

Calendar No. 587

110TH CONGRESS
2^D SESSION

S. 12

To promote home ownership, manufacturing, and economic growth.

IN THE SENATE OF THE UNITED STATES

FEBRUARY 29, 2008

Mr. McCONNELL (for himself, Mr. ALEXANDER, Mr. ALLARD, Mr. BOND, Mr. BUNNING, Mr. CORNYN, Mr. CRAIG, Mrs. DOLE, Mr. ENZI, Mr. GRASSLEY, Mr. GREGG, Mrs. HUTCHISON, Mr. INHOFE, Mr. ISAKSON, Mr. ROBERTS, and Mr. HATCH) introduced the following bill; which was read the first time

MARCH 3, 2008

Read the second time and placed on the calendar

A BILL

To promote home ownership, manufacturing, and economic growth.

1 *Be it enacted by the Senate and House of Representa-*
2 *tives of the United States of America in Congress assembled,*

3 **SECTION 1. SHORT TITLE; TABLE OF CONTENTS.**

4 (a) SHORT TITLE.—This Act may be cited as the
5 “Homeownership, Manufacturing, and Economic Growth
6 Act” or the “HOME Act”.

1 (b) TABLE OF CONTENTS.—The table of contents for
 2 this Act is as follows:

Sec. 1. Short title; table of contents.

TITLE I—KEEPING TAXES LOW

Sec. 100. Amendment to 1986 Code.

Subtitle A—Extension of Expiring Provisions

PART I—INDIVIDUAL TAX PROVISIONS

SUBPART A—PROVISIONS EXPIRING IN 2007

- Sec. 101. Nonbusiness energy property.
 Sec. 102. Election to include combat pay as earned income for purposes of the earned income credit.
 Sec. 103. Deduction for certain expenses of elementary and secondary school teachers.
 Sec. 104. Distributions from retirement plans to individuals called to active duty.
 Sec. 105. Modification of mortgage revenue bonds for veterans.
 Sec. 106. Deduction for State and local sales taxes.
 Sec. 107. Archer MSAs.
 Sec. 108. Deduction of qualified tuition and related expenses.
 Sec. 109. Tax-free distributions from individual retirement plans for charitable purposes.
 Sec. 110. Stock in RIC for purposes of determining estates of nonresidents not citizens.

SUBPART B—PROVISIONS EXPIRING IN 2008

Sec. 111. Residential energy efficient property.

PART II—BUSINESS TAX PROVISIONS

SUBPART A—PROVISIONS EXPIRING IN 2007

- Sec. 121. Research activities.
 Sec. 122. Indian employment credit.
 Sec. 123. Railroad track maintenance.
 Sec. 124. Production of fuel from a nonconventional source at certain facilities.
 Sec. 125. Energy efficient appliances.
 Sec. 126. 15-year straight-line cost recovery for qualified leasehold improvements and qualified restaurant improvements.
 Sec. 127. Seven-year cost recovery period for motorsports racing track facility.
 Sec. 128. Accelerated depreciation for business property on Indian reservation.
 Sec. 129. Qualified conservation contributions.
 Sec. 130. Enhanced charitable deduction for contributions of food inventory.
 Sec. 131. Enhanced charitable deduction for contributions of book inventory.
 Sec. 132. Enhanced charitable deduction for corporate contributions of computer equipment for educational purposes.
 Sec. 133. Expensing of environmental remediation costs.
 Sec. 134. Deduction allowable with respect to income attributable to domestic production activities in Puerto Rico.

- Sec. 135. Special rule for sales or dispositions to implement FERC or State electric restructuring policy.
- Sec. 136. Modification of tax treatment of certain payments to controlling exempt organizations.
- Sec. 137. Suspension of taxable income limit with respect to marginal wells.
- Sec. 138. Treatment of certain dividends of regulated investment companies.
- Sec. 139. Basis adjustment to stock of S corporations making charitable contributions of property.
- Sec. 140. Extension of qualified zone academy bonds.
- Sec. 141. Tax incentives for investment in the District of Columbia.
- Sec. 142. 0.2 percent FUTA surtax.

SUBPART B—PROVISIONS EXPIRING IN 2008

- Sec. 146. Biodiesel and renewable diesel used as fuel.
- Sec. 147. Electricity produced from certain renewable resources; production of refined coal and Indian coal.
- Sec. 148. New markets tax credit.
- Sec. 149. Extension of new energy efficient home credit.
- Sec. 150. Extension of mine rescue team training credit.
- Sec. 151. Extension of energy credit.
- Sec. 152. 5-year NOL carryback for certain electric utility companies.
- Sec. 153. Extension of energy efficient commercial buildings deduction.
- Sec. 154. Extension of election to expense advanced mine safety equipment.
- Sec. 155. Extension and modification of expensing rules for qualified film and television productions.
- Sec. 156. Subpart F exception for active financing income.
- Sec. 157. Extension of look-thru rule for related controlled foreign corporations.

PART III—EXCISE TAX PROVISIONS

SUBPART A—PROVISIONS EXPIRING IN 2007

- Sec. 161. Increase in limit on cover over of rum excise tax to Puerto Rico and the Virgin Islands.
- Sec. 162. Parity in the application of certain limits to mental health benefits.
- Sec. 163. Extension of economic development credit for American Samoa.

SUBPART B—PROVISIONS EXPIRING IN 2008

- Sec. 166. Special rule for qualified methanol or ethanol fuel from coal.
- Sec. 167. Biodiesel mixture credit and credit for fuels used for nontaxable purposes.

PART IV—TAX ADMINISTRATION PROVISIONS

SUBPART A—PROVISIONS EXPIRING IN 2007

- Sec. 171. Disclosures to facilitate combined employment tax reporting.
- Sec. 172. Disclosure of return information to apprise appropriate officials of terrorist activities.
- Sec. 173. Disclosure upon request of information relating to terrorist activities.
- Sec. 174. Disclosure of return information to carry out income contingent repayment of student loans.
- Sec. 175. Authority for undercover operations.

SUBPART B—PROVISIONS EXPIRING IN 2008

- Sec. 176. Extension of reporting of interest of exempt organizations in insurance contracts.
- Sec. 177. Disclosures relating to certain programs administered by the Department of Veterans Affairs.

Subtitle B—Alternative Minimum Tax Relief

- Sec. 181. 2-year extension of increased alternative minimum tax exemption amount.
- Sec. 182. Extension of alternative minimum tax relief for nonrefundable personal credits.

Subtitle C—Additional Tax Relief

- Sec. 191. Permanent extension of 2001 and 2003 tax relief provisions.
- Sec. 192. Maximum corporate income tax rate reduced to 25 percent.
- Sec. 193. 3-year carryback of certain credits.
- Sec. 194. Election to accelerate AMT and R and D credits in lieu of bonus depreciation.
- Sec. 195. Indexing of certain assets for purposes of determining gain or loss.
- Sec. 196. Deferral of gain on sale of certain principal residences.
- Sec. 197. Amount excluded from sale of principal residence indexed for inflation.
- Sec. 198. Repeal of phasein for domestic production activities deduction.

TITLE II—KEEPING AMERICA COMPETITIVE

- Sec. 201. Sense of Congress regarding the legislative initiatives required to strengthen and protect the well being of our Nation's capital markets.
- Sec. 202. Directing the Securities and Exchange Commission to convene a public hearing on the impact of excessive litigation.
- Sec. 203. Directing the Commission to establish formal processes and procedures for cost-benefit analyses of proposed and existing rules and regulations.
- Sec. 204. Directing the Commission to define "smaller public company" to provide certainty to issuers.
- Sec. 205. Mutual recognition.
- Sec. 206. Supporting the Securities and Exchange Commission reform efforts to speed the process of rulemaking for self regulatory organizations.
- Sec. 207. Eliminate the exemption from State regulation for certain securities designated by national securities exchanges.
- Sec. 208. Directing the Commission to accelerate full conversion of IFRS and United States GAAP.
- Sec. 209. Promoting market access for financial services.

TITLE III—PROTECTING HOMEOWNERS

- Sec. 301. Subprime refinancing loans through use of qualified mortgage bonds.
- Sec. 302. Expedient distribution of funds already provided for mortgage foreclosure counseling.
- Sec. 303. Credit for purchase of homes in or near foreclosure.
- Sec. 304. Enhanced mortgage loan disclosures.
- Sec. 305. Carryback of certain net operating losses allowed for 5 years; temporary suspension of 90 percent AMT limit.

TITLE IV—REDUCING THE LITIGATION TAX

Sec. 401. Limitation on punitive damages for small businesses.

Sec. 402. Reasonableness review of attorney’s fees.

Sec. 403. Partial award of attorney’s fees for unreasonable lawsuits.

Sec. 404. Mandatory sanctions for frivolous lawsuits.

Sec. 405. Bar on junk science in the courtroom.

1 **TITLE I—KEEPING TAXES LOW**

2 **SEC. 100. AMENDMENT TO 1986 CODE.**

3 Except as otherwise expressly provided, whenever in
 4 this title an amendment or repeal is expressed in terms
 5 of an amendment to, or repeal of, a section or other provi-
 6 sion, the reference shall be considered to be made to a
 7 section or other provision of the Internal Revenue Code
 8 of 1986.

9 **Subtitle A—Extension of Expiring** 10 **Provisions**

11 **PART I—INDIVIDUAL TAX PROVISIONS**

12 **Subpart A—Provisions Expiring in 2007**

13 **SEC. 101. NONBUSINESS ENERGY PROPERTY.**

14 (a) **EXTENSION OF CREDIT.**—Section 25C(g) (relat-
 15 ing to termination) is amended by striking “December 31,
 16 2007” and inserting “December 31, 2009”.

17 (b) **EFFECTIVE DATE.**—The amendment made by
 18 this section shall apply to property placed in service after
 19 December 31, 2007.

1 **SEC. 102. ELECTION TO INCLUDE COMBAT PAY AS EARNED**
2 **INCOME FOR PURPOSES OF THE EARNED IN-**
3 **COME CREDIT.**

4 (a) IN GENERAL.—Subclause (II) of section
5 32(c)(2)(B)(vi) (defining earned income) is amended by
6 striking “January 1, 2008” and inserting “January 1,
7 2010”.

8 (b) CONFORMING AMENDMENT.—Paragraph (4) of
9 section 6428, as amended by the Economic Stimulus Act
10 of 2008, is amended to read as follows:

11 “(4) EARNED INCOME.—The term ‘earned in-
12 come’ has the meaning set forth in section 32(c)(2)
13 except that such term shall not include net earnings
14 from self-employment which are not taken into ac-
15 count in computing taxable income.”.

16 (c) EFFECTIVE DATE.—The amendments made by
17 this section shall apply to taxable years ending after De-
18 cember 31, 2007.

19 **SEC. 103. DEDUCTION FOR CERTAIN EXPENSES OF ELE-**
20 **MENTARY AND SECONDARY SCHOOL TEACH-**
21 **ERS.**

22 (a) IN GENERAL.—Subparagraph (D) of section
23 62(a)(2) (relating to certain expenses of elementary and
24 secondary school teachers) is amended by striking “or
25 2007” and inserting “2007, 2008, or 2009”.

1 (b) EFFECTIVE DATE.—The amendment made by
2 this section shall apply to taxable years beginning after
3 December 31, 2007.

4 **SEC. 104. DISTRIBUTIONS FROM RETIREMENT PLANS TO**
5 **INDIVIDUALS CALLED TO ACTIVE DUTY.**

6 (a) IN GENERAL.—Clause (iv) of section 72(t)(2)(G)
7 is amended by striking “December 31, 2007” and insert-
8 ing “January 1, 2010”.

9 (b) EFFECTIVE DATE.—The amendment made by
10 this section shall apply to individuals ordered or called to
11 active duty on or after December 31, 2007.

12 **SEC. 105. MODIFICATION OF MORTGAGE REVENUE BONDS**
13 **FOR VETERANS.**

14 (a) QUALIFIED MORTGAGE BONDS USED TO FI-
15 NANCE RESIDENCES FOR VETERANS WITHOUT REGARD
16 TO FIRST-TIME HOMEBUYER REQUIREMENT.—Subpara-
17 graph (D) of section 143(d)(2) (relating to exceptions) is
18 amended by inserting “and after the date of the enactment
19 of the HOME Act and before January 1, 2010” after
20 “January 1, 2008”.

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

1 **SEC. 106. DEDUCTION FOR STATE AND LOCAL SALES**
2 **TAXES.**

3 (a) **IN GENERAL.**—Subparagraph (I) of section
4 164(b)(5) is amended by striking “January 1, 2008” and
5 inserting “January 1, 2010”.

6 (b) **EFFECTIVE DATE.**—The amendment made by
7 this section shall apply to taxable years beginning after
8 December 31, 2007.

9 **SEC. 107. ARCHER MSAS.**

10 (a) **IN GENERAL.**—Subsection (i) of section 220 (re-
11 lating to limitation on number of taxpayers having Archer
12 MSAs) is amended—

13 (1) by striking “2007” each place it appears in
14 paragraphs (2) and (3)(B) and inserting “2009”,

15 (2) by striking “2007” in the heading of para-
16 graph (3)(B) and inserting “2009”.

17 (b) **CONFORMING AMENDMENTS.**—Subsection (j) of
18 section 220 is amended—

19 (1) by striking “or 2006” each place it appears
20 in paragraph (2) and inserting “2006, 2007, or
21 2008”,

22 (2) by striking “OR 2006” in the heading for
23 paragraph (2) and inserting “2006, 2007, OR 2008”,
24 and

25 (3) by striking “and 2006” in paragraph (4)
26 and inserting “2006, 2007, and 2008”.

1 (c) EFFECTIVE DATE.—The amendments made by
2 this section shall apply to calendar years beginning after
3 December 31, 2007.

4 **SEC. 108. DEDUCTION OF QUALIFIED TUITION AND RE-**
5 **LATED EXPENSES.**

6 (a) IN GENERAL.—Subsection (e) of section 222 (re-
7 lating to termination) is amended by striking “December
8 31, 2007” and inserting “December 31, 2009”.

9 (b) EFFECTIVE DATE.—The amendment made by
10 this section shall apply to taxable years beginning after
11 December 31, 2007.

12 **SEC. 109. TAX-FREE DISTRIBUTIONS FROM INDIVIDUAL RE-**
13 **TIREMENT PLANS FOR CHARITABLE PUR-**
14 **POSES.**

15 (a) IN GENERAL.—Subparagraph (F) of section
16 408(d)(8) (relating to termination) is amended by striking
17 “December 31, 2007” and inserting “December 31,
18 2009”.

19 (b) EFFECTIVE DATE.—The amendment made by
20 this section shall apply to distributions made in taxable
21 years beginning after December 31, 2007.

1 **SEC. 110. STOCK IN RIC FOR PURPOSES OF DETERMINING**
2 **ESTATES OF NONRESIDENTS NOT CITIZENS.**

3 (a) IN GENERAL.—Paragraph (3) of section 2105(d)
4 (relating to stock in a RIC) is amended by striking “De-
5 cember 31, 2007” and inserting “December 31, 2009”.

6 (b) EFFECTIVE DATE.—The amendment made by
7 this section shall apply to decedents dying after December
8 31, 2007.

9 **Subpart B—Provisions Expiring in 2008**

10 **SEC. 111. RESIDENTIAL ENERGY EFFICIENT PROPERTY.**

11 Subsection (g) of section 25D (relating to termi-
12 nation) is amended by striking “December 31, 2008” and
13 inserting “December 31, 2009”.

14 **PART II—BUSINESS TAX PROVISIONS**

15 **Subpart A—Provisions Expiring in 2007**

16 **SEC. 121. RESEARCH ACTIVITIES.**

17 (a) IN GENERAL.—Section 41(h) (relating to termi-
18 nation) is amended by striking “December 31, 2007” and
19 inserting “December 31, 2009” in paragraph (1)(B).

20 (b) EFFECTIVE DATE.—The amendment made by
21 this section shall apply to amounts paid or incurred after
22 December 31, 2007.

23 **SEC. 122. INDIAN EMPLOYMENT CREDIT.**

24 (a) IN GENERAL.—Subsection (f) of section 45A (re-
25 lating to termination) is amended by striking “December
26 31, 2007” and inserting “December 31, 2009”.

1 (b) EFFECTIVE DATE.—The amendment made by
2 this section shall apply to taxable years beginning after
3 December 31, 2007.

4 **SEC. 123. RAILROAD TRACK MAINTENANCE.**

5 (a) IN GENERAL.—Subsection (f) of section 45G (re-
6 lating to application of section) is amended by striking
7 “January 1, 2008” and inserting “January 1, 2010”.

8 (b) EFFECTIVE DATE.—The amendment made by
9 this section shall apply to expenditures paid or incurred
10 during taxable years beginning after December 31, 2007.

11 **SEC. 124. PRODUCTION OF FUEL FROM A NONCONVEN-**
12 **TIONAL SOURCE AT CERTAIN FACILITIES.**

13 (a) IN GENERAL.—Subsection (f)(1)(B) of section
14 45K (relating to extension for certain facilities) is amend-
15 ed by striking “January 1, 2008” and inserting “January
16 1, 2010”.

17 (b) EFFECTIVE DATE.—The amendment made by
18 this section shall apply to fuels produced and sold after
19 December 31, 2007.

20 **SEC. 125. ENERGY EFFICIENT APPLIANCES.**

21 (a) IN GENERAL.—Subsection (b) of section 45M (re-
22 lating to applicable amount) is amended by striking “cal-
23 endar year 2006 or 2007” each place it appears in para-
24 graphs (1)(A)(i), (1)(B)(i), (1)(C)(ii)(I), and

1 (1)(C)(iii)(I), and inserting “calendar year 2006, 2007,
2 2008, or 2009”.

3 (b) RESTART OF CREDIT LIMITATION.—Paragraph
4 (1) of section 45M(e) (relating to aggregate credit amount
5 allowed) is amended by inserting “beginning after Decem-
6 ber 31, 2007” after “for all prior taxable years”.

7 (c) EFFECTIVE DATE.—The amendments made by
8 this section shall apply to appliances produced after De-
9 cember 31, 2007.

10 **SEC. 126. 15-YEAR STRAIGHT-LINE COST RECOVERY FOR**
11 **QUALIFIED LEASEHOLD IMPROVEMENTS AND**
12 **QUALIFIED RESTAURANT IMPROVEMENTS.**

13 (a) IN GENERAL.—Clauses (iv) and (v) of section
14 168(e)(3)(E) (relating to 15-year property) are each
15 amended by striking “January 1, 2008” and inserting
16 “January 1, 2010”.

17 (b) EFFECTIVE DATE.—The amendments made by
18 this section shall apply to property placed in service after
19 December 31, 2007.

20 **SEC. 127. SEVEN-YEAR COST RECOVERY PERIOD FOR MO-**
21 **TOSPORTS RACING TRACK FACILITY.**

22 (a) IN GENERAL.—Subparagraph (D) of section
23 168(i)(15) (relating to termination) is amended by strik-
24 ing “December 31, 2007” and inserting “December 31,
25 2009”.

1 (b) EFFECTIVE DATE.—The amendment made by
2 this section shall apply to property placed in service after
3 December 31, 2007.

4 **SEC. 128. ACCELERATED DEPRECIATION FOR BUSINESS**
5 **PROPERTY ON INDIAN RESERVATION.**

6 (a) IN GENERAL.—Paragraph (8) of section 168(j)
7 (relating to termination) is amended by striking “Decem-
8 ber 31, 2007” and inserting “December 31, 2009”.

9 (b) EFFECTIVE DATE.—The amendment made by
10 this section shall apply to property placed in service after
11 December 31, 2007.

12 **SEC. 129. QUALIFIED CONSERVATION CONTRIBUTIONS.**

13 (a) IN GENERAL.—Clause (vi) of section
14 170(b)(1)(E) (relating to termination) is amended by
15 striking “December 31, 2007” and inserting “December
16 31, 2009”.

17 (b) CONTRIBUTIONS BY CORPORATE FARMERS AND
18 RANCHERS.—Clause (iii) of section 170(b)(2)(B) (relating
19 to termination) is amended by striking “December 31,
20 2007” and inserting “December 31, 2009”.

21 (c) EFFECTIVE DATE.—The amendments made by
22 this section shall apply to contributions made in taxable
23 years beginning after December 31, 2007.

1 **SEC. 130. ENHANCED CHARITABLE DEDUCTION FOR CON-**
2 **TRIBUTIONS OF FOOD INVENTORY.**

3 (a) IN GENERAL.—Clause (iv) of section
4 170(e)(3)(C) (relating to termination) is amended by
5 striking “December 31, 2007” and inserting “December
6 31, 2009”.

7 (b) EFFECTIVE DATE.—The amendment made by
8 this section shall apply to contributions made after De-
9 cember 31, 2007.

10 **SEC. 131. ENHANCED CHARITABLE DEDUCTION FOR CON-**
11 **TRIBUTIONS OF BOOK INVENTORY.**

12 (a) IN GENERAL.—Clause (iv) of section
13 170(e)(3)(D) (relating to termination) is amended by
14 striking “December 31, 2007” and inserting “December
15 31, 2009”.

16 (b) CLERICAL AMENDMENT.—Clause (iii) of section
17 170(e)(3)(D) (relating to certification by donee) is amend-
18 ed by inserting “of books” after “to any contribution”.

19 (c) EFFECTIVE DATE.—The amendments made by
20 this section shall apply to contributions made after De-
21 cember 31, 2007.

22 **SEC. 132. ENHANCED CHARITABLE DEDUCTION FOR COR-**
23 **PORATE CONTRIBUTIONS OF COMPUTER**
24 **EQUIPMENT FOR EDUCATIONAL PURPOSES.**

25 (a) IN GENERAL.—Subparagraph (G) of section
26 170(e)(6) (relating to termination) is amended by striking

1 “December 31, 2007” and inserting “December 31,
2 2009”.

3 (b) EFFECTIVE DATE.—The amendment made by
4 this section shall apply to contributions made after De-
5 cember 31, 2007.

6 **SEC. 133. EXPENSING OF ENVIRONMENTAL REMEDIATION**
7 **COSTS.**

8 (a) IN GENERAL.—Subsection (h) of section 198 (re-
9 lating to termination) is amended by striking “December
10 31, 2007” and inserting “December 31, 2009”.

11 (b) EFFECTIVE DATE.—The amendment made by
12 this section shall apply to expenditures paid or incurred
13 after December 31, 2007.

14 **SEC. 134. DEDUCTION ALLOWABLE WITH RESPECT TO IN-**
15 **COME ATTRIBUTABLE TO DOMESTIC PRO-**
16 **DUCTION ACTIVITIES IN PUERTO RICO.**

17 (a) IN GENERAL.—Subparagraph (C) of section
18 199(d)(8) (relating to termination) is amended—

19 (1) by striking “first 2 taxable years” and in-
20 sserting “first 4 taxable years”, and

21 (2) by striking “January 1, 2008” and insert-
22 ing “January 1, 2010”.

23 (b) EFFECTIVE DATE.—The amendments made by
24 this section shall apply to taxable years beginning after
25 December 31, 2007.

1 **SEC. 135. SPECIAL RULE FOR SALES OR DISPOSITIONS TO**
2 **IMPLEMENT FERC OR STATE ELECTRIC RE-**
3 **STRUCTURING POLICY.**

4 (a) **IN GENERAL.**—Paragraph (3) of section 451(i)
5 (relating to qualifying electric transmission transaction) is
6 amended by striking “January 1, 2008” and inserting
7 “January 1, 2010”.

8 (b) **EFFECTIVE DATE.**—The amendment made by
9 this section shall apply to transactions occurring after De-
10 cember 31, 2007.

11 **SEC. 136. MODIFICATION OF TAX TREATMENT OF CERTAIN**
12 **PAYMENTS TO CONTROLLING EXEMPT ORGA-**
13 **NIZATIONS.**

14 (a) **IN GENERAL.**—Clause (iv) of section
15 512(b)(13)(E) (relating to termination) is amended by
16 striking “December 31, 2007” and inserting “December
17 31, 2009”.

18 (b) **EFFECTIVE DATE.**—The amendment made by
19 this section shall apply to payments received or accrued
20 after December 31, 2007.

21 **SEC. 137. SUSPENSION OF TAXABLE INCOME LIMIT WITH**
22 **RESPECT TO MARGINAL WELLS.**

23 (a) **IN GENERAL.**—Subparagraph (H) of section
24 613A(c)(6) (relating to temporary suspension of taxable
25 income limit with respect to marginal production) is

1 amended by striking “January 1, 2008” and inserting
2 “January 1, 2010”.

3 (b) EFFECTIVE DATE.—The amendment made by
4 this section shall apply to taxable years beginning after
5 December 31, 2007.

6 **SEC. 138. TREATMENT OF CERTAIN DIVIDENDS OF REGU-**
7 **LATED INVESTMENT COMPANIES.**

8 (a) INTEREST-RELATED DIVIDENDS.—Subpara-
9 graph (C) of section 871(k)(1) (defining interest-related
10 dividend) is amended by striking “December 31, 2007”
11 and inserting “December 31, 2009”.

12 (b) SHORT-TERM CAPITAL GAIN DIVIDENDS.—Sub-
13 paragraph (C) of section 871(k)(2) (defining short-term
14 capital gain dividend) is amended by striking “December
15 31, 2007” and inserting “December 31, 2009”.

16 (c) DISPOSITION OF INVESTMENT IN UNITED
17 STATES REAL PROPERTY.—Clause (ii) of section
18 897(h)(4)(A) (relating to termination) is amended by
19 striking “December 31, 2007” and inserting “December
20 31, 2009”.

21 (d) EFFECTIVE DATE.—The amendments made by
22 this section shall apply to dividends with respect to taxable
23 years of regulated investment companies beginning after
24 December 31, 2007.

1 **SEC. 139. BASIS ADJUSTMENT TO STOCK OF S CORPORA-**
2 **TIONS MAKING CHARITABLE CONTRIBU-**
3 **TIONS OF PROPERTY.**

4 (a) IN GENERAL.—The last sentence of section
5 1367(a)(2) (relating to decreases in basis) is amended by
6 striking “December 31, 2007” and inserting “December
7 31, 2009”.

8 (b) EFFECTIVE DATE.—The amendment made by
9 this section shall apply to contributions made in taxable
10 years beginning after December 31, 2007.

11 **SEC. 140. EXTENSION OF QUALIFIED ZONE ACADEMY**
12 **BONDS.**

13 (a) IN GENERAL.—Paragraph (1) of section
14 1397E(e) is amended by striking “and 2007” and insert-
15 ing “2007, 2008, and 2009”.

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

19 **SEC. 141. TAX INCENTIVES FOR INVESTMENT IN THE DIS-**
20 **TRICT OF COLUMBIA.**

21 (a) DESIGNATION OF DC ENTERPRISE ZONE.—Sub-
22 section (f) of section 1400 (relating to time for which des-
23 ignation applicable) is amended by striking “December 31,
24 2007” each place it appears in paragraphs (1) and (2)
25 and inserting “December 31, 2009”.

1 (b) TAX-EXEMPT DC EMPOWERMENT ZONE
 2 BONDS.—Subsection (b) of section 1400A (relating to pe-
 3 riod of applicability) is amended by inserting “, and after
 4 the date of the enactment of the HOME Act and before
 5 December 31, 2009” after “December 31, 2007”.

6 (c) ACQUISITION DATE FOR ELIGIBILITY FOR ZERO-
 7 PERCENT CAPITAL GAINS RATE FOR INVESTMENT IN
 8 DC.—subsection (b) of section 1400B (relating to DC zone
 9 asset) is amended by striking “January 1, 2008” each
 10 place it appears in paragraphs (2)(A)(i), (3)(A), (4)(A)(i),
 11 and (4)(B)(i)(I) and inserting “January 1, 2010”.

12 (d) TAX CREDIT FOR FIRST-TIME DC HOME-
 13 BUYERS.—Subsection (i) of section 1400C (relating to ap-
 14 plication of section) is amended by striking “January 1,
 15 2008” and inserting “January 1, 2010”.

16 (e) EFFECTIVE DATE.—The amendments made by
 17 this section shall apply to transactions after December 31,
 18 2007.

19 **SEC. 142. 0.2 PERCENT FUTA SURTAX.**

20 (a) IN GENERAL.—Section 3301 (relating to rate of
 21 tax) is amended—

22 (1) by striking “through 2007” in paragraph

23 (1) and inserting “through 2009”, and

24 (2) by striking “calendar year 2008” in para-
 25 graph (2) and inserting “calendar year 2010”.

1 (b) EFFECTIVE DATE.—The amendments made by
2 this section shall apply to wages paid after December 31,
3 2007.

4 **Subpart B—Provisions Expiring in 2008**

5 **SEC. 146. BIODIESEL AND RENEWABLE DIESEL USED AS**
6 **FUEL.**

7 Subsection (g) of section 40A (relating to termi-
8 nation) is amended by striking “December 31, 2008” and
9 inserting “December 31, 2009”.

10 **SEC. 147. ELECTRICITY PRODUCED FROM CERTAIN RENEW-**
11 **ABLE RESOURCES; PRODUCTION OF REFINED**
12 **COAL AND INDIAN COAL.**

13 Section 45(d) (relating to qualified facilities) is
14 amended by striking “January 1, 2009” each place it ap-
15 pears in paragraphs (1), (2), (3), (4), (5), (6), (7), (8),
16 (9), and (10) and inserting “January 1, 2010”.

17 **SEC. 148. NEW MARKETS TAX CREDIT.**

18 Subparagraph (D) of section 45D(f)(1) (relating to
19 national limitation on amount of investments designated)
20 is amended by striking “and 2008” and inserting “2008,
21 and 2009”.

1 **SEC. 149. EXTENSION OF NEW ENERGY EFFICIENT HOME**
2 **CREDIT.**

3 Subsection (g) of section 45L (relating to termi-
4 nation) is amended by striking “December 31, 2008” and
5 inserting “December 31, 2009”.

6 **SEC. 150. EXTENSION OF MINE RESCUE TEAM TRAINING**
7 **CREDIT.**

8 Section 45N(e) (relating to termination) is amended
9 by striking “December 31, 2008” and inserting “Decem-
10 ber 31, 2009”.

11 **SEC. 151. EXTENSION OF ENERGY CREDIT.**

12 (a) **SOLAR ENERGY PROPERTY.**—Paragraphs
13 (2)(A)(i)(II) and (3)(A)(ii) of section 48(a) (relating to
14 energy credit) are each amended by striking “January 1,
15 2009” and inserting “January 1, 2010”.

16 (b) **FUEL CELL PROPERTY.**—Subparagraph (E) of
17 section 48(c)(1) (relating to qualified fuel cell property)
18 is amended by striking “December 31, 2008” and insert-
19 ing “December 31, 2009”.

20 (c) **MICROTURBINE PROPERTY.**—Subparagraph (E)
21 of section 48(c)(2) (relating to qualified microturbine
22 property) is amended by striking “December 31, 2008”
23 and inserting “December 31, 2009”.

1 **SEC. 152. 5-YEAR NOL CARRYBACK FOR CERTAIN ELECTRIC**
2 **UTILITY COMPANIES.**

3 Subparagraph (I)(i) of section 172(b)(1) (relating to
4 transmission property and pollution control investment) is
5 amended—

6 (1) by striking “January 1, 2009” and insert-
7 ing “January 1, 2010”, and

8 (2) by striking “January 1, 2006” and insert-
9 ing “January 1, 2007”.

10 **SEC. 153. EXTENSION OF ENERGY EFFICIENT COMMERCIAL**
11 **BUILDINGS DEDUCTION.**

12 Section 179D(h) (relating to termination) is amended
13 by striking “December 31, 2008” and inserting “Decem-
14 ber 31, 2009”.

15 **SEC. 154. EXTENSION OF ELECTION TO EXPENSE AD-**
16 **VANCED MINE SAFETY EQUIPMENT.**

17 Section 179E(g) (relating to termination) is amended
18 by striking “December 31, 2008” and inserting “Decem-
19 ber 31, 2009”.

20 **SEC. 155. EXTENSION AND MODIFICATION OF EXPENSING**
21 **RULES FOR QUALIFIED FILM AND TELE-**
22 **VISION PRODUCTIONS.**

23 Section 181(f) (relating to termination) is amended
24 by striking “December 31, 2008” and inserting “Decem-
25 ber 31, 2009”.

1 **SEC. 156. SUBPART F EXCEPTION FOR ACTIVE FINANCING**
 2 **INCOME.**

3 (a) EXEMPT INSURANCE INCOME.—Paragraph (10)
 4 of section 953(e) (relating to application) is amended—

5 (1) by striking “January 1, 2009” and insert-
 6 ing “January 1, 2010”, and

7 (2) by striking “December 31, 2008” and in-
 8 serting “December 31, 2009”.

9 (b) EXCEPTION TO TREATMENT AS FOREIGN PER-
 10 SONAL HOLDING COMPANY INCOME.—Paragraph (9) of
 11 section 954(h) (relating to application) is amended by
 12 striking “January 1, 2009” and inserting “January 1,
 13 2010”.

14 **SEC. 157. EXTENSION OF LOOK-THRU RULE FOR RELATED**
 15 **CONTROLLED FOREIGN CORPORATIONS.**

16 Subparagraph (B) of section 954(c)(6) (relating to
 17 application) is amended by striking “January 1, 2009”
 18 and inserting “January 1, 2010”.

19 **PART III—EXCISE TAX PROVISIONS**

20 **Subpart A—Provisions Expiring in 2007**

21 **SEC. 161. INCREASE IN LIMIT ON COVER OVER OF RUM EX-**
 22 **CISE TAX TO PUERTO RICO AND THE VIRGIN**
 23 **ISLANDS.**

24 (a) IN GENERAL.—Paragraph (1) of section 7652(f)
 25 is amended by inserting “, and after the date of the enact-

1 ment of the HOME Act and before January 1, 2010”
 2 after “January 1, 2008”.

3 (b) EFFECTIVE DATE.—The amendment made by
 4 this section shall apply to distilled spirits brought into the
 5 United States after the date of the enactment of this Act.

6 **SEC. 162. PARITY IN THE APPLICATION OF CERTAIN LIMITS**
 7 **TO MENTAL HEALTH BENEFITS.**

8 (a) IN GENERAL.—Subsection (f) of section 9812 (re-
 9 lating to application of section) is amended—

10 (1) by striking “and” at the end of paragraph

11 (2),

12 (2) by striking the period at the end of para-
 13 graph (3) and inserting “, and before the date of the
 14 enactment of the HOME Act”, and

15 (3) by adding at the end the following new
 16 paragraph:

17 “(4) after December 31, 2009.”.

18 (b) AMENDMENT TO THE EMPLOYEE RETIREMENT
 19 INCOME SECURITY ACT OF 1974.—Section 712(f) of the
 20 Employee Retirement Income Security Act of 1974 (29
 21 U.S.C. 1185a(f)) is amended by inserting “, and before
 22 the date of the enactment of the HOME Act, and after
 23 December 31, 2009” after “December 31, 2007”.

24 (c) AMENDMENT TO THE PUBLIC HEALTH SERVICE
 25 ACT.—Section 2705(f) of the Public Health Service Act

1 (42 U.S.C. 300gg-5(f)) is amended by inserting “, and be-
 2 fore the date of the enactment of the HOME Act, and
 3 after December 31, 2009” after “December 31, 2006”.

4 (d) EFFECTIVE DATE.—The amendments made by
 5 this section shall apply to benefits for services furnished
 6 on or after the date of the enactment of this Act.

7 **SEC. 163. EXTENSION OF ECONOMIC DEVELOPMENT CRED-**
 8 **IT FOR AMERICAN SAMOA.**

9 (a) IN GENERAL.—Subsection (d) of section 119 of
 10 division A of the Tax Relief and Health Care Act of 2006
 11 is amended—

12 (1) by striking “first two taxable years” and in-
 13 serting “first 4 taxable years”, and

14 (2) by striking “January 1, 2008” and insert-
 15 ing “January 1, 2010”.

16 (b) EFFECTIVE DATE.—The amendments made by
 17 this section shall apply to taxable years beginning after
 18 December 31, 2007.

19 **Subpart B—Provisions Expiring in 2008**

20 **SEC. 166. SPECIAL RULE FOR QUALIFIED METHANOL OR**
 21 **ETHANOL FUEL FROM COAL.**

22 Subparagraph (D) of section 4041(b)(2) (relating to
 23 termination) is amended by striking “January 1, 2009”
 24 and inserting “January 1, 2010”.

1 **SEC. 167. BIODIESEL MIXTURE CREDIT AND CREDIT FOR**
 2 **FUELS USED FOR NONTAXABLE PURPOSES.**

3 (a) BIODIESEL MIXTURES.—Paragraph (6) of sec-
 4 tion 6426(c) (relating to termination) is amended by strik-
 5 ing “December 31, 2008” and inserting “December 31,
 6 2009”.

7 (b) BIODIESEL USED FOR NONTAXABLE PUR-
 8 POSES.—Paragraph (5)(B) of section 6427(e) (relating to
 9 termination) is amended by striking “December 31, 2008”
 10 and inserting “December 31, 2009”.

11 **PART IV—TAX ADMINISTRATION PROVISIONS**

12 **Subpart A—Provisions Expiring in 2007**

13 **SEC. 171. DISCLOSURES TO FACILITATE COMBINED EM-**
 14 **PLOYMENT TAX REPORTING.**

15 (a) IN GENERAL.—Subparagraph (B) of section
 16 6103(d)(5) (relating to termination) is amended by strik-
 17 ing “December 31, 2007” and inserting “December 31,
 18 2009”.

19 (b) EFFECTIVE DATE.—The amendments made by
 20 this subsection shall apply to disclosures after the date
 21 of the enactment of this Act.

22 **SEC. 172. DISCLOSURE OF RETURN INFORMATION TO AP-**
 23 **PROPRIATE APPROPRIATE OFFICIALS OF TER-**
 24 **RORIST ACTIVITIES.**

25 (a) IN GENERAL.—Clause (iv) of section
 26 6103(i)(3)(C) (relating to termination) is amended by

1 striking “December 31, 2007” and inserting “December
2 31, 2009”.

3 (b) EFFECTIVE DATE.—The amendment made by
4 this section shall apply to disclosures after the date of the
5 enactment of this Act.

6 **SEC. 173. DISCLOSURE UPON REQUEST OF INFORMATION**
7 **RELATING TO TERRORIST ACTIVITIES.**

8 (a) IN GENERAL.—Subparagraph (E) of section
9 6103(i)(7) (relating to termination) is amended by strik-
10 ing “December 31, 2007” and inserting “December 31,
11 2009”.

12 (b) EFFECTIVE DATE.—The amendment made by
13 this section shall apply to disclosures after the date of the
14 enactment of this Act.

15 **SEC. 174. DISCLOSURE OF RETURN INFORMATION TO**
16 **CARRY OUT INCOME CONTINGENT REPAY-**
17 **MENT OF STUDENT LOANS.**

18 (a) IN GENERAL.—Subparagraph (D) of section
19 6103(l)(13) (relating to termination) is amended by strik-
20 ing “December 31, 2007” and inserting “December 31,
21 2009”.

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

1 **SEC. 175. AUTHORITY FOR UNDERCOVER OPERATIONS.**

2 (a) IN GENERAL.—Paragraph (6) of section 7608(c)
3 (relating to application of section) is amended by striking
4 “January 1, 2008” each place it appears and inserting
5 “January 1, 2010”.

6 (b) EFFECTIVE DATE.—The amendments made by
7 this section shall apply to operations conducted after the
8 date of the enactment of this Act.

9 **Subpart B—Provisions Expiring in 2008**

10 **SEC. 176. EXTENSION OF REPORTING OF INTEREST OF EX-**
11 **EMPT ORGANIZATIONS IN INSURANCE CON-**
12 **TRACTS.**

13 Section 6050V(e) (relating to termination) is amend-
14 ed by striking “the date which is 2 years after the date
15 of the enactment of this section” and inserting “December
16 31, 2009”.

17 **SEC. 177. DISCLOSURES RELATING TO CERTAIN PROGRAMS**
18 **ADMINISTERED BY THE DEPARTMENT OF**
19 **VETERANS AFFAIRS.**

20 (a) IN GENERAL.—Section 6103(l)(7)(D) (relating to
21 programs to which rule applies) is amended by striking
22 “September 30, 2008” and inserting “December 31,
23 2009”.

24 (b) TECHNICAL AMENDMENT.—Section
25 6103(l)(7)(D)(viii)(III) is amended by striking “sections
26 1710(a)(1)(I), 1710(a)(2), 1710(b), and 1712(a)(2)(B)”

1 and inserting “sections 1710(a)(2)(G), 1710(a)(3), and
2 1710(b)”.

3 **Subtitle B—Alternative Minimum**
4 **Tax Relief**

5 **SEC. 181. 2-YEAR EXTENSION OF INCREASED ALTERNATIVE**
6 **MINIMUM TAX EXEMPTION AMOUNT.**

7 (a) IN GENERAL.—Section 55(d)(1) is amended—

8 (1) by striking “\$66,250” and all that follows
9 through “2007” in subparagraph (A) and inserting
10 “the joint return amount in the case of taxable years
11 beginning in 2008 and 2009”, and

12 (2) by striking “\$44,350” and all that follows
13 through “2007” in subparagraph (B) and inserting
14 “the unmarried individual return amount in the case
15 of taxable years beginning in 2008 and 2009”.

16 (b) JOINT RETURN AMOUNT; UNMARRIED INDI-
17 VIDUAL RETURN AMOUNT.—Section 55(d) is amended by
18 adding at the end the following new paragraph:

19 “(4) JOINT RETURN AMOUNT; UNMARRIED IN-
20 DIVIDUAL RETURN AMOUNT.—

21 “(A) JOINT RETURN AMOUNT.—For pur-
22 poses of paragraph (1)(A), the joint return
23 amount shall be—

24 “(i) \$69,950 for taxable years begin-
25 ning in 2008, and

1 “(ii) \$73,250 for taxable year begin-
2 ning in 2009.

3 “(B) UNMARRIED INDIVIDUAL RETURN
4 AMOUNT.—For purposes of paragraph (1)(B),
5 the unmarried individual return amount shall
6 be—

7 “(i) \$46,200 for taxable years begin-
8 ning in 2008, and

9 “(ii) \$47,850 for taxable year begin-
10 ning in 2009.”.

11 (c) EFFECTIVE DATE.—The amendments made by
12 this section shall apply to taxable years beginning after
13 December 31, 2007.

14 **SEC. 182. EXTENSION OF ALTERNATIVE MINIMUM TAX RE-**
15 **LIEF FOR NONREFUNDABLE PERSONAL**
16 **CREDITS.**

17 (a) IN GENERAL.—Paragraph (2) of section 26(a) is
18 amended—

19 (1) by striking “or 2007” and inserting “2007,
20 2008, or 2009”, and

21 (2) by striking “2007” in the heading thereof
22 and inserting “2009”.

23 (b) EFFECTIVE DATE.—The amendments made by
24 this section shall apply to taxable years beginning after
25 December 31, 2007.

1 **Subtitle C—Additional Tax Relief**

2 **SEC. 191. PERMANENT EXTENSION OF 2001 AND 2003 TAX**
3 **RELIEF PROVISIONS.**

4 (a) ECONOMIC GROWTH AND TAX RELIEF REC-
5 ONCILIATION ACT OF 2001.—Title IX of the Economic
6 Growth and Tax Relief Reconciliation Act of 2001 (relat-
7 ing to compliance with Congressional Budget Act) is re-
8 pealed.

9 (b) JOBS AND GROWTH TAX RELIEF RECONCILI-
10 ATION ACT OF 2003.—Title III of the Jobs and Growth
11 Tax Relief Reconciliation Act of 2003 is amended by strik-
12 ing section 303.

13 **SEC. 192. MAXIMUM CORPORATE INCOME TAX RATE RE-**
14 **DUCTION TO 25 PERCENT.**

15 (a) IN GENERAL.—Paragraph (1) of section 11(b)
16 (relating to amount of tax on corporations) is amended
17 to read as follows:

18 “(1) IN GENERAL.—The amount of the tax im-
19 posed by subsection (a) shall be the sum of—

20 “(A) 15 percent of so much of the taxable
21 income as does not exceed \$50,000, and

22 “(B) 25 percent of so much of the taxable
23 income as exceeds \$50,000.”.

1 (b) PERSONAL SERVICE CORPORATIONS.—Para-
 2 graph (2) of section 11(b) is amended by striking “35 per-
 3 cent” and inserting “25 percent”.

4 (c) CONFORMING AMENDMENTS.—Paragraphs (1)
 5 and (2) of section 1445(e) are each amended by striking
 6 “35 percent” and inserting “25 percent”.

7 (d) EFFECTIVE DATE.—The amendments made by
 8 this section shall apply to taxable years beginning after
 9 December 31, 2008, except that the amendments made
 10 by subsection (c) shall take effect on January 1, 2009.

11 **SEC. 193. 3-YEAR CARRYBACK OF CERTAIN CREDITS.**

12 (a) GENERAL BUSINESS CREDIT.—Subsection (a) of
 13 section 39 is amended by adding at the end the following
 14 new paragraph:

15 “(4) SPECIAL RULE FOR 2007, 2008, AND 2009.—
 16 In the case of an excess described in paragraph (1)
 17 arising in a taxable year beginning in 2007, 2008,
 18 or 2009—

19 “(A) paragraph (1)(A) shall be applied by
 20 substituting ‘each of the 3 taxable years’ for
 21 ‘the taxable year’,

22 “(B) paragraphs (2)(A) and (3)(C)(i) shall
 23 each be applied by substituting ‘23 taxable
 24 years’ for ‘21 taxable years’, and

1 “(C) paragraphs (2)(B) and (3)(C)(ii)
2 shall be applied by substituting ‘23 taxable
3 years’ for ‘20 taxable years’.”.

4 (b) FOREIGN TAX CREDIT.—

5 (1) IN GENERAL.—Section 904(c) is amended
6 by adding at the end thereof the following: “In the
7 case of taxable years beginning in 2007, 2008, or
8 2009, the first sentence of this subsection shall, at
9 the election of the taxpayer, be applied by sub-
10 stituting ‘in the third preceding taxable year, the
11 second preceding taxable year, the first preceding
12 taxable year’ for ‘the first preceding taxable year’.”.

13 (2) APPLICATION OF SPECIAL REFUND
14 RULES.—Section 6411 (relating to tentative
15 carryback and refund adjustments) is amended by
16 redesignating subsection (d) as subsection (e) and by
17 inserting after subsection (e) the following new sub-
18 section:

19 “(d) APPLICATION TO FOREIGN TAX CREDIT
20 CARRYBACK.—Under rules prescribed by the Secretary, in
21 the case of taxable years beginning in 2007, 2008, and
22 2009, this section shall apply with respect to a foreign
23 tax credit carryback provided in section 904(c) in the same
24 manner as this section applies with respect to net oper-
25 ating loss carrybacks provided in section 172(b), business

1 credit carrybacks provided in section 39, and capital loss
 2 carrybacks provided in subsection (a)(1) or (c) of section
 3 1212.”.

4 (c) EFFECTIVE DATE.—The amendments made by
 5 this section shall apply to general business credits and for-
 6 eign tax credits arising in taxable years beginning after
 7 December 31, 2006.

8 **SEC. 194. ELECTION TO ACCELERATE AMT AND R AND D**
 9 **CREDITS IN LIEU OF BONUS DEPRECIATION.**

10 (a) IN GENERAL.—Section 168(k) is amended by
 11 adding at the end the following new paragraph:

12 “(4) ELECTION TO ACCELERATE AMT AND R
 13 AND D CREDITS IN LIEU OF BONUS DEPRECIA-
 14 TION.—

15 “(A) IN GENERAL.—If a corporation elects
 16 to have this paragraph apply —

17 “(i) no additional depreciation shall be
 18 allowed under paragraph (1) for any prop-
 19 erty placed in service during the taxable
 20 year, and

21 “(ii) the limitations described in sub-
 22 paragraph (B) for such taxable year shall
 23 be increased by an aggregate amount not
 24 in excess of the bonus depreciation amount
 25 for such taxable year.

1 “(B) LIMITATIONS TO BE INCREASED.—

2 The limitations described in this subparagraph

3 are—

4 “(i) the limitation under section 38(c),

5 and

6 “(ii) the limitation under section

7 53(c).

8 “(C) BONUS DEPRECIATION AMOUNT.—

9 For purposes of this paragraph—

10 “(i) IN GENERAL.—The bonus depre-

11 ciation amount for any taxable year is an

12 amount equal to the product of the appli-

13 cable percentage and the excess (if any)

14 of—

15 “(I) the aggregate amount of de-

16 preciation which would be determined

17 under this section for property placed

18 in service during the taxable year if

19 no election under this paragraph were

20 made, over

21 “(II) the aggregate amount of

22 depreciation allowable under this sec-

23 tion for property placed in service

24 during the taxable year.

1 “(ii) APPLICABLE PERCENTAGE.—For
2 purposes of clause (i), the applicable per-
3 centage shall be—

4 “(I) 30 percent in the case of the
5 limitation under section 38(c), and

6 “(II) 20 percent in the case of
7 the limitation under section 53(c).

8 “(D) ALLOCATION OF BONUS DEPRECI-
9 ATION AMOUNTS.—

10 “(i) IN GENERAL.—Subject to clauses
11 (ii) and (iii), the taxpayer shall, at such
12 time and in such manner as the Secretary
13 may prescribe, specify the portion (if any)
14 of the bonus depreciation amount which is
15 to be allocated to each of the limitations
16 described in subparagraph (B).

17 “(ii) BUSINESS CREDIT LIMITA-
18 TION.—The portion of the bonus depreci-
19 ation amount allocated to the limitation de-
20 scribed in subparagraph (B)(i) shall not
21 exceed an amount equal to the portion of
22 the credit allowable under section 38 for
23 the taxable year which is allocable to busi-
24 ness credit carryforwards to such taxable
25 year which are—

1 “(I) from taxable years beginning
2 before January 1, 2006, and

3 “(II) properly allocable (deter-
4 mined under the rules of section
5 38(d)) to the research credit deter-
6 mined under section 41(a).

7 “(iii) ALTERNATIVE MINIMUM TAX
8 CREDIT LIMITATION.—The portion of the
9 bonus depreciation amount allocated to the
10 limitation described in subparagraph
11 (B)(ii) shall not exceed an amount equal to
12 the portion of the minimum tax credit al-
13 lowable under section 53 for the taxable
14 year which is allocable to the adjusted min-
15 imum tax imposed for taxable years begin-
16 ning before January 1, 2006.

17 “(E) CREDIT REFUNDABLE.—Any aggre-
18 gate increases in the credits allowed under sec-
19 tion 38 or 53 by reason of this paragraph shall,
20 for purposes of this title, be treated as a credit
21 allowed to the taxpayer under subpart C of part
22 IV of subchapter A.

23 “(F) OTHER RULES.—

24 “(i) ELECTION.—Any election under
25 this paragraph (including any allocation

1 under subparagraph (D)) may be revoked
2 only with the consent of the Secretary.

3 “(ii) DEDUCTION ALLOWED IN COM-
4 PUTING MINIMUM TAX.—Notwithstanding
5 this paragraph, paragraph (2)(G) shall
6 apply with respect to the deduction com-
7 puted under this section (after application
8 of this paragraph) with respect to property
9 placed in service during any applicable tax-
10 able year.”.

11 (b) EFFECTIVE DATE.—The amendments made by
12 this section shall apply to property placed in service after
13 December 31, 2007, in taxable years ending after such
14 date.

15 **SEC. 195. INDEXING OF CERTAIN ASSETS FOR PURPOSES**
16 **OF DETERMINING GAIN OR LOSS.**

17 (a) IN GENERAL.—Part II of subchapter O of chap-
18 ter 1 (relating to basis rules of general application) is
19 amended by redesignating section 1023 as section 1024
20 and by inserting after section 1022 the following new sec-
21 tion:

22 **“SEC. 1023. INDEXING OF CERTAIN ASSETS FOR PURPOSES**
23 **OF DETERMINING GAIN OR LOSS.**

24 “(a) GENERAL RULE.—

1 “(1) INDEXED BASIS SUBSTITUTED FOR AD-
2 JUSTED BASIS.—Solely for purposes of determining
3 gain or loss on the sale or other disposition by a tax-
4 payer (other than a corporation) of an indexed asset
5 which has been held for more than 3 years, the in-
6 dexed basis of the asset shall be substituted for its
7 adjusted basis.

8 “(2) EXCEPTION FOR DEPRECIATION, ETC.—
9 The deductions for depreciation, depletion, and am-
10 ortization shall be determined without regard to the
11 application of paragraph (1) to the taxpayer or any
12 other person.

13 “(3) WRITTEN DOCUMENTATION REQUIRE-
14 MENT.—Paragraph (1) shall apply only with respect
15 to indexed assets for which the taxpayer has written
16 documentation of the original purchase price paid or
17 incurred by the taxpayer to acquire such asset.

18 “(b) INDEXED ASSET.—

19 “(1) IN GENERAL.—For purposes of this sec-
20 tion, the term ‘indexed asset’ means—

21 “(A) common stock in a C corporation
22 (other than a foreign corporation), or

23 “(B) tangible property,

24 which is a capital asset or property used in the trade
25 or business (as defined in section 1231(b)).

1 “(2) STOCK IN CERTAIN FOREIGN CORPORA-
2 TIONS INCLUDED.—For purposes of this section—

3 “(A) IN GENERAL.—The term ‘indexed
4 asset’ includes common stock in a foreign cor-
5 poration which is regularly traded on an estab-
6 lished securities market.

7 “(B) EXCEPTION.—Subparagraph (A)
8 shall not apply to—

9 “(i) stock in a passive foreign invest-
10 ment company (as defined in section
11 1296), and

12 “(ii) stock in a foreign corporation
13 held by a United States person who meets
14 the requirements of section 1248(a)(2).

15 “(C) TREATMENT OF AMERICAN DEPOSI-
16 TORY RECEIPTS.—An American depository re-
17 ceipt for common stock in a foreign corporation
18 shall be treated as common stock in such cor-
19 poration.

20 “(c) INDEXED BASIS.—For purposes of this sec-
21 tion—

22 “(1) GENERAL RULE.—The indexed basis for
23 any asset is—

24 “(A) the adjusted basis of the asset, in-
25 creased by

1 “(B) the applicable inflation adjustment.

2 “(2) APPLICABLE INFLATION ADJUSTMENT.—

3 The applicable inflation adjustment for any asset is
4 an amount equal to—

5 “(A) the adjusted basis of the asset, multi-
6 plied by

7 “(B) the percentage (if any) by which—

8 “(i) the gross domestic product
9 deflator for the last calendar quarter end-
10 ing before the asset is disposed of, exceeds

11 “(ii) the gross domestic product
12 deflator for the last calendar quarter end-
13 ing before the asset was acquired by the
14 taxpayer.

15 The percentage under subparagraph (B) shall be
16 rounded to the nearest $\frac{1}{10}$ of 1 percentage point.

17 “(3) GROSS DOMESTIC PRODUCT DEFLATOR.—

18 The gross domestic product deflator for any cal-
19 endar quarter is the implicit price deflator for the
20 gross domestic product for such quarter (as shown
21 in the last revision thereof released by the Secretary
22 of Commerce before the close of the following cal-
23 endar quarter).

1 “(d) SUSPENSION OF HOLDING PERIOD WHERE DI-
2 MINISHED RISK OF LOSS; TREATMENT OF SHORT
3 SALES.—

4 “(1) IN GENERAL.—If the taxpayer (or a re-
5 lated person) enters into any transaction which sub-
6 stantially reduces the risk of loss from holding any
7 asset, such asset shall not be treated as an indexed
8 asset for the period of such reduced risk.

9 “(2) SHORT SALES.—

10 “(A) IN GENERAL.—In the case of a short
11 sale of an indexed asset with a short sale period
12 in excess of 3 years, for purposes of this title,
13 the amount realized shall be an amount equal
14 to the amount realized (determined without re-
15 gard to this paragraph) increased by the appli-
16 cable inflation adjustment. In applying sub-
17 section (c)(2) for purposes of the preceding sen-
18 tence, the date on which the property is sold
19 short shall be treated as the date of acquisition
20 and the closing date for the sale shall be treat-
21 ed as the date of disposition.

22 “(B) SHORT SALE PERIOD.—For purposes
23 of subparagraph (A), the short sale period be-
24 gins on the day that the property is sold and
25 ends on the closing date for the sale.

1 “(e) TREATMENT OF REGULATED INVESTMENT
2 COMPANIES AND REAL ESTATE INVESTMENT TRUSTS.—

3 “(1) ADJUSTMENTS AT ENTITY LEVEL.—

4 “(A) IN GENERAL.—Except as otherwise
5 provided in this paragraph, the adjustment
6 under subsection (a) shall be allowed to any
7 qualified investment entity (including for pur-
8 poses of determining the earnings and profits of
9 such entity).

10 “(B) EXCEPTION FOR CORPORATE SHARE-
11 HOLDERS.—Under regulations—

12 “(i) in the case of a distribution by a
13 qualified investment entity (directly or in-
14 directly) to a corporation—

15 “(I) the determination of whether
16 such distribution is a dividend shall be
17 made without regard to this section,
18 and

19 “(II) the amount treated as gain
20 by reason of the receipt of any capital
21 gain dividend shall be increased by the
22 percentage by which the entity’s net
23 capital gain for the taxable year (de-
24 termined without regard to this sec-
25 tion) exceeds the entity’s net capital

1 gain for such year determined with re-
2 gard to this section, and

3 “(ii) there shall be other appropriate
4 adjustments (including deemed distribu-
5 tions) so as to ensure that the benefits of
6 this section are not allowed (directly or in-
7 directly) to corporate shareholders of quali-
8 fied investment entities.

9 For purposes of the preceding sentence, any
10 amount includible in gross income under section
11 852(b)(3)(D) shall be treated as a capital gain
12 dividend and an S corporation shall not be
13 treated as a corporation.

14 “(C) EXCEPTION FOR QUALIFICATION
15 PURPOSES.—This section shall not apply for
16 purposes of sections 851(b) and 856(e).

17 “(D) EXCEPTION FOR CERTAIN TAXES IM-
18 POSED AT ENTITY LEVEL.—

19 “(i) TAX ON FAILURE TO DISTRIBUTE
20 ENTIRE GAIN.—If any amount is subject to
21 tax under section 852(b)(3)(A) for any
22 taxable year, the amount on which tax is
23 imposed under such section shall be in-
24 creased by the percentage determined
25 under subparagraph (B)(i)(II). A similar

1 rule shall apply in the case of any amount
2 subject to tax under paragraph (2) or (3)
3 of section 857(b) to the extent attributable
4 to the excess of the net capital gain over
5 the deduction for dividends paid deter-
6 mined with reference to capital gain divi-
7 dends only. The first sentence of this
8 clause shall not apply to so much of the
9 amount subject to tax under section
10 852(b)(3)(A) as is designated by the com-
11 pany under section 852(b)(3)(D).

12 “(ii) OTHER TAXES.—This section
13 shall not apply for purposes of determining
14 the amount of any tax imposed by para-
15 graph (4), (5), or (6) of section 857(b).

16 “(2) ADJUSTMENTS TO INTERESTS HELD IN
17 ENTITY.—

18 “(A) REGULATED INVESTMENT COMPA-
19 NIES.—Stock in a regulated investment com-
20 pany (within the meaning of section 851) shall
21 be an indexed asset for any calendar quarter in
22 the same ratio as—

23 “(i) the average of the fair market
24 values of the indexed assets held by such

1 company at the close of each month during
2 such quarter, bears to

3 “(ii) the average of the fair market
4 values of all assets held by such company
5 at the close of each such month.

6 “(B) REAL ESTATE INVESTMENT
7 TRUSTS.—Stock in a real estate investment
8 trust (within the meaning of section 856) shall
9 be an indexed asset for any calendar quarter in
10 the same ratio as—

11 “(i) the fair market value of the in-
12 dexed assets held by such trust at the close
13 of such quarter, bears to

14 “(ii) the fair market value of all as-
15 sets held by such trust at the close of such
16 quarter.

17 “(C) RATIO OF 80 PERCENT OR MORE.—If
18 the ratio for any calendar quarter determined
19 under subparagraph (A) or (B) would (but for
20 this subparagraph) be 80 percent or more, such
21 ratio for such quarter shall be 100 percent.

22 “(D) RATIO OF 20 PERCENT OR LESS.—If
23 the ratio for any calendar quarter determined
24 under subparagraph (A) or (B) would (but for

1 this subparagraph) be 20 percent or less, such
2 ratio for such quarter shall be zero.

3 “(E) LOOK-THRU OF PARTNERSHIPS.—For
4 purposes of this paragraph, a qualified invest-
5 ment entity which holds a partnership interest
6 shall be treated (in lieu of holding a partnership
7 interest) as holding its proportionate share of
8 the assets held by the partnership.

9 “(3) TREATMENT OF RETURN OF CAPITAL DIS-
10 TRIBUTIONS.—Except as otherwise provided by the
11 Secretary, a distribution with respect to stock in a
12 qualified investment entity which is not a dividend
13 and which results in a reduction in the adjusted
14 basis of such stock shall be treated as allocable to
15 stock acquired by the taxpayer in the order in which
16 such stock was acquired.

17 “(4) QUALIFIED INVESTMENT ENTITY.—For
18 purposes of this subsection, the term ‘qualified in-
19 vestment entity’ means—

20 “(A) a regulated investment company
21 (within the meaning of section 851), and

22 “(B) a real estate investment trust (within
23 the meaning of section 856).

24 “(f) OTHER PASS-THRU ENTITIES.—

25 “(1) PARTNERSHIPS.—

1 “(A) IN GENERAL.—In the case of a part-
2 nership, the adjustment made under subsection
3 (a) at the partnership level shall be passed
4 through to the partners.

5 “(B) SPECIAL RULE IN THE CASE OF SEC-
6 TION 754 ELECTIONS.—In the case of a transfer
7 of an interest in a partnership with respect to
8 which the election provided in section 754 is in
9 effect—

10 “(i) the adjustment under section
11 743(b)(1) shall, with respect to the trans-
12 feror partner, be treated as a sale of the
13 partnership assets for purposes of applying
14 this section, and

15 “(ii) with respect to the transferee
16 partner, the partnership’s holding period
17 for purposes of this section in such assets
18 shall be treated as beginning on the date
19 of such adjustment.

20 “(2) S CORPORATIONS.—In the case of an S
21 corporation, the adjustment made under subsection
22 (a) at the corporate level shall be passed through to
23 the shareholders. This section shall not apply for
24 purposes of determining the amount of any tax im-
25 posed by section 1374 or 1375.

1 “(3) COMMON TRUST FUNDS.—In the case of a
2 common trust fund, the adjustment made under sub-
3 section (a) at the trust level shall be passed through
4 to the participants.

5 “(4) INDEXING ADJUSTMENT DISREGARDED IN
6 DETERMINING LOSS ON SALE OF INTEREST IN ENTI-
7 TY.—Notwithstanding the preceding provisions of
8 this subsection, for purposes of determining the
9 amount of any loss on a sale or exchange of an in-
10 terest in a partnership, S corporation, or common
11 trust fund, the adjustment made under subsection
12 (a) shall not be taken into account in determining
13 the adjusted basis of such interest.

14 “(g) DISPOSITIONS BETWEEN RELATED PERSONS.—

15 “(1) IN GENERAL.—This section shall not apply
16 to any sale or other disposition of property between
17 related persons except to the extent that the basis
18 of such property in the hands of the transferee is a
19 substituted basis.

20 “(2) RELATED PERSONS DEFINED.—For pur-
21 poses of this section, the term ‘related persons’
22 means—

23 “(A) persons bearing a relationship set
24 forth in section 267(b), and

1 “(B) persons treated as single employer
2 under subsection (b) or (c) of section 414.

3 “(h) TRANSFERS TO INCREASE INDEXING ADJUST-
4 MENT.—If any person transfers cash, debt, or any other
5 property to another person and the principal purpose of
6 such transfer is to secure or increase an adjustment under
7 subsection (a), the Secretary may disallow part or all of
8 such adjustment or increase.

9 “(i) SPECIAL RULES.—For purposes of this section—

10 “(1) TREATMENT OF IMPROVEMENTS, ETC.—If
11 there is an addition to the adjusted basis of any tan-
12 gible property or of any stock in a corporation dur-
13 ing the taxable year by reason of an improvement to
14 such property or a contribution to capital of such
15 corporation—

16 “(A) such addition shall never be taken
17 into account under subsection (e)(1)(A) if the
18 aggregate amount thereof during the taxable
19 year with respect to such property or stock is
20 less than \$1,000, and

21 “(B) such addition shall be treated as a
22 separate asset acquired at the close of such tax-
23 able year if the aggregate amount thereof dur-
24 ing the taxable year with respect to such prop-
25 erty or stock is \$1,000 or more.

1 A rule similar to the rule of the preceding sentence
2 shall apply to any other portion of an asset to the
3 extent that separate treatment of such portion is ap-
4 propriate to carry out the purposes of this section.

5 “(2) ASSETS WHICH ARE NOT INDEXED ASSETS
6 THROUGHOUT HOLDING PERIOD.—The applicable in-
7 flation adjustment shall be appropriately reduced for
8 periods during which the asset was not an indexed
9 asset.

10 “(3) TREATMENT OF CERTAIN DISTRIBUTIONS.—A distribution with respect to stock in a
11 corporation which is not a dividend shall be treated
12 as a disposition.
13

14 “(4) SECTION CANNOT INCREASE ORDINARY
15 LOSS.—To the extent that (but for this paragraph)
16 this section would create or increase a net ordinary
17 loss to which section 1231(a)(2) applies or an ordi-
18 nary loss to which any other provision of this title
19 applies, such provision shall not apply. The taxpayer
20 shall be treated as having a long-term capital loss in
21 an amount equal to the amount of the ordinary loss
22 to which the preceding sentence applies.

23 “(5) ACQUISITION DATE WHERE THERE HAS
24 BEEN PRIOR APPLICATION OF SUBSECTION (a)(1)
25 WITH RESPECT TO THE TAXPAYER.—If there has

1 **“SEC. 1034. DEFERRAL OF GAIN ON SALE OF CERTAIN PRIN-**
2 **CIPAL RESIDENCES.**

3 “(a) DEFERRAL OF GAIN.—

4 “(1) IN GENERAL.—In the case of a sale of a
5 principal residence by a taxpayer, the taxpayer’s
6 gain (if any) from such sale shall be recognized only
7 to the extent that the taxpayer’s adjusted sales price
8 exceeds the taxpayer’s cost of purchasing a qualified
9 residence.

10 “(2) REDUCTION OF BASIS IN QUALIFIED RESI-
11 DENCE.—In the case of a nonrecognition of gain on
12 the sale of a principal residence due to the purchase
13 of a qualified residence under paragraph (1), the
14 taxpayer’s basis in the qualified residence shall be
15 reduced by the amount of such gain.

16 “(b) DEFINITIONS.—

17 “(1) ADJUSTED SALES PRICE.—

18 “(A) IN GENERAL.—For purposes of this
19 section, the term ‘adjusted sales price’ means
20 the amount realized, reduced by the aggregate
21 of the expenses for work performed on a prin-
22 cipal residence in order to assist in its sale.

23 “(B) LIMITATION.—The reduction pro-
24 vided in subparagraph (A) applies only to ex-
25 penses—

1 “(i) for work performed during the
2 90-day period ending on the day on which
3 the contract to sell the principal residence
4 is entered into,

5 “(ii) which are paid on or before the
6 30th day after the date of the sale of the
7 principal residence, and

8 “(iii) which are—

9 “(I) not allowable as deductions
10 in computing taxable income under
11 section 63, and

12 “(II) not taken into account in
13 computing the amount realized from
14 the sale of the principal residence.

15 “(2) QUALIFIED RESIDENCE.—For purposes of
16 this section, the term ‘qualified residence’ means
17 property that is—

18 “(A) purchased by the taxpayer for use as
19 a principal residence, and

20 “(B) purchased during the period begin-
21 ning 2 years before the date of the sale of the
22 taxpayer’s previous principal residence and end-
23 ing 2 years after the date of such sale.

24 “(c) APPLICATION OF SECTION.—For purposes of
25 this section:

1 “(1) EXCHANGE OF RESIDENCE FOR PROP-
2 ERTY.—An exchange by the taxpayer of a principal
3 residence for other property shall be treated as a
4 sale of such residence, and the acquisition of a quali-
5 fied residence on the exchange of property shall be
6 treated as a purchase of such residence.

7 “(2) CONSTRUCTION OF RESIDENCE.—A quali-
8 fied residence any part of which was constructed or
9 reconstructed by the taxpayer shall be treated as
10 purchased by the taxpayer. In determining the tax-
11 payer’s cost of purchasing a qualified residence,
12 there shall be included only so much of such cost as
13 is attributable to the acquisition, construction, re-
14 construction, and improvements made which are
15 properly chargeable to capital account, during the
16 period specified in subsection (b)(2)(B).

17 “(3) SALE OF NEW RESIDENCE PRIOR TO SALE
18 OF PRINCIPAL RESIDENCE.—If a residence is pur-
19 chased by the taxpayer before the date of the sale
20 of the taxpayer’s principal residence, such purchased
21 residence shall not be a qualified residence under
22 this section if such residence is sold or otherwise dis-
23 posed of by the taxpayer before the date of the sale
24 of the taxpayer’s principal residence.

1 “(4) MULTIPLE PRINCIPAL RESIDENCES.—If
2 the taxpayer, during the period described in sub-
3 section (b)(2)(B), purchases more than 1 residence
4 which is used as the taxpayer’s principal residence
5 at some time during the 2 years after the date of
6 the sale of a principal residence for which gain is de-
7 ferred under this section, only the last of such resi-
8 dences so used by the taxpayer within such 2 years
9 shall be a qualified residence under this section. If
10 a qualified residence is sold in a sale to which sub-
11 section (d)(2) applies within 2 years after the sale
12 of the taxpayer’s previous principal residence, for
13 purposes of applying the preceding sentence with re-
14 spect to such principal residence, the qualified resi-
15 dence sold shall be treated as the last residence used
16 during such 2-year period.

17 “(d) LIMITATION.—

18 “(1) IN GENERAL.—Subsection (a) shall not
19 apply with respect to the sale of the taxpayer’s prin-
20 cipal residence if within 2 years before the date of
21 such sale the taxpayer sold at a gain other property
22 used by him as his principal residence, and any part
23 of such gain was deferred by reason of subsection
24 (a).

1 “(2) SUBSEQUENT SALE CONNECTED WITH
2 NEW PRINCIPAL PLACE OF WORK.—Paragraph (1)
3 shall not apply with respect to the sale of the tax-
4 payer’s principal residence if—

5 “(A) such sale was in connection with the
6 commencement of work by the taxpayer (or the
7 taxpayer’s spouse, if such spouse has the same
8 principal residence as the taxpayer) as an em-
9 ployee or as a self-employed individual at a new
10 principal place of work, and

11 “(B) the taxpayer would satisfy the condi-
12 tions of section 217(c) if the principal residence
13 so sold were treated as the former residence for
14 purposes of section 217.

15 “(e) TENANT-STOCKHOLDER IN A COOPERATIVE
16 HOUSING CORPORATION.—For purposes of this section,
17 references to property used by the taxpayer as a principal
18 residence shall include stock held by a tenant-stockholder
19 (as defined in section 216) in a cooperative housing cor-
20 poration (as so defined) if—

21 “(1) in the case of stock sold, the house or
22 apartment which the taxpayer was entitled to occupy
23 as such stockholder was used by the taxpayer as a
24 principal residence, and

1 “(2) in the case of stock purchased, the tax-
2 payer used as a principal residence the house or
3 apartment which the taxpayer was entitled to occupy
4 as such stockholder.

5 “(f) JOINT OWNERSHIP.—In the case of a residence
6 jointly owned and used as a principal residence by 1 or
7 more taxpayers, or by a married couple filing separately,
8 the gain (if any) from the sale of such principal residence
9 which may be deferred under subsection (a) shall be allo-
10 cated among such taxpayers according to regulations
11 which shall be prescribed by the Secretary.

12 “(g) MEMBERS OF THE ARMED FORCES.—

13 “(1) IN GENERAL.—The running of any period
14 of time specified in subsection (b)(2)(B) or (c)
15 (other than the 2 years referred to in subsection
16 (c)(4)) shall be suspended during any time that the
17 taxpayer (or the taxpayer’s spouse, if such spouse
18 has the same principal residence as the taxpayer)
19 serves on extended active duty with the Armed
20 Forces of the United States after the date of the
21 sale of the principal residence for which gain is de-
22 ferred under this section, except that any period of
23 time so suspended shall not extend beyond the date
24 that is 4 years after the date of sale of such prin-
25 cipal residence.

1 “(2) MEMBERS STATIONED OUTSIDE THE
2 UNITED STATES OR REQUIRED TO RESIDE IN GOV-
3 ERNMENT QUARTERS.—In the case of a taxpayer (or
4 the taxpayer’s spouse, if such spouse has the same
5 principal residence as the taxpayer) who, during any
6 period of time the running of which is suspended
7 under paragraph (1)—

8 “(A) is stationed outside the United
9 States, or

10 “(B) after returning from a tour of duty
11 outside of the United States and pursuant to a
12 determination by the Secretary of Defense that
13 adequate off-base housing is not available at a
14 remote base site, is required to reside in on-
15 base Government quarters,

16 any period of time so suspended shall not expire be-
17 fore the day that is 1 year after the last day that
18 such taxpayer or spouse is so stationed or under
19 such requirement, except that any period so sus-
20 pended shall not extend beyond the date which is 8
21 years after the date of the sale of the principal resi-
22 dence.

23 “(h) INDIVIDUAL WHOSE TAX HOME IS OUTSIDE
24 THE UNITED STATES.—The running of any period of time
25 specified in subsection (b)(2)(B) or (c) (other than the 2

1 years referred to in subsection (c)(4)) shall be suspended
2 during any time that the taxpayer (or the taxpayer's
3 spouse, if such spouse has the same principal residence
4 as the taxpayer) has a tax home (as defined in section
5 911(d)(3)) outside the United States after the date of the
6 sale of the principal residence for which gain is deferred
7 under this section, except that any period of time so sus-
8 pended shall not extend beyond the date that is 4 years
9 after the date of sale of such principal residence.

10 “(i) SPECIAL RULE FOR CONDEMNATION.—In the
11 case of the seizure, requisition, or condemnation of a prin-
12 cipal residence, or the sale or exchange of a principal resi-
13 dence under threat or imminence thereof, the taxpayer
14 may elect to have this section apply in lieu of section 1033.
15 If such election is made, such seizure, requisition, or con-
16 demnation shall be treated as the sale of the principal resi-
17 dence. Such election shall be made at such time and in
18 such manner as the Secretary shall prescribe.

19 “(j) STATUTE OF LIMITATIONS.—In the case of any
20 sale of a principal residence that results in gain—

21 “(1) the statutory period for the assessment of
22 any deficiency attributable to any part of such gain
23 shall not expire before the expiration of 3 years from
24 the date the Secretary is notified by the taxpayer (in
25 such manner as the Secretary shall prescribe) of—

1 “(A) the taxpayer’s cost of purchasing any
2 qualified residence which results in nonrecognition
3 of such gain,

4 “(B) the taxpayer’s intention not to purchase such a qualified residence during the period specified in subsection (b)(2)(B), or

5 “(C) a failure to make such a purchase
6 within such period, and

7 “(2) such deficiency may be assessed before the
8 expiration of such 3-year period notwithstanding the
9 provisions of any other law or rule of law which
10 would otherwise prevent such assessment.

11 “(k) APPLICATION OF EXCLUSION ON THE SALE OF
12 A PRINCIPAL RESIDENCE.—In the case of a sale of a principal residence by a taxpayer to which section 121 applies,
13 the amount of the gain on such sale that may be deferred
14 under subsection (a) of this section shall be reduced by
15 the amount of gain on such sale that is excluded from
16 gross income under section 121(a).”

17 (b) CONFORMING AMENDMENTS.—

18 (1) COORDINATION WITH SECTION 121.—

19 (A) Section 121 (relating to exclusion of
20 gain from sale of principal residence) is amended
21 by adding at the end the following new subsection:
22

1 “(h) COORDINATION WITH SECTION 1034 DEFER-
 2 RAL.—For deferral of gain from the sale of a principal
 3 residence in the case of a purchase of another qualified
 4 residence, see section 1034.”.

5 (B) Subsection (g) of section 121 (relating
 6 to residences acquired in rollovers under section
 7 1034) is amended by striking “(as in effect on
 8 the day before the date of the enactment of this
 9 section)”.

10 (2) EXTENSION OF PERIOD OF LIMITATION.—
 11 Section 6503 (relating to suspension of running of
 12 period of limitation) is amended—

13 (A) by redesignating subsection (k) as sub-
 14 section (l), and

15 (B) by inserting after subsection (j) the
 16 following new subsection:

17 “(k) EXTENSION OF TIME FOR ASSESSMENT OF TAX
 18 LIABILITY ON GAIN FROM THE SALE OF CERTAIN PRIN-
 19 CIPAL RESIDENCES.—The running of any period of limita-
 20 tions for collection of any amount of tax liability on gain
 21 from the sale of a principal residence that is deferred
 22 under section 1034 shall be suspended for the period of
 23 any extension of time specified under section 1034(j).”.

24 (3) REDUCTION IN BASIS.—Subsection (a) of
 25 section 1016 (relating to general rule) is amended—

1 (A) by striking “and” at the end of para-
2 graph (36),

3 (B) by striking the period at the end of
4 paragraph (37) and inserting “, and”, and

5 (C) by adding at the end the following new
6 paragraph:

7 “(38) to the extent provided in section
8 1034(a)(2).”.

9 (c) CLERICAL AMENDMENT.—The table of sections
10 for part III of subchapter O of chapter 1 of subtitle A
11 (relating to common nontaxable exchanges) is amended by
12 inserting after the item relating to section 1033 the fol-
13 lowing new item:

“Sec. 1034. Deferral of gain on sale of certain principal residences.”.

14 (d) EFFECTIVE DATE.—The amendments made by
15 this section shall apply to sales in taxable years beginning
16 after the date of the enactment of this Act.

17 **SEC. 197. AMOUNT EXCLUDED FROM SALE OF PRINCIPAL**
18 **RESIDENCE INDEXED FOR INFLATION.**

19 (a) IN GENERAL.—Section 121 is amended by adding
20 at the end the following new subsection:

21 “(h) INFLATION ADJUSTMENT.—

22 “(1) IN GENERAL.—In the case of any taxable
23 year beginning after 2008, the \$250,000 amount
24 under subsection (b)(1) shall be increased by an
25 amount equal to—

1 “(A) such dollar amount, multiplied by

2 “(B) the cost-of-living adjustment deter-
3 mined under section 1(f)(3) for the calendar
4 year in which the taxable year begins, deter-
5 mined by substituting ‘calendar year 2007’ for
6 ‘calendar year 1992’ in subparagraph (B)
7 thereof.

8 “(2) ROUNDING.—If any amount as adjusted
9 under subparagraph (A) is not a multiple of \$1,000,
10 such amount shall be rounded to the next lowest
11 multiple of \$1,000.”.

12 (b) CONFORMING AMENDMENTS.—

13 (1) Subparagraph (A) of section 121(b)(2) is
14 amended—

15 (A) by striking “Paragraph (1) shall be
16 applied by substituting ‘\$500,000’ for
17 ‘\$250,000’” and inserting “The dollar amount
18 under paragraph (1) shall be twice the dollar
19 amount otherwise in effect under such para-
20 graph”, and

21 (B) by striking “\$500,000” in the heading
22 and inserting “INCREASED”.

23 (2) Section 121(b)(4) is amended by striking
24 “paragraph (1) shall be applied by substituting
25 ‘\$500,000’ for ‘\$250,000’” and inserting “the dollar

1 amount under paragraph (1) shall be twice the dol-
2 lar amount otherwise in effect under such para-
3 graph”.

4 (c) EFFECTIVE DATE.—The amendments made by
5 this section shall apply to sales occurring after December
6 31, 2008.

7 **SEC. 198. REPEAL OF PHASEIN FOR DOMESTIC PRODUC-**
8 **TION ACTIVITIES DEDUCTION.**

9 (a) IN GENERAL.—Subsection (a) of section 199 (re-
10 lating to income attributable to domestic production activi-
11 ties) is amended to read as follows:

12 “(a) ALLOWANCE OF DEDUCTION.—There shall be
13 allowed as a deduction an amount equal to 9 percent of
14 the lesser of—

15 “(1) the qualified production activities income
16 of the taxpayer for the taxable year, or

17 “(2) taxable income (determined without regard
18 to this section) for the taxable year.”.

19 (b) CONFORMING AMENDMENTS.—Section 199 is
20 amended by striking “subsection (a)(1)(B)” each place it
21 appears and inserting “subsection (a)(2)”.

22 (c) EFFECTIVE DATE.—The amendments made by
23 this section shall apply to taxable years beginning after
24 December 31, 2007.

1 **TITLE II—KEEPING AMERICA**
2 **COMPETITIVE**

3 **SEC. 201. SENSE OF CONGRESS REGARDING THE LEGISLA-**
4 **TIVE INITIATIVES REQUIRED TO STRENGTH-**
5 **EN AND PROTECT THE WELL BEING OF OUR**
6 **NATION'S CAPITAL MARKETS.**

7 (a) FINDINGS.—Congress finds the following:

8 (1) America's capital markets are a foundation
9 of our Nation's economic well being and security.

10 (2) Healthy capital markets foster investment
11 in the United States economy, helping to sustain
12 and create jobs.

13 (3) The American economy is fundamentally
14 strong, but a correction in the residential housing
15 market, credit turmoil, and high oil prices are ham-
16 pering economic growth.

17 (4) American businesses and investors face ever
18 increasing competition from international competi-
19 tors and markets.

20 (5) Economic policies that maintain low tax
21 rates on capital gains and dividends have historically
22 fostered sustained growth in the American economy.

23 (b) SENSE OF CONGRESS.—It is the sense of the
24 Congress that—

1 (1) Congress should not pass legislation that
2 would create new or greater uncertainty in the fi-
3 nancial markets;

4 (2) Congress should not pass legislation that
5 would serve to further constrict liquidity in the mar-
6 ketplace;

7 (3) Congress should not pass legislation that
8 would make credit more expensive and less accessible
9 in the United States than in other world markets;

10 (4) Congress should not pass legislation that
11 would inhibit or impair capital formation and long-
12 term investments;

13 (5) Congress should maintain existing tax pol-
14 icy regarding capital formation and long-term invest-
15 ment, except in the case of illegitimate tax shelter
16 activity;

17 (6) Congress should pass legislation to extend
18 permanently the 2001 and 2003 tax rate cuts, in-
19 cluding the 15 percent capital gains and dividend
20 rates, and to simplify and lower corporate tax rates;
21 and

22 (7) Congress should promote the entrepreneur-
23 ship and economic development fostered by long-
24 term, private investment.

1 **SEC. 202. DIRECTING THE SECURITIES AND EXCHANGE**
2 **COMMISSION TO CONVENE A PUBLIC HEAR-**
3 **ING ON THE IMPACT OF EXCESSIVE LITIGA-**
4 **TION.**

5 (a) FINDINGS.—Congress finds that—

6 (1) companies listed on United States securities
7 exchanges face the potential of extraordinary litiga-
8 tion costs that companies listed abroad do not;

9 (2) securities class action settlements in the
10 United States for 2006 totaled \$10,600,000,000
11 (not counting the Enron-related settlements of ap-
12 proximately \$7,100,000,000), reflecting an increase
13 of—

14 (A) 255 percent from 2004;

15 (B) more than 500 percent from 2000 (not
16 including the \$3,100,000,000 Cendant settle-
17 ment); and

18 (C) an astonishing 7,000 percent from
19 1995;

20 (3) while many such claims are legitimate, the
21 sheer number of cases and the staggering settlement
22 amounts illustrate the growing impact of the tort
23 system on the United States economy; and

24 (4) by contrast, such private shareholder class
25 action suits do not exist in the United Kingdom and
26 other European Union countries.

1 (b) PUBLIC HEARING.—Not later than 60 days after
2 the date of enactment of this Act, the Chairman of the
3 Securities and Exchange Commission (in this section re-
4 ferred to as the “Commission”) shall convene a public
5 hearing on the impact of excessive litigation on the com-
6 petitiveness of companies listed on United States securi-
7 ties exchanges.

8 **SEC. 203. DIRECTING THE COMMISSION TO ESTABLISH**
9 **FORMAL PROCESSES AND PROCEDURES FOR**
10 **COST-BENEFIT ANALYSES OF PROPOSED AND**
11 **EXISTING RULES AND REGULATIONS.**

12 (a) STUDY.—Not later than 180 days after the date
13 of enactment of this Act, the Commission shall submit to
14 Congress a study of its existing processes and procedures
15 for conducting cost-benefit analyses of proposed and exist-
16 ing rules and regulations, and shall report to Congress on
17 ways in which the Commission could perform more rig-
18 orous and informed cost-benefit analyses of such rules and
19 regulations.

20 (b) PROPOSED RULE.—

21 (1) IN GENERAL.—Not later than 180 days
22 after the date of submission to Congress of the re-
23 port under subsection (a), the Commission shall
24 issue a final rule to establish formal processes and

1 procedures for conducting cost-benefit analyses of
2 proposed and existing rules and regulations.

3 (2) CERTAIN CONTENT REQUIRED.—At a min-
4 imum, processes and procedures proposed by the
5 Commission under this subsection shall include pro-
6 visions directing the Commission—

7 (A) to assess all costs and benefits of avail-
8 able regulatory alternatives, including both
9 quantifiable measures (to the extent that such
10 measures can be usefully estimated) and quali-
11 tative measures of costs and benefits that are
12 difficult to quantify, but nevertheless essential
13 to consider;

14 (B) to design its rules and regulations in
15 the most cost-effective manner to achieve the
16 regulatory objective, considering incentives for
17 innovation, consistency, predictability, the costs
18 of enforcement and compliance, and flexibility;

19 (C) to assess both the costs and the bene-
20 fits of the intended rule or regulation and pro-
21 pose or adopt a rule or regulation only upon a
22 reasoned determination that the benefits of the
23 intended rule or regulation justify its costs;

24 (D) to base its decisions on the best rea-
25 sonably obtainable economic and other informa-

1 tion concerning the need for, and consequences
2 of, the intended rule or regulation;

3 (E) to tailor its rules and regulations to
4 impose the least possible burden on individuals,
5 businesses of differing sizes, and other entities,
6 consistent with obtaining the regulatory objec-
7 tives, taking into account, among other things,
8 and to the extent practicable, the cumulative
9 costs; and

10 (F) to establish a process for reexamining
11 existing rules and regulations, or, at a min-
12 imum, those rules and regulations that the
13 Commission, industry participants, or others
14 identify as imposing unjustifiable costs or com-
15 petitive burdens, that shall be designed to de-
16 termine whether the rules and regulations are
17 working as intended, whether there are satisfac-
18 tory alternatives of a less burdensome nature,
19 and whether changes should be made.

20 (3) PERIODIC REVIEW.—Each rule and regula-
21 tion of the Commission that is subject to review pur-
22 suant to paragraph (2)(F) shall be reviewed not less
23 frequently than 2 years after the date of its issuance
24 in final form, and once every 10 years thereafter.

1 **SEC. 204. DIRECTING THE COMMISSION TO DEFINE**
2 **“SMALLER PUBLIC COMPANY” TO PROVIDE**
3 **CERTAINTY TO ISSUERS.**

4 (a) **RULE REVISION REQUIRED.**—Not later than 90
5 days after the date of enactment of this Act, the Commis-
6 sion, pursuant to its authority to amend rules of the Pub-
7 lic Company Accounting Oversight Board under section
8 107 of the Sarbanes-Oxley Act of 2002, shall revise Audit-
9 ing Standard No. 5 of the Oversight Board, as in effect
10 on the date of enactment of this Act, to include a defini-
11 tion of the term “smaller public company”.

12 (b) **DEFINITION OF SMALLER PUBLIC COMPANY.**—
13 For purposes of the rule revision required under sub-
14 section (a), the term “smaller public company” shall mean
15 an issuer for which an annual report is required by section
16 13(a) or 15(d) of the Securities Exchange Act of 1934
17 (15 U.S.C. 78m, 78o(d)) that—

18 (1) has a total market capitalization at the be-
19 ginning of the relevant reporting period of less than
20 \$700,000,000; and

21 (2) has total revenues for that reporting period
22 of less than \$250,000,000.

23 **SEC. 205. MUTUAL RECOGNITION.**

24 (a) **FINDINGS.**—Congress finds that—

25 (1) there is an ongoing and pressing need to
26 update the United States financial regulatory struc-

1 ture to address the increasingly global nature of the
2 financial marketplace;

3 (2) existing regulations on cross-border activi-
4 ties are outdated, and predate the revolution in com-
5 munications technology and the accompanying trans-
6 formations in global markets;

7 (3) existing regulations on cross-border activi-
8 ties are complex, inefficient, not flexible enough to
9 meet modern market needs, and have the effect of
10 chilling innovation and imposing significant and un-
11 necessary burdens on United States investors;

12 (4) the Commission has delayed the timetable
13 for Commission action on key elements of reexam-
14 ining and developing new approaches to cross-border
15 regulation, including much needed reform to Com-
16 mission rule 240.15a–6 of title 17, Code of Federal
17 Regulations, as in effect on the date of enactment of
18 this Act, and potential recognition of foreign regu-
19 latory regimes; and

20 (5) such delay postpones the regulatory changes
21 needed to eliminate unnecessary inefficiencies from
22 international financial transactions, and poses an in-
23 creasingly significant risk to the effective moderniza-
24 tion and competitiveness of United States capital
25 markets.

1 (b) MODERNIZATION OF CROSS-BORDER RULES AP-
2 PPLICABLE TO BROKERS AND DEALERS.—

3 (1) IN GENERAL.—The Commission shall, by
4 rule, exempt any foreign broker or dealer from the
5 registration requirements of the Securities Exchange
6 Act of 1934, and any other regulation applicable to
7 registered or unregistered brokers or dealers, to the
8 extent that the foreign broker or dealer effects
9 transactions in securities with or for, or induces or
10 attempts to induce the purchase or sale of any secu-
11 rity by—

12 (A) a qualified investor, as defined in sec-
13 tion 3(a)(54) of the Securities Exchange Act of
14 1934;

15 (B) an investor that is a resident outside
16 of the United States; and

17 (C) any person described in Commission
18 rule 240.15a–6(a)(4) of title 17, Code of Fed-
19 eral Regulations, as in effect on the date of en-
20 actment of this Act.

21 (2) DEFINITION OF FOREIGN BROKER OR
22 DEALER.—As used in this section, the term “For-
23 eign broker or dealer” has the same meaning as in
24 section 240.15a–6(b)(3) of title 17, Code of Federal

1 Regulations, as in effect on the date of enactment of
2 this Act.

3 (3) REGULATORY AUTHORITY.—The Commis-
4 sion may, upon a finding that such action is nec-
5 essary to protect United States investors and con-
6 sistent with this section, require a foreign broker or
7 dealer and its associated persons—

8 (A) to file documentation to establish that
9 the foreign broker or dealer and its associated
10 persons are not subject to statutory disquali-
11 fication;

12 (B) to consent to service of process for any
13 civil action brought by or proceeding before the
14 Commission or a self-regulatory organization;
15 and

16 (C) to agree to provide any information or
17 documents that the Commission reasonably re-
18 quests, relating to effecting transactions in se-
19 curities with or for, or inducing or attempting
20 to induce the purchase or sale of any security
21 by persons described in subparagraphs (A)
22 through (C) of paragraph (1), subject to limita-
23 tions recognizing potential conflicts with appli-
24 cable foreign laws or regulations.

1 (4) LIMITATION ON STATE ACTION.—No State
2 or political subdivision thereof, or any self-regulatory
3 organization, may impose any registration, licensing,
4 qualification, or other legal requirement applicable to
5 a foreign broker or dealer or associated person
6 thereof that is exempt from Commission registration
7 and regulation pursuant to this subsection, except
8 that the State or political subdivision thereof, or
9 such self-regulatory organization, may require the
10 foreign broker or dealer to provide copies of any doc-
11 uments filed with the Commission, as described in
12 this subsection.

13 (5) TIMING OF REGULATIONS.—Final regula-
14 tions to carry out this subsection shall be issued by
15 the Commission, and such regulations shall become
16 effective, not later than 180 days after the date of
17 enactment of this Act.

18 (c) MUTUAL RECOGNITION RULES.—

19 (1) IN GENERAL.—The Commission shall issue
20 regulations designed to provide for a framework for
21 mutual recognition of foreign regulatory regimes, so
22 that foreign brokers, dealers, and exchanges shall be
23 regulated based on regulation in their home country,
24 and shall not be subject to duplicative regulatory re-
25 quirements, except to the extent that the Commis-

1 sion finds necessary to protect United States inves-
2 tors.

3 (2) IMPLEMENTATION.—The Commission shall
4 adopt regulations that provide an expeditious and
5 transparent implementation mechanism for this sec-
6 tion, based on objective qualification criteria and
7 fixed timelines, that is designed to enable foreign
8 brokers, dealers, and exchanges to operate in the
9 United States and abroad based on regulation in
10 their home country.

11 (3) LIMITATION.—The regulations required by
12 this subsection—

13 (A) shall not require individualized review
14 and approval process for foreign brokers, deal-
15 ers, and exchanges to be eligible to rely on reg-
16 ulation in their home country, but shall permit
17 such brokers, dealers, and exchanges to make a
18 supplemental showing, on an individual exemp-
19 tive basis, to demonstrate their qualifications to
20 do business with relevant classes of investors;
21 and

22 (B) may not create regulatory distinctions
23 that limit trading of portfolios containing both
24 United States and non-United States securities

1 or impose other requirements that are incon-
2 sistent with the business objectives of investors.

3 (4) **TIMING.**—The Commission shall issue pro-
4 posed regulations to carry out this subsection not
5 later than 90 days after the date of enactment of
6 this Act, and shall make such regulations effective
7 reasonably promptly thereafter.

8 (5) **EXEMPTION AUTHORITY.**—The Commission
9 may, by rule, provide for such exemptions to the
10 provisions of this subsection as the Commission de-
11 termines appropriate.

12 **SEC. 206. SUPPORTING THE SECURITIES AND EXCHANGE**
13 **COMMISSION REFORM EFFORTS TO SPEED**
14 **THE PROCESS OF RULEMAKING FOR SELF**
15 **REGULATORY ORGANIZATIONS.**

16 (a) **FINDINGS.**—Congress finds that—

17 (1) United States capital markets are evolving
18 quickly, and United States equity exchanges face in-
19 creasing competition, both domestically and inter-
20 nationally;

21 (2) the Commission has recognized this trans-
22 formation in the competitive landscape and an-
23 nounced a project to redesign the rule approval pro-
24 cess for exchanges to make it more efficient;

1 (3) rather than approving rule filings by self
2 regulatory organizations within the 35-day period
3 prescribed under the Securities Exchange Act of
4 1934, the Commission has routinely requested that
5 exchanges agree to extend deadlines while rules are
6 weighed and considered within the agency, poten-
7 tially resulting in years before exchange rule filings
8 are finally approved;

9 (4) this antiquated and overly rigid regulatory
10 model does not recognize the new realities of inter-
11 national competition among exchanges or new com-
12 petition from innovative products that compete with
13 traditional asset classes; and

14 (5) competitors to United States equity ex-
15 changes operate under different regulatory regimes,
16 which can allow such competitors to adapt to rapidly
17 changing business environments while United States
18 exchanges are frozen in rule approval process review
19 by the Commission for months or years.

20 (b) RULEMAKING.—The Commission shall promul-
21 gate rules under section 19 of the Securities Exchange Act
22 of 1934, to speed the process of rulemaking to enable self-
23 regulatory organizations to respond to competitive inequi-
24 ties and better meet customer needs. Such rules and other
25 actions should be completed not later than 180 days after

1 the date of enactment of this Act, and should predate or
2 be coterminous with any foreign exchange mutual recogni-
3 tion regime established under this Act.

4 **SEC. 207. ELIMINATE THE EXEMPTION FROM STATE REGU-**
5 **LATION FOR CERTAIN SECURITIES DES-**
6 **IGNATED BY NATIONAL SECURITIES EX-**
7 **CHANGES.**

8 Section 18(b)(1) of the Securities Act of 1933 (15
9 U.S.C. 77r(b)(1)) is amended—

10 (1) in subparagraph (A)—

11 (A) by striking “or the American Stock
12 Exchange, or listed, or authorized for listing, on
13 the National Market System of the Nasdaq
14 Stock Market (or any successor to such enti-
15 ties)” and inserting “, the American Stock Ex-
16 change, or the Nasdaq Stock Market (or any
17 successor to such entities)”;

18 (B) by inserting before the semicolon at
19 the end the following: “, except that a security
20 listed, or authorized for listing, on the New
21 York Stock Exchange, the American Stock Ex-
22 change, or the Nasdaq Stock Market (or any
23 successor to any such entity) shall not be a cov-
24 ered security if the exchange adopts listing
25 standards pursuant to section 19(b) of the Se-

1 securities Exchange Act of 1934 (15 U.S.C.
2 78s(b)) that designates a tier or segment of
3 such securities as securities that are not cov-
4 ered securities for purposes of this section and
5 such security is listed, or authorized for listing,
6 on such tier or segment”; and

7 (2) in subparagraph (B), by inserting “covered”
8 after “applicable to”.

9 **SEC. 208. DIRECTING THE COMMISSION TO ACCELERATE**
10 **FULL CONVERSION OF IFRS AND UNITED**
11 **STATES GAAP.**

12 (a) FINDINGS.—Congress finds that—

13 (1) the accounting framework applied in more
14 than 100 countries around the world is the Inter-
15 national Financial Reporting Standard (in this sec-
16 tion referred to as “IFRS”);

17 (2) a number of additional important United
18 States trading partners, including Canada, Brazil,
19 Chile, India, and South Korea, have announced
20 dates to shift to IFRS; and

21 (3) the difficulty and expense of reconciling
22 IFRS with generally accepted accounting principles
23 employed in the United States (in this section re-
24 ferred to as “GAAP”), the accounting framework
25 within which companies whose shares are listed on

1 United States exchanges must report their financial
2 information, is among the highest hurdles for for-
3 eign companies considering a United States listing,
4 and one of the most compelling incentives for for-
5 eign-based businesses to list their shares on ex-
6 changes based somewhere other than the United
7 States.

8 (b) ACCELERATION OF EFFORT.—The Commission
9 shall—

10 (1) accelerate efforts to offer to both United
11 States- and foreign-based companies the option of
12 reporting financial information using either IFRS or
13 GAAP; and

14 (2) accelerate efforts with the Commission’s
15 foreign counterparts to achieve full conversion of
16 IFRS and GAAP.

17 **SEC. 209. PROMOTING MARKET ACCESS FOR FINANCIAL**
18 **SERVICES.**

19 (a) FINDINGS.—Congress finds that—

20 (1) there is a need to consistently monitor and
21 increase Government advocacy for United States fi-
22 nancial services firms’ attempts to gain overseas fi-
23 nancial market access;

24 (2) the presence of foreign financial services
25 firms in the United States and their activities should

1 be documented to find which countries' firms enjoy
2 full market access in the United States, while their
3 home governments deny national treatment to Amer-
4 ican financial services firms; and

5 (3) an analysis of the results achieved from the
6 U.S.-China Strategic Economic Dialogue (referred to
7 as "SED") and how such results specifically apply
8 to United States financial services firms, including
9 benchmarks and timeframes for future improve-
10 ments, should be compiled to assess the efficacy of
11 the negotiations.

12 (b) AMENDMENTS TO FINANCIAL REPORTS ACT.—
13 The Financial Reports Act of 1988 (22 U.S.C. 5351 et
14 seq.) is amended—

15 (1) in section 3602—

16 (A) in the section heading, by striking
17 "**QUADRENNIAL**" and inserting "**ANNUAL**";

18 (B) by striking "Not less frequently than
19 every 4 years, beginning December 1, 1990"
20 and inserting "Beginning July 1, 2008, and an-
21 nually thereafter,"; and

22 (C) by striking "to the Congress" and in-
23 serting "to the Committee on Banking, Hous-
24 ing, and Urban Affairs of the Senate and the

1 Committee on Financial Services of the House
2 of Representatives”; and

3 (2) in section 3603—

4 (A) by redesignating subsections (b), (c),
5 and (d) as subsections (c), (d), and (e), respec-
6 tively; and

7 (B) by inserting after subsection (a) the
8 following:

9 “(b) REPORT ON SED.—

10 “(1) IN GENERAL.—The Secretary shall include
11 in the initial report required under section 3602, a
12 summary of the results of the most recent United
13 States-China Strategic Economic Dialogue (in this
14 subsection referred to as ‘SED’) and the results of
15 the SED as it relates to promoting market access
16 for financial institutions.

17 “(2) PROGRESS REPORT.—The reports required
18 under section 3602 shall include a progress report
19 on the implementation of any agreements resulting
20 from the SED, a description of the remaining chal-
21 lenges, if any, in improving market access for finan-
22 cial institutions, and a plan, including benchmarks
23 and time frames, for dealing with the remaining
24 challenges.

1 “(3) SPECIFIC CONTENT.—Each report de-
2 scribed in this subsection shall specifically address
3 issues regarding—

4 “(A) foreign investment rules;

5 “(B) the problems of a dual-share stock
6 market;

7 “(C) the openness of the derivatives mar-
8 ket;

9 “(D) restrictions on foreign bank branch-
10 ing;

11 “(E) the ability to offer insurance (includ-
12 ing innovative products); and

13 “(F) regulatory and procedural trans-
14 parency.”.

15 **TITLE III—PROTECTING** 16 **HOMEOWNERS**

17 **SEC. 301. SUBPRIME REFINANCING LOANS THROUGH USE** 18 **OF QUALIFIED MORTGAGE BONDS.**

19 (a) USE OF QUALIFIED MORTGAGE BONDS PRO-
20 CEEDS FOR SUBPRIME REFINANCING LOANS.—Section
21 143(k) of the Internal Revenue Code of 1986 (relating to
22 other definitions and special rules) is amended by adding
23 at the end the following:

24 “(12) SPECIAL RULES FOR SUBPRIME
25 REFINANCINGS.—

1 “(A) IN GENERAL.—Notwithstanding the
2 requirements of subsection (i)(1), the proceeds
3 of a qualified mortgage issue may be used to re-
4 finance a mortgage on a residence which was
5 originally financed by the mortgagor through a
6 qualified subprime loan.

7 “(B) SPECIAL RULES.—In applying this
8 paragraph to any case in which the proceeds of
9 a qualified mortgage issue are used for any refi-
10 nancing described in subparagraph (A)—

11 “(i) subsection (a)(2)(D)(i) shall be
12 applied by substituting ‘12-month period’
13 for ‘42-month period’ each place it ap-
14 pears,

15 “(ii) subsection (d) (relating to 3-year
16 requirement) shall not apply, and

17 “(iii) subsection (e) (relating to pur-
18 chase price requirement) shall be applied
19 by using the market value of the residence
20 at the time of refinancing in lieu of the ac-
21 quisition cost.

22 “(C) QUALIFIED SUBPRIME LOAN.—The
23 term ‘qualified subprime loan’ means an adjust-
24 able rate single-family residential mortgage loan
25 originated after December 31, 2001, and before

1 January 1, 2008, that the bond issuer deter-
 2 mines would be reasonably likely to cause finan-
 3 cial hardship to the borrower if not refinanced.

4 “(D) TERMINATION.—This paragraph
 5 shall not apply to any bonds issued after De-
 6 cember 31, 2010.”.

7 (b) INCREASED VOLUME CAP FOR CERTAIN
 8 BONDS.—

9 (1) IN GENERAL.—Subsection (d) of section
 10 146 of the Internal Revenue Code of 1986 is amend-
 11 ed by adding at the end the following:

12 “(5) INCREASE AND SET ASIDE FOR HOUSING
 13 BONDS FOR 2008.—

14 “(A) INCREASE FOR 2008.—In the case of
 15 calendar year 2008, the State ceiling for each
 16 State shall be increased by an amount equal to
 17 \$10,000,000,000 multiplied by a fraction—

18 “(i) the numerator of which is the
 19 population of such State (as reported in
 20 the most recent decennial census), and

21 “(ii) the denominator of which is the
 22 total population of all States (as reported
 23 in the most recent decennial census).

24 “(B) SET ASIDE.—

1 “(i) IN GENERAL.—Any amount of
2 the State ceiling for any State which is at-
3 tributable to an increase under this para-
4 graph shall be allocated solely for one or
5 more qualified purposes.

6 “(ii) QUALIFIED PURPOSE.—For pur-
7 poses of this paragraph, the term ‘qualified
8 purpose’ means—

9 “(I) the issuance of exempt facil-
10 ity bonds used solely to provide quali-
11 fied residential rental projects, or

12 “(II) a qualified mortgage issue
13 (determined by substituting ‘12-month
14 period’ for ‘42-month period’ each
15 place it appears in section
16 143(a)(2)(D)(i)).”.

17 (2) CARRYFORWARD OF UNUSED LIMITA-
18 TIONS.—Subsection (f) of section 146 of such Code
19 is amended by adding at the end the following:

20 “(6) SPECIAL RULES FOR INCREASED VOLUME
21 CAP UNDER SUBSECTION (D)(5).—

22 “(A) IN GENERAL.—No amount which is
23 attributable to the increase under subsection
24 (d)(5) may be used—

1 “(i) for a carryforward purpose other
2 than a qualified purpose (as defined in
3 subsection (d)(5)), and

4 “(ii) to issue any bond after calendar
5 year 2010.

6 “(B) ORDERING RULES.—For purposes of
7 subparagraph (A), any carryforward of an
8 issuing authority’s volume cap for calendar year
9 2008 shall be treated as attributable to such in-
10 crease to the extent of such increase.”.

11 (c) ALTERNATIVE MINIMUM TAX.—

12 (1) IN GENERAL.—Clause (ii) of section
13 57(a)(5)(C) of the Internal Revenue Code of 1986 is
14 amended by striking “shall not include” and all that
15 follows and inserting “shall not include—

16 “(I) any qualified 501(c)(3) bond
17 (as defined in section 145), or

18 “(II) any qualified mortgage
19 bond (as defined in section 143(a)) or
20 qualified veteran’s mortgage bond (as
21 defined in section 143(b)) issued after
22 the date of the enactment of this sub-
23 clause and before January 1, 2011.”.

24 (2) CONFORMING AMENDMENT.—The heading
25 for section 57(a)(5)(C)(ii) of the Internal Revenue

1 Code of 1986 is amended by striking “QUALIFIED
2 501(C)(3) BONDS” and inserting “CERTAIN BOND”.

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

6 **SEC. 302. EXPEDITIOUS DISTRIBUTION OF FUNDS ALREADY**
7 **PROVIDED FOR MORTGAGE FORECLOSURE**
8 **COUNSELING.**

9 Upon certification by the Neighborhood Reinvestment
10 Corporation under paragraph (4) under the heading
11 “Neighborhood Reinvestment Corporation—Payment to
12 the Neighborhood Reinvestment Corporation” of Public
13 Law 110-161 that Housing and Urban Development or
14 Neighborhood Reinvestment Corporation-approved coun-
15 seling intermediaries and State Housing Finance Agencies
16 have the need for additional portions of the \$180,000,000
17 provided therein for mortgage foreclosure mitigation ac-
18 tivities in States and areas with high rates of mortgage
19 foreclosures, defaults, or related activities beyond the ini-
20 tial awards, and the expertise to use such funds effectively,
21 the Neighborhood Reinvestment Corporation shall expedi-
22 tiously continue to award such funds as need and expertise
23 is shown.

1 **SEC. 303. CREDIT FOR PURCHASE OF HOMES IN OR NEAR**
 2 **FORECLOSURE.**

3 (a) ALLOWANCE OF CREDIT.—Subpart A of part IV
 4 of subchapter A of chapter 1 of the Internal Revenue Code
 5 of 1986 (relating to refundable credits) is amended by in-
 6 serting after section 25D the following new section:

7 **“SEC. 25E. CREDIT FOR PURCHASE OF HOMES IN OR NEAR**
 8 **FORECLOSURE.**

9 “(a) ALLOWANCE OF CREDIT.—

10 “(1) IN GENERAL.—In the case of an individual
 11 who is a purchaser of a qualified principal residence
 12 during the taxable year, there shall be allowed as a
 13 credit against the tax imposed by this chapter an
 14 amount equal to so much of the purchase price of
 15 the residence as does not exceed \$15,000.

16 “(2) ALLOCATION OF CREDIT AMOUNT.—The
 17 amount of the credit allowed under paragraph (1)
 18 shall be equally divided among the 3 taxable years
 19 beginning with the taxable year in which the pur-
 20 chase of the qualified principal residence is made.

21 “(b) LIMITATIONS.—

22 “(1) DATE OF PURCHASE.—The credit allowed
 23 under subsection (a) shall be allowed only with re-
 24 spect to purchases made—

25 “(A) after February 29, 2008, and

26 “(B) before March 1, 2009.

1 “(2) LIMITATION BASED ON AMOUNT OF
2 TAX.—In the case of a taxable year to which section
3 26(a)(2) does not apply, the credit allowed under
4 subsection (a) for any taxable year shall not exceed
5 the excess of—

6 “(A) the sum of the regular tax liability
7 (as defined in section 26(b)) plus the tax im-
8 posed by section 55, over

9 “(B) the sum of the credits allowable
10 under this subpart (other than this section) for
11 the taxable year.

12 “(3) ONE-TIME ONLY.—

13 “(A) IN GENERAL.—If a credit is allowed
14 under this section in the case of any individual
15 (and such individual’s spouse, if married) with
16 respect to the purchase of any qualified prin-
17 cipal residence, no credit shall be allowed under
18 this section in any taxable year with respect to
19 the purchase of any other qualified principal
20 residence by such individual or a spouse of such
21 individual.

22 “(B) JOINT PURCHASE.—In the case of a
23 purchase of a qualified principal residence by 2
24 or more unmarried individuals or by 2 married
25 individuals filing separately, no credit shall be

1 allowed under this section if a credit under this
2 section has been allowed to any of such individ-
3 uals in any taxable year with respect to the
4 purchase of any other qualified principal resi-
5 dence.

6 “(c) QUALIFIED PRINCIPAL RESIDENCE.—

7 “(1) IN GENERAL.—For purposes of this sec-
8 tion, the term ‘qualified principal residence’ means
9 an eligible single-family residence that is purchased
10 to be the principal residence of the purchaser.

11 “(2) ELIGIBLE SINGLE-FAMILY RESIDENCE.—

12 “(A) IN GENERAL.—For purposes of this
13 subsection, the term ‘eligible single-family resi-
14 dence’ means a single-family structure that is—

15 “(i) a new previously unoccupied resi-
16 dence for which a building permit is issued
17 and construction begins on or before Sep-
18 tember 1, 2007, but only if such residence
19 is purchased by the taxpayer directly from
20 the person to whom such building permit
21 was issued,

22 “(ii) an owner-occupied residence with
23 respect to which the owner’s acquisition in-
24 debtedness (as defined in section
25 163(h)(3)(B), determined without regard

1 to clause (ii) thereof) is in default on or
2 before March 1, 2008, or

3 “(iii) a residence with respect to
4 which a foreclosure event has taken place
5 and which is owned by the mortgagor or
6 the mortgagor’s agent, but only if such
7 residence was occupied as a principal resi-
8 dence by the mortgagee for at least 1 year
9 prior to the foreclosure event.

10 “(B) CERTIFICATION.—In the case of an
11 eligible single-family residence described in sub-
12 paragraph (A)(i), no credit shall be allowed
13 under this section unless the purchaser submits
14 a certification by the seller of such residence
15 that such residence meets the requirements of
16 such subparagraph.

17 “(d) DENIAL OF DOUBLE BENEFIT.—No credit shall
18 be allowed under this section for any purchase for which
19 a credit is allowed under section 1400C.

20 “(e) RECAPTURE IN THE CASE OF CERTAIN DISPOSI-
21 TIONS.—In the event that a taxpayer—

22 “(1) disposes of the qualified principal resi-
23 dence with respect to which a credit is allowed under
24 subsection (a), or

1 “(2) fails to occupy such residence as the tax-
2 payer’s principal residence,
3 at any time within 36 months after the date on which the
4 taxpayer purchased such residence, then the remaining
5 portion of the credit allowed under subsection (a) shall be
6 disallowed in the taxable year during which such disposi-
7 tion occurred or in which the taxpayer failed to occupy
8 the residence as a principal residence, and in any subse-
9 quent taxable year in which the remaining portion of the
10 credit would, but for this subsection, have been allowed.

11 “(f) SPECIAL RULES.—

12 “(1) JOINT PURCHASE.—

13 “(A) MARRIED INDIVIDUALS FILING SEPA-
14 RATELY.—In the case of 2 married individuals
15 filing separately, subsection (a) shall be applied
16 to each such individual by substituting ‘\$7,500’
17 for ‘\$15,000’ in subsection (a)(1).

18 “(B) UNMARRIED INDIVIDUALS.—If 2 or
19 more individuals who are not married purchase
20 a qualified principal residence, the amount of
21 the credit allowed under subsection (a) shall be
22 allocated among such individuals in such man-
23 ner as the Secretary may prescribe, except that
24 the total amount of the credits allowed to all
25 such individuals shall not exceed \$15,000.

1 “(2) PURCHASE.—In defining the purchase of a
2 qualified principal residence, rules similar to the
3 rules of paragraphs (2) and (3) of section 1400C(e)
4 (as in effect on the date of the enactment of this
5 section) shall apply.

6 “(3) REPORTING REQUIREMENT.—Rules similar
7 to the rules of section 1400C(f) (as so in effect)
8 shall apply.

9 “(g) BASIS ADJUSTMENT.—For purposes of this sub-
10 title, if a credit is allowed under this section with respect
11 to the purchase of any residence, the basis of such resi-
12 dence shall be reduced by the amount of the credit so al-
13 lowed.”.

14 (b) CLERICAL AMENDMENT.—The table of sections
15 for subpart A of part IV of subchapter A of chapter 1
16 of the Internal Revenue Code of 1986 is amended by in-
17 serting after the item relating to section 25D the following
18 new item:

“Sec. 25E. Credit for certain home purchases.”.

19 **SEC. 304. ENHANCED MORTGAGE LOAN DISCLOSURES.**

20 (a) TRUTH IN LENDING ACT DISCLOSURES.—Sec-
21 tion 128(b)(2) of the Truth in Lending Act (15 U.S.C.
22 1638(b)(2)) is amended—

23 (1) by inserting “(A)” before “In the”;

24 (2) by striking “a residential mortgage trans-
25 action, as defined in section 103(w)” and inserting

1 “any extension of credit that is secured by the dwell-
2 ing of a consumer”;

3 (3) by striking “shall be made in accordance”
4 and all that follows through “extended, or”; and

5 (4) by striking “If the” and all that follows
6 through the end of the paragraph and inserting the
7 following:

8 “(B) In the case of an extension of credit
9 that is secured by the dwelling of a consumer,
10 in addition to the other disclosures required by
11 subsection (a), the disclosures provided under
12 this paragraph shall—

13 “(i) state in conspicuous type size and
14 format, the following: ‘You are not re-
15 quired to complete this agreement merely
16 because you have received these disclosures
17 or signed a loan application.’; and

18 “(ii) be furnished to the borrower not
19 later than 7 business days before the date
20 of consummation of the transaction, and at
21 the time of consummation of the trans-
22 action, subject to subparagraph (D).

23 “(C) In the case of an extension of credit
24 that is secured by the dwelling of a consumer,
25 under which the annual rate of interest is vari-

1 able, or with respect to which the regular pay-
2 ments may otherwise be variable, in addition to
3 the other disclosures required by subsection (a),
4 the disclosures provided under this paragraph
5 shall—

6 “(i) label the payment schedule as fol-
7 lows: ‘Payment Schedule: Payments Will
8 Vary Based on Interest Rate Changes’;

9 “(ii) state the maximum amount of
10 the regular required payments on the loan,
11 based on the maximum interest rate al-
12 lowed, introduced with the following lan-
13 guage in conspicuous type size and format:
14 ‘Your payment can go as high as
15 \$ _____’, the blank to be filled
16 in with the maximum possible payment
17 amount;

18 “(iii) if the loan is an adjustable rate
19 mortgage that includes an initial fixed in-
20 terest rate—

21 “(I) state in conspicuous type
22 size and format the following phrase:
23 This loan is an adjustable rate mort-
24 gage with an initial fixed interest rate.
25 Your initial fixed interest rate is AAA

1 with a monthly payment of BBB until
2 CCC. After that date, the interest
3 rate on your loan will ‘reset’ to an ad-
4 justable rate and both your interest
5 rate and payment could go higher on
6 that date and in the future. For ex-
7 ample, if your initial fixed rate ended
8 today, your new adjustable interest
9 rate would be DDD and your new
10 payment EEE. If interest rates are
11 one percent higher than they are
12 today or at some point in the future,
13 your new payment would be FFF.
14 There is no guarantee you will be able
15 to refinance your loan to a lower in-
16 terest rate and payment before your
17 initial fixed interest rate ends.;

18 “(II) the blank AAA in subpara-
19 graph (I) to be filled in with the ini-
20 tial fixed interest rate;

21 “(III) the blank BBB in sub-
22 paragraph (I) to be filled in with the
23 payment amount under the initial
24 fixed interest rate;

1 “(IV) the blank CCC in subpara-
2 graph (I) to be filled in with the loan
3 reset date;

4 “(V) the blank DDD in subpara-
5 graph (I) to be filled in with the ad-
6 justable rate as if the initial rate ex-
7 pired on the date of disclosure under
8 subparagraph (B);

9 “(VI) the blank EEE in subpara-
10 graph (I) to be filled in with the pay-
11 ment under the adjustable rate as if
12 the initial rate expired on the date of
13 disclosure under subparagraph (B);
14 and

15 “(VII) the blank FFF in sub-
16 paragraph (I) to be filled in with the
17 payment under the adjustable rate as
18 if index rate on which the adjustable
19 rate was one percent higher than of
20 the date of disclosure under subpara-
21 graph (B); and

22 “(iv) if the loan contains a prepay-
23 ment penalty—

24 “(I) state in conspicuous type
25 and format the following phrase: This

1 loan contains a prepayment penalty.
2 If you desire to pay off this loan be-
3 fore GGG, you will pay a penalty of
4 HHH.;

5 “(II) the blank GGG in subpara-
6 graph (I) to be filled in with the date
7 the prepayment penalty expires; and

8 “(III) the blank HHH in sub-
9 paragraph (I) to be filled in with the
10 prepayment penalty amount.

11 “(D) In any case in which the disclosure
12 statement provided 7 business days before the
13 date of consummation of the transaction con-
14 tains an annual percentage rate of interest that
15 is no longer accurate, as determined under sec-
16 tion 107(c), the creditor shall furnish an addi-
17 tional, corrected statement to the borrower, not
18 later than 3 business days before the date of
19 consummation of the transaction.”.

20 (b) CIVIL LIABILITY.—Section 130(a) of the Truth
21 in Lending Act (15 U.S.C. 1640(a)) is amended—

22 (1) in paragraph (2)(A)(iii), by striking “not
23 less than \$200 or greater than \$2,000” and insert-
24 ing “\$5,000, such amount to be adjusted annually

1 based on the consumer price index, to maintain cur-
 2 rent value”; and

3 (2) in the penultimate sentence of the undesig-
 4 nated matter following paragraph (4)—

5 (A) by striking “only for” and inserting
 6 “for”;

7 (B) by striking “section 125 or” and in-
 8 serting “section 122, section 125,”;

9 (C) by inserting “or section 128(b),” after
 10 “128(a),”; and

11 (D) by inserting “or section 128(b)” before
 12 the period.

13 **SEC. 305. CARRYBACK OF CERTAIN NET OPERATING**
 14 **LOSSES ALLOWED FOR 5 YEARS; TEMPORARY**
 15 **SUSPENSION OF 90 PERCENT AMT LIMIT.**

16 (a) IN GENERAL.—Subparagraph (H) of section
 17 172(b)(1) of the Internal Revenue Code of 1986 is amend-
 18 ed to read as follows:

19 “(H) 5-YEAR CARRYBACK OF CERTAIN
 20 LOSSES.—

21 “(i) TAXABLE YEARS ENDING DURING
 22 2001 AND 2002.—In the case of a net oper-
 23 ating loss for any taxable year ending dur-
 24 ing 2001 or 2002, subparagraph (A)(i)

1 shall be applied by substituting ‘5’ for ‘2’
 2 and subparagraph (F) shall not apply.

3 “(ii) TAXABLE YEARS ENDING DUR-
 4 ING 2006, 2007, 2008, AND 2009.—In the
 5 case of a net operating loss for any taxable
 6 year ending during 2006, 2007, 2008, or
 7 2009—

8 “(I) subparagraph (A)(i) shall be
 9 applied by substituting ‘5’ for ‘2’,

10 “(II) subparagraph (E)(ii) shall
 11 be applied by substituting ‘4’ for ‘2’,
 12 and

13 “(III) subparagraph (F) shall not
 14 apply.”.

15 (b) TEMPORARY SUSPENSION OF 90 PERCENT LIMIT
 16 ON CERTAIN NOL CARRYBACKS AND CARRYOVERS.—

17 (1) IN GENERAL.—Section 56(d) of the of the
 18 Internal Revenue Code of 1986 is amended by add-
 19 ing at the end the following new paragraph:

20 “(3) ADDITIONAL ADJUSTMENTS.—For pur-
 21 poses of paragraph (1)(A), the amount described in
 22 clause (I) of paragraph (1)(A)(ii) shall be increased
 23 by the amount of the net operating loss deduction
 24 allowable for the taxable year under section 172 at-
 25 tributable to the sum of—

1 “(A) carrybacks of net operating losses
2 from taxable years ending during 2006, 2007,
3 2008, and 2009, and

4 “(B) carryovers of net operating losses to
5 taxable years ending during 2006, 2007, 2008,
6 or 2009.”.

7 (2) CONFORMING AMENDMENT.—Subclause (I)
8 of section 56(d)(1)(A)(i) of such Code is amended by
9 inserting “amount of such” before “deduction de-
10 scribed in clause (ii)(I)”.

11 (c) ANTI-ABUSE RULES.—The Secretary of Treasury
12 or the Secretary’s designee shall prescribes such rules as
13 are necessary to prevent the abuse of the purposes of the
14 amendments made by this section, including anti-stuffing
15 rules, anti-churning rules (including rules relating to sale-
16 leasebacks), and rules similar to the rules under section
17 1091 of the Internal Revenue Code of 1986 relating to
18 losses from wash sales.

19 (d) EFFECTIVE DATES.—

20 (1) SUBSECTION (a).—

21 (A) IN GENERAL.—Except as provided in
22 subparagraph (B), the amendments made by
23 subsection (a) shall apply to net operating
24 losses arising in taxable years ending in 2006,
25 2007, 2008, or 2009.

1 (B) ELECTION.—In the case of a net oper-
 2 ating loss for a taxable year ending during
 3 2006 or 2007—

4 (i) any election made under section
 5 172(b)(3) of the Internal Revenue Code of
 6 1986 may (notwithstanding such section)
 7 be revoked before November 1, 2008, and

8 (ii) any election made under section
 9 172(j) of such Code shall (notwithstanding
 10 such section) be treated as timely made if
 11 made before November 1, 2008.

12 (2) SUBSECTION (b).—The amendments made
 13 by subsection (b) shall apply to taxable years ending
 14 after December 31, 1995.

15 **TITLE IV—REDUCING THE**
 16 **LITIGATION TAX**

17 **SEC. 401 LIMITATION ON PUNITIVE DAMAGES FOR SMALL**
 18 **BUSINESSES.**

19 (a) DEFINITION OF COVERED SMALL BUSINESS.—
 20 In this section, the term “covered small business” means
 21 any unincorporated business, or any partnership, corpora-
 22 tion, association, unit of local government, or organiza-
 23 tion—

1 (1) that has fewer than 25 full-time employees
2 as of the date that the relevant civil action is filed;
3 and

4 (2) the principal place of business of which is
5 in a State other than the State where the relevant
6 civil action is filed.

7 (b) GENERAL RULE.—Except as provided in sub-
8 section (c), in any civil action filed in a Federal or State
9 court against a covered small business, punitive dam-
10 ages—

11 (1) may be awarded against that covered small
12 business only if the court finds by clear and con-
13 vincing evidence that conduct of that covered small
14 business was—

15 (A) carried out with a conscious, flagrant
16 indifference to the rights or safety of others;
17 and

18 (B) the proximate cause of the harm that
19 is the subject of the civil action; and

20 (2) shall not be awarded against that covered
21 small business in an amount greater than \$250,000.

22 (c) EXCEPTIONS.—This section shall not apply to a
23 civil action if the court finds by clear and convincing evi-
24 dence that—

1 (1) the covered small business acted with spe-
2 cific intent to cause the type of harm that is the
3 subject of the civil action;

4 (2) the conduct of the covered small business
5 constitute a criminal offense; or

6 (3) the conduct of the covered small business
7 resulted in serious environmental degradation.

8 (d) APPLICATION BY THE COURT.—The limitation on
9 punitive damages under this section shall be carried out
10 by the court and shall not be disclosed to the jury, if any.

11 **SEC. 402. REASONABLENESS REVIEW OF ATTORNEY'S FEES.**

12 (a) IN GENERAL.—In any civil action in a Federal
13 or State court in which the damages awarded to a party
14 exceed \$5,000,000, the court shall review the fees paid to
15 any attorney for the prevailing party and ensure that
16 those fees are reasonable in light of the hours of work
17 actually performed by that attorney and the risk of non-
18 payment of fees assumed by that attorney when that attor-
19 ney agreed to represent the party.

20 (b) UNREASONABLE FEES.—If a Federal or State
21 court determines under subsection (a) that the fees paid
22 to an attorney for a prevailing party are not reasonable,
23 the court shall reduce the amount of that attorney's fees.

24 (c) ASSISTANCE.—A Federal or State court may, as
25 appropriate, retain the services of an independent account-

1 ing firm to assist the court in conducting a review under
2 this section.

3 **SEC. 403. PARTIAL AWARD OF ATTORNEY'S FEES FOR UN-**
4 **REASONABLE LAWSUITS.**

5 (a) IN GENERAL.—In any civil action described in
6 subsection (b), a court shall award to a prevailing party
7 30 percent of the reasonable attorney's fees that were in-
8 curred by that prevailing party in connection with a claim
9 described in subsection (b)(2) after the date on which the
10 party asserting that claim knew or should have known of
11 the facts that would require that claim to be dismissed
12 because there was no genuine issue of material fact.

13 (b) CIVIL ACTIONS.—A civil action described in this
14 subsection is a civil action—

15 (1) filed in a Federal court or against a party
16 whose principal residence or place of business is in
17 a State other than the State where the civil action
18 is filed; and

19 (2) in which the court finds that no genuine
20 issue of material fact exists with regard to a claim
21 that would allow a reasonable juror to find in favor
22 of the party presenting that claim.

1 **SEC. 404. MANDATORY SANCTIONS FOR FRIVOLOUS LAW-**
2 **SUITS.**

3 (a) IN GENERAL.—If a court of the United States
4 (as that term is defined in section 451 of title 28, United
5 States Code) determines, whether on a motion of a party
6 or on its own motion, that there has been a violation of
7 rule 11 of the Federal Rules of Civil Procedure in any
8 civil action, the court shall impose upon the attorney, law
9 firm, or pro se litigant that violated rule 11, or is respon-
10 sible for such violation, an appropriate sanction.

11 (b) SANCTIONS.—A sanction imposed under this sec-
12 tion—

13 (1) shall include an order to pay any other
14 party to the relevant civil action the reasonable ex-
15 penses incurred by that party as a direct result of
16 the filing of the pleading, motion, or other paper
17 that is the subject of the violation of rule 11 of the
18 Federal Rules of Civil Procedure, including reason-
19 able attorney's fees; and

20 (2) shall be sufficient to—

21 (A) deter the repetition of such conduct or
22 comparable conduct by other similarly situated
23 persons; and

24 (B) compensate any party injured by such
25 conduct.

1 **SEC. 405. BAR ON JUNK SCIENCE IN THE COURTROOM.**

2 (a) IN GENERAL.—In any civil action filed in a Fed-
3 eral court or against a party whose principal residence or
4 place of business is in a State other than the State where
5 the civil action is filed, if scientific, technical, or other spe-
6 cialized knowledge will assist the fact finder to understand
7 the evidence or to determine a fact in issue, a witness
8 qualified as an expert by knowledge, skill, experience,
9 training, or education, may give testimony relating to that
10 evidence or fact, in the form of an opinion or otherwise,
11 if—

12 (1) the witness has disclosed, upon the request
13 of the opposing party, those facts or data upon
14 which the testimony of the witness is based or that
15 are material to the testimony of the witness;

16 (2) the testimony is based upon sufficient facts
17 or data;

18 (3) the testimony is the product of reliable prin-
19 ciples and methods; and

20 (4) the witness has applied the principles and
21 methods reliably to the facts.

22 (b) REVIEW.—A trial court's application of sub-
23 section (a) shall be subject to de novo review.

Calendar No. 587

110TH CONGRESS
2^D SESSION

S. 12

A BILL

To promote home ownership, manufacturing, and
economic growth.

MARCH 3, 2008

Read the second time and placed on the calendar