(2) **MODIFICATION TO PERCENTAGE AND YEARS OF CREDIT.**—In the case of a long-term family assistance recipient, the amount of the work opportunity credit determined under this section for the taxable year shall be equal to the sum of—

"(A) 50 percent of the qualified first-year wages, and

"(B) 50 percent of the qualified second-year wages.

"(3) **MODIFICATION TO AMOUNT OF WAGES TAKEN INTO ACCOUNT.**—In the case of a long-term family assistance recipient—

"(A) \$10,000 of wages may be taken into account.—In lieu of applying subsection (b)(3), the amount of the qualified first-year wages, and the amount of qualified second-year wages, which may be taken into account with respect to any individual shall not exceed \$10,000 per year.

"(B) **CERTAIN AMOUNTS TREATED AS WAGES.**—The term 'wages' includes amounts paid or incurred by the employer which are excludable from such recipient's gross income under—

"(i) section 105 (relating to amounts received under accident and health plans),

"(ii) section 106 (relating to contributions by employer to accident and health plans),

"(iii) section 127 (relating to educational assistance programs) or would be so excludable but for section 127(d), but only to the extent paid or incurred to a person not related to the employer, or

"(iv) section 129 (relating to dependent care assistance programs).

The amount treated as wages by clause (i) or (ii) for any period shall be based on the reasonable cost of coverage for the period, but shall not exceed the applicable premium for the period under section 4980B(f)(4).

"(C) **SPECIAL RULES FOR AGRICULTURAL AND RAILWAY LABOR.**—If such recipient is an employee to which subparagraph (A) or (B) of subsection (h)(1) applies—

"(i) such subparagraph (A) shall be applied by substituting '\$10,000' for '\$6,000', and

"(ii) such subparagraph (B) shall be applied by substituting '\$825' for '\$500'.

"(D) **TERMINATION.**—In lieu of applying subsection (c)(4), this subsection shall not apply to amounts paid or incurred with respect to an individual who begins work for the employer after September 30, 2000.

"(4) **LONG-TERM FAMILY ASSISTANCE RECIPIENT.**—For purposes of this subsection, the term 'long-term family assistance recipient' means any individual who is certified by the designated local agency—

"(A) as being a member of a family receiving assistance under a IV-A program (as defined in subsection (d)(2)(B)) for at least the 18-month period ending on the hiring date,

"(B)(i) as being a member of a family receiving such assistance for any 18-month period beginning after the date of the enactment of this subsection, and

"(ii) as having a hiring date which is not more than 2 years after the end of the earliest such 18-month period, or

"(C)(i) as being a member of a family which ceased to be eligible after the date of the enactment of this subsection for such assistance by reason of any limitation imposed by Federal or State law on the maximum period such assistance is payable to a family, and

"(ii) as having a hiring date which is not more than 2 years after the date of such cessation.

"(5) **QUALIFIED SECOND-YEAR WAGES.**—For purposes of this subsection, the term 'qualified second-year wages' means, with respect to any individual, the qualified wages attributable to service rendered during the 1-year period beginning on the day after the last day of the 1-year period with respect to such individual determined under subsection (b)(2)."

"(b) **EFFECTIVE DATE.**—The amendment made by subsection (a) shall apply with respect to individuals who begin work for the employer after the date of the enactment of this Act.

Subtitle D—Community Development Financial Institutions

SEC. 731. CREDIT FOR QUALIFIED EQUITY INVESTMENTS IN COMMUNITY DEVELOPMENT FINANCIAL INSTITUTIONS.

(a) **IN GENERAL.**—Subpart D of part IV of subchapter A of chapter 1 (relating to business-related credits) is amended by adding at the end the following new section:

"SEC. 45E. QUALIFIED EQUITY INVESTMENTS IN COMMUNITY DEVELOPMENT FINANCIAL INSTITUTIONS.

"(a) **GENERAL RULE.**—For purposes of section 38, the community development financial institution investment credit for any taxable year is an amount equal to the applicable percentage of the qualified equity investment made by the taxpayer during the taxable year.

"(b) **APPLICABLE PERCENTAGE.**—For purposes of subsection (a), the term 'applicable percentage' means, with respect to any investment, 25 percent, or, if the CDFI Fund establishes a lower percentage with respect to such investment for purposes of this section, such lower percentage.

"(c) **QUALIFIED EQUITY INVESTMENT.**—For purposes of this section—

"(1) **IN GENERAL.**—The term 'qualified equity investment' means any stock or partnership interest in a community development financial institution (as defined in section 103 of the Community Development Banking and Financial Institutions Act of 1994 (12 U.S.C. 4702))—

"(A) if such institution is designated for purposes of this section by the CDFI Fund,

"(B) if such stock or partnership interest is acquired by the taxpayer at its original issue from the institution (directly or through an underwriter) in exchange for money or other property, and

"(C) to the extent the amount of such investment is designated for such purposes by such Fund.

Rules similar to the rules of section 1202(c)(3) shall apply for purposes of subparagraph (B).

"(2) **CRITERIA FOR DESIGNATING INSTITUTIONS.**—Designations under paragraph (1)(A) shall be made in accordance with criteria established by the CDFI Fund. In establishing such criteria, the CDFI Fund shall take into account the requirements and criteria set forth in sections 105(b) and 107 of such Act.

"(3) **CDFI FUND.**—The term 'CDFI Fund' means the Community Development Financial Institutions Fund established by section 104 of such Act.

"(d) **LIMITATION ON AMOUNT OF CREDIT.**—

"(1) **IN GENERAL.**—The amount of credit determined under this section for any qualified equity investment shall not exceed the credit amount allocated to such investment by the CDFI Fund.

"(2) **OVERALL LIMITATION.**—The aggregate credit amount which may be allocated by the CDFI Fund under this section shall not exceed \$100,000,000.

"(e) **RECAPTURE OF CREDIT WHERE DISPOSITION OF EQUITY INVESTMENT WITHIN 5 YEARS.**—

"(1) **IN GENERAL.**—If the taxpayer disposes of any investment with respect to which a credit was determined under subsection (a) (or any other property the basis of which is determined in whole or in part by reference to the adjusted basis of such investment) before the end of the 5-year period beginning on the date such investment was made, the tax imposed by this chapter for the taxable year in which such disposition occurs shall be increased by the aggregate decrease in tax of the taxpayer resulting from the credit determined under this subsection (a) with respect to such investment.

"(2) **EXCEPTIONS.**—Paragraph (1) shall not apply to any gift, transfer, or transaction described in paragraph (1), (2), or (3) of section 1245(b).

"(3) **SPECIAL RULE.**—Any increase in tax under paragraph (1) shall not be treated as a tax imposed by this chapter for purposes of—

"(A) determining the amount of any credit allowable under this chapter, and

"(B) determining the amount of the tax imposed by section 55.

"(f) **BASIS REDUCTION.**—The basis of any qualified equity investment shall be reduced by the amount of any credit determined under this section with respect to such investment.

"(g) **REGULATIONS.**—The Secretary shall prescribe such regulations as may be appropriate to carry out this section. Such regulations may provide for the recapture of the credit under this section with respect to investments in institutions which cease to satisfy the criteria established by the CDFI Fund for designation under subsection (c)(1)(A).

"(h) **TERMINATION.**—This section shall not apply to any investment made after December 31, 2006."

(b) **CREDIT MADE PART OF GENERAL BUSINESS CREDIT.**—Subsection (b) of section 38 is amended by striking "plus" at the end of paragraph (11), by striking the period at the end of paragraph (12) and inserting ", plus", and by adding at the end the following new paragraph:

"(13) the community development financial institution investment credit determined under section 45E(a)."

(c) **CREDIT ALLOWED AGAINST REGULAR AND MINIMUM TAX.**—

(1) **IN GENERAL.**—Subsection (c) of section 38 (relating to limitation based on amount of tax) is amended by redesignating paragraph (3) as paragraph (4) and by inserting after paragraph (2) the following new paragraph:

“(3) SPECIAL RULES FOR COMMUNITY DEVELOPMENT FINANCIAL INSTITUTION INVESTMENT CREDIT.—

“(A) IN GENERAL.—In the case of the community development financial institution investment credit—

“(i) this section and section 39 shall be applied separately with respect to the credit, and

“(ii) in applying paragraph (1) to the credit—

“(I) 75 percent of the tentative minimum tax shall be substituted for the tentative minimum tax under subparagraph (A) thereof, and

“(II) the limitation under paragraph (1) (as modified by subclause (I)) shall be reduced by the credit allowed under subsection (a) for the taxable year (other than the community development financial institution investment credit).

“(B) COMMUNITY DEVELOPMENT FINANCIAL INSTITUTION INVESTMENT CREDIT.—For purposes of this subsection, the term ‘community development financial institution investment credit’ means the credit allowable under subsection (a) by reason of section 45E(a).”

(2) CONFORMING AMENDMENT.—Subclause (II) of section 38(c)(2)(A)(ii) is amended by inserting “and the community development financial institution investment credit” after “employment credit”.

(d) LIMITATION ON CARRYBACK.—Subsection (d) of section 39 is amended by adding at the end the following new paragraph:

“(9) NO CARRYBACK OF COMMUNITY DEVELOPMENT FINANCIAL INSTITUTION INVESTMENT CREDIT BEFORE EFFECTIVE DATE.—No portion of the unused business credit for any taxable year which is attributable to the credit under section 45E may be carried back to a taxable year ending before the date of the enactment of section 45E.”

(e) DEDUCTION FOR UNUSED CREDIT.—Subsection (c) of section 196 is amended by striking “and” at the end of paragraph (6), by striking the period at the end of paragraph (7) and inserting “, and”, and by adding at the end the following new paragraph:

“(8) the community development financial institution investment credit determined under section 45E(a).”

(f) CLERICAL AMENDMENT.—The table of sections for subpart D of part IV of subchapter A of chapter 1 is amended by adding at the end the following new item:

“Sec. 45E. Qualified equity investments in community development financial institutions.”

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

TITLE VIII—OTHER TAX RELIEF

SEC. 801. SUSPENSION OF STATUTE OF LIMITATIONS ON FILING REFUND CLAIMS DURING PERIODS OF DISABILITY.

(a) IN GENERAL.—Section 6511 (relating to limitations on credit or refund) is amended by redesignating subsection (h) as subsection (i) and by inserting after subsection (g) the following new subsection:

“(h) RUNNING OF PERIODS OF LIMITATION SUSPENDED WHILE TAXPAYER IS FINANCIALLY DISABLED.—

“(1) IN GENERAL.—In the case of an individual, the running of the periods specified in subsections (a), (b), and (c) shall be suspended during any period of such individual's life that such individual is financially disabled.

“(2) FINANCIALLY DISABLED.—

“(A) IN GENERAL.—For purposes of paragraph (1), an individual is financially disabled if such individual is unable to manage his financial affairs by reason of any medi-

cally determinable physical or mental impairment which can be expected to result in death or which has lasted or can be expected to last for a continuous period of not less than 12 months. An individual shall not be considered to have such an impairment unless proof of the existence thereof is furnished in such form and manner as the Secretary may require.

“(B) EXCEPTION WHERE INDIVIDUAL HAS GUARDIAN, ETC.—An individual shall not be treated as financially disabled during any period that such individual's spouse or any other person is authorized to act on behalf of such individual in financial matters.”

(b) EFFECTIVE DATE.—The amendment made by subsection (a) shall apply to claims for credit or refund for periods ending after the date of the enactment of this Act.

SEC. 802. MODIFICATIONS OF PUERTO RICO ECONOMIC ACTIVITY CREDIT.

(a) EXTENSION OF CREDIT.—Section 30A(g) (relating to application of credit) is amended by striking “, and before January 1, 2006”.

(b) TAXPAYERS OTHER THAN EXISTING CLAIMANTS ELIGIBLE FOR CREDIT.—Section 30A(a)(2) (defining qualified domestic corporation) is amended to read as follows:

“(2) QUALIFIED DOMESTIC CORPORATION.—For purposes of paragraph (1), the term ‘qualified domestic corporation’ means a domestic corporation with respect to which section 936(a)(4)(B) does not apply for the taxable year.”

(c) REPEAL OF BASE PERIOD CAP.—Section 30A(a)(1) is amended by striking the last sentence.

(d) CONFORMING AMENDMENTS.—

(1) Section 30A(a)(3) is amended to read as follows:

“(3) SEPARATE APPLICATION.—For purposes of determining the amount of the credit allowed under this section, this section (and so much of section 936 as relates to this section) shall be applied separately with respect to Puerto Rico.”

(2) Section 30A(e)(1) is amended by inserting “but not including subsection (j) thereof” after “thereunder”.

(e) EFFECTIVE DATE.—The amendments made by this section shall apply to taxable years beginning after December 31, 1997.

SEC. 803. TREATMENT OF SOFTWARE AS FSC EXPORT PROPERTY.

(a) IN GENERAL.—Section 927(a)(2)(B) (relating to excluded property) is amended by inserting “computer software,” after “other than”.

(b) EFFECTIVE DATES.—

(1) IN GENERAL.—Except as provided in paragraph (2), the amendment made by this section shall apply to software licenses granted after the date of the enactment of this Act in taxable years ending after such date.

(2) EXCEPTION FOR EXISTING LICENSES.—The amendment made by this section shall not apply to software licenses granted by a licensor after the date of the enactment of this Act if, on such date, the person to whom the license is granted (or any related person) held a substantially similar license granted by the licensor (or any related person).

TITLE IX—INCENTIVES FOR THE DISTRICT OF COLUMBIA

SEC. 901. TAX INCENTIVES FOR REVITALIZATION OF THE DISTRICT OF COLUMBIA.

(a) IN GENERAL.—Chapter 1 is amended by adding at the end the following new subchapter:

“Subchapter W—Incentives for Revitalization of the District of Columbia

“Sec. 1400A. Employment credit.

“Sec. 1400B. Additional expensing.

“Sec. 1400C. Tax-exempt economic development bonds.

“Sec. 1400D. Credit for equity investments in and loans to District of Columbia businesses.

“Sec. 1400E. Definitions.

“Sec. 1400F. Status of Economic Development Corporation for District of Columbia.

“SEC. 1400A. EMPLOYMENT CREDIT.

“(a) AMOUNT OF CREDIT.—For purposes of section 38, the amount of the District of Columbia employment credit determined under this section for the taxable year shall be equal to 40 percent of the qualified first-year wages for such year.

“(b) QUALIFIED FIRST-YEAR WAGES.—For purposes of this section—

“(1) IN GENERAL.—The term ‘qualified first-year wages’ means wages paid or incurred by the employer during the taxable year which are attributable to services rendered by an employee of the employer—

“(A) during the 1-year period beginning on the day the employee begins work for the employer, and

“(B) while the employee is a qualified District employee.

“(2) ONLY FIRST \$10,000 OF WAGES TAKEN INTO ACCOUNT.—The amount of the qualified first-year wages which may be taken into account with respect to any individual for all taxable years of an employer shall not exceed \$10,000.

“(3) COORDINATION WITH WORK OPPORTUNITY CREDIT.—The amount of the credit determined under this section with respect to qualified first-year wages of an individual shall be reduced by the amount of the work opportunity credit determined under section 51 with respect to such wages.

“(c) QUALIFIED DISTRICT EMPLOYEE.—For purposes of this section—

“(1) IN GENERAL.—Except as otherwise provided in this subsection, the term ‘qualified District employee’ means any employee of an employer if—

“(A) the principal place of abode of such employee throughout the 1-year period described in subsection (b)(1)(A)—

“(i) is within the District of Columbia, and

“(ii) in the case of an individual who is not a member of a targeted group (within the meaning of section 51(d)), is within a population census tract having a poverty rate of at least 15 percent.

“(B)(i) substantially all of the services performed during such period by such employee for such employer are performed within the District of Columbia in a trade or business of the employer, or

“(ii) the principal place of business of the employer is within the District of Columbia, and

“(C) in the case of an individual who is not a member of a targeted group (within the meaning of section 51(d)), as of the beginning of such period it is reasonable to expect that the compensation to be paid to such individual for services performed during such period for the employer will be less than \$28,500.

“(2) CERTAIN PERSONS NOT ELIGIBLE.—The term ‘qualified District employee’ shall not include—

“(A) any individual described in subparagraph (A), (B), or (C) of section 51(i)(1) (relating to related individuals),

“(B) any individual described in section 51(i)(2) (relating to nonqualifying rehires), determined by treating qualified District employees as members of a targeted group,

“(C) any 5-percent owner (as defined in section 416(i)(1)(B)),

“(D) any individual employed by the employer unless such individual—

“(i) is employed by the employer for at least 180 days, or

“(ii) has completed at least 400 hours of services performed for the employer, and

“(E) any individual employed by the employer at any facility described in section 144(c)(6)(B).

Rules similar to the rules of section 1396(d)(3) shall apply for purposes of subparagraph (D).

“(d) DEFINITION AND SPECIAL RULES.—For purposes of this section—

“(1) WAGES.—The term ‘wages’ has the same meaning as when used in section 51, including amounts treated as wages by section 51(e)(3)(B); except that subsections (c)(4) and (e)(3)(D) shall not apply.

“(2) CONTROLLED GROUPS.—All employers treated as a single employer under subsection (a) or (b) of section 52 shall be treated as a single employer, and the credit (if any) determined under this section with respect to each such employer shall be its proportionate share of the wages giving rise to such credit.

“(3) CERTAIN OTHER RULES MADE APPLICABLE.—Rules similar to the rules of subsections (j) and (k) of section 51, and subsections (c), (d), and (e) of section 52, shall apply.

“(4) CERTIFICATION OF PRINCIPAL PLACE OF ABODE.—An individual shall not be treated as meeting the requirement of subsection (c)(1)(A) unless requirements similar to the requirements of section 51(d)(11) are met.

“(5) COST-OF-LIVING ADJUSTMENT OF \$28,500 LIMIT.—In the case of any period during a calendar year after 1997, the dollar amount contained in subsection (c)(1)(C) shall be increased by an amount equal to—

“(A) such dollar amount, multiplied by

“(B) the cost-of-living adjustment determined under section 1(f)(3) for such calendar year by substituting ‘calendar year 1996’ for ‘calendar year 1992’ in subparagraph (B) thereof.

“(6) OTHER INCENTIVES.—

“(A) EXTENSION OF ADDITIONAL TEMPORARY INCENTIVE FOR EMPLOYING LONG-TERM FAMILY ASSISTANCE RECIPIENTS RESIDING IN THE DISTRICT OF COLUMBIA.—In the case of a long-term family assistance recipient (as defined in section 51(e)(4)), section 51(e)(3)(D) shall be applied by substituting ‘September 30, 2002’ for ‘September 30, 2000’ if—

“(i) such individual’s principal place of abode is within the District of Columbia during the period described in section 51(e)(3), and

“(ii) the requirement of clause (i) or (ii) of subsection (c)(1)(B) is met during such period with respect to such individual.

“(B) EXTENSION OF WORK OPPORTUNITY CREDIT.—In the case of wages paid to a member of a targeted group (within the meaning of section 51(d)) while such member’s principal place of abode is within the District of Columbia, section 51(c)(4)(B) shall be applied by substituting ‘September 30, 2002’ for ‘September 30, 1998’.

“(e) APPLICATION OF SECTION.—This section shall apply with respect to individuals who begin work for the employer on and after the date of the enactment of this section and before October 1, 2002.

“SEC. 1400B. ADDITIONAL EXPENSING.

“(a) GENERAL RULE.—In the case of a qualified District business, for purposes of section 179—

“(1) the limitation under section 179(b)(1) shall be increased by the lesser of—

“(A) \$20,000, or

“(B) the cost of section 179 property which is qualified District property placed in service during the taxable year, and

“(2) the amount taken into account under section 179(b)(2) with respect to any section 179 property which is qualified District property shall be 50 percent of the cost thereof.

“(b) RECAPTURE.—Rules similar to the rules under section 179(d)(10) shall apply with respect to any qualified District property

which ceases to be used in the District of Columbia by a District business.

“(c) COORDINATION WITH SECTION 1397A.—In no event shall qualified District property be treated as qualified zone property for purposes of section 1397A.

“(d) APPLICATION OF SECTION.—This section shall apply to property placed in service after December 31, 1997, and before January 1, 2002.

“SEC. 1400C. TAX-EXEMPT ECONOMIC DEVELOPMENT BONDS.

“(a) IN GENERAL.—For purposes of part IV of subchapter B of this chapter (relating to tax exemption requirements for State and local bonds), the term ‘exempt facility bond’ includes any bond issued as part of an issue 95 percent or more of the net proceeds (as defined in section 150(a)(3)) of which are to be used to provide any District facility.

“(b) DISTRICT FACILITY.—For purposes of this section, the term ‘District facility’ means any District property the principal user of which is a qualified District business, and any land which is functionally related and subordinate to such property.

“(c) LIMITATION ON AMOUNT OF BONDS.—Subsection (a) shall not apply to any issue if the aggregate amount of outstanding District facility bonds allocable to any person (taking into account such issue) exceeds \$15,000,000.

“(d) CERTAIN RULES TO APPLY.—

“(1) IN GENERAL.—Rules similar to the rules of subsections (c)(2), (d), and (e) of section 1394, and subparagraphs (B)(ii), (C), and (D) of section 1394(b)(3), shall apply for purposes of this section.

“(2) REQUIREMENTS AFTER TESTING PERIOD.—A business shall not fail to be treated as a qualified District business for purposes of this section for any taxable year beginning after the testing period (as defined in section 1394(b)(3)(C)) by reason of failing to meet any requirement of subsection (b) or (c) of section 1397B. The preceding sentence shall not apply to any business which is not a qualified business by reason of paragraph (1), (4), or (5) of section 1397B(d).

“(e) APPLICATION OF SECTION.—This section shall apply to bonds issued after the date of the enactment of this section and before January 1, 2003.

“SEC. 1400D. CREDIT FOR EQUITY INVESTMENTS IN AND LOANS TO DISTRICT OF COLUMBIA BUSINESSES.

“(a) GENERAL RULE.—For purposes of section 38, the District investment credit determined under this section for any taxable year is—

“(1) the qualified lender credit for such year, and

“(2) the qualified equity investment credit for such year.

“(b) QUALIFIED LENDER CREDIT.—For purposes of this section—

“(1) IN GENERAL.—The qualified lender credit for any taxable year is the amount of credit specified for such year by the Economic Development Corporation with respect to qualified District loans made by the taxpayer.

“(2) LIMITATION.—In no event may the qualified lender credit with respect to any loan exceed 25 percent of the cost of the property purchased with the proceeds of the loan.

“(3) QUALIFIED DISTRICT LOAN.—For purposes of paragraph (1), the term ‘qualified district loan’ means any loan for the purchase (as defined in section 179(d)(2)) of property to which section 168 applies (or would apply but for section 179) (or land which is functionally related and subordinate to such property) and substantially all of the use of which is in the District of Columbia and is in the active conduct of a trade or business in the District of Columbia. A rule similar to

the rule of section 1397C(a)(2) shall apply for purposes of the preceding sentence.

“(c) QUALIFIED EQUITY INVESTMENT CREDIT.—

“(1) IN GENERAL.—For purposes of this section, the qualified equity investment credit determined under this section for any taxable year is an amount equal to the percentage specified by the Economic Development Corporation (but not greater than 25 percent) of the aggregate amount paid in cash by the taxpayer during the taxable year for the purchase of District business investments.

“(2) DISTRICT BUSINESS INVESTMENT.—For purposes of this subsection, the term ‘District business investment’ means—

“(A) any District business stock, and

“(B) any District partnership interest.

“(3) DISTRICT BUSINESS STOCK.—For purposes of this subsection—

“(A) IN GENERAL.—Except as provided in subparagraph (B), the term ‘District business stock’ means any stock in a domestic corporation if—

“(i) such stock is acquired by the taxpayer at its original issue (directly or through an underwriter) in exchange for cash, and

“(ii) as of the time such stock was issued, such corporation was engaged in a trade or business in the District of Columbia (or, in the case of a new corporation, such corporation was being organized for purposes of engaging in such a trade or business).

“(B) REDEMPTIONS.—A rule similar to the rule of section 1202(c)(3) shall apply for purposes of this paragraph.

“(4) QUALIFIED DISTRICT PARTNERSHIP INTEREST.—For purposes of this subsection, the term ‘qualified District partnership interest’ means any interest in a partnership if—

“(A) such interest is acquired by the taxpayer from the partnership solely in exchange for cash, and

“(B) as of the time such interest was acquired, such partnership was engaging in a trade or business in the District of Columbia (or, in the case of a new partnership, such partnership was being organized for purposes of engaging in such a trade or business).

“(5) DISPOSITIONS OF DISTRICT BUSINESS INVESTMENTS.—

“(A) IN GENERAL.—If a taxpayer disposes of any District business investment (or any other property the basis of which is determined in whole or in part by reference to the adjusted basis of such investment) before the end of the 5-year period beginning on the date such investment was acquired by the taxpayer, the taxpayer’s tax imposed by this chapter for the taxable year in which such distribution occurs shall be increased by the aggregate decrease in the credits allowed under section 38 for all prior taxable years which would have resulted solely from reducing to zero any credit determined under this section with respect to such investment.

“(B) EXCEPTIONS.—Subparagraph (A) shall not apply to any gift, transfer, or transaction described in paragraph (1), (2), or (3) of section 1245(b).

“(C) SPECIAL RULE.—Any increase in tax under subparagraph (A) shall not be treated as a tax imposed by this chapter for purposes of—

“(i) determining the amount of any credit allowable under this chapter, and

“(ii) determining the amount of the tax imposed by section 55.

“(6) BASIS REDUCTION.—For purposes of this title, the basis of any District business investment shall be reduced by the amount of the credit determined under this section with respect to such investment.

“(d) LIMITATION ON AMOUNT OF CREDIT.—

“(1) IN GENERAL.—The amount of the District investment credit determined under this section with respect to any taxpayer for any taxable year shall not exceed the credit amount allocated to such taxpayer for such

taxable year by the Economic Development Corporation.

“(2) OVERALL LIMITATION.—The aggregate credit amount which may be allocated by the Economic Development Corporation under this section shall not exceed \$95,000,000.

“(3) CRITERIA FOR ALLOCATING CREDIT AMOUNTS.—The allocation of credit amounts under this section shall be made in accordance with criteria established by the Economic Development Corporation. In establishing such criteria, such Corporation shall take into account—

“(A) the degree to which the business receiving the loan or investment will provide job opportunities for low and moderate income residents of the District of Columbia, and

“(B) whether such business is within a population census tract in the District of Columbia having a poverty rate of at least 15 percent.

“(e) REGULATIONS.—The Secretary shall prescribe such regulations as may be appropriate to carry out this section.

“(f) APPLICATION OF SECTION.—This section shall apply to any credit amount allocated for taxable years beginning after December 31, 1997, and before January 1, 2003.

“SEC. 1400E. DEFINITIONS.

“(a) QUALIFIED DISTRICT BUSINESS.—For purposes of this subchapter, the term ‘qualified District business’ means a corporation, partnership, or proprietorship which would be a qualified business entity (as defined in section 1397B) or a qualified proprietorship (as defined in such section) if—

“(1) the District of Columbia were an empowerment zone (and there were no other empowerment zones or enterprise communities), and

“(2) section 1397B(b)(1) did not apply.

“(b) QUALIFIED DISTRICT PROPERTY.—For purposes of this subchapter, the term ‘qualified District property’ means any property which would be qualified zone property (as defined in section 1397C) if—

“(1) the District of Columbia were an empowerment zone (and there were no other empowerment zones or enterprise communities),

“(2) paragraph (1)(A) of section 1397C(a) referred to the date of the enactment of this section,

“(3) paragraph (1)(B) of section 1397C(a) did not apply, and

“(4) paragraph (2) of section 1397C(a) were applied by substituting ‘an amount equal to 15 percent of the adjusted basis’ for ‘an amount equal to the adjusted basis’.

“(c) ECONOMIC DEVELOPMENT CORPORATION.—For purposes of this subchapter, the term ‘Economic Development Corporation’ means the Economic Development Corporation hereafter established by law for the District of Columbia.

“SEC. 1400F. STATUS OF ECONOMIC DEVELOPMENT CORPORATION FOR DISTRICT OF COLUMBIA.

“(a) IN GENERAL.—For purposes of this title and the Social Security Act, the Economic Development Corporation is an agency of the District of Columbia.

“(b) BOND AUTHORITY.—The Economic Development Corporation shall be allocated 50 percent of the private activity bond volume cap allocated to the District of Columbia under section 146. Notwithstanding section 146(e), the District of Columbia may not alter the allocation under the preceding sentence.”

(b) CREDITS MADE PART OF GENERAL BUSINESS CREDIT.—

(1) Subsection (b) of section 38 is amended by striking “plus” at the end of paragraph (12), by striking the period at the end of paragraph (13) and inserting a comma, and by adding at the end the following new paragraphs:

“(14) the District of Columbia employment credit determined under section 1400A(a), plus

“(15) the District investment credit determined under section 1400D(a).”

(2) Subsection (d) of section 39 is amended by adding at the end the following new paragraph:

“(10) NO CARRYBACK OF DISTRICT OF COLUMBIA EMPLOYMENT AND INVESTMENT CREDITS BEFORE EFFECTIVE DATE.—No portion of the unused business credit for any taxable year which is attributable to the credit under section 1400A or 1400D may be carried back to a taxable year ending before the date of the enactment of such sections.”

(3) Subsection (c) of section 196 is amended by striking “and” at the end of paragraph (7), by striking the period at the end of paragraph (8) and inserting a comma, and by adding at the end the following new paragraphs:

“(9) the District of Columbia employment credit determined under section 1400A(a), and

“(10) the District investment credit determined under section 1400D(a).”

(c) CLERICAL AMENDMENT.—The table of subchapters for chapter 1 is amended by adding at the end the following new item:

“Subchapter W. Incentives for revitalization of the District of Columbia.”

(d) EFFECTIVE DATE.—This section shall take effect on the date of the enactment of this Act.

TITLE X—REVENUES

Subtitle A—Financial Products

SEC. 1001. CONSTRUCTIVE SALES TREATMENT FOR APPRECIATED FINANCIAL POSITIONS.

(a) IN GENERAL.—Part IV of subchapter P of chapter 1 is amended by adding at the end the following new section:

“SEC. 1259. CONSTRUCTIVE SALES TREATMENT FOR APPRECIATED FINANCIAL POSITIONS.

“(a) IN GENERAL.—If there is a constructive sale of an appreciated financial position—

“(1) the taxpayer shall recognize gain as if such position were sold, assigned, or otherwise terminated at its fair market value on the date of such constructive sale (and any gain shall be taken into account for the taxable year which includes such date), and

“(2) for purposes of applying this title for periods after the constructive sale—

“(A) proper adjustment shall be made in the amount of any gain or loss subsequently realized with respect to such position for any gain taken into account by reason of paragraph (1), and

“(B) the holding period of such position shall be determined as if such position were originally acquired on the date of such constructive sale.

“(b) APPRECIATED FINANCIAL POSITION.—For purposes of this section—

“(1) IN GENERAL.—Except as provided in paragraph (2), the term ‘appreciated financial position’ means any position with respect to any stock, debt instrument, or partnership interest if there would be gain were such position sold, assigned, or otherwise terminated at its fair market value.

“(2) EXCEPTIONS.—The term ‘appreciated financial position’ shall not include—

“(A) any position with respect to straight debt (as defined in section 1361(c)(5)(B)) without regard to clause (iii) thereof, and

“(B) any position which is marked to market under any provision of this title or the regulations thereunder.

“(3) POSITION.—The term ‘position’ means an interest, including a futures or forward contract, short sale, or option.

“(c) CONSTRUCTIVE SALE.—For purposes of this section—

“(1) IN GENERAL.—A taxpayer shall be treated as having made a constructive sale of

an appreciated financial position if the taxpayer (or a related person)—

“(A) enters into a short sale of the same or substantially identical property,

“(B) enters into an offsetting notional principal contract with respect to the same or substantially identical property,

“(C) enters into a futures or forward contract to deliver the same or substantially identical property,

“(D) in the case of an appreciated financial position that is a short sale or a contract described in subparagraph (B) or (C) with respect to any property, acquires the same or substantially identical property, or

“(E) to the extent prescribed by the Secretary in regulations, enters into 1 or more other transactions (or acquires 1 or more positions) that have substantially the same effect as a transaction described in any of the preceding subparagraphs.

“(2) EXCEPTION FOR SALES OF NONPUBLICLY TRADED PROPERTY.—The term ‘constructive sale’ shall not include any contract for sale of any stock, debt instrument, or partnership interest which is not a marketable security (as defined in section 453(f)) if the contract settles within 1 year after the date such contract is entered into.

“(3) EXCEPTION FOR CERTAIN CLOSED TRANSACTIONS.—In applying this section, there shall be disregarded any transaction (which would otherwise be treated as a constructive sale) during the taxable year if—

“(A) such transaction is closed before the end of the 30th day after the close of such taxable year, and

“(B) in the case of a transaction which is closed during the 90-day period ending on such 30th day—

“(i) the taxpayer holds the appreciated financial position throughout the 60-day period beginning on the date such transaction is closed, and

“(ii) at no time during such 60-day period is the taxpayer’s risk of loss with respect to such position reduced by reason of a circumstance which would be described in section 246(c)(4) if references to stock included references to such position.

“(4) RELATED PERSON.—A person is related to another person with respect to a transaction if—

“(A) the relationship is described in section 267 or 707(b), and

“(B) such transaction is entered into with a view toward avoiding the purposes of this section.

“(d) OTHER DEFINITIONS.—For purposes of this section—

“(1) FORWARD CONTRACT.—The term ‘forward contract’ means a contract to deliver a substantially fixed amount of property for a substantially fixed price.

“(2) OFFSETTING NOTIONAL PRINCIPAL CONTRACT.—The term ‘offsetting notional principal contract’ means, with respect to any property, an agreement which includes—

“(A) a requirement to pay (or provide credit for) all or substantially all of the investment yield (including appreciation) on such property for a specified period, and

“(B) a right to be reimbursed for (or receive credit for) all or substantially all of any decline in the value of such property.

“(e) SPECIAL RULES.—

“(1) TREATMENT OF SUBSEQUENT SALE OF POSITION WHICH WAS DEEMED SOLD.—If—

“(A) there is a constructive sale of any appreciated financial position,

“(B) such position is subsequently disposed of, and

“(C) at the time of such disposition, the transaction resulting in the constructive sale of such position is open with respect to the taxpayer or any related person, solely for purposes of determining whether the taxpayer has entered into a constructive

sale of any other appreciated financial position held by the taxpayer, the taxpayer shall be treated as entering into such transaction immediately after such disposition. For purposes of the preceding sentence, an assignment or other termination shall be treated as a disposition.

“(2) CERTAIN TRUST INSTRUMENTS TREATED AS STOCK.—For purposes of this section, an interest in a trust which is actively traded (within the meaning of section 1092(d)(1)) shall be treated as stock.

“(3) MULTIPLE POSITIONS IN PROPERTY.—If a taxpayer holds multiple positions in property, the determination of whether a specific transaction is a constructive sale and, if so, which appreciated financial position is deemed sold shall be made in the same manner as actual sales.

“(f) REGULATIONS.—The Secretary shall prescribe such regulations as may be necessary or appropriate to carry out the purposes of this section.”

(b) ELECTION OF MARK TO MARKET FOR SECURITIES TRADERS AND FOR TRADERS AND DEALERS IN COMMODITIES.—Subsection (d) of section 475 (relating to mark to market accounting method for dealers in securities) is amended by adding at the end the following new paragraph:

“(4) ELECTION OF MARK TO MARKET FOR SECURITIES TRADERS AND FOR TRADERS AND DEALERS IN COMMODITIES.—

“(A) IN GENERAL.—In the case of a person—

“(i) who is engaged in a trade or business to which this paragraph applies, and

“(ii) who elects to be treated as a dealer in securities for purposes of this section with respect to such trade or business,

subsections (a), (b)(3), (c)(3), and (e) and the preceding provisions of this subsection (or, in the case of a dealer in commodities, this section) shall apply to all commodities and securities held by such person in any trade or business with respect to which such election is in effect in the same manner as if such person were a dealer in securities and all references to securities included references to commodities.

“(B) APPLICATION OF PARAGRAPH.—This paragraph shall apply to any active trade or business—

“(i) as a trader in securities, or

“(ii) as a trader or dealer in commodities.

“(C) EXCEPTION FOR CERTAIN HOLDINGS OF TRADERS.—In the case of a trader in securities or commodities, subsection (a) shall not apply to any security or commodity (to which subsection (a) would otherwise apply solely by reason of this paragraph) if such security or commodity is clearly identified in the trader's records (before the close of the day applicable under subsection (b)(2)) as being held other than in a trade or business to which the election under subparagraph (A) is in effect. A security or commodity so identified shall be treated as described in subsection (b)(1).

“(D) COMMODITY.—For purposes of this paragraph, the term ‘commodities’ includes only commodities of a kind customarily dealt in on an organized commodity exchange.

“(E) ELECTION.—An election under this paragraph may be made separately for each trade or business and without the consent of the Secretary. Such an election, once made, shall apply to the taxable year for which made and all subsequent taxable years unless revoked with the consent of the Secretary.”

(c) CLERICAL AMENDMENT.—The table of sections for part IV of subchapter P of chapter 1 is amended by adding at the end the following new item:

“Sec. 1259. Constructive sales treatment for appreciated financial positions.”

(d) EFFECTIVE DATES.—

(1) IN GENERAL.—Except as otherwise provided in this subsection, the amendments made by this section shall apply to any constructive sale after June 8, 1997.

(2) EXCEPTION FOR SALES OF POSITIONS, ETC. HELD BEFORE JUNE 9, 1997.—A constructive sale before June 9, 1997, and the property to which the position involved in the transaction relates, shall not be taken into account in determining whether any other constructive sale after June 8, 1997, has occurred if, within before the close of the 30-day period beginning on the date of the enactment of this Act, such position and property are clearly identified in the taxpayer's records as offsetting. The preceding sentence shall cease to apply as of the date the taxpayer ceases to hold such position or property.

(3) SPECIAL RULE.—In the case of a decedent dying after June 8, 1997, if—

(A) there was a constructive sale on or before such date of any appreciated financial position,

(B) the transaction resulting in such constructive sale of such position remains open (with respect to the decedent or any related person) for not less than 2 years after the date of such transaction (whether such period is before or after such date), and

(C) such transaction is not closed within the 30-day period beginning on the date of the enactment of this Act,

then, for purposes of such Code, such position (and any property related thereto, as determined under the principles of section 1259(d)(1) of such Code (as so added)) shall be treated as property constituting rights to receive an item of income in respect of a decedent under section 691 of such Code.

(4) ELECTION OF SECURITIES TRADERS, AND FOR TRADERS AND DEALERS IN COMMODITIES, TO BE TREATED AS DEALERS IN SECURITIES.—

(A) IN GENERAL.—The amendment made by subsection (b) shall apply to taxable years ending after the date of the enactment of this Act.

(B) 4-YEAR SPREAD OF ADJUSTMENTS.—In the case of a taxpayer who elects under section 475(d)(4) of the Internal Revenue Code of 1986 (as added by this section) to change its method of accounting for its first taxable year ending after the date of the enactment of this Act, the net amount of the adjustments required to be taken into account by the taxpayer under section 481 of the Internal Revenue Code of 1986 shall be taken into account ratably over the 4-taxable year period beginning with such first taxable year.

SEC. 1002. LIMITATION ON EXCEPTION FOR INVESTMENT COMPANIES UNDER SECTION 351.

(a) IN GENERAL.—Paragraph (1) of section 351(e) (relating to exceptions) is amended by adding at the end the following: “For purposes of the preceding sentence, the term ‘investment company’ includes any company if more than 80 percent of the value of the assets of such company (other than assets held in the ordinary course of a trade or business for sale to customers) is attributable to—

“(A) money,

“(B) any financial instrument (as defined in section 731(c)(2)(C)),

“(C) any foreign currency,

“(D) any interest in a real estate investment trust, a common trust fund, a regulated investment company, or a publicly traded partnership (as defined in section 7704(b)),

“(E) any interest described in clause (iv), (v), or (vi) of section 731(c)(2)(B) (or which would be so described without regard to any reference to active trading or marketability),

“(F) any other asset specified in regulations prescribed by the Secretary, or

“(G) any combination of the foregoing.”

(b) EFFECTIVE DATE.—

(1) IN GENERAL.—The amendment made by subsection (a) shall apply to transfers after June 8, 1997, in taxable years ending after such date.

(2) BINDING CONTRACTS.—The amendment made by subsection (a) shall not apply to any transfer pursuant to a written binding contract in effect on June 8, 1997, that provides for the transfer of a fixed amount of property, and at all times thereafter before such transfer.

SEC. 1003. MODIFICATION OF RULES FOR ALLOCATING INTEREST EXPENSE TO TAX-EXEMPT INTEREST.

(a) PRO RATA ALLOCATION RULES APPLICABLE TO CORPORATIONS.—

(1) IN GENERAL.—Paragraph (1) of section 265(b) is amended by striking “In the case of a financial institution” and inserting “In the case of a corporation”.

(2) ONLY OBLIGATIONS ACQUIRED AFTER JUNE 8, 1997, TAKEN INTO ACCOUNT.—Subparagraph (A) of section 265(b)(2) is amended by striking “August 7, 1986” and inserting “June 8, 1997 (August 7, 1986, in the case of a financial institution)”.

(3) SMALL ISSUER EXCEPTION NOT TO APPLY.—Subparagraph (A) of section 265(b)(3) is amended by striking “Any qualified” and inserting “In the case of a financial institution, any qualified”.

(4) EXCEPTION FOR CERTAIN BONDS ACQUIRED ON SALE OF GOODS OR SERVICES.—Subparagraph (B) of section 265(b)(4) is amended by adding at the end the following new sentence: “In the case of a taxpayer other than a financial institution, such term shall not include a nonsaleable obligation acquired by such taxpayer in the ordinary course of business as payment for goods or services provided by such taxpayer to any State or local government.”

(5) LOOK-THRU RULES FOR PARTNERSHIPS.—Paragraph (6) of section 265(b) is amended by adding at the end the following new subparagraph:

“(C) LOOK-THRU RULES FOR PARTNERSHIPS.—In the case of a corporation which is a partner in a partnership, such corporation shall be treated for purposes of this subsection as holding directly its allocable share of the assets of the partnership.”

(6) APPLICATION OF PRO RATA DISALLOWANCE ON AFFILIATED GROUP BASIS.—Subsection (b) of section 265 is amended by adding at the end the following new paragraph:

“(7) APPLICATION OF DISALLOWANCE ON AFFILIATED GROUP BASIS.—

“(A) IN GENERAL.—For purposes of this subsection, all members of an affiliated group filing a consolidated return under section 1501 shall be treated as 1 taxpayer.

“(B) TREATMENT OF INSURANCE COMPANIES.—This subsection shall not apply to an insurance company, and subparagraph (A) shall be applied without regard to any member of an affiliated group which is an insurance company.”

(6) DE MINIMIS EXCEPTION FOR NONFINANCIAL INSTITUTIONS.—Subsection (b) of section 265 is amended by adding at the end the following new paragraph:

“(8) DE MINIMIS EXCEPTION FOR NONFINANCIAL INSTITUTIONS.—In the case of a corporation, paragraph (1) shall not apply for any taxable year if the amount described in paragraph (2)(A) with respect to such corporation does not exceed the lesser of—

“(A) 2 percent of the amount described in paragraph (2)(B), or

“(B) \$1,000,000.

The preceding sentence shall not apply to a financial institution or to a dealer in tax-exempt obligations.”

(7) CLERICAL AMENDMENT.—The subsection heading for section 265(b) is amended by striking “FINANCIAL INSTITUTIONS” and inserting “CORPORATIONS”.

(b) APPLICATION OF SECTION 265(a)(2) WITH RESPECT TO CONTROLLED GROUPS.—Paragraph (2) of section 265(a) is amended after “obligations” by inserting “held by the taxpayer (or any corporation which is a member of a controlled group (as defined in section 267(f)(1)) which includes the taxpayer)”.

(c) EFFECTIVE DATE.—The amendments made by this section shall apply to taxable years beginning after the date of the enactment of this Act.

SEC. 1004. GAINS AND LOSSES FROM CERTAIN TERMINATIONS WITH RESPECT TO PROPERTY.

(a) APPLICATION OF CAPITAL TREATMENT TO PROPERTY OTHER THAN PERSONAL PROPERTY.—

(1) IN GENERAL.—Paragraph (1) of section 1234A (relating to gains and losses from certain terminations) is amended by striking “personal property (as defined in section 1092(d)(1))” and inserting “property”.

(2) EFFECTIVE DATE.—The amendment made by paragraph (1) shall apply to terminations more than 30 days after the date of the enactment of this Act.

(b) APPLICATION OF CAPITAL TREATMENT, ETC. TO OBLIGATIONS ISSUED BY NATURAL PERSONS.—

(1) IN GENERAL.—Section 1271(b) is amended to read as follows:

“(b) EXCEPTION FOR CERTAIN OBLIGATIONS.—

“(1) IN GENERAL.—This section shall not apply to—

“(A) any obligation issued by a natural person before June 9, 1997, and

“(B) any obligation issued before July 2, 1982, by an issuer which is not a corporation and is not a government or political subdivision thereof.

“(2) TERMINATION.—Paragraph (1) shall not apply to any obligation purchased (within the meaning of section 179(d)(2)) after June 8, 1997.”

(2) EFFECTIVE DATE.—The amendment made by paragraph (1) shall take effect on the date of enactment of this Act.

SEC. 1005. DETERMINATION OF ORIGINAL ISSUE DISCOUNT WHERE POOLED DEBT OBLIGATIONS SUBJECT TO ACCELERATION.

(a) IN GENERAL.—Subparagraph (C) of section 1272(a)(6) (relating to debt instruments to which the paragraph applies) is amended by striking “or” at the end of clause (i), by striking the period at the end of clause (ii) and inserting “, or”, and by inserting after clause (i) the following:

“(iii) any pool of debt instruments the yield on which may be reduced by reason of prepayments (or to the extent provided in regulations, by reason of other events).

To the extent provided in regulations prescribed by the Secretary, in the case of a small business engaged in the trade or business of selling tangible personal property at retail, clause (iii) shall not apply to debt instruments incurred in the ordinary course of such trade or business while held by such business.”

(b) EFFECTIVE DATES.—

(1) IN GENERAL.—The amendment made by this section shall apply to taxable years beginning after the date of the enactment of this Act.

(2) CHANGE IN METHOD OF ACCOUNTING.—In the case of any taxpayer required by this section to change its method of accounting for its first taxable year beginning after the date of the enactment of this Act—

(A) such change shall be treated as initiated by the taxpayer,

(B) such change shall be treated as made with the consent of the Secretary, and

(C) the net amount of the adjustments required to be taken into account by the taxpayer under section 481 of the Internal Revenue Code of 1986 shall be taken into account

ratably over the 4-taxable year period beginning with such first taxable year.

SEC. 1006. DENIAL OF INTEREST DEDUCTIONS ON CERTAIN DEBT INSTRUMENTS.

(a) IN GENERAL.—Section 163 (relating to deduction for interest) is amended by redesignating subsection (k) as subsection (l) and by inserting after subsection (j) the following new subsection:

“(k) DISALLOWANCE OF DEDUCTION ON CERTAIN DEBT INSTRUMENTS OF CORPORATIONS.—

“(1) IN GENERAL.—No deduction shall be allowed under this chapter for any interest paid or accrued on a disqualified debt instrument.

“(2) DISQUALIFIED DEBT INSTRUMENT.—For purposes of this subsection, the term ‘disqualified debt instrument’ means any indebtedness of a corporation which is payable in equity of the issuer or a related party.

“(3) SPECIAL RULES FOR AMOUNTS PAYABLE IN EQUITY.—For purposes of paragraph (2), indebtedness shall be treated as payable in equity of the issuer or a related party only if—

“(A) a substantial amount of the principal or interest is required to be paid or converted, or at the option of the issuer or a related party is payable in, or convertible into, such equity,

“(B) a substantial amount of the principal or interest is required to be determined, or at the option of the issuer or a related party is determined, by reference to the value of such equity, or

“(C) the indebtedness is part of an arrangement which is reasonably expected to result in a transaction described in subparagraph (A) or (B).

For purposes of subparagraphs (A) and (B), principal or interest shall be treated as required to be so paid, converted, or determined if it may be required at the option of the holder or a related party and there is a substantial certainty the option will be exercised.

“(4) RELATED PARTY.—For purposes of this subsection, a person is a related party with respect to another person if such person bears a relationship to such other person described in section 267(b) or 707(b).

“(5) REGULATIONS.—The Secretary shall prescribe such regulations as may be necessary or appropriate to carry out the purposes of this subsection, including regulations preventing avoidance of this subsection through the use of an issuer other than a corporation.”

(b) EFFECTIVE DATE.—

(1) IN GENERAL.—The amendment made by this section shall apply to disqualified debt instruments issued after June 8, 1997.

(2) TRANSITION RULE.—The amendment made by this section shall not apply to any instrument issued after June 8, 1997, if such instrument is—

(A) issued pursuant to a written agreement which was binding on such date and at all times thereafter,

(B) described in a ruling request submitted to the Internal Revenue Service on or before such date, or

(C) described on or before such date in a public announcement or in a filing with the Securities and Exchange Commission required solely by reason of the distribution.

Subtitle B—Corporate Organizations and Reorganizations

SEC. 1011. TAX TREATMENT OF CERTAIN EXTRAORDINARY DIVIDENDS.

(a) TREATMENT OF EXTRAORDINARY DIVIDENDS IN EXCESS OF BASIS.—Paragraph (2) of section 1059(a) (relating to corporate shareholder’s recognition of gain attributable to nontaxed portion of extraordinary dividends) is amended to read as follows:

“(2) AMOUNTS IN EXCESS OF BASIS.—If the nontaxed portion of such dividends exceeds such basis, such excess shall be treated as

gain from the sale or exchange of such stock for the taxable year in which the extraordinary dividend is received.”

(b) TREATMENT OF REDEMPTIONS WHERE OPTIONS INVOLVED.—Paragraph (1) of section 1059(e) (relating to treatment of partial liquidations and non-pro rata redemptions) is amended to read as follows:

“(1) TREATMENT OF PARTIAL LIQUIDATIONS AND CERTAIN REDEMPTIONS.—Except as otherwise provided in regulations—

“(A) REDEMPTIONS.—In the case of any redemption of stock—

“(i) which is part of a partial liquidation (within the meaning of section 302(e)) of the redeeming corporation,

“(ii) which is not pro rata as to all shareholders, or

“(iii) which would not have been treated (in whole or in part) as a dividend if any options had not been taken into account under section 318(a)(4),

any amount treated as a dividend with respect to such redemption shall be treated as an extraordinary dividend to which paragraphs (1) and (2) of subsection (a) apply without regard to the period the taxpayer held such stock. In the case of a redemption described in clause (iii), only the basis in the stock redeemed shall be taken into account under subsection (a).

“(B) REORGANIZATIONS, ETC.—An exchange described in section 356(a)(1) which is treated as a dividend under section 356(a)(2) shall be treated as a redemption of stock for purposes of applying subparagraph (A).”

(c) TIME FOR REDUCTION.—Paragraph (1) of section 1059(d) is amended to read as follows:

“(1) TIME FOR REDUCTION.—Any reduction in basis under subsection (a)(1) shall be treated as occurring at the beginning of the ex-dividend date of the extraordinary dividend to which the reduction relates.”

(d) EFFECTIVE DATES.—

(1) IN GENERAL.—The amendments made by this section shall apply to distributions after May 3, 1995.

(2) TRANSITION RULE.—The amendments made by this section shall not apply to any distribution made pursuant to the terms of—

(A) a written binding contract in effect on May 3, 1995, and at all times thereafter before such distribution, or

(B) a tender offer outstanding on May 3, 1995.

(3) CERTAIN DIVIDENDS NOT PURSUANT TO CERTAIN REDEMPTIONS.—In determining whether the amendment made by subsection (a) applies to any extraordinary dividend other than a dividend treated as an extraordinary dividend under section 1059(e)(1) of the Internal Revenue Code of 1986 (as amended by this Act), paragraphs (1) and (2) shall be applied by substituting “September 13, 1995” for “May 3, 1995”.

SEC. 1012. APPLICATION OF SECTION 355 TO DISTRIBUTIONS FOLLOWED BY ACQUISITIONS AND TO INTRAGROUP TRANSACTIONS.

(a) DISTRIBUTIONS FOLLOWED BY ACQUISITIONS.—Section 355 (relating to distribution of stock and securities of a controlled corporation) is amended by adding at the end the following new subsection:

“(e) RECOGNITION OF GAIN WHERE CERTAIN DISTRIBUTIONS OF STOCK OR SECURITIES ARE FOLLOWED BY ACQUISITION.—

“(1) GENERAL RULE.—If there is a distribution to which this subsection applies, the following rules shall apply:

“(A) ACQUISITION OF CONTROLLED CORPORATION.—If there is an acquisition described in paragraph (2)(A)(ii) with respect to any controlled corporation, any stock or securities in the controlled corporation shall not be treated as qualified property for purposes of subsection (c)(2) of this section or section 361(c)(2).

“(B) ACQUISITION OF DISTRIBUTING CORPORATION.—If there is an acquisition described in paragraph (2)(A)(ii) with respect to the distributing corporation, the controlled corporation shall recognize gain in an amount equal to the amount of net gain which would be recognized if all the assets of the distributing corporation (immediately after the distribution) were sold (at such time) for fair market value. Any gain recognized under the preceding sentence shall be treated as long-term capital gain and shall be taken into account for the taxable year which includes the day after the date of such distribution.

“(2) DISTRIBUTIONS TO WHICH SUBSECTION APPLIES.—

“(A) IN GENERAL.—This subsection shall apply to any distribution—

“(i) to which this section (or so much of section 356 as relates to this section) applies, and

“(ii) which is part of a plan (or series of related transactions) pursuant to which 1 or more persons acquire directly or indirectly stock representing a 50-percent or greater interest in the distributing corporation or any controlled corporation.

“(B) PLAN PRESUMED TO EXIST IN CERTAIN CASES.—If 1 or more persons acquire directly or indirectly stock representing a 50-percent or greater interest in the distributing corporation or any controlled corporation during the 4-year period beginning on the date which is 2 years before the date of the distribution, such acquisition shall be treated as pursuant to a plan described in subparagraph (A)(ii) unless it is established that the distribution and the acquisition are not pursuant to a plan or series of related transactions.

“(C) COORDINATION WITH SUBSECTION (d).—This subsection shall not apply to any distribution to which subsection (d) applies.

“(3) SPECIAL RULES RELATING TO ACQUISITIONS.—

“(A) CERTAIN ACQUISITIONS NOT TAKEN INTO ACCOUNT.—Except as provided in regulations, the following acquisitions shall not be treated as described in paragraph (2)(A)(ii):

“(i) The acquisition of stock in any controlled corporation by the distributing corporation.

“(ii) The acquisition by a person of stock in any controlled corporation by reason of holding stock in the distributing corporation.

“(iii) The acquisition by a person of stock in any successor corporation of the distributing corporation or any controlled corporation by reason of holding stock in such distributing or controlled corporation.

“(iv) The acquisition of stock in a corporation if shareholders owning directly or indirectly a 50-percent or greater interest in the distributing corporation or any controlled corporation before such acquisition own indirectly a 50-percent or greater interest in such distributing or controlled corporation after such acquisition.

This subparagraph shall not apply to any acquisition if the stock held before the acquisition was acquired pursuant to a plan described in subparagraph (A)(ii).

“(B) ASSET ACQUISITIONS.—Except as provided in regulations, for purposes of this subsection, if the assets of the distributing corporation or any controlled corporation are acquired by a successor corporation in a transaction described in subparagraph (A), (C), or (D) of section 368(a)(1) or any other transaction specified in regulations by the Secretary, the shareholders (immediately before the acquisition) of the corporation acquiring such assets shall be treated as acquiring stock in the corporation from which the assets were acquired.

“(4) DEFINITION AND SPECIAL RULES.—For purposes of this subsection—

“(A) 50-PERCENT OR GREATER INTEREST.—The term ‘50-percent or greater interest’ has the meaning given such term by subsection (d)(4).

“(B) DISTRIBUTIONS IN TITLE 11 OR SIMILAR CASE.—Paragraph (1) shall not apply to any distribution made in a title 11 or similar case (as defined in section 368(a)(3)).

“(C) AGGREGATION AND ATTRIBUTION RULES.—

“(i) AGGREGATION.—The rules of paragraph (7)(A) of subsection (d) shall apply.

“(ii) ATTRIBUTION.—Section 355(d)(8)(A) shall apply in determining whether a person holds stock or securities in any corporation.

“(D) SUCCESSORS AND PREDECESSORS.—For purposes of this subsection, any reference to a controlled corporation or a distributing corporation shall include a reference to any predecessor or successor of such corporation.

“(E) STATUTE OF LIMITATIONS.—If there is an acquisition to which paragraph (1) (A) or (B) applies—

“(i) the statutory period for the assessment of any deficiency attributable to any part of the gain recognized under this subsection by reason of such acquisition shall not expire before the expiration of 3 years from the date the Secretary is notified by the taxpayer (in such manner as the Secretary may by regulations prescribe) that such acquisition occurred, and

“(ii) such deficiency may be assessed before the expiration of such 3-year period notwithstanding the provisions of any other law or rule of law which would otherwise prevent such assessment.

“(5) REGULATIONS.—The Secretary shall prescribe such regulations as may be necessary to carry out the purposes of this subsection, including regulations—

“(A) providing for the application of this subsection where there is more than 1 controlled corporation,

“(B) treating 2 or more distributions as 1 distribution where necessary to prevent the avoidance of such purposes, and

“(C) providing for the application of rules similar to the rules of subsection (d)(6) where appropriate for purposes of paragraph (2)(B).”

(b) SECTION 355 NOT TO APPLY TO CERTAIN INTRAGROUP TRANSACTIONS.—Section 355, as amended by subsection (a), is amended by adding at the end the following new subsection:

“(f) SECTION NOT TO APPLY TO CERTAIN INTRAGROUP TRANSACTIONS.—Except as provided in regulations, this section shall not apply to the distribution of stock from 1 member of an affiliated group filing a consolidated return to another member of such group, and the Secretary shall provide proper adjustments for the treatment of such distribution, including (if necessary) adjustments to—

“(1) the adjusted basis of any stock which—

“(A) is in a corporation which is a member of such group, and

“(B) is held by another member of such group, and

“(2) the earnings and profits of any member of such group.”

(c) DETERMINATION OF CONTROL IN CERTAIN DIVISIVE TRANSACTIONS.—

(1) SECTION 351 TRANSACTIONS.—Section 351(c) (relating to special rule) is amended to read as follows:

“(c) SPECIAL RULES WHERE DISTRIBUTION TO SHAREHOLDERS.—

“(1) IN GENERAL.—In determining control for purposes of this section—

“(A) the fact that any corporate transferor distributes part or all of the stock in the corporation which it receives in the exchange to its shareholders shall not be taken into account, and

“(B) if the requirements of section 355 are met with respect to such distribution, the shareholders shall be treated as in control of such corporation immediately after the exchange if the shareholders hold at least a 50-percent interest in such corporation immediately after the distribution.

“(2) 50-PERCENT INTEREST.—For purposes of this subsection, the term ‘50-percent interest’ means stock possessing 50 percent of the total combined voting power of all classes of stock entitled to vote and 50 percent of the total value of shares of all classes of stock.”

(2) D REORGANIZATIONS.—Section 368(a)(2)(H) (relating to special rule for determining whether certain transactions are qualified under paragraph (1)(D)) is amended to read as follows:

“(H) SPECIAL RULES FOR DETERMINING WHETHER CERTAIN TRANSACTIONS ARE QUALIFIED UNDER PARAGRAPH (1)(D).—For purposes of determining whether a transaction qualifies under paragraph (1)(D)—

“(i) in the case of a transaction with respect to which the requirements of subparagraphs (A) and (B) of section 354(b)(1) are met, the term ‘control’ has the meaning given such term by section 304(c), and

“(ii) in the case of a transaction with respect to which the requirements of section 355 are met, the shareholders described in paragraph (1)(D) shall be treated as having control of the corporation to which the assets are transferred if such shareholders hold a 50-percent or greater interest (as defined in section 351(c)(2)) in such corporation immediately after the transfer.”

(d) EFFECTIVE DATES.—

(1) SECTION 355 RULES.—The amendments made by subsections (a) and (b) shall apply to distributions after April 16, 1997.

(2) DIVISIVE TRANSACTIONS.—The amendments made by subsection (c) shall apply to transfers after the date of the enactment of this Act.

(3) TRANSITION RULE.—The amendments made by this section shall not apply to any distribution after April 16, 1997, if such distribution is—

(A) made pursuant to a written agreement which was binding on such date and at all times thereafter,

(B) described in a ruling request submitted to the Internal Revenue Service on or before such date, or

(C) described on or before such date in a public announcement or in a filing with the Securities and Exchange Commission required solely by reason of the distribution.

This subparagraph shall not apply to any written agreement, ruling request, or public announcement or filing unless it identifies the unrelated acquirer of the distributing corporation or of any controlled corporation, whichever is applicable.

SEC. 1013. TAX TREATMENT OF REDEMPTIONS INVOLVING RELATED CORPORATIONS.

(a) STOCK PURCHASES BY RELATED CORPORATIONS.—The last sentence of section 304(a)(1) (relating to acquisition by related corporation other than subsidiary) is amended to read as follows: “To the extent that such distribution is treated as a distribution to which section 301 applies, the transferor and the acquiring corporation shall be treated in the same manner as if the transferor had transferred the stock so acquired to the acquiring corporation in exchange for stock of the acquiring corporation in a transaction to which section 351(a) applies, and then the acquiring corporation had redeemed the stock it was treated as issuing in such transaction.”

(b) COORDINATION WITH SECTION 1059.—Clause (iii) of section 1059(e)(1)(A), as amended by this title, is amended to read as follows:

“(iii) which would not have been treated (in whole or in part) as a dividend if—

“(I) any options had not been taken into account under section 318(a)(4), or
“(II) section 304(a) had not applied.”

(c) SPECIAL RULE FOR ACQUISITIONS BY FOREIGN CORPORATIONS.—Section 304(b) (relating to special rules for application of subsection (a)) is amended by adding at the end the following new paragraph:

“(5) ACQUISITIONS BY FOREIGN CORPORATIONS.—

“(A) IN GENERAL.—In the case of any acquisition to which subsection (a) applies in which the acquiring corporation is a foreign corporation, the only earnings and profits taken into account under paragraph (2)(A) shall be those earnings and profits—

“(i) which are attributable (under regulations prescribed by the Secretary) to stock of the acquiring corporation owned (within the meaning of section 958(a)) by a corporation or individual which is—

“(I) a United States shareholder (within the meaning of section 951(b)) of the acquiring corporation, and

“(II) the transferor or a person who bears a relationship to the transferor described in section 267(b) or 707(b), and

“(ii) which were accumulated during the period or periods such stock was owned by such person while the acquiring corporation was a controlled foreign corporation.

“(B) APPLICATION OF SECTION 1248.—For purposes of subparagraph (A), the rules of section 1248(d) shall apply except to the extent otherwise provided by the Secretary.

“(C) REGULATIONS.—The Secretary shall prescribe such regulations as are appropriate to carry out the purposes of this paragraph.”

(d) EFFECTIVE DATE.—

(1) IN GENERAL.—The amendments made by this section shall apply to distributions and acquisitions after June 8, 1997.

(2) TRANSITION RULE.—The amendments made by this section shall not apply to any distribution or acquisition after June 8, 1997, if such distribution or acquisition is—

(A) made pursuant to a written agreement which was binding on such date and at all times thereafter,

(B) described in a ruling request submitted to the Internal Revenue Service on or before such date, or

(C) described in a public announcement or filing with the Securities and Exchange Commission on or before such date.

SEC. 1014. MODIFICATION OF HOLDING PERIOD APPLICABLE TO DIVIDENDS RECEIVED DEDUCTION.

(a) IN GENERAL.—Subparagraph (A) of section 246(c)(1) is amended to read as follows:

“(A) which is held by the taxpayer for 45 days or less during the 90-day period beginning on the date which is 45 days before the date on which such share becomes ex-dividend with respect to such dividend, or”.

(b) CONFORMING AMENDMENTS.—

(1) Paragraph (2) of section 246(c) is amended to read as follows:

“(2) 90-DAY RULE IN THE CASE OF CERTAIN PREFERENCE DIVIDENDS.—In the case of stock having preference in dividends, if the taxpayer receives dividends with respect to such stock which are attributable to a period or periods aggregating in excess of 366 days, paragraph (1)(A) shall be applied—

“(A) by substituting ‘90 days’ for ‘45 days’ each place it appears, and

“(B) by substituting ‘180-day period’ for ‘90-day period.’”

(2) Paragraph (3) of section 246(c) is amended by adding “and” at the end of subparagraph (A), by striking subparagraph (B), and by redesignating subparagraph (C) as subparagraph (B).

(c) EFFECTIVE DATE.—The amendments made by this section shall apply to dividends received or accrued after the 30th day after the date of the enactment of this Act.

Subtitle C—Other Corporate Provisions

SEC. 1021. REGISTRATION AND OTHER PROVISIONS RELATING TO CONFIDENTIAL CORPORATE TAX SHELTERS.

(a) IN GENERAL.—Section 6111 (relating to registration of tax shelters) is amended by redesignating subsections (d) and (e) as subsections (e) and (f), respectively, and by inserting after subsection (c) the following new subsection:

“(d) CERTAIN CONFIDENTIAL ARRANGEMENTS TREATED AS TAX SHELTERS.—

“(1) IN GENERAL.—For purposes of this section, the term ‘tax shelter’ includes any entity, plan, arrangement, or transaction—

“(A) a significant purpose of the structure of which is the avoidance or evasion of Federal income tax for a direct or indirect participant which is a corporation,

“(B) which is offered to any potential participant under conditions of confidentiality, and

“(C) for which the tax shelter promoters may receive fees in excess of \$100,000 in the aggregate.

“(2) CONDITIONS OF CONFIDENTIALITY.—For purposes of paragraph (1)(B), an offer is under conditions of confidentiality if—

“(A) the potential participant to whom the offer is made (or any other person acting on behalf of such participant) has an understanding or agreement with or for the benefit of any promoter of the tax shelter that such participant (or such other person) will limit disclosure of the tax shelter or any significant tax features of the tax shelter, or

“(B) any promoter of the tax shelter—

“(i) claims, knows, or has reason to know,

“(ii) knows or has reason to know that any other person (other than the potential participant) claims, or

“(iii) causes another person to claim,

that the tax shelter (or any aspect thereof) is proprietary to any person other than the potential participant or is otherwise protected from disclosure to or use by others.

For purposes of this subsection, the term ‘promoter’ means any person or any related person (within the meaning of section 267 or 707) who participates in the organization, management, or sale of the tax shelter.

“(3) PERSONS OTHER THAN PROMOTER REQUIRED TO REGISTER IN CERTAIN CASES.—

“(A) IN GENERAL.—If—

“(i) the requirements of subsection (a) are not met with respect to any tax shelter (as defined in paragraph (1)) by any tax shelter promoter, and

“(ii) no tax shelter promoter is a United States person,

then each United States person who discussed participation in such shelter shall register such shelter under subsection (a).

“(B) EXCEPTION.—Subparagraph (A) shall not apply to a United States person who discussed participation in a tax shelter if—

“(i) such person notified the promoter in writing (not later than the close of the 90th day after the day on which such discussions began) that such person would not participate in such shelter, and

“(ii) such person does not participate in such shelter.

“(4) OFFER TO PARTICIPATE TREATED AS OFFER FOR SALE.—For purposes of subsections (a) and (b), an offer to participate in a tax shelter (as defined in paragraph (1)) shall be treated as an offer for sale.”

(b) PENALTY.—Subsection (a) of section 6707 (relating to failure to furnish information regarding tax shelters) is amended by adding at the end the following new paragraph:

“(3) CONFIDENTIAL ARRANGEMENTS.—

“(A) IN GENERAL.—In the case of a tax shelter (as defined in section 6111(d)), the penalty imposed under paragraph (1) shall be an amount equal to the greater of—

“(i) 50 percent of the fees paid to all promoters of the tax shelter with respect to offerings made before the date such shelter is registered under section 6111, or

“(ii) \$10,000.

Clause (i) shall be applied by substituting ‘75 percent’ for ‘50 percent’ in the case of an intentional failure or act described in paragraph (1).

“(B) SPECIAL RULE FOR PARTICIPANTS REQUIRED TO REGISTER SHELTER.—In the case of a person required to register such a tax shelter by reason of section 6111(d)(3)—

“(i) such person shall be required to pay the penalty under paragraph (1) only if such person actually participated in such shelter,

“(ii) the amount of such penalty shall be determined by taking into account under subparagraph (A)(i) only the fees paid by such person, and

“(iii) such penalty shall be in addition to the penalty imposed on any other person for failing to register such shelter.”

(c) MODIFICATIONS TO SUBSTANTIAL UNDERSTATEMENT PENALTY.—

(1) RESTRICTION ON REASONABLE BASIS FOR CORPORATE UNDERSTATEMENT OF INCOME TAX.—Subparagraph (B) of section 6662(d)(2) is amended by adding at the end the following new flush sentence:

“For purposes of clause (ii)(II), in no event shall a corporation be treated as having a reasonable basis for its tax treatment of an item attributable to a multiple-party financing transaction if such treatment does not clearly reflect the income of the corporation.”

(2) MODIFICATION TO DEFINITION OF TAX SHELTER.—Clause (iii) of section 6662(d)(2)(C) is amended by striking “the principal purpose” and inserting “a significant purpose”.

(d) CONFORMING AMENDMENTS.—

(1) Paragraph (2) of section 6707(a) is amended by striking “The penalty” and inserting “Except as provided in paragraph (3), the penalty”.

(2) Subparagraph (A) of section 6707(a)(1) is amended by striking “paragraph (2)” and inserting “paragraph (2) or (3), as the case may be”.

(e) EFFECTIVE DATE.—

(1) IN GENERAL.—Except as provided in paragraph (2), the amendments made by this section shall apply to any tax shelter (as defined in section 6111(d) of the Internal Revenue Code of 1986, as amended by this section) interests in which are offered to potential participants after the Secretary of the Treasury prescribes guidance with respect to meeting requirements added by such amendments.

(2) MODIFICATIONS TO SUBSTANTIAL UNDERSTATEMENT PENALTY.—The amendments made by subsection (c) shall apply to items with respect to transactions entered into after the date of the enactment of this Act.

SEC. 1022. CERTAIN PREFERRED STOCK TREATED AS BOOT.

(a) SECTION 351.—Section 351 (relating to transfer to corporation controlled by transferor) is amended by redesignating subsection (g) as subsection (h) and by inserting after subsection (f) the following new subsection:

“(g) NONQUALIFIED PREFERRED STOCK NOT TREATED AS STOCK.—

“(1) IN GENERAL.—For purposes of subsections (a) and (b), the term ‘stock’ shall not include nonqualified preferred stock.

“(2) NONQUALIFIED PREFERRED STOCK.—For purposes of paragraph (1)—

“(A) IN GENERAL.—The term ‘nonqualified preferred stock’ means preferred stock if—

“(i) the holder of such stock has the right to require the issuer or a related person to redeem or purchase the stock,

“(ii) the issuer or a related person is required to redeem or purchase such stock,

“(iii) the issuer or a related person has the right to redeem or purchase the stock and, as of the issue date, it is more likely than not that such right will be exercised, or

“(iv) the dividend rate on such stock varies in whole or in part (directly or indirectly) with reference to interest rates, commodity prices, or other similar indices.

“(B) LIMITATIONS.—Clauses (i), (ii), and (iii) of subparagraph (A) shall apply only if the right or obligation referred to therein may be exercised within the 20-year period beginning on the issue date of such stock and such right or obligation is not subject to a contingency which, as of the issue date, makes remote the likelihood of the redemption or purchase.

“(C) EXCEPTIONS FOR CERTAIN RIGHTS OR OBLIGATIONS.—

“(i) IN GENERAL.—A right or obligation shall not be treated as described in clause (i), (ii), or (iii) of subparagraph (A) if—

“(I) it may be exercised only upon the death, disability, or mental incompetency of the holder, or

“(II) in the case of a right or obligation to redeem or purchase stock transferred in connection with the performance of services for the issuer or a related person (and which represents reasonable compensation), it may be exercised only upon the holder’s separation from service from the issuer or a related person.

“(ii) EXCEPTION.—Clause (i)(I) shall not apply if the stock relinquished in the exchange, or the stock acquired in the exchange is in—

“(I) a corporation if any class of stock in such corporation or a related party is readily tradable on an established securities market or otherwise, or

“(II) any other corporation if such exchange is part of a transaction or series of transactions in which such corporation is to become a corporation described in subclause (I).

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

“(A) PREFERRED STOCK.—The term ‘preferred stock’ means stock which is limited and preferred as to dividends and does not participate (including through a conversion privilege) in corporate growth to any significant extent.

“(B) RELATED PERSON.—A person shall be treated as related to another person if they bear a relationship to such other person described in section 267(b) or 707(b).

“(4) REGULATIONS.—The Secretary may prescribe such regulations as may be necessary or appropriate to carry out the purposes of this subsection and sections 354(a)(2)(C), 355(a)(3)(D), and 356(e). The Secretary may also prescribe regulations, consistent with the treatment under this subsection and such sections, for the treatment of nonqualified preferred stock under other provisions of this title.”

(b) SECTION 354.—Paragraph (2) of section 354(a) (relating to exchanges of stock and securities in certain reorganizations) is amended by adding at the end the following new subparagraph:

“(C) NONQUALIFIED PREFERRED STOCK.—

“(i) IN GENERAL.—Nonqualified preferred stock (as defined in section 351(g)(2)) received in exchange for stock other than nonqualified preferred stock (as so defined) shall not be treated as stock or securities.

“(ii) RECAPITALIZATIONS OF FAMILY-OWNED CORPORATIONS.—

“(I) IN GENERAL.—Clause (i) shall not apply in the case of a recapitalization under section 368(a)(1)(E) of a family-owned corporation.

“(II) FAMILY-OWNED CORPORATION.—For purposes of this clause, except as provided in regulations, the term ‘family-owned corporation’ means any corporation which is de-

scribed in clause (i) of section 447(d)(2)(C) throughout the 8-year period beginning on the date which is 5 years before the date of the recapitalization. For purposes of the preceding sentence, stock shall not be treated as owned by a family member during any period described in section 355(d)(6)(B).”

(c) SECTION 355.—Paragraph (3) of section 355(a) is amended by adding at the end the following new subparagraph:

“(D) NON QUALIFIED PREFERRED STOCK.—Nonqualified preferred stock (as defined in section 351(g)(2)) received in a distribution with respect to stock other than nonqualified preferred stock (as so defined) shall not be treated as stock or securities.”

(d) SECTION 356.—Section 356 is amended by redesignating subsections (e) and (f) as subsections (f) and (g), respectively, and by inserting after subsection (d) the following new subsection:

“(e) NONQUALIFIED PREFERRED STOCK TREATED AS OTHER PROPERTY.—For purposes of this section—

“(1) IN GENERAL.—Except as provided in paragraph (2), the term ‘other property’ includes nonqualified preferred stock (as defined in section 351(g)(2)).

“(2) EXCEPTION.—The term ‘other property’ does not include nonqualified preferred stock (as so defined) to the extent that, under section 354 or 355, such preferred stock would be permitted to be received without the recognition of gain.”

(e) CONFORMING AMENDMENTS.—

(1) Subparagraph (B) of section 354(a)(2) and subparagraph (C) of section 355(a)(3)(C) are each amended by inserting “(including nonqualified preferred stock, as defined in section 351(g)(2))” after “stock”.

(2) Subparagraph (A) of section 354(a)(3) and subparagraph (A) of section 355(a)(4) are each amended by inserting “nonqualified preferred stock and” after “including”.

(3) Section 1036 is amended by redesignating subsection (b) as subsection (c) and by inserting after subsection (a) the following new subsection:

“(b) NONQUALIFIED PREFERRED STOCK NOT TREATED AS STOCK.—For purposes of this section, nonqualified preferred stock (as defined in section 351(g)(2)) shall be treated as property other than stock.”

(f) EFFECTIVE DATE.—

(1) IN GENERAL.—The amendments made by this section shall apply to transactions after June 8, 1997.

(2) TRANSITION RULE.—The amendments made by this section shall not apply to any transaction after June 8, 1997, if such transaction is—

(A) made pursuant to a written agreement which was binding on such date and at all times thereafter,

(B) described in a ruling request submitted to the Internal Revenue Service on or before such date, or

(C) described on or before such date in a public announcement or in a filing with the Securities and Exchange Commission required solely by reason of the distribution.

Subtitle D—Administrative Provisions

SEC. 1031. REPORTING OF CERTAIN PAYMENTS MADE TO ATTORNEYS.

(a) IN GENERAL.—Section 6045 (relating to returns of brokers) is amended by adding at the end the following new subsection:

“(f) RETURN REQUIRED IN THE CASE OF PAYMENTS TO ATTORNEYS.—

“(1) IN GENERAL.—Any person engaged in a trade or business and making a payment (in the course of such trade or business) to which this subsection applies shall file a return under subsection (a) and a statement under subsection (b) with respect to such payment.

“(2) APPLICATION OF SUBSECTION.—

“(A) IN GENERAL.—This subsection shall apply to any payment to an attorney in con-

nection with legal services (whether or not such services are performed for the payor).

“(B) EXCEPTION.—This subsection shall not apply to the portion of any payment which is required to be reported under section 6041(a) (or would be so required but for the dollar limitation contained therein) or section 6051.”

(b) REPORTING OF ATTORNEYS’ FEES PAYABLE TO CORPORATIONS.—The regulations providing an exception under section 6041 of the Internal Revenue Code of 1986 for payments made to corporations shall not apply to payments of attorneys’ fees.

(c) EFFECTIVE DATE.—The amendment made by this section shall apply to payments made after December 31, 1997.

SEC. 1032. DECREASE OF THRESHOLD FOR REPORTING PAYMENTS TO CORPORATIONS PERFORMING SERVICES FOR FEDERAL AGENCIES.

(a) IN GENERAL.—Subsection (d) of section 6041A (relating to returns regarding payments of remuneration for services and direct sales) is amended by adding at the end the following new paragraph:

“(3) PAYMENTS TO CORPORATIONS BY FEDERAL EXECUTIVE AGENCIES.—

“(A) IN GENERAL.—Notwithstanding any regulation prescribed by the Secretary before the date of the enactment of this paragraph, subsection (a) shall apply to remuneration paid to a corporation by any Federal executive agency (as defined in section 6050M(b)).

“(B) EXCEPTION.—Subparagraph (A) shall not apply to—

“(i) services under contracts described in section 6050M(e)(3) with respect to which the requirements of section 6050M(e)(2) are met, and

“(ii) such other services as the Secretary may specify in regulations prescribed after the date of the enactment of this paragraph.”

(b) EFFECTIVE DATE.—The amendment made by this section shall apply to returns the due date for which (determined without regard to any extension) is more than 90 days after the date of the enactment of this Act.

SEC. 1033. DISCLOSURE OF RETURN INFORMATION FOR ADMINISTRATION OF CERTAIN VETERANS PROGRAMS.

(a) GENERAL RULE.—Subparagraph (D) of section 6103(l)(7) (relating to disclosure of return information to Federal, State, and local agencies administering certain programs) is amended by striking “Clause (viii) shall not apply after September 30, 1998.”

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

SEC. 1034. CONTINUOUS LEVY ON CERTAIN PAYMENTS.

(a) IN GENERAL.—Section 6331 (relating to levy and distraint) is amended—

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

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

“(h) CONTINUING LEVY ON CERTAIN PAYMENTS.—

“(1) IN GENERAL.—The effect of a levy on specified payments to or received by a taxpayer shall be continuous from the date such levy is first made until such levy is released. Notwithstanding section 6334, such levy shall attach up to 15 percent of any salary or pension payment due to the taxpayer.

“(2) SPECIFIED PAYMENTS.—For the purposes of paragraph (1), the term ‘specified payments’ means—

“(A) Federal payments other than payments for which eligibility is based on the income or assets (or both) of a payee,

“(B) payments described in subsection (a)(4) (relating to unemployment benefits), and

“(C) payments described in subsection (a)(1) (relating to certain public assistance payments).”

(b) EFFECTIVE DATE.—The amendment made by subsection (a) shall apply to levies issued after the date of the enactment of this Act.

SEC. 1035. RETURNS OF BENEFICIARIES OF ESTATES AND TRUSTS REQUIRED TO FILE RETURNS CONSISTENT WITH ESTATE OR TRUST RETURN OR TO NOTIFY SECRETARY OF INCONSISTENCY.

(a) DOMESTIC ESTATES AND TRUSTS.—Section 6034A (relating to information to beneficiaries of estates and trusts) is amended by adding at the end the following new subsection:

“(c) BENEFICIARY’S RETURN MUST BE CONSISTENT WITH ESTATE OR TRUST RETURN OR SECRETARY NOTIFIED OF INCONSISTENCY.—

“(1) IN GENERAL.—A beneficiary of any estate or trust to which subsection (a) applies shall, on such beneficiary’s return, treat any reported item in a manner which is consistent with the treatment of such item on the applicable entity’s return.

“(2) NOTIFICATION OF INCONSISTENT TREATMENT.—

“(A) IN GENERAL.—In the case of any reported item, if—

“(i)(I) the applicable entity has filed a return but the beneficiary’s treatment on such beneficiary’s return is (or may be) inconsistent with the treatment of the item on the applicable entity’s return, or

“(II) the applicable entity has not filed a return, and

“(ii) the beneficiary files with the Secretary a statement identifying the inconsistency,

paragraph (1) shall not apply to such item.

“(B) BENEFICIARY RECEIVING INCORRECT INFORMATION.—A beneficiary shall be treated as having complied with clause (ii) of subparagraph (A) with respect to a reported item if the beneficiary—

“(i) demonstrates to the satisfaction of the Secretary that the treatment of the reported item on the beneficiary’s return is consistent with the treatment of the item on the statement furnished under subsection (a) to the beneficiary by the applicable entity, and

“(ii) elects to have this paragraph apply with respect to that item.

“(3) EFFECT OF FAILURE TO NOTIFY.—In any case—

“(A) described in subparagraph (A)(i)(I) of paragraph (2), and

“(B) in which the beneficiary does not comply with subparagraph (A)(ii) of paragraph (2),

any adjustment required to make the treatment of the items by such beneficiary consistent with the treatment of the items on the applicable entity’s return shall be treated as arising out of mathematical or clerical errors and assessed according to section 6213(b)(1). Paragraph (2) of section 6213(b) shall not apply to any assessment referred to in the preceding sentence.

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

“(A) REPORTED ITEM.—The term ‘reported item’ means any item for which information is required to be furnished under subsection (a).

“(B) APPLICABLE ENTITY.—The term ‘applicable entity’ means the estate or trust of which the taxpayer is the beneficiary.

“(5) ADDITION TO TAX FOR FAILURE TO COMPLY WITH SECTION.—For addition to tax in the case of a beneficiary’s negligence in connection with, or disregard of, the requirements of this section, see part II of subchapter A of chapter 68.”

(b) FOREIGN TRUSTS.—Subsection (d) of section 6048 (relating to information with re-

spect to certain foreign trusts) is amended by adding at the end the following new paragraph:

“(5) UNITED STATES PERSON’S RETURN MUST BE CONSISTENT WITH TRUST RETURN OR SECRETARY NOTIFIED OF INCONSISTENCY.—Rules similar to the rules of section 6034A(c) shall apply to items reported by a trust under subsection (b)(1)(B) and to United States persons referred to in such subsection.”

(c) EFFECTIVE DATE.—The amendments made by this section shall apply to returns of beneficiaries and owners filed after the date of the enactment of this Act.

Subtitle E—Excise and Employment Tax Provisions

SEC. 1041. EXTENSION AND MODIFICATION OF AIRPORT AND AIRWAY TRUST FUND TAXES.

(a) FUEL TAXES.—

(1) AVIATION FUEL.—Clause (ii) of section 4091(b)(3)(A) is amended by striking “September 30, 1997” and inserting “September 30, 2007”.

(2) AVIATION GASOLINE.—Subparagraph (B) of section 4081(d)(2) is amended by striking “September 30, 1997” and inserting “September 30, 2007”.

(3) NONCOMMERCIAL AVIATION.—Subparagraph (B) of section 4041(c)(3) is amended by striking “September 30, 1997” and inserting “September 30, 2007”.

(b) TICKET TAXES.—

(1) PERSONS.—Clause (ii) of section 4261(g)(1)(A) is amended by striking “September 30, 1997” and inserting “September 30, 2007”.

(2) PROPERTY.—Clause (ii) of section 4271(d)(1)(A) is amended by striking “September 30, 1997” and inserting “September 30, 2007”.

(c) MODIFICATIONS TO TAX ON TRANSPORTATION OF PERSONS BY AIR.—Subsection (c) of section 4261 (relating to use of international travel facilities) is amended to read as follows:

“(c) USE OF INTERNATIONAL TRAVEL FACILITIES.—

“(1) IN GENERAL.—There is hereby imposed a tax of \$10 on any amount paid (whether within or without the United States) for any transportation of any person by air, if such transportation begins or ends in the United States.

“(2) EXCEPTION FOR TRANSPORTATION ENTIRELY TAXABLE UNDER SUBSECTION (a).—This subsection shall not apply to any transportation all of which is taxable under subsection (a) (determined without regard to sections 4281 and 4282).

“(3) SPECIAL RULE FOR ALASKA AND HAWAII.—In any case in which the tax imposed by paragraph (1) applies to a domestic segment, such tax shall apply only on departure.

“(4) INFLATION ADJUSTMENT.—

“(A) IN GENERAL.—In the case of transportation beginning in a calendar year after 1998, the dollar amount contained in paragraph (1) 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 such calendar year by substituting ‘calendar year 1997’ for ‘calendar year 1992’ in subparagraph (B) thereof.

“(B) ROUNDING.—If any increase determined under subparagraph (A) is not a multiple of 10 cents, such increase shall be rounded to the nearest multiple of 10 cents.”

(d) EFFECTIVE DATES.—

(1) FUEL TAXES.—The amendment made by subsection (a) shall apply take effect on October 1, 1997.

(2) TICKET TAXES.—

(A) IN GENERAL.—The amendments made by subsections (b) and (c) shall apply to

transportation beginning on or after October 1, 1997.

(B) TREATMENT OF AMOUNTS PAID FOR TICKETS PURCHASED BEFORE DATE OF ENACTMENT.—The amendments made by subsection (c) shall not apply to amounts paid for a ticket purchased before the date of the enactment of this Act for a specified flight beginning on or after October 1, 1997.

SEC. 1042. CREDIT FOR TIRE TAX IN LIEU OF EXCLUSION OF VALUE OF TIRES IN COMPUTING PRICE.

(a) IN GENERAL.—Subsection (e) of section 4051 is amended to read as follows:

“(e) CREDIT AGAINST TAX FOR TIRE TAX.—If—

“(1) tires are sold on or in connection with the sale of any article, and

“(2) tax is imposed by this subchapter on the sale of such tires,

there shall be allowed as a credit against the tax imposed by this subchapter an amount equal to the tax (if any) imposed by section 4071 on such tires.”

(b) CONFORMING AMENDMENT.—Subparagraph (B) of section 4052(b)(1) is amended by striking clause (iii), by adding “and” at the end of clause (ii), and by redesignating clause (iv) as clause (iii).

(c) EFFECTIVE DATE.—The amendments made by this section shall take effect on January 1, 1998.

SEC. 1043. RESTORATION OF LEAKING UNDERGROUND STORAGE TANK TRUST FUND TAXES.

Paragraph (3) of section 4081(d) is amended by inserting before the period “, and before the date of the enactment of the Revenue Reconciliation Act of 1997”.

SEC. 1044. REINSTATEMENT OF OIL SPILL LIABILITY TRUST FUND TAX.

(a) IN GENERAL.—Paragraph (1) of section 4611(f) is amended by striking “December 31, 1989, and before January 1, 1995” and inserting “December 31, 1997”. Paragraph (2) of section 4611(f) is hereby repealed.

(b) EFFECTIVE DATE.—The amendment made by subsection (a) shall take effect on January 1, 1998.

SEC. 1045. EXTENSION OF FEDERAL UNEMPLOYMENT SURTAX.

(a) IN GENERAL.—Section 3301 is amended by striking “equal to—” and all that follows through “thereafter;” and inserting “6.2 percent in the case of calendar year 1998 and each calendar year thereafter”.

(b) EFFECTIVE DATE.—The amendment made by subsection (a) shall apply to calendar years beginning after December 31, 1997.

Subtitle F—Provisions Relating to Tax-Exempt Entities

SEC. 1051. EXPANSION OF LOOK-THRU RULE FOR INTEREST, ANNUITIES, ROYALTIES, AND RENTS DERIVED BY SUBSIDIARIES OF TAX-EXEMPT ORGANIZATIONS.

(a) IN GENERAL.—Paragraph (13) of section 512(b) is amended to read as follows:

“(13) SPECIAL RULES FOR CERTAIN AMOUNTS RECEIVED FROM CONTROLLED ENTITIES.—

“(A) IN GENERAL.—If an organization (in this paragraph referred to as the ‘controlling organization’) receives (directly or indirectly) a specified payment from another entity which it controls (in this paragraph referred to as the ‘controlled entity’), notwithstanding paragraphs (1), (2), and (3), the controlling organization shall include such payment as an item of gross income derived from an unrelated trade or business to the extent such payment reduces the net unrelated income of the controlled entity (or increases any net unrelated loss of the controlled entity). There shall be allowed all deductions of the controlling organization directly connected with amounts treated as derived from an unrelated trade or business under the preceding sentence.

“(B) NET UNRELATED INCOME OR LOSS.—For purposes of this paragraph—

“(i) NET UNRELATED INCOME.—The term ‘net unrelated income’ means—

“(I) in the case of a controlled entity which is not exempt from tax under section 501(a), the portion of such entity’s taxable income which would be unrelated business taxable income if such entity were exempt from tax under section 501(a) and had the same exempt purposes (as defined in section 513A(a)(5)(A)) as the controlling organization, or

“(II) in the case of a controlled entity which is exempt from tax under section 501(a), the amount of the unrelated business taxable income of the controlled entity.

“(ii) NET UNRELATED LOSS.—the term ‘net unrelated loss’ means the net operating loss adjusted under rules similar to the rules of clause (i).

“(C) SPECIFIED PAYMENT.—For purposes of this paragraph, the term ‘specified payment’ means any interest, annuity, royalty, or rent.

“(D) DEFINITION OF CONTROL.—For purposes of this paragraph—

“(i) CONTROL.—The term ‘control’ means—

“(I) in the case of a corporation, ownership (by vote or value) of more than 50 percent of the stock in such corporation,

“(II) in the case of a partnership, ownership of more than 50 percent of the profits interests or capital interests in such partnership, or

“(III) in any other case, ownership of more than 50 percent of the beneficial interests in the entity.

“(ii) CONSTRUCTIVE OWNERSHIP.—Section 318 (relating to constructive ownership of stock) shall apply for purposes of determining ownership of stock in a corporation. Similar principles shall apply for purposes of determining ownership of interests in any other entity.

“(E) RELATED PERSONS.—The Secretary shall prescribe such rules as may be necessary or appropriate to prevent avoidance of the purposes of this paragraph through the use of related persons.”

(b) EFFECTIVE DATE.—

(1) IN GENERAL.—Except as provided in paragraph (2), the amendments made by this section shall apply to taxable years beginning after the date of the enactment of this Act.

(2) CONTROL TEST.—In the case of taxable years beginning before January 1, 1999, an organization shall be treated as controlling another organization for purposes of section 512(b)(13) of the Internal Revenue Code of 1986 (as amended by this section) only if it controls such organization within the meaning of such section, determined by substituting “80 percent” for “50 percent” each place it appears in subparagraph (D) thereof.

Subtitle G—Foreign-Related Provisions

SEC. 1061. DEFINITION OF FOREIGN PERSONAL HOLDING COMPANY INCOME.

(a) INCOME FROM NOTIONAL PRINCIPAL CONTRACTS AND PAYMENTS IN LIEU OF DIVIDENDS.—

(1) IN GENERAL.—Paragraph (1) of section 954(c) (defining foreign personal holding company income) is amended by adding at the end the following new subparagraph:

“(F) INCOME FROM NOTIONAL PRINCIPAL CONTRACTS.—Net income from notional principal contracts. Any item of income, gain, deduction, or loss from a notional principal contract entered into for purposes of hedging any item described in any preceding subparagraph shall not be taken into account for purposes of this subparagraph but shall be taken into account under such other subparagraph.

“(G) PAYMENTS IN LIEU OF DIVIDENDS.—Payments in lieu of dividends which are made

pursuant to an agreement to which section 1058 applies.”

(2) CONFORMING AMENDMENT.—Subparagraph (B) of section 954(c)(1) is amended—

(A) by striking the second sentence, and

(B) by striking “also” in the last sentence.

(b) EXCEPTION FOR DEALERS.—Paragraph (2) of section 954(c) is amended by adding at the end the following new subparagraph:

“(C) EXCEPTION FOR DEALERS.—Except as provided in subparagraph (A), (E), or (G) of paragraph (1) or by regulations, in the case of a regular dealer in property (within the meaning of paragraph (1)(B)), forward contracts, option contracts, or similar financial instruments (including notional principal contracts and all instruments referenced to commodities), there shall not be taken into account in computing foreign personal holding income any item of income, gain, deduction, or loss from any transaction (including hedging transactions) entered into in the ordinary course of such dealer’s trade or business as such a dealer.”

(c) EFFECTIVE DATE.—The amendments made by this section shall apply to taxable years beginning after the date of the enactment of this Act.

SEC. 1062. PERSONAL PROPERTY USED PREDOMINANTLY IN THE UNITED STATES TREATED AS NOT PROPERTY OF A LIKE KIND WITH RESPECT TO PROPERTY USED PREDOMINANTLY OUTSIDE THE UNITED STATES.

(a) IN GENERAL.—Subsection (h) of section 1031 (relating to exchange of property held for productive use or investment) is amended to read as follows:

“(h) SPECIAL RULES FOR FOREIGN REAL AND PERSONAL PROPERTY.—For purposes of this section—

“(1) REAL PROPERTY.—Real property located in the United States and real property located outside the United States are not property of a like kind.

“(2) PERSONAL PROPERTY.—

“(A) IN GENERAL.—Personal property used predominantly within the United States and personal property used predominantly outside the United States are not property of a like kind.

“(B) PREDOMINANT USE.—Except as provided in subparagraph (C) and (D), the predominant use of any property shall be determined based on—

“(i) in the case of the property relinquished in the exchange, the 2-year period ending on the date of such relinquishment, and

“(ii) in the case of the property acquired in the exchange, the 2-year period beginning on the date of such acquisition.

“(C) PROPERTY HELD FOR LESS THAN 2 YEARS.—Except in the case of an exchange which is part of a transaction (or series of transactions) structured to avoid the purposes of this subsection—

“(i) only the periods the property was held by the person relinquishing the property (or any related person) shall be taken into account under subparagraph (B)(i), and

“(ii) only the periods the property was held by the person acquiring the property (or any related person) shall be taken into account under subparagraph (B)(ii).

“(D) SPECIAL RULE FOR CERTAIN PROPERTY.—Property described in any subparagraph of section 168(g)(4) shall be treated as used predominantly in the United States.”

(b) EFFECTIVE DATE.—

(1) IN GENERAL.—The amendment made by this section shall apply to transfers after June 8, 1997, in taxable years ending after such date.

(2) BINDING CONTRACTS.—The amendment made by this section shall not apply to any transfer pursuant to a written binding contract in effect on June 8, 1997, and at all times thereafter before the disposition of

property. A contract shall not fail to meet the requirements of the preceding sentence solely because—

(A) it provides for a sale in lieu of an exchange, or

(B) the property to be acquired as replacement property was not identified under such contract before June 9, 1997.

SEC. 1063. HOLDING PERIOD REQUIREMENT FOR CERTAIN FOREIGN TAXES.

(a) IN GENERAL.—Section 901 is amended by redesignating subsection (k) as subsection (l) and by inserting after subsection (j) the following new subsection:

“(k) MINIMUM HOLDING PERIOD FOR CERTAIN TAXES.—

“(1) IN GENERAL.—No credit shall be allowed to the taxpayer under subsection (a) for any income, war profits, or excess profits tax by reason of a dividend or other inclusion with respect to stock in a foreign corporation or a regulated investment company if—

“(A) such stock is held by the taxpayer for 15 days or less during the 30-day period beginning on the date which is 15 days before the date on which such share becomes ex-dividend with respect to such dividend, or

“(B) to the extent that the taxpayer is under an obligation (whether pursuant to a short sale or otherwise) to make related payments with respect to positions in substantially similar or related property.

“(2) LOWER TIER CORPORATIONS.—To the extent that the credit otherwise allowable under subsection (a) is for taxes deemed paid under section 853, 902, or 960 through a chain of ownership of stock in 1 or more other foreign corporations, no credit shall be allowed under subsection (a) for such taxes to the extent—

“(A) attributable to stock held by any corporation in such chain for less than the period described in paragraph (1)(A), or

“(B) that such corporation is under an obligation referred to in paragraph (1)(B).

“(3) 45-DAY RULE IN THE CASE OF CERTAIN PREFERENCE DIVIDENDS.—In the case of stock having preference in dividends, if the taxpayer receives dividends with respect to such stock which are attributable to a period or periods aggregating in excess of 366 days, paragraph (1)(A) shall be applied—

“(A) by substituting ‘45 days’ for ‘15 days’ each place it appears, and

“(B) by substituting ‘90-day period’ for ‘30-day period’.

“(4) EXCEPTION FOR CERTAIN TAXES PAID BY SECURITIES DEALERS.—

“(A) IN GENERAL.—Paragraphs (1) and (2) shall not apply to any qualified tax with respect to any security held in the active conduct in a foreign country of a securities business of any person—

“(i) who is registered as a securities broker or dealer under section 15(a) of the Securities Exchange Act of 1934,

“(ii) who is registered as a Government securities broker or dealer under section 15C(a) of such Act, or

“(iii) who is licensed or authorized in such foreign country to conduct securities activities in such country and is subject to bona fide regulation by a securities regulating authority of such country.

“(B) QUALIFIED TAX.—For purposes of subparagraph (A), the term ‘qualified tax’ means a tax paid to a foreign country (other than the foreign country referred to in subparagraph (A)) if—

“(i) the dividend to which such tax is attributable is subject to taxation on a net basis by the country referred to in subparagraph (A), and

“(ii) such country allows a credit against its net basis tax for the full amount of the tax paid to such other foreign country.

“(C) REGULATIONS.—The Secretary may prescribe such regulations as may be appro-

prate to prevent the abuse of the exception provided by this paragraph.

“(5) CERTAIN RULES TO APPLY.—For purposes of this subsection, the rules of paragraphs (3) and (4) of section 246(c) shall apply.

“(6) TAXES ALLOWED AS DEDUCTION, ETC.—Sections 275 and 78 shall not apply to any tax which is not allowable as a credit under subsection (a) by reason of this subsection.”

(b) NOTICE OF WITHHOLDING TAXES PAID BY REGULATED INVESTMENT COMPANY.—Subsection (c) of section 853 (relating to foreign tax credit allowed to shareholders) is amended by adding at the end the following new sentence: “Such notice shall also include the amount of such taxes which (without regard to the election under this section) would not be allowable as a credit under section 901(a) to the regulated investment company by reason of section 901(k).”

(c) EFFECTIVE DATE.—The amendments made by this section shall apply to dividends paid or accrued more than 30 days after the date of the enactment of this Act.

SEC. 1064. PENALTIES FOR FAILURE TO DISCLOSE POSITION THAT CERTAIN INTERNATIONAL TRANSPORTATION INCOME IS NOT INCLUDIBLE IN GROSS INCOME.

(a) IN GENERAL.—Section 883 is amended by adding at the end the following new subsection:

“(d) PENALTIES FOR FAILURE TO DISCLOSE POSITION THAT CERTAIN INTERNATIONAL TRANSPORTATION INCOME IS NOT INCLUDIBLE IN GROSS INCOME.—

“(1) IN GENERAL.—A taxpayer who, with respect to any tax imposed by this title, takes the position that any of its gross income derived from the international operation of 1 or more ships or aircraft is not includible in gross income by reason of paragraph (1) or (2) of subsection (a) or paragraph (1) or (2) of section 872(b) (or by reason of any applicable treaty) shall be entitled to such treatment only if such position is disclosed (in such manner as the Secretary may prescribe) on the return of tax for such tax (or any statement attached to such return).

“(2) ADDITIONAL PENALTIES FOR FAILING TO DISCLOSE POSITION.—If a taxpayer fails to meet the requirement of paragraph (1) for any taxable year with respect to the international operation of 1 or more ships or one or more aircraft—

“(A) the amount of the income from the international operation to which such failure relates—

“(i) which is from sources without the United States, and

“(ii) which is attributable to a fixed place of business in the United States,

shall be treated for purposes of this title as effectively connected with the conduct of a trade or business within the United States, and

“(B) no deductions or credits shall be allowed which are attributable to income from the international operation to which the failure relates.

“(3) REASONABLE CAUSE EXCEPTION.—This subsection shall not apply to a failure to disclose a position if it is shown that such failure is due to reasonable cause and not due to willful neglect.”

(b) CONFORMING AMENDMENTS.—Paragraphs (1) and (2) of section 872(b), and paragraph (1) and (2) of 883(a), are each amended by striking “Gross income” each place it appears and inserting “Except as provided in section 883(d), gross income”.

(c) EFFECTIVE DATE.—

(1) IN GENERAL.—The amendments made by this section shall apply to taxable years beginning after December 31, 1997.

(2) COORDINATION WITH TREATIES.—The amendments made by this section shall not apply in any case where their application

would be contrary to any treaty obligation of the United States.

(d) INFORMATION TO BE PROVIDED BY CUSTOMS SERVICE.—The United States Custom Service shall provide the Secretary of the Treasury or his delegate with such information as may be specified by such Secretary in order to enable such Secretary to determine whether ships which are not registered in the United States are engaged in transportation to or from the United States.

SEC. 1065. INTEREST ON UNDERPAYMENTS NOT REDUCED BY FOREIGN TAX CREDIT CARRYBACKS.

(a) IN GENERAL.—Subsection (d) of section 6601 is amended by redesignating paragraphs (2) and (3) as paragraphs (3) and (4), respectively, and by inserting after paragraph (1) the following new paragraph:

“(2) FOREIGN TAX CREDIT CARRYBACKS.—If any credit allowed for any taxable year is increased by reason of a carryback of tax paid or accrued to foreign countries or possessions of the United States, such increase shall not affect the computation of interest under this section for the period ending with the filing date for the taxable year in which such taxes were in fact paid or accrued, or, with respect to any portion of such credit carryback from a taxable year attributable to a net operating loss carryback or a capital loss carryback from a subsequent taxable year, such increase shall not affect the computation of interest under this section for the period ending with the filing date for such subsequent taxable year.”

(b) CONFORMING AMENDMENT TO REFUNDS ATTRIBUTABLE TO FOREIGN TAX CREDIT CARRYBACKS.—

(1) IN GENERAL.—Subsection (f) of section 6611 is amended by redesignating paragraphs (2) and (3) as paragraphs (3) and (4), respectively, and by inserting after paragraph (1) the following new paragraph:

“(2) FOREIGN TAX CREDIT CARRYBACKS.—For purposes of subsection (a), if any overpayment of tax imposed by subtitle A results from a carryback of tax paid or accrued to foreign countries or possessions of the United States, such overpayment shall be deemed not to have been made before the filing date for the taxable year in which such taxes were in fact paid or accrued, or, with respect to any portion of such credit carryback from a taxable year attributable to a net operating loss carryback or a capital loss carryback from a subsequent taxable year, such overpayment shall be deemed not to have been made before the filing date for such subsequent taxable year.”

(2) CONFORMING AMENDMENTS.—

(A) Paragraph (4) of section 6611(f) (as so redesignated) is amended—

(i) by striking “PARAGRAPHS (1) AND (2)” and inserting “PARAGRAPHS (1), (2), AND (3)”, and

(ii) by striking “paragraph (1) or (2)” each place it appears and inserting “paragraph (1), (2), or (3)”.

(B) Clause (ii) of section 6611(f)(4)(B) (as so redesignated) is amended by striking “and” at the end of subclause (I), by redesignating subclause (II) as subclause (III), and by inserting after subclause (I) the following new subclause:

“(II) in the case of a carryback of taxes paid or accrued to foreign countries or possessions of the United States, the taxable year in which such taxes were in fact paid or accrued (or, with respect to any portion of such carryback from a taxable year attributable to a net operating loss carryback or a capital loss carryback from a subsequent taxable year, such subsequent taxable year), and”.

(C) Subclause (III) of section 6611(f)(4)(B)(ii) (as so redesignated) is amended by inserting “(as defined in paragraph (3)(B))” after “credit carryback” the first place it appears.

(D) Section 6611 is amended by striking subsection (g) and by redesignating subsections (h) and (i) as subsections (g) and (h), respectively.

(c) EFFECTIVE DATE.—The amendments made by this section shall apply to carrybacks arising in taxable years beginning after the date of the enactment of this Act.

Subtitle H—Other Revenue Provisions

SEC. 1071. TERMINATION OF SUSPENSE ACCOUNTS FOR FAMILY CORPORATIONS REQUIRED TO USE ACCRUAL METHOD OF ACCOUNTING.

(a) IN GENERAL.—Subsection (i) of section 447 (relating to method of accounting for corporations engaged in farming) is amended by adding at the end the following new paragraph:

“(7) TERMINATION.—

“(A) IN GENERAL.—No suspense account may be established under this subsection by any corporation required by this section to change its method of accounting for any taxable year ending after June 8, 1997.

“(B) PHASEOUT OF EXISTING SUSPENSE ACCOUNTS.—

“(i) IN GENERAL.—Each suspense account under this subsection shall be reduced (but not below zero) for each taxable year beginning after June 8, 1997, by an amount equal to the lesser of—

“(I) the applicable portion of such account, or

“(II) 50 percent of the taxable income of the corporation for the taxable year, or, if the corporation has no taxable income for such year, the amount of any net operating loss (as defined in section 172(c)) for such taxable year.

For purposes of the preceding sentence, the amount of taxable income and net operating loss shall be determined without regard to this paragraph.

“(ii) COORDINATION WITH OTHER REDUCTIONS.—The amount of the applicable portion for any taxable year shall be reduced (but not below zero) by the amount of any reduction required for such taxable year under any other provision of this subsection.

“(iv) INCLUSION IN INCOME.—Any reduction in a suspense account under this paragraph shall be included in gross income for the taxable year of the reduction.

“(C) APPLICABLE PORTION.—For purposes of subparagraph (B), the term ‘applicable portion’ means, for any taxable year, the amount which would ratably reduce the amount in the account (after taking into account prior reductions) to zero over the period consisting of such taxable year and the remaining taxable years in such first 20 taxable years.

“(D) AMOUNTS AFTER 20TH YEAR.—Any amount in the account as of the close of the 20th year referred to in subparagraph (C) shall be treated as the applicable portion for each succeeding year thereafter to the extent not reduced under this paragraph for any prior taxable year after such 20th year.”

(b) EFFECTIVE DATE.—The amendments made by this section shall apply to taxable years ending after June 8, 1997.

SEC. 1072. ALLOCATION OF BASIS AMONG PROPERTIES DISTRIBUTED BY PARTNERSHIP.

(a) IN GENERAL.—Subsection (c) of section 732 is amended to read as follows:

“(c) ALLOCATION OF BASIS.—

“(1) IN GENERAL.—The basis of distributed properties to which subsection (a)(2) or (b) is applicable shall be allocated—

“(A) first to any unrealized receivables (as defined in section 751(c)) and inventory items (as defined in section 751(d)(2)) in an amount equal to the adjusted basis of each such property to the partnership (or if the basis to be allocated is less than the sum of the adjusted

bases of such properties to the partnership, in the manner provided in paragraph (3)), and

“(B) to the extent of any remaining basis, to other distributed properties—

“(i) first to the extent of each such property’s adjusted basis to the partnership, and

“(ii) then, to the extent any increase or decrease in basis is required in order to have the adjusted bases of such other distributed properties equal such remaining basis, in the manner provided in paragraph (2) or (3), whichever is appropriate.

“(2) METHOD OF ALLOCATING INCREASE.—Any increase required under paragraph (1)(B) shall be allocated among the properties—

“(A) first to properties with unrealized appreciation in proportion to their respective amounts of unrealized appreciation before such increase (but only to the extent of each property’s unrealized appreciation), and

“(B) then, to the extent such increase is not allocated under subparagraph (A), in proportion to their respective fair market values.

“(3) METHOD OF ALLOCATING DECREASE.—Any decrease required under paragraph (1)(A) or (1)(B) shall be allocated—

“(A) first to properties with unrealized depreciation in proportion to their respective amounts of unrealized depreciation before such decrease (but only to the extent of each property’s unrealized depreciation), and

“(B) then, to the extent such decrease is not allocated under subparagraph (A), in proportion to their respective adjusted bases (as adjusted under subparagraph (A)).”

(b) EFFECTIVE DATE.—The amendment made by subsection (a) shall apply to distributions after the date of the enactment of this Act.

SEC. 1073. REPEAL OF REQUIREMENT THAT INVENTORY BE SUBSTANTIALLY APPRECIATED.

(a) IN GENERAL.—Paragraph (2) of section 751(a) is amended to read as follows:

“(2) inventory items of the partnership.”

(b) CONFORMING AMENDMENTS.—

(1) Subsection (d) of section 751 is amended to read as follows:

“(d) INVENTORY ITEMS.—For purposes of this subchapter, the term ‘inventory items’ means—

“(1) property of the partnership of the kind described in section 1221(1),

“(2) any other property of the partnership which, on sale or exchange by the partnership, would be considered property other than a capital asset and other than property described in section 1231,

“(3) any other property of the partnership which, if sold or exchanged by the partnership, would result in a gain taxable under subsection (a) of section 1246 (relating to gain on foreign investment company stock), and

“(4) any other property held by the partnership which, if held by the selling or distributee partner, would be considered property of the type described in paragraph (1), (2), or (3).”

(2) Sections 724(d)(2), 731(a)(2)(B), 731(c)(6), 732(c)(1)(A) (as amended by the preceding section), 735(a)(2), and 735(c)(1) are each amended by striking “section 751(d)(2)” and inserting “section 751(d)”.

(c) EFFECTIVE DATE.—The amendments made by this section shall apply to sales, exchanges, and distributions after the date of the enactment of this Act.

SEC. 1074. EXTENSION OF TIME FOR TAXING PRECONTRIBUTION GAIN.

(a) IN GENERAL.—Sections 704(c)(1)(B) and 737(b)(1) are each amended by striking “5 years” and inserting “10 years”.

(b) EFFECTIVE DATE.—The amendment made by subsection (a) shall apply to property contributed to a partnership after June 8, 1997.

SEC. 1075. LIMITATION ON PROPERTY FOR WHICH INCOME FORECAST METHOD MAY BE USED.

(a) LIMITATION.—Subsection (g) of section 167 is amended by adding at the end the following new paragraph:

“(6) LIMITATION ON PROPERTY FOR WHICH INCOME FORECAST METHOD MAY BE USED.—The depreciation deduction allowable under this section may be determined under the income forecast method or any similar method only with respect to—

“(A) property described in paragraph (3) or (4) of section 168(f),

“(B) copyrights,

“(C) books,

“(D) patents, and

“(E) other property specified in regulations.

Such methods may not be used with respect to any amortizable section 197 intangible (as defined in section 197(c)).”

(b) DEPRECIATION PERIOD FOR RENT-TO-OWN PROPERTY.—

(1) IN GENERAL.—Subparagraph (A) of section 168(e)(3) (relating to 3-year property) is amended by striking “and” at the end of clause (i), by striking the period at the end of clause (ii) and inserting “, and”, and by adding at the end the following new clause:

“(ii) any qualified rent-to-own property.”

(2) 4-YEAR CLASS LIFE.—The table contained in section 168(g)(3)(B) is amended by inserting before the first item the following new item:

“(A)(iii) 4”

(3) DEFINITION OF QUALIFIED RENT-TO-OWN PROPERTY.—Subsection (i) of section 168 is amended by adding at the end the following new paragraph:

“(14) QUALIFIED RENT-TO-OWN PROPERTY.—

“(A) IN GENERAL.—The term ‘qualified rent-to-own property’ means property held by a rent-to-own dealer for purposes of being subject to a rent-to-own contract.

“(B) RENT-TO-OWN DEALER.—The term ‘rent-to-own dealer’ means a person that, in the ordinary course of business, regularly enters into rent-to-own contracts with customers for the use of consumer property, if a substantial portion of those contracts terminate and the property is returned to such person before the receipt of all payments required to transfer ownership of the property from such person to the customer.

“(C) CONSUMER PROPERTY.—The term ‘consumer property’ means tangible personal property of a type generally used within the home. Such term shall not include cellular telephones and any computer or peripheral equipment (as defined in section 168(i)).

“(D) RENT-TO-OWN CONTRACT.—The term ‘rent-to-own contract’ means any lease for the use of consumer property between a rent-to-own dealer and a customer who is an individual which—

“(i) is titled ‘Rent-to-Own Agreement’ or ‘Lease Agreement with Ownership Option,’ or uses other similar language,

“(ii) provides for level, regular periodic payments (for a payment period which is a week or month),

“(iii) provides that legal title to such property remains with the rent-to-own dealer until the customer makes all the payments described in clause (ii) or early purchase payments required under the contract to acquire legal title to the item of property,

“(iv) provides a beginning date and a maximum period of time for which the contract may be in effect that does not exceed 156 weeks or 36 months from such beginning date (including renewals or options to extend),

“(v) provides for level payments within the 156-week or 36-month period that, in the aggregate, generally exceed the normal retail price of the consumer property plus interest,

“(vi) provides for payments under the contract that, in the aggregate, do not exceed \$10,000 per item of consumer property,

“(vii) provides that the customer does not have any legal obligation to make all the payments referred to in clause (ii) set forth under the contract, and that at the end of each payment period the customer may either continue to use the consumer property by making the payment for the next payment period or return such property to the rent-to-own dealer in good working order, in which case the customer does not incur any further obligations under the contract and is not entitled to a return of any payments previously made under the contract, and

“(viii) provides that the customer has no right to sell, sublease, mortgage, pawn, pledge, encumber, or otherwise dispose of the consumer property until all the payments stated in the contract have been made.”

(c) EFFECTIVE DATE.—The amendment made by this section shall apply to property placed in service after the date of the enactment of this Act.

SEC. 1076. REPEAL OF SPECIAL RULE FOR RENTAL USE OF VACATION HOMES, ETC., FOR LESS THAN 15 DAYS.

(a) IN GENERAL.—Section 280A (relating to disallowance of certain expenses in connection with business use of home, rental of vacation homes, etc.) is amended by striking subsection (g).

(b) NO BASIS REDUCTION UNLESS DEPRECIATION CLAIMED.—Section 1016 is amended by redesignating subsection (e) as subsection (f) and by inserting after subsection (d) the following new subsection:

“(e) SPECIAL RULE WHERE RENTAL USE OF VACATION HOME, ETC., FOR LESS THAN 15 DAYS.—If a dwelling unit is used during the taxable year by the taxpayer as a residence and such dwelling unit is actually rented for less than 15 days during the taxable year, the reduction under subsection (a)(2) by reason of such rental use in any taxable year beginning after December 31, 1997, shall not exceed the depreciation deduction allowed for such rental use.”

(c) EFFECTIVE DATE.—The amendments made by this section shall apply to taxable years beginning after December 31, 1997.

SEC. 1077. EXPANSION OF REQUIREMENT THAT INVOLUNTARILY CONVERTED PROPERTY BE REPLACED WITH PROPERTY ACQUIRED FROM AN UNRELATED PERSON.

(a) IN GENERAL.—Subsection (i) of section 1033 is amended to read as follows:

“(i) REPLACEMENT PROPERTY MUST BE ACQUIRED FROM UNRELATED PERSON IN CERTAIN CASES.—

“(1) IN GENERAL.—If the property which is involuntarily converted is held by a taxpayer to which this subsection applies, subsection (a) shall not apply if the replacement property or stock is acquired from a related person. The preceding sentence shall not apply to the extent that the related person acquired the replacement property or stock from an unrelated person during the period applicable under subsection (a)(2)(B).

“(2) TAXPAYERS TO WHICH SUBSECTION APPLIES.—This subsection shall apply to—

“(A) a C corporation,

“(B) a partnership in which 1 or more C corporations own, directly or indirectly (determined in accordance with section 707(b)(3)), more than 50 percent of the capital interest, or profits interest, in such partnership at the time of the involuntary conversion, and

“(C) any other taxpayer if, with respect to property which is involuntarily converted during the taxable year, the aggregate of the amount of realized gain on such property on which there is realized gain exceeds \$100,000. In the case of a partnership, subparagraph (C) shall apply with respect to the partner-

ship and with respect to each partner. A similar rule shall apply in the case of an S corporation and its shareholders.

(3) RELATED PERSON.—For purposes of this subsection, a person is related to another person if the person bears a relationship to the other person described in section 267(b) or 707(1)."

(b) EFFECTIVE DATE.—The amendment made by this section shall apply to involuntary conversions occurring after June 8, 1997.

SEC. 1078. TREATMENT OF EXCEPTION FROM INSTALLMENT SALES RULES FOR SALES OF PROPERTY BY A MANUFACTURER TO A DEALER.

(a) IN GENERAL.—Paragraph (2) of section 811(c) of the Tax Reform Act of 1986 is hereby repealed.

(b) EFFECTIVE DATE.—

(1) IN GENERAL.—The amendment made by this section shall apply to taxable years beginning after the date of the enactment of this Act.

(2) COORDINATION WITH SECTION 481.—In the case of any taxpayer required by this section to change its method of accounting for any taxable year—

(A) such changes shall be treated as initiated by the taxpayer,

(B) such changes shall be treated as made with the consent of the Secretary, and

(C) the net amount of the adjustments required to be taken into account under section 481(a) of the Internal Revenue Code of 1986 shall be taken into account ratably over the 4 taxable year period beginning with the first taxable year beginning after the date of the enactment of this Act.

It was decided in the { Yeas 197 negative } Nays 235

74.10 [Roll No. 243] AYES—197

- Abercrombie Engel
Ackerman Eshoo
Allen Etheridge
Andrews Evans
Baesler Farr
Baldacci Fattah
Barcia Fazio
Barrett (WI) Filner
Becerra Flake
Bentsen Foglietta
Berman Ford
Berry Frank (MA)
Bishop Frost
Blagojevich Furse
Blumenauer Gejdenson
Bonior Gephardt
Borski Gonzalez
Boswell Goode
Boucher Gordon
Boyd Green
Brown (CA) Gutierrez
Brown (FL) Hall (OH)
Brown (OH) Hamilton
Capps Harman
Cardin Hastings (FL)
Carson Hefner
Clay Hilliard
Clayton Hinchey
Clement Hinojosa
Clyburn Holden
Condit Hooley
Conyers Hoyer
Costello Jackson (IL)
Coyne Jackson-Lee
Cramer (TX)
Cummings Jefferson
Danner John
Davis (FL) Johnson (WI)
Davis (IL) Johnson, E. B.
DeGette Kanjorski
DeLauro Kaptur
Dellums Kennedy (MA)
Dicks Kennedy (RI)
Dingell Kennelly
Dixon Kilpatrick
Doggett Kind (WI)
Dooley Kleczka
Doyle Klink
Edwards Kucinich

- LaFalce
Lampson
Lantos
Levin
Lewis (GA)
Lofgren
Lowey
Luther
Maloney (CT)
Maloney (NY)
Manton
Markey
Martinez
Mascara
Matsui
McCarthy (MO)
McCarthy (NY)
McDermott
McGovern
McHale
McIntyre
McKinney
McNulty
Meek
Menendez
Millender-
McDonald
Miller (CA)
Minge
Mink
Moakley
Mollohan
Nadler
Neal
Oberstar
Obey
Olver
Ortiz
Owens
Pallone
Pascarell
Pastor
Payne
Pelosi
Peterson (MN)
Pickett
Pomeroy
Poshard
Price (NC)
Rahall

- Rangel
Reyes
Rivers
Rodriguez
Roemer
Rothman
Roybal-Allard
Rush
Sabo
Sanchez
Sanders
Sandlin
Sawyer
Schumer
Scott
Serrano
Sherman
Sisisky
Skaggs
Skelton
Slaughter
Smith, Adam
Snyder
Spratt
Stabenow
Stark
Stenholm
Stokes
Strickland
Stupak
Tanner
Tauscher
Taylor (MS)
Thompson

NOES—235

- Aderholt
Archer
Army
Bachus
Baker
Ballenger
Barr
Barrett (NE)
Bartlett
Barton
Bass
Bateman
Bereuter
Billbray
Bilirakis
Bliley
Blunt
Boehlert
Boehner
Bonilla
Bono
Brady
Bryant
Bunning
Burr
Burton
Buyer
Callahan
Calvert
Camp
Campbell
Canady
Cannon
Castle
Chabot
Chambless
Chenoweth
Christensen
Coble
Coburn
Collins
Combust
Cook
Cooksey
Cox
Crane
Crapo
Cubin
Cunningham
Davis (VA)
Deal
DeFazio
DeLay
Deutsch
Diaz-Balart
Dreier
Duncan
Ehlers
Ehrlich
Emerson
English
Ensign
Everett
Ewing
Fawell
Foley
Forbes
Fowler
Fox
Franks (NJ)
Frelinghuysen
Gallegly
Ganske
Gekas
Gibbons
Gilchrist

- Thurman
Tierney
Torres
Towns
Turner
Velazquez
Vento
Waters
Watt (NC)
Waxman
Wexler
Weygand
Wise
Woolsey
Wynn

NOT VOTING—3

- Meehan
Schiff
Yates

So the amendment in the nature of a substitute was not agreed to.

The SPEAKER pro tempore, Mr. LAHOOD, assumed the Chair.

When Mr. LATOURETTE, Acting Chairman, pursuant to House Resolution 174, reported the bill, as amended pursuant to said resolution, back to the House.

The previous question having been ordered by said resolution.

The following amendment, pursuant to House Resolution 174, was agreed to:

Strike out all after the enacting clause and insert:

SECTION 1. SHORT TITLE; AMENDMENT OF 1986 CODE.

(a) SHORT TITLE.—This Act may be cited as the "Taxpayer Relief Act of 1997".

(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.

(c) TABLE OF CONTENTS.—The table of contents for this Act is as follows:

Sec. 1. Short title; amendment of 1986 Code.
TITLE I—CHILD TAX CREDIT; TAX INCENTIVES FOR DEPENDENT CARE AND HEALTH CARE FOR CHILDREN

Sec. 101. Child tax credit.
Sec. 102. Inflation adjustment of limits and other modifications of dependent care credit.

TITLE II—EDUCATION INCENTIVES
Subtitle A—Tax Benefits Relating to Education Expenses

Sec. 201. Hope credit for higher education tuition and related expenses.

Sec. 202. Deduction for qualified higher education expenses.

Sec. 203. Penalty-free withdrawals from individual retirement plans for higher education expenses.

Sec. 204. Expenses for education which supplements elementary and secondary education.

Subtitle B—Expanded Education Investment Savings Opportunities

Sec. 211. Eligible educational institutions permitted to maintain qualified tuition programs; other modifications of qualified State tuition programs.

Sec. 212. Education investment accounts.

Subtitle C—Other Education Initiatives

Sec. 221. Extension of exclusion for employer-provided educational assistance.

Sec. 222. Increase in limitation on qualified 501(c)(3) bonds other than hospital bonds.

Sec. 223. Contributions of computer technology and equipment for elementary or secondary school purposes.

Sec. 224. Treatment of cancellation of certain student loans.

TITLE III—SAVINGS AND INVESTMENT INCENTIVES

Subtitle A—Retirement Savings

Sec. 301. Establishment of American Dream IRA.

Subtitle B—Capital Gains

PART I—INDIVIDUAL CAPITAL GAINS

Sec. 311. 20 percent maximum capital gains rate for individuals.