

**AMENDMENT IN THE NATURE OF A SUBSTITUTE
TO H.R. 2488, AS REPORTED
OFFERED BY MR. RANGEL OF NEW YORK**

Strike all after the enacting clause and insert the following:

1 SECTION 1. SHORT TITLE; ETC.

2 (a) SHORT TITLE.—This Act may be cited as the
3 “Tax Reduction Act of 1999”.

4 (b) AMENDMENT OF 1986 CODE.—Except as other-
5 wise expressly provided, whenever in this Act an amend-
6 ment or repeal is expressed in terms of an amendment
7 to, or repeal of, a section or other provision, the reference
8 shall be considered to be made to a section or other provi-
9 sion of the Internal Revenue Code of 1986.

10 (c) TABLE OF CONTENTS.—

Sec. 1. Short title; etc.

Sec. 2. Tax reductions contingent on social security and medicare solvency certifications.

TITLE I—TAX RELIEF FOR FAMILIES

Sec. 101. Marriage penalty relief.

Sec. 102. Nonrefundable personal credits fully allowed against regular tax liability and minimum tax liability.

Sec. 103. Increase in child tax credit.

Sec. 104. Deduction of State and local general sales taxes in lieu of State and local income taxes.

TITLE II—INCENTIVES FOR EDUCATION

Sec. 201. Expansion of incentives for public schools.

Sec. 202. Extension of exclusion for employer-provided educational assistance; exclusion to apply to assistance for graduate education.

**TITLE III—INCENTIVES FOR HEALTH CARE AND LONG-TERM
CARE**

2

- Sec. 301. Long-term care tax credit.
- Sec. 302. Deduction for 100 percent of health insurance costs of self-employed individuals.

TITLE IV—PERMANENT EXTENSION OF CERTAIN EXPIRING PROVISIONS

- Sec. 401. Research credit.
- Sec. 402. Work opportunity and welfare-to-work credits.
- Sec. 403. Subpart F exemption for active financing income.
- Sec. 404. Expensing of environmental remediation costs.

TITLE V—COMMUNITY DEVELOPMENT INITIATIVES

- Sec. 501. Increase in State ceiling on low-income housing credit.
- Sec. 502. New markets tax credit.
- Sec. 503. Credit to holders of Better America Bonds.

TITLE VI—SMALL BUSINESS INCENTIVES

- Sec. 601. Acceleration of \$1,000,000 estate tax exclusion.
- Sec. 602. Increase in expense treatment for small businesses.

TITLE VII—PENSION PROVISIONS

- Sec. 701. Treatment of multiemployer plans under section 415.
- Sec. 702. Actuarial reduction only for benefits beginning before age 62 in case of benefits under multiemployer plans.

TITLE VIII—REVENUE OFFSETS

- Sec. 801. Returns relating to cancellations of indebtedness by organizations lending money.
- Sec. 802. Extension of Internal Revenue Service user fees.
- Sec. 803. Limitations on welfare benefit funds of 10 or more employer plans.
- Sec. 804. Increase in elective withholding rate for nonperiodic distributions from deferred compensation plans.
- Sec. 805. Controlled entities ineligible for REIT status.
- Sec. 806. Treatment of gain from constructive ownership transactions.
- Sec. 807. Transfer of excess defined benefit plan assets for retiree health benefits.
- Sec. 808. Modification of installment method and repeal of installment method for accrual method taxpayers.
- Sec. 809. Limitation on use of nonaccrual experience method of accounting.
- Sec. 810. Exclusion of like-kind exchange property from nonrecognition treatment on the sale of a principal residence.
- Sec. 811. Disallowance of noneconomic tax attributes.

TITLE IX—NATIONAL COMMISSION ON TAX REFORM AND SIMPLIFICATION

- Sec. 901. Establishment.
- Sec. 902. Functions.
- Sec. 903. Administration.
- Sec. 904. General.

1 **SEC. 2. TAX REDUCTIONS CONTINGENT ON SOCIAL SECUR-**
2 **RITY AND MEDICARE SOLVENCY CERTIFI-**
3 **CATIONS.**

4 (a) IN GENERAL.—Notwithstanding any other provi-
5 sion of this Act, no provision of this Act (or amendment
6 made thereby) shall take effect until there is—

- 7 (1) a social security certification,
8 (2) a Medicare certification, and
9 (3) a balanced budget certification.

10 (b) EXTENSION OF EXPIRING PROVISIONS AND REV-
11 ENUE OFFSETS NOT AFFECTED.—

12 (1) IN GENERAL.—Except as provided in para-
13 graph (2), sections 102, 202, title IV, and title VIII
14 shall take effect without regard to the provisions of
15 subsection (a).

16 (2) ONLY 2-YEAR EXTENSION OF CERTAIN PRO-
17 VISIONS IF NO SOLVENCY AND BUDGET DETERMINA-
18 TIONS.—

19 (A) IN GENERAL.—If, as of January 1,
20 2002, all of the certifications under subsection
21 (a) have not been made—

22 (i) section 26 of the Internal Revenue
23 Code of 1986 shall be applied to taxable
24 years beginning during the suspension pe-
25 riod without regard to the amendment
26 made by section 102,

1 (ii) section 127 of such Code shall not
2 apply with respect to courses beginning
3 during the suspension period,

4 (iii) sections 41 and 198 of such Code
5 shall not apply to amounts paid or in-
6 curred during the suspension period,

7 (iv) sections 51 and 51A of such Code
8 shall not apply to individuals who begin
9 work for the employer during the suspen-
10 sion period, and

11 (v) sections 953(e) and 954(h) of such
12 Code shall not apply to taxable years be-
13 ginning during the suspension period.

14 (B) SUSPENSION PERIOD.—For purposes
15 of subparagraph (A), the suspension period is
16 the period beginning on January 1, 2002, and
17 ending on the earliest date that all of the cer-
18 tifications under subsection (a) have been made.

19 (c) DEFINITIONS.—For purposes of this subsection—

20 (1) SOCIAL SECURITY SOLVENCY CERTIFI-
21 CATION.—The term ‘social security solvency certifi-
22 cation’ means a certification by the Board of Trust-
23 ees of the Social Security Trust Funds that the Fed-
24 eral Old-Age and Survivors Insurance Trust Fund
25 and the Federal Disability Insurance Trust Fund

1 are in actuarial balance for the 75-year period uti-
2 lized in the most recent annual report of such Board
3 of Trustees pursuant to section 201(c)(2) of the So-
4 cial Security Act (42 U.S.C. 401(c)(2)).

5 (2) MEDICARE SOLVENCY CERTIFICATION.—
6 For purposes of this subsection, the term ‘Medicare
7 solvency certification’ means a certification by the
8 Board of Trustees of the Federal Hospital Insurance
9 Trust Fund that such Trust Fund is in actuarial
10 balance until the year 2027.

11 (3) BALANCED BUDGET CERTIFICATION.—
12 There is a balanced budget certification if the Direc-
13 tor of the Office of Management and Budget cer-
14 tifies that the tax reductions made by this Act will
15 not create an on-budget deficit for any fiscal year in
16 the period 2000 through 2009 after taking into ac-
17 count non-Social-Security deficit amounts necessary
18 for the certifications under paragraphs (1) and (2).

19 **TITLE I—TAX RELIEF FOR**
20 **FAMILIES**

21 **SEC. 101. MARRIAGE PENALTY RELIEF.**

22 (a) STANDARD DEDUCTION.—

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

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

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

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

10 (D) by striking subparagraph (D).

11 (2) TECHNICAL AMENDMENTS.—

12 (A) Subparagraph (B) of section 1(f)(6) is
13 amended by striking “(other than with” and all
14 that follows through “shall be applied” and in-
15 serting “(other than with respect to sections
16 63(c)(4) and 151(d)(4)(A)) shall be applied”.

17 (B) Paragraph (4) of section 63(c) is
18 amended by adding at the end the following
19 flush sentence:

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

22 (b) EARNED INCOME CREDIT.—Subsection (a) of
23 section 32 (relating to credit for earned income) is amend-
24 ed by adding at the end the following new paragraph:

25 “(3) REDUCTION OF MARRIAGE PENALTY.—

1 “(A) IN GENERAL.—In the case of a joint
2 return, the phaseout amount under this section
3 shall be such amount (determined without re-
4 gard to this paragraph) increased by \$2,500
5 (\$2,000 in the case of taxable years beginning
6 during 2000).

7 “(B) INFLATION ADJUSTMENT.—In the
8 case of any taxable year beginning in a calendar
9 year after 2001, the \$2,500 amount contained
10 in subparagraph (A) shall be increased by an
11 amount equal to the product of—

12 “(i) such dollar amount, and

13 “(ii) the cost-of-living adjustment de-
14 termined under section 1(f)(3) for the cal-
15 endar year in which the taxable year be-
16 gins, determined by substituting ‘calendar
17 year 2000’ for ‘calendar year 1992’ in sub-
18 paragraph (B) thereof.

19 If any increase determined under the preceding
20 sentence is not a multiple of \$50, such increase
21 shall be rounded to the next lowest multiple of
22 \$50.”

23 (c) EFFECTIVE DATE.—The amendments made by
24 this section shall apply to taxable years beginning after
25 December 31, 1999.

1 (d) PHASEIN OF INCREASE IN BASIC STANDARD DE-
2 DUCTION.—In the case of taxable years beginning during
3 2000—

4 (1) there shall be taken into account under sub-
5 paragraph (A) section 63(c)(2) of the Internal Reve-
6 nue Code of 1986 only one-half of the increase
7 which would (but for this subsection) apply, and

8 (2) the basic standard deduction for a married
9 individual filing a separate return shall be one-half
10 of the amount applicable under such subparagraph.

11 **SEC. 102. NONREFUNDABLE PERSONAL CREDITS FULLY AL-**
12 **LOWED AGAINST REGULAR TAX LIABILITY**
13 **AND MINIMUM TAX LIABILITY.**

14 (a) IN GENERAL.—Subsection (a) of section 26 (re-
15 lating to limitation based on amount of tax) is amended
16 to read as follows:

17 “(a) LIMITATION BASED ON AMOUNT OF TAX.—The
18 aggregate amount of credits allowed by this subpart for
19 the taxable year shall not exceed the sum of—

20 “(1) the taxpayer’s regular tax liability for the
21 taxable year, and

22 “(2) the tax imposed for the taxable year by
23 section 55(a).”.

1 (b) CHILD CREDIT.—Subsection (d) of section 24 is
2 amended by striking paragraph (2) and by redesignating
3 paragraph (3) as paragraph (2).

4 (c) EFFECTIVE DATE.—The amendments made by
5 this section shall apply to taxable years beginning after
6 December 31, 1998.

7 **SEC. 103. INCREASE IN CHILD TAX CREDIT.**

8 (a) IN GENERAL.—Subsection (a) of section 24 (re-
9 lating to child tax credit), as amended by section 301, is
10 amended by adding at the end the following new sentence:
11 “In the case of a qualifying child who has not attained
12 age 5 as of the close of the calendar year in which the
13 taxable year of the taxpayer begins, paragraph (1) shall
14 be applied by substituting ‘\$750’ for ‘\$500’.”

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

18 **SEC. 104. DEDUCTION OF STATE AND LOCAL GENERAL**
19 **SALES TAXES IN LIEU OF STATE AND LOCAL**
20 **INCOME TAXES.**

21 (a) IN GENERAL.—Subsection (b) of section 164 is
22 amended by adding at the end thereof the following new
23 paragraph:

24 “(5) GENERAL SALES TAXES.—For purposes of
25 subsection (a)—

1 “(A) ELECTION TO DEDUCT STATE AND
2 LOCAL SALES TAXES IN LIEU OF STATE AND
3 LOCAL INCOME TAXES.—

4 “(i) IN GENERAL.—At the election of
5 the taxpayer for the taxable year, sub-
6 section (a) shall be applied—

7 “(I) without regard to the ref-
8 erence to State and local income
9 taxes,

10 “(II) as if State and local general
11 sales taxes were referred to in a para-
12 graph thereof, and

13 “(III) without regard to the last
14 sentence.

15 “(B) DEFINITION OF GENERAL SALES
16 TAX.—The term ‘general sales tax’ means a tax
17 imposed at one rate in respect of the sale at re-
18 tail of a broad range of classes of items.

19 “(C) SPECIAL RULES FOR FOOD, ETC.—In
20 the case of items of food, clothing, medical sup-
21 plies, and motor vehicles—

22 “(i) the fact that the tax does not
23 apply in respect of some or all of such
24 items shall not be taken into account in
25 determining whether the tax applies in re-

1 spect of a broad range of classes of items,
2 and

3 “(ii) the fact that the rate of tax ap-
4 plicable in respect of some or all of such
5 items is lower than the general rate of tax
6 shall not be taken into account in deter-
7 mining whether the tax is imposed at one
8 rate.

9 “(D) ITEMS TAXED AT DIFFERENT
10 RATES.—Except in the case of a lower rate of
11 tax applicable in respect of an item described in
12 subparagraph (C), no deduction shall be allowed
13 under this paragraph for any general sales tax
14 imposed in respect of an item at a rate other
15 than the general rate of tax.

16 “(E) COMPENSATING USE TAXES.—A com-
17 pensating use tax in respect of an item shall be
18 treated as a general sales tax. For purposes of
19 the preceding sentence, the term ‘compensating
20 use tax’ means, in respect of any item, a tax
21 which—

22 “(i) is imposed on the use, storage, or
23 consumption of such item, and

24 “(ii) is complementary to a general
25 sales tax, but only if a deduction is allow-

1 able under this paragraph in respect of
2 items sold at retail in the taxing jurisdic-
3 tion which are similar to such item.

4 “(F) SPECIAL RULE FOR MOTOR VEHI-
5 CLES.—In the case of motor vehicles, if the rate
6 of tax exceeds the general rate, such excess
7 shall be disregarded and the general rate shall
8 be treated as the rate of tax.

9 “(G) SEPARATELY STATED GENERAL
10 SALES TAXES.—If the amount of any general
11 sales tax is separately stated, then, to the ex-
12 tent that the amount so stated is paid by the
13 consumer (otherwise than in connection with
14 the consumer’s trade or business) to his seller,
15 such amount shall be treated as a tax imposed
16 on, and paid by, such consumer.

17 “(H) AMOUNT OF DEDUCTION TO BE DE-
18 TERMINED UNDER TABLES.—

19 “(i) IN GENERAL.—The amount of
20 the deduction allowed by this paragraph
21 shall be determined under tables prescribed
22 by the Secretary.

23 “(ii) REQUIREMENTS FOR TABLES.—
24 The tables prescribed under clause (i) shall
25 reflect the provisions of this paragraph and

1 shall be based on the average consumption
2 by taxpayers on a State-by-State basis, as
3 determined by the Secretary, taking into
4 account filing status, number of depend-
5 ents, adjusted gross income, and rates of
6 State and local general sales taxation.”.

7 (b) EFFECTIVE DATE.—The amendments made by
8 this section shall apply to taxable years beginning after
9 December 31, 1999.

10 **TITLE II—INCENTIVES FOR**
11 **EDUCATION**

12 **SEC. 201. EXPANSION OF INCENTIVES FOR PUBLIC**
13 **SCHOOLS.**

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

16 **“Subchapter X—Public School Modernization**
17 **Provisions**

“Part I. Credit to holders of qualified public school modernization
bonds.

“Part II. Qualified school construction bonds.

“Part III. Incentives for education zones.

18 **“PART I—CREDIT TO HOLDERS OF QUALIFIED**
19 **PUBLIC SCHOOL MODERNIZATION BONDS**

“Sec. 1400F. Credit to holders of qualified public school mod-
ernization bonds.

1 **“SEC. 1400F. CREDIT TO HOLDERS OF QUALIFIED PUBLIC**
2 **SCHOOL MODERNIZATION BONDS.**

3 “(a) ALLOWANCE OF CREDIT.—In the case of a tax-
4 payer who holds a qualified public school modernization
5 bond on a credit allowance date of such bond which occurs
6 during the taxable year, there shall be allowed as a credit
7 against the tax imposed by this chapter for such taxable
8 year an amount equal to the sum of the credits determined
9 under subsection (b) with respect to credit allowance dates
10 during such year on which the taxpayer holds such bond.

11 “(b) AMOUNT OF CREDIT.—

12 “(1) IN GENERAL.—The amount of the credit
13 determined under this subsection with respect to any
14 credit allowance date for a qualified public school
15 modernization bond is 25 percent of the annual
16 credit determined with respect to such bond.

17 “(2) ANNUAL CREDIT.—The annual credit de-
18 termined with respect to any qualified public school
19 modernization bond is the product of—

20 “(A) the applicable credit rate, multiplied
21 by

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

24 “(3) APPLICABLE CREDIT RATE.—For purposes
25 of paragraph (1), the applicable credit rate with re-
26 spect to an issue is the rate equal to an average

1 market yield (as of the day before the date of
2 issuance of the issue) on outstanding long-term cor-
3 porate debt obligations (determined under regula-
4 tions prescribed by the Secretary).

5 “(4) SPECIAL RULE FOR ISSUANCE AND RE-
6 DEMPTION.—In the case of a bond which is issued
7 during the 3-month period ending on a credit allow-
8 ance date, the amount of the credit determined
9 under this subsection with respect to such credit al-
10 lowance date shall be a ratable portion of the credit
11 otherwise determined based on the portion of the 3-
12 month period during which the bond is outstanding.
13 A similar rule shall apply when the bond is re-
14 deemed.

15 “(c) LIMITATION BASED ON AMOUNT OF TAX.—

16 “(1) IN GENERAL.—The credit allowed under
17 subsection (a) for any taxable year shall not exceed
18 the excess of—

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

22 “(B) the sum of the credits allowable
23 under part IV of subchapter A (other than sub-
24 part C thereof, relating to refundable credits).

1 “(2) CARRYOVER OF UNUSED CREDIT.—If the
2 credit allowable under subsection (a) exceeds the
3 limitation imposed by paragraph (1) for such taxable
4 year, such excess shall be carried to the succeeding
5 taxable year and added to the credit allowable under
6 subsection (a) for such taxable year.

7 “(d) QUALIFIED PUBLIC SCHOOL MODERNIZATION
8 BOND; CREDIT ALLOWANCE DATE.—For purposes of this
9 section—

10 “(1) QUALIFIED PUBLIC SCHOOL MODERNIZA-
11 TION BOND.—The term ‘qualified public school mod-
12 ernization bond’ means—

13 “(A) a qualified zone academy bond, and

14 “(B) a qualified school construction bond.

15 “(2) CREDIT ALLOWANCE DATE.—The term
16 ‘credit allowance date’ means—

17 “(A) March 15,

18 “(B) June 15,

19 “(C) September 15, and

20 “(D) December 15.

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

23 “(e) OTHER DEFINITIONS.—For purposes of this
24 subchapter—

1 “(1) LOCAL EDUCATIONAL AGENCY.—The term
2 ‘local educational agency’ has the meaning given to
3 such term by section 14101 of the Elementary and
4 Secondary Education Act of 1965. Such term in-
5 cludes the local educational agency that serves the
6 District of Columbia but does not include any other
7 State agency.

8 “(2) BOND.—The term ‘bond’ includes any ob-
9 ligation.

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

13 “(4) PUBLIC SCHOOL FACILITY.—The term
14 ‘public school facility’ shall not include—

15 “(A) any stadium or other facility pri-
16 marily used for athletic contests or exhibitions
17 or other events for which admission is charged
18 to the general public, or

19 “(B) any facility which is not owned by a
20 State or local government or any agency or in-
21 strumentality of a State or local government.

22 “(f) CREDIT INCLUDED IN GROSS INCOME.—Gross
23 income includes the amount of the credit allowed to the
24 taxpayer under this section (determined without regard to

1 subsection (c)) and the amount so included shall be treat-
2 ed as interest income.

3 “(g) BONDS HELD BY REGULATED INVESTMENT
4 COMPANIES.—If any qualified public school modernization
5 bond is held by a regulated investment company, the credit
6 determined under subsection (a) shall be allowed to share-
7 holders of such company under procedures prescribed by
8 the Secretary.

9 “(h) CREDITS MAY BE STRIPPED.—Under regula-
10 tions prescribed by the Secretary—

11 “(1) IN GENERAL.—There may be a separation
12 (including at issuance) of the ownership of a quali-
13 fied public school modernization bond and the enti-
14 tlement to the credit under this section with respect
15 to such bond. In case of any such separation, the
16 credit under this section shall be allowed to the per-
17 son who on the credit allowance date holds the in-
18 strument evidencing the entitlement to the credit
19 and not to the holder of the bond.

20 “(2) CERTAIN RULES TO APPLY.—In the case
21 of a separation described in paragraph (1), the rules
22 of section 1286 shall apply to the qualified public
23 school modernization bond as if it were a stripped
24 bond and to the credit under this section as if it
25 were a stripped coupon.

“(i) TREATMENT FOR ESTIMATED TAX PURPOSES.—
Solely for purposes of sections 6654 and 6655, the credit
allowed by this section to a taxpayer by reason of holding
a qualified public school modernization bonds on a credit
allowance date shall be treated as if it were a payment
of estimated tax made by the taxpayer on such date.

7 “(j) CREDIT MAY BE TRANSFERRED.—Nothing in
8 any law or rule of law shall be construed to limit the trans-
9 ferability of the credit allowed by this section through sale
10 and repurchase agreements.

11 “(k) REPORTING.—Issuers of qualified public school
12 modernization bonds shall submit reports similar to the
13 reports required under section 149(e).

14 “(l) **TERMINATION.**—This section shall not apply to
15 any bond issued after September 30, 2004.

16 **“PART II—QUALIFIED SCHOOL CONSTRUCTION**
17 **BONDS**

“Sec. 1400G. Qualified school construction bonds.

18 **“SEC. 1400G. QUALIFIED SCHOOL CONSTRUCTION BONDS.**

19 “(a) QUALIFIED SCHOOL CONSTRUCTION BOND.—
20 For purposes of this subchapter, the term ‘qualified school
21 construction bond’ means any bond issued as part of an
22 issue if—

23 “(1) 95 percent or more of the proceeds of such
24 issue are to be used for the construction, rehabilita-

1 tion, or repair of a public school facility or for the
2 acquisition of land on which such a facility is to be
3 constructed with part of the proceeds of such issue,

4 “(2) the bond is issued by a State or local gov-
5 ernment within the jurisdiction of which such school
6 is located,

7 “(3) the issuer designates such bond for pur-
8 poses of this section, and

9 “(4) the term of each bond which is part of
10 such issue does not exceed 15 years.

11 “(b) LIMITATION ON AMOUNT OF BONDS DES-
12 IGNATED.—The maximum aggregate face amount of
13 bonds issued during any calendar year which may be des-
14 ignated under subsection (a) by any issuer shall not exceed
15 the sum of—

16 “(1) the limitation amount allocated under sub-
17 section (d) for such calendar year to such issuer,
18 and

19 “(2) if such issuer is a large local educational
20 agency (as defined in subsection (e)(4)) or is issuing
21 on behalf of such an agency, the limitation amount
22 allocated under subsection (e) for such calendar year
23 to such agency.

24 “(c) NATIONAL LIMITATION ON AMOUNT OF BONDS
25 DESIGNATED.—There is a national qualified school con-

1 instruction bond limitation for each calendar year. Such lim-
2 itation is—

3 “(1) \$11,000,000,000 for 2000,

4 “(2) \$11,000,000,000 for 2001, and

5 “(3) except as provided in subsection (f), zero
6 after 2001.

7 “(d) HALF OF LIMITATION ALLOCATED AMONG
8 STATES.—

9 “(1) IN GENERAL.—One-half of the limitation
10 applicable under subsection (c) for any calendar year
11 shall be allocated among the States under paragraph
12 (2) by the Secretary. The limitation amount allo-
13 cated to a State under the preceding sentence shall
14 be allocated by the State to issuers within such
15 State and such allocations may be made only if there
16 is an approved State application.

17 “(2) ALLOCATION FORMULA.—The amount to
18 be allocated under paragraph (1) for any calendar
19 year shall be allocated among the States in propor-
20 tion to the respective amounts each such State re-
21 ceived for Basic Grants under subpart 2 of part A
22 of title I of the Elementary and Secondary Edu-
23 cation Act of 1965 (20 U.S.C. 6331 et seq.) for the
24 most recent fiscal year ending before such calendar
25 year. For purposes of the preceding sentence, Basic

1 Grants attributable to large local educational agen-
2 cies (as defined in subsection (e)) shall be dis-
3 regarded.

4 “(3) MINIMUM ALLOCATIONS TO STATES.—

5 “(A) IN GENERAL.—The Secretary shall
6 adjust the allocations under this subsection for
7 any calendar year for each State to the extent
8 necessary to ensure that the sum of—

9 “(i) the amount allocated to such
10 State under this subsection for such year,
11 and

12 “(ii) the aggregate amounts allocated
13 under subsection (e) to large local edu-
14 cational agencies in such State for such
15 year,

16 is not less than an amount equal to such
17 State’s minimum percentage of the amount to
18 be allocated under paragraph (1) for the cal-
19 endar year.

20 “(B) MINIMUM PERCENTAGE.—A State’s
21 minimum percentage for any calendar year is
22 the minimum percentage described in section
23 1124(d) of the Elementary and Secondary Edu-
24 cation Act of 1965 (20 U.S.C. 6334(d)) for

1 such State for the most recent fiscal year end-
2 ing before such calendar year.

3 “(4) ALLOCATIONS TO CERTAIN POSSES-
4 SIONS.—The amount to be allocated under para-
5 graph (1) to any possession of the United States
6 other than Puerto Rico shall be the amount which
7 would have been allocated if all allocations under
8 paragraph (1) were made on the basis of respective
9 populations of individuals below the poverty line (as
10 defined by the Office of Management and Budget).
11 In making other allocations, the amount to be allo-
12 cated under paragraph (1) shall be reduced by the
13 aggregate amount allocated under this paragraph to
14 possessions of the United States.

15 “(5) ALLOCATIONS FOR INDIAN SCHOOLS.—In
16 addition to the amounts otherwise allocated under
17 this subsection, \$200,000,000 for calendar year
18 2000, and \$200,000,000 for calendar year 2001,
19 shall be allocated by the Secretary of the Interior for
20 purposes of the construction, rehabilitation, and re-
21 pair of schools funded by the Bureau of Indian Af-
22 fairs. In the case of amounts allocated under the
23 preceding sentence, Indian tribal governments (as
24 defined in section 7871) shall be treated as qualified
25 issuers for purposes of this subchapter.

1 “(6) APPROVED STATE APPLICATION.—For
2 purposes of paragraph (1), the term ‘approved State
3 application’ means an application which is approved
4 by the Secretary of Education and which includes—

5 “(A) the results of a recent publicly-avail-
6 able survey (undertaken by the State with the
7 involvement of local education officials, mem-
8 bers of the public, and experts in school con-
9 struction and management) of such State’s
10 needs for public school facilities, including de-
11 scriptions of—

12 “(i) health and safety problems at
13 such facilities,

14 “(ii) the capacity of public schools in
15 the State to house projected enrollments,
16 and

17 “(iii) the extent to which the public
18 schools in the State offer the physical in-
19 frastructure needed to provide a high-qual-
20 ity education to all students, and

21 “(B) a description of how the State will al-
22 locate to local educational agencies, or other-
23 wise use, its allocation under this subsection to
24 address the needs identified under subpara-

1 graph (A), including a description of how it
2 will—

3 “(i) give highest priority to localities
4 with the greatest needs, as demonstrated
5 by inadequate school facilities coupled with
6 a low level of resources to meet those
7 needs,

8 “(ii) use its allocation under this sub-
9 section to assist localities that lack the fis-
10 cal capacity to issue bonds on their own,
11 and

12 “(iii) ensure that its allocation under
13 this subsection is used only to supplement,
14 and not supplant, the amount of school
15 construction, rehabilitation, and repair in
16 the State that would have occurred in the
17 absence of such allocation.

18 Any allocation under paragraph (1) by a State shall
19 be binding if such State reasonably determined that
20 the allocation was in accordance with the plan ap-
21 proved under this paragraph.

22 “(e) HALF OF LIMITATION ALLOCATED AMONG
23 LARGEST SCHOOL DISTRICTS.—

24 “(1) IN GENERAL.—One-half of the limitation
25 applicable under subsection (c) for any calendar year

1 shall be allocated under paragraph (2) by the Sec-
2 retary among local educational agencies which are
3 large local educational agencies for such year. No
4 qualified school construction bond may be issued by
5 reason of an allocation to a large local educational
6 agency under the preceding sentence unless such
7 agency has an approved local application.

8 “(2) ALLOCATION FORMULA.—The amount to
9 be allocated under paragraph (1) for any calendar
10 year shall be allocated among large local educational
11 agencies in proportion to the respective amounts
12 each such agency received for Basic Grants under
13 subpart 2 of part A of title I of the Elementary and
14 Secondary Education Act of 1965 (20 U.S.C. 6331
15 et seq.) for the most recent fiscal year ending before
16 such calendar year.

17 “(3) ALLOCATION OF UNUSED LIMITATION TO
18 STATE.—The amount allocated under this subsection
19 to a large local educational agency for any calendar
20 year may be reallocated by such agency to the State
21 in which such agency is located for such calendar
22 year. Any amount reallocated to a State under the
23 preceding sentence may be allocated as provided in
24 subsection (d)(1).

1 “(4) LARGE LOCAL EDUCATIONAL AGENCY.—

2 For purposes of this section, the term ‘large local
3 educational agency’ means, with respect to a cal-
4 endar year, any local educational agency if such
5 agency is—

6 “(A) among the 100 local educational
7 agencies with the largest numbers of children
8 aged 5 through 17 from families living below
9 the poverty level, as determined by the Sec-
10 retary using the most recent data available
11 from the Department of Commerce that are
12 satisfactory to the Secretary, or

13 “(B) 1 of not more than 25 local edu-
14 cational agencies (other than those described in
15 subparagraph (A)) that the Secretary of Edu-
16 cation determines (based on the most recent
17 data available satisfactory to the Secretary) are
18 in particular need of assistance, based on a low
19 level of resources for school construction, a high
20 level of enrollment growth, or such other factors
21 as the Secretary deems appropriate.

22 “(5) APPROVED LOCAL APPLICATION.—For
23 purposes of paragraph (1), the term ‘approved local
24 application’ means an application which is approved
25 by the Secretary of Education and which includes—

1 “(A) the results of a recent publicly-avail-
2 able survey (undertaken by the local educational
3 agency or the State with the involvement of
4 school officials, members of the public, and ex-
5 perts in school construction and management)
6 of such agency’s needs for public school facili-
7 ties, including descriptions of—

8 “(i) the overall condition of the local
9 educational agency’s school facilities, in-
10 cluding health and safety problems,

11 “(ii) the capacity of the agency’s
12 schools to house projected enrollments, and

13 “(iii) the extent to which the agency’s
14 schools offer the physical infrastructure
15 needed to provide a high-quality education
16 to all students,

17 “(B) a description of how the local edu-
18 cational agency will use its allocation under this
19 subsection to address the needs identified under
20 subparagraph (A), and

21 “(C) a description of how the local edu-
22 cational agency will ensure that its allocation
23 under this subsection is used only to supple-
24 ment, and not supplant, the amount of school
25 construction, rehabilitation, or repair in the lo-

1 cality that would have occurred in the absence
2 of such allocation.

3 A rule similar to the rule of the last sentence of sub-
4 section (d)(6) shall apply for purposes of this para-
5 graph.

6 “(f) CARRYOVER OF UNUSED LIMITATION.—If for
7 any calendar year—

8 “(1) the amount allocated under subsection (d)
9 to any State, exceeds

10 “(2) the amount of bonds issued during such
11 year which are designated under subsection (a) pur-
12 suant to such allocation,

13 the limitation amount under such subsection for such
14 State for the following calendar year shall be increased
15 by the amount of such excess. A similar rule shall apply
16 to the amounts allocated under subsection (d)(5) or (e).

17 “(g) SPECIAL RULES RELATING TO ARBITRAGE.—

18 “(1) IN GENERAL.—A bond shall not be treated
19 as failing to meet the requirement of subsection
20 (a)(1) solely by reason of the fact that the proceeds
21 of the issue of which such bond is a part are in-
22 vested for a temporary period (but not more than 36
23 months) until such proceeds are needed for the pur-
24 pose for which such issue was issued.

1 “(2) BINDING COMMITMENT REQUIREMENT.—
2 Paragraph (1) shall apply to an issue only if, as of
3 the date of issuance, there is a reasonable expecta-
4 tion that—

5 “(A) at least 10 percent of the proceeds of
6 the issue will be spent within the 6-month pe-
7 riod beginning on such date for the purpose for
8 which such issue was issued, and

9 “(B) the remaining proceeds of the issue
10 will be spent with due diligence for such pur-
11 pose.

12 “(3) EARNINGS ON PROCEEDS.—Any earnings
13 on proceeds during the temporary period shall be
14 treated as proceeds of the issue for purposes of ap-
15 plying subsection (a)(1) and paragraph (1) of this
16 subsection.

17 **“PART III—INCENTIVES FOR EDUCATION ZONES**

 “Sec. 1400H. Qualified zone academy bonds.

 “Sec. 1400I. Corporate contributions to specialized training cen-
 ters.

18 **“SEC. 1400H. QUALIFIED ZONE ACADEMY BONDS.**

19 “(a) QUALIFIED ZONE ACADEMY BOND.—For pur-
20 poses of this subchapter—

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

1 “(A) 95 percent or more of the proceeds of
2 such issue are to be used for a qualified pur-
3 pose with respect to a qualified zone academy
4 established by a local educational agency,

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

8 “(C) the issuer—

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

11 “(ii) certifies that it has written as-
12 surances that the private business con-
13 tribution requirement of paragraph (2) will
14 be met with respect to such academy, and

15 “(iii) certifies that it has the written
16 approval of the local educational agency
17 for such bond issuance, and

18 “(D) the term of each bond which is part
19 of such issue does not exceed 15 years.

20 Rules similar to the rules of section 1400G(g) shall
21 apply for purposes of paragraph (1).

22 “(2) PRIVATE BUSINESS CONTRIBUTION RE-
23 QUIREMENT.—

24 “(A) IN GENERAL.—For purposes of para-
25 graph (1), the private business contribution re-

1 quirement of this paragraph is met with respect
2 to any issue if the local educational agency that
3 established the qualified zone academy has writ-
4 ten commitments from private entities to make
5 qualified contributions having a present value
6 (as of the date of issuance of the issue) of not
7 less than 10 percent of the proceeds of the
8 issue.

9 “(B) QUALIFIED CONTRIBUTIONS.—For
10 purposes of subparagraph (A), the term ‘quali-
11 fied contribution’ means any contribution (of a
12 type and quality acceptable to the local edu-
13 cational agency) of—

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

17 “(ii) technical assistance in developing
18 curriculum or in training teachers in order
19 to promote appropriate market driven tech-
20 nology in the classroom,

21 “(iii) services of employees as volun-
22 teer mentors,

23 “(iv) internships, field trips, or other
24 educational opportunities outside the acad-
25 emy for students, or

1 “(v) any other property or service
2 specified by the local educational agency.

3 “(3) QUALIFIED ZONE ACADEMY.—The term
4 ‘qualified zone academy’ means any public school (or
5 academic program within a public school) which is
6 established by and operated under the supervision of
7 a local educational agency to provide education or
8 training below the postsecondary level if—

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

15 “(B) students in such public school or pro-
16 gram (as the case may be) will be subject to the
17 same academic standards and assessments as
18 other students educated by the local educational
19 agency,

20 “(C) the comprehensive education plan of
21 such public school or program is approved by
22 the local educational agency, and

23 “(D)(i) such public school is located in an
24 empowerment zone or enterprise community
25 (including any such zone or community des-

1 ignated after the date of the enactment of this
2 section), or

3 “(ii) there is a reasonable expectation (as
4 of the date of issuance of the bonds) that at
5 least 35 percent of the students attending such
6 school or participating in such program (as the
7 case may be) will be eligible for free or reduced-
8 cost lunches under the school lunch program es-
9 tablished under the National School Lunch Act.

10 “(4) QUALIFIED PURPOSE.—The term ‘quali-
11 fied purpose’ means, with respect to any qualified
12 zone academy—

13 “(A) constructing, rehabilitating, or repair-
14 ing the public school facility in which the acad-
15 emy is established,

16 “(B) acquiring the land on which such fa-
17 cility is to be constructed with part of the pro-
18 ceeds of such issue,

19 “(C) providing equipment for use at such
20 academy,

21 “(D) developing course materials for edu-
22 cation to be provided at such academy, and

23 “(E) training teachers and other school
24 personnel in such academy.

1 “(b) LIMITATIONS ON AMOUNT OF BONDS DES-
2 IGNATED.—

3 “(1) IN GENERAL.—There is a national zone
4 academy bond limitation for each calendar year.
5 Such limitation is—

6 “(A) \$400,000,000 for 1998,

7 “(B) \$400,000,000 for 1999,

8 “(C) \$1,000,000,000 for 2000,

9 “(D) \$1,400,000,000 for 2001, and

10 “(E) except as provided in paragraph (3),
11 zero after 2001.

12 “(2) ALLOCATION OF LIMITATION.—

13 “(A) ALLOCATION AMONG STATES.—

14 “(i) 1998 and 1999 LIMITATIONS.—

15 The national zone academy bond limita-
16 tions for calendar years 1998 and 1999
17 shall be allocated by the Secretary among
18 the States on the basis of their respective
19 populations of individuals below the pov-
20 erty line (as defined by the Office of Man-
21 agement and Budget).

22 “(ii) LIMITATION AFTER 1999.—The
23 national zone academy bond limitation for
24 any calendar year after 1999 shall be allo-
25 cated by the Secretary among the States in

1 the manner prescribed by section
2 1400G(d); except that in making the allo-
3 cation under this clause, the Secretary
4 shall take into account—

5 “(I) Basic Grants attributable to
6 large local educational agencies (as
7 defined in section 1400G(e)).

8 “(II) the national zone academy
9 bond limitation.

10 “(B) ALLOCATION TO LOCAL EDU-
11 CATIONAL AGENCIES.—The limitation amount
12 allocated to a State under subparagraph (A)
13 shall be allocated by the State education agency
14 to qualified zone academies within such State.

15 “(C) DESIGNATION SUBJECT TO LIMITA-
16 TION AMOUNT.—The maximum aggregate face
17 amount of bonds issued during any calendar
18 year which may be designated under subsection
19 (a) with respect to any qualified zone academy
20 shall not exceed the limitation amount allocated
21 to such academy under subparagraph (B) for
22 such calendar year.

23 “(3) CARRYOVER OF UNUSED LIMITATION.—If
24 for any calendar year—

1 “(A) the limitation amount under this sub-
2 section for any State, exceeds

3 “(B) the amount of bonds issued during
4 such year which are designated under sub-
5 section (a) (or the corresponding provisions of
6 prior law) with respect to qualified zone acad-
7 emies within such State,

the limitation amount under this subsection for such
State for the following calendar year shall be in-
creased by the amount of such excess.

11 "SEC. 1400I. CORPORATE CONTRIBUTIONS TO SPECIALIZED
12 TRAINING CENTERS.

13 “(a) GENERAL RULE.—For purposes of section 38,
14 in the case of a corporation, the specialized training center
15 credit determined under this section is an amount equal
16 to 50 percent of the amount of the designated qualified
17 contributions made by the taxpayer during the taxable
18 year to a specialized training center.

19 “(b) DEFINITIONS.—For purposes of this section—

20 “(1) SPECIALIZED TRAINING CENTER.—The
21 term ‘specialized training center’ means any quali-
22 fied zone academy (as defined in section
23 1400H(a)(3))—

24 “(A) which is located in an empowerment
25 zone or enterprise community, or

1 “(B) which is located in proximity to such
2 a zone or community and a significant number
3 of the students attending such academy have
4 their principal place of abode in such zone or
5 community.

6 “(2) DESIGNATED QUALIFIED CONTRIBU-
7 TIONS.—The term ‘designated qualified contribution’
8 means any contribution—

9 “(A) which is made pursuant to an agree-
10 ment under which the taxpayer participates in
11 the design of the academic program of the spe-
12 cialized training center, and

13 “(B) which is designated under subsection
14 (c).

15 “(c) DESIGNATION OF CONTRIBUTIONS.—

16 “(1) LIMITATION ON AMOUNT DESIGNATED.—
17 The maximum amount of contributions made which
18 may be designated under this subsection with re-
19 spect to all specialized training centers located an
20 empowerment zone or enterprise community shall
21 not exceed—

22 “(A) \$8,000,000 in the case of an em-
23 powerment zone, and

24 “(B) \$2,000,000 in the case of an enter-
25 prise community.

1 “(2) DESIGNATIONS.—Designations under this
2 subsection shall be made (in consultation with the
3 local educational agency) by the local government
4 agency responsible for implementing the strategic
5 plan described in section 1391(f)(2) for the em-
6 powerment zone or enterprise community.

7 “(d) VALUE OF CONTRIBUTIONS.—The amount of
8 any designated qualified contribution which may be taken
9 into account under this section shall be—

10 “(1) the amount of such contribution which
11 would be allowed as a deduction under section 170
12 without regard to section 280C(d), or

13 “(2) in the case of a contribution of services
14 performed on the premises of a specialized training
15 center by an employee of the taxpayer, the amount
16 of wages (as defined in section 3306(b) but without
17 regard to any dollar limitation contained in such sec-
18 tion) paid by the taxpayer for such services.”

19 (b) REPORTING.—Subsection (d) of section 6049 (re-
20 lating to returns regarding payments of interest) is
21 amended by adding at the end the following new para-
22 graph:

23 “(8) REPORTING OF CREDIT ON QUALIFIED
24 PUBLIC SCHOOL MODERNIZATION BONDS.—

1 “(A) IN GENERAL.—For purposes of sub-
2 section (a), the term ‘interest’ includes amounts
3 includible in gross income under section
4 1400F(f) and such amounts shall be treated as
5 paid on the credit allowance date (as defined in
6 section 1400F(d)(2)).

7 “(B) REPORTING TO CORPORATIONS,
8 ETC.—Except as otherwise provided in regula-
9 tions, in the case of any interest described in
10 subparagraph (A) of this paragraph, subsection
11 (b)(4) of this section shall be applied without
12 regard to subparagraphs (A), (H), (I), (J), (K),
13 and (L)(i).

14 “(C) REGULATORY AUTHORITY.—The Sec-
15 retary may prescribe such regulations as are
16 necessary or appropriate to carry out the pur-
17 poses of this paragraph, including regulations
18 which require more frequent or more detailed
19 reporting.”

20 (c) CONFORMING AMENDMENTS RELATED TO CRED-
21 IT FOR CORPORATE CONTRIBUTIONS TO SPECIALIZED
22 TRAINING CENTERS.—

23 (1) DENIAL OF DOUBLE BENEFIT.—Section
24 280C is amended by adding at the end the following
25 new subsection:

1 “(d) CREDIT FOR CORPORATE CONTRIBUTIONS TO
2 SPECIALIZED TRAINING CENTERS.—No deduction shall
3 be allowed for that portion of the designated qualified con-
4 tributions (as defined in section 1400I(b)) made during
5 the taxable year which is equal to the credit determined
6 for the taxable year under section 1400I(a). Paragraph
7 (3) of subsection (b) shall apply for purposes of this sub-
8 section.”

9 (2) CREDIT TO BE PART OF GENERAL BUSI-
10 NESS CREDIT.—

11 (A) Section 38(b) is amended—

12 (i) by striking “plus” at the end of
13 paragraph (11),

14 (ii) by striking the period at the end
15 of paragraph (12) and inserting “, plus”,
16 and

17 (iii) by adding at the end the follow-
18 ing new paragraph:

19 “(13) in the case of a corporation, the special-
20 ized training center credit determined under section
21 1400I(a).”

22 (B) Subsection (d) of section 39 (relating
23 to carryback and carryforward of unused cred-
24 its) is amended by adding at the end the follow-
25 ing new paragraph:

1 “(9) NO CARRYBACK OF SECTION 1400I CREDIT
2 BEFORE JANUARY 1, 2000.—No portion of the un-
3 used business credit for any taxable year which is
4 attributable to the credit determined under section
5 1400I may be carried back to a taxable year begin-
6 ning before January 1, 2000.”.

7 (d) OTHER CONFORMING AMENDMENTS.—

8 (1) Subchapter U of chapter 1 is amended by
9 striking part IV, by redesignating part V as part IV,
10 and by redesignating section 1397F as section
11 1397E.

12 (2) The table of subchapters for chapter 1 is
13 amended by adding at the end the following new
14 item:

 “Subchapter X. Public school modernization provisions.”

15 (3) The table of parts of subchapter U of chap-
16 ter 1 is amended by striking the last 2 items and
17 inserting the following item:

 “Part IV. Regulations.”

18 (e) APPLICATION OF CERTAIN LABOR STANDARDS
19 ON CONSTRUCTION PROJECTS FINANCED UNDER PUBLIC
20 SCHOOL MODERNIZATION PROGRAM.—Section 439 of the
21 General Education Provisions Act (relating to labor stand-
22 ards) is amended—

23 (1) by inserting “(a)” before “All laborers and
24 mechanics”, and

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

2 “(b)(1) For purposes of this section, the term ‘appli-
3 cable program’ also includes the qualified zone academy
4 bond provisions enacted by section 226 of the Taxpayer
5 Relief Act of 1997 and the program established by section
6 2 of the Public School Modernization Act of 1999.

7 “(2) A State or local government participating in a
8 program described in paragraph (1) shall—

9 “(A) in the awarding of contracts, give priority
10 to contractors with substantial numbers of employ-
11 ees residing in the local education area to be served
12 by the school being constructed; and

13 “(B) include in the construction contract for
14 such school a requirement that the contractor give
15 priority in hiring new workers to individuals residing
16 in such local education area.

17 “(3) In the case of a program described in paragraph
18 (1), nothing in this subsection or subsection (a) shall be
19 construed to deny any tax credit allowed under such pro-
20 gram. If amounts are required to be withheld from con-
21 tractors to pay wages to which workers are entitled, such
22 amounts shall be treated as expended for construction pur-
23 poses in determining whether the requirements of such
24 program are met.”.

1 (f) EMPLOYMENT AND TRAINING ACTIVITIES RELAT-
2 ING TO CONSTRUCTION OR RECONSTRUCTION OF PUBLIC
3 SCHOOL FACILITIES.—

4 (1) IN GENERAL.—Section 134 of the Work-
5 force Investment Act of 1998 (29 U.S.C. 2864) is
6 amended by adding at the end the following:

7 “(f) LOCAL EMPLOYMENT AND TRAINING ACTIVI-
8 TIES RELATING TO CONSTRUCTION OR RECONSTRUCTION
9 OF PUBLIC SCHOOL FACILITIES.—

10 “(1) IN GENERAL.—In order to provide training
11 services related to construction or reconstruction of
12 public school facilities receiving funding assistance
13 under an applicable program, each State shall estab-
14 lish a specialized program of training meeting the
15 following requirements:

16 “(A) The specialized program provides
17 training for jobs in the construction industry.

18 “(B) The program is designed to provide
19 trained workers for projects for the construction
20 or reconstruction of public school facilities re-
21 ceiving funding assistance under an applicable
22 program.

23 “(C) The program is designed to ensure
24 that skilled workers (residing in the area to be

1 served by the school facilities) will be available
2 for the construction or reconstruction work.

3 “(2) COORDINATION.—The specialized program
4 established under paragraph (1) shall be integrated
5 with other activities under this Act, with the activi-
6 ties carried out under the National Apprenticeship
7 Act of 1937 by the State Apprenticeship Council or
8 through the Bureau of Apprenticeship and Training
9 in the Department of Labor, as appropriate, and
10 with activities carried out under the Carl D. Perkins
11 Vocational and Technical Education Act of 1998.
12 Nothing in this subsection shall be construed to re-
13 quire services duplicative of those referred to in the
14 preceding sentence.

15 “(3) APPLICABLE PROGRAM.—In this sub-
16 section, the term ‘applicable program’ has the mean-
17 ing given the term in section 439(b) of the General
18 Education Provisions Act (relating to labor stand-
19 ards).”.

20 (2) STATE PLAN.—Section 112(b)(17)(A) of the
21 Workforce Investment Act of 1998 (29 U.S.C.
22 2822(b)(17)(A)) is amended—

23 (A) in clause (iii), by striking “and” at the
24 end;

1 (B) by redesignating clause (iv) as clause
2 (v); and

3 (C) by inserting after clause (iii) the fol-
4 lowing:

5 “(iv) how the State will establish and
6 carry out a specialized program of training
7 under section 134(f);and”.

8 (g) EFFECTIVE DATES.—

9 (1) IN GENERAL.—Except as otherwise pro-
10 vided in this subsection, the amendments made by
11 this section shall apply to obligations issued after
12 December 31, 1999.

13 (2) CREDIT FOR CORPORATE CONTRIBUTIONS
14 TO SPECIALIZED TRAINING CENTERS.—Section
15 1400I of the Internal Revenue Code of 1986 (as
16 added by this section) shall apply to taxable years
17 beginning after December 31, 1999.

18 (3) REPEAL OF RESTRICTION ON ZONE ACAD-
19 EMY BOND HOLDERS.—In the case of bonds to
20 which section 1397E of the Internal Revenue Code
21 of 1986 (as in effect before the date of the enact-
22 ment of this Act) applies, the limitation of such sec-
23 tion to eligible taxpayers (as defined in subsection
24 (d)(6) of such section) shall not apply after the date
25 of the enactment of this Act.

1 (4) APPLICATION OF LABOR STANDARDS;
2 TRAINING PROGRAM.—The amendments made by
3 subsections (e) and (f) shall take effect on the date
4 of the enactment of this Act.

5 **SEC. 202. EXTENSION OF EXCLUSION FOR EMPLOYER-PRO-**
6 **VIDED EDUCATIONAL ASSISTANCE; EXCLU-**
7 **SION TO APPLY TO ASSISTANCE FOR GRAD-**
8 **UATE EDUCATION.**

9 (a) PERMANENT EXTENSION.—Subsection (d) of sec-
10 tion 127 is hereby repealed.

11 (b) EXCLUSION TO APPLY TO GRADUATE STU-
12 DENTS.—The last sentence of section 127(c)(1) is amend-
13 ed by striking “hobbies” and all that follows and inserting
14 “hobbies.”

15 (c) EFFECTIVE DATE.—The amendments made by
16 this section shall apply to courses beginning after May 31,
17 2000.

18 **TITLE III—INCENTIVES FOR**
19 **HEALTH CARE AND LONG-**
20 **TERM CARE**

21 **SEC. 301. LONG-TERM CARE TAX CREDIT.**

22 (a) ALLOWANCE OF CREDIT.—

23 (1) IN GENERAL.—Section 24(a) (relating to al-
24 lowance of child tax credit) is amended to read as
25 follows:

1 “(a) ALLOWANCE OF CREDIT.—There shall be al-
2 lowed as a credit against the tax imposed by this chapter
3 for the taxable year an amount equal to the sum of—

4 “(1) \$500 multiplied by the number of qualify-
5 ing children of the taxpayer, plus

6 “(2) \$1,000 multiplied by the number of appli-
7 cable individuals with respect to whom the taxpayer
8 is an eligible caregiver for the taxable year.”

9 (2) ADDITIONAL CREDIT FOR TAXPAYER WITH
10 3 OR MORE SEPARATE CREDIT AMOUNTS.—So much
11 of section 24(d) as precedes paragraph (1)(A) there-
12 of is amended to read as follows:

13 “(d) ADDITIONAL CREDIT FOR TAXPAYERS WITH 3
14 OR MORE SEPARATE CREDIT AMOUNTS.—

15 “(1) IN GENERAL.—If the sum of the number
16 of qualifying children of the taxpayer and the num-
17 ber of applicable individuals with respect to which
18 the taxpayer is an eligible caregiver is 3 or more for
19 any taxable year, the aggregate credits allowed
20 under subpart C shall be increased by the lesser
21 of—”.

22 (3) CONFORMING AMENDMENTS.—

23 (A) The heading for section 32(n) is
24 amended by striking “CHILD” and inserting
25 “FAMILY CARE”.

1 (B) The heading for section 24 is amended
2 to read as follows:

3 **“SEC. 24. FAMILY CARE CREDIT.”**

4 (C) The table of sections for subpart A of
5 part IV of subchapter A of chapter 1 is amend-
6 ed by striking the item relating to section 24
7 and inserting the following new item:

“Sec. 24. Family care credit.”.

8 (b) DEFINITIONS.—Section 24(c) (defining qualifying
9 child) is amended to read as follows:

10 “(c) DEFINITIONS.—For purposes of this section—

11 “(1) QUALIFYING CHILD.—

12 “(A) IN GENERAL.—The term ‘qualifying
13 child’ means any individual if—

14 “(i) the taxpayer is allowed a deduc-
15 tion under section 151 with respect to such
16 individual for the taxable year,

17 “(ii) such individual has not attained
18 the age of 17 as of the close of the cal-
19 endar year in which the taxable year of the
20 taxpayer begins, and

21 “(iii) such individual bears a relation-
22 ship to the taxpayer described in section
23 32(c)(3)(B).

24 “(B) EXCEPTION FOR CERTAIN NONCITI-
25 ZENS.—The term ‘qualifying child’ shall not in-

1 clude any individual who would not be a de-
2 pendent if the first sentence of section
3 152(b)(3) were applied without regard to all
4 that follows ‘resident of the United States’.

5 “(2) APPLICABLE INDIVIDUAL.—

6 “(A) IN GENERAL.—The term ‘applicable
7 individual’ means, with respect to any taxable
8 year, any individual who has been certified, be-
9 fore the due date for filing the return of tax for
10 the taxable year (without extensions), by a phy-
11 sician (as defined in section 1861(r)(1) of the
12 Social Security Act) as being an individual with
13 long-term care needs described in subparagraph
14 (B) for a period—

15 “(i) which is at least 180 consecutive
16 days, and

17 “(ii) a portion of which occurs within
18 the taxable year.

19 Such term shall not include any individual oth-
20 erwise meeting the requirements of the preced-
21 ing sentence unless within the 39½ month pe-
22 riod ending on such due date (or such other pe-
23 riod as the Secretary prescribes) a physician (as
24 so defined) has certified that such individual
25 meets such requirements.

1 “(B) INDIVIDUALS WITH LONG-TERM CARE
2 NEEDS.—An individual is described in this sub-
3 paragraph if the individual meets any of the fol-
4 lowing requirements:

5 “(i) The individual is at least 6 years
6 of age and—

7 “(I) is unable to perform (with-
8 out substantial assistance from an-
9 other individual) at least 3 activities
10 of daily living (as defined in section
11 7702B(c)(2)(B)) due to a loss of
12 functional capacity, or

13 “(II) requires substantial super-
14 vision to protect such individual from
15 threats to health and safety due to se-
16 vere cognitive impairment and is un-
17 able to perform at least 1 activity of
18 daily living (as so defined) or to the
19 extent provided in regulations pre-
20 scribed by the Secretary (in consulta-
21 tion with the Secretary of Health and
22 Human Services), is unable to engage
23 in age appropriate activities.

24 “(ii) The individual is at least 2 but
25 not 6 years of age and is unable due to a

1 loss of functional capacity to perform
2 (without substantial assistance from an-
3 other individual) at least 2 of the following
4 activities: eating, transferring, or mobility.

“(iii) The individual is under 2 years of age and requires specific durable medical equipment by reason of a severe health condition or requires a skilled practitioner trained to address the individual’s condition to be available if the individual’s parents or guardians are absent.

12 “(3) ELIGIBLE CAREGIVER.—

13 “(A) IN GENERAL.—A taxpayer shall be
14 treated as an eligible caregiver for any taxable
15 year with respect to the following individuals:

16 “(i) The taxpayer.

17 “(ii) The taxpayer’s spouse.

(iii) An individual with respect to whom the taxpayer is allowed a deduction under section 151 for the taxable year.

“(iv) An individual who would be described in clause (iii) for the taxable year if section 151(c)(1)(A) were applied by substituting for the exemption amount an amount equal to the sum of the exemption

1 amount, the standard deduction under sec-
2 tion 63(c)(2)(C), and any additional stand-
3 ard deduction under section 63(c)(3) which
4 would be applicable to the individual if
5 clause (iii) applied.

6 “(v) An individual who would be de-
7 scribed in clause (iii) for the taxable year
8 if—

9 “(I) the requirements of clause
10 (iv) are met with respect to the indi-
11 vidual, and

12 “(II) the requirements of sub-
13 paragraph (B) are met with respect to
14 the individual in lieu of the support
15 test of section 152(a).

16 “(B) RESIDENCY TEST.—The require-
17 ments of this subparagraph are met if an indi-
18 vidual has as his principal place of abode the
19 home of the taxpayer and—

20 “(i) in the case of an individual who
21 is an ancestor or descendant of the tax-
22 payer or the taxpayer’s spouse, is a mem-
23 ber of the taxpayer’s household for over
24 half the taxable year, or

1 “(ii) in the case of any other individ-
2 ual, is a member of the taxpayer’s house-
3 hold for the entire taxable year.

4 “(C) SPECIAL RULES WHERE MORE THAN
5 1 ELIGIBLE CAREGIVER.—

6 “(i) IN GENERAL.—If more than 1 in-
7 dividual is an eligible caregiver with re-
8 spect to the same applicable individual for
9 taxable years ending with or within the
10 same calendar year, a taxpayer shall be
11 treated as the eligible caregiver if each
12 such individual (other than the taxpayer)
13 files a written declaration (in such form
14 and manner as the Secretary may pre-
15 scribe) that such individual will not claim
16 such applicable individual for the credit
17 under this section.

18 “(ii) NO AGREEMENT.—If each indi-
19 vidual required under clause (i) to file a
20 written declaration under clause (i) does
21 not do so, the individual with the highest
22 modified adjusted gross income (as defined
23 in section 32(c)(5)) shall be treated as the
24 eligible caregiver.

1 “(iii) MARRIED INDIVIDUALS FILING
2 SEPARATELY.—In the case of married indi-
3 viduals filing separately, the determination
4 under this subparagraph as to whether the
5 husband or wife is the eligible caregiver
6 shall be made under the rules of clause (ii)
7 (whether or not one of them has filed a
8 written declaration under clause (i)).”.

9 (c) IDENTIFICATION REQUIREMENTS.—

10 (1) IN GENERAL.—Section 24(e) is amended by
11 adding at the end the following new sentence: “No
12 credit shall be allowed under this section to a tax-
13 payer with respect to any applicable individual un-
14 less the taxpayer includes the name and taxpayer
15 identification number of such individual, and the
16 identification number of the physician certifying
17 such individual, on the return of tax for the taxable
18 year.”.

19 (2) ASSESSMENT.—Section 6213(g)(2)(I) is
20 amended—

21 (A) by inserting “or physician identifica-
22 tion” after “correct TIN”, and

23 (B) by striking “child” and inserting
24 “family care”.

1 (d) EFFECTIVE DATE.—The amendments made by
2 this section shall apply to taxable years beginning after
3 December 31, 1999.

4 **SEC. 302. DEDUCTION FOR 100 PERCENT OF HEALTH IN-**
5 **SURANCE COSTS OF SELF-EMPLOYED INDIV-**
6 **VIDUALS.**

7 (a) IN GENERAL.—Paragraph (1) of section 162(l)
8 is amended to read as follows:

9 “(1) ALLOWANCE OF DEDUCTION.—In the case
10 of an individual who is an employee within the
11 meaning of section 401(c)(1), there shall be allowed
12 as a deduction under this section an amount equal
13 to 100 percent of the amount paid during the tax-
14 able year for insurance which constitutes medical
15 care for the taxpayer, his spouse, and dependents.”

16 (b) EFFECTIVE DATE.—The amendment made by
17 this section shall apply to taxable years beginning after
18 December 31, 1999.

19 **TITLE IV—PERMANENT EXTEN-**
20 **SION OF CERTAIN EXPIRING**
21 **PROVISIONS**

22 **SEC. 401. RESEARCH CREDIT.**

23 (a) PERMANENT EXTENSION.—

24 (1) IN GENERAL.—Section 41 is amended by
25 striking subsection (h).

1 (2) CONFORMING AMENDMENT.—Paragraph (1)
2 of section 45C(b) is amended by striking subpara-
3 graph (D).

4 (3) EFFECTIVE DATE.—The amendments made
5 by this subsection shall apply to amounts paid or in-
6 curred after June 30, 1999.

7 (b) INCREASE IN PERCENTAGES UNDER ALTER-
8 NATIVE INCREMENTAL CREDIT.—

9 (1) IN GENERAL.—Subparagraph (A) of section
10 41(c)(4) is amended—

11 (A) by striking “1.65 percent” and insert-
12 ing “2.65 percent”,

13 (B) by striking “2.2 percent” and inserting
14 “3.2 percent”, and

15 (C) by striking “2.75 percent” and insert-
16 ing “3.75 percent”.

17 (2) EFFECTIVE DATE.—The amendments made
18 by this subsection shall apply to taxable years begin-
19 ning after June 30, 1999.

20 **SEC. 402. WORK OPPORTUNITY AND WELFARE-TO-WORK**
21 **CREDITS.**

22 (a) WORK OPPORTUNITY CREDIT.—Subsection (c) of
23 section 51 is amended by striking paragraph (4).

24 (b) WELFARE-TO-WORK CREDIT.—Section 51A is
25 amended by striking subsection (f).

1 (c) EFFECTIVE DATE.—The amendments made by
2 this section shall apply to individuals who begin work for
3 the employer after June 30, 1999.

4 **SEC. 403. SUBPART F EXEMPTION FOR ACTIVE FINANCING**
5 **INCOME.**

6 (a) EXEMPT INSURANCE INCOME.—Section 953(e) is
7 amended by striking paragraph (10) and by redesignating
8 paragraph (11) as paragraph (10).

9 (b) FOREIGN PERSONAL HOLDING COMPANY IN-
10 COME.—Section 954(h) is amended by striking paragraph
11 (9).

12 (c) EFFECTIVE DATE.—The amendments made by
13 this section shall apply to taxable years beginning after
14 December 31, 1999.

15 **SEC. 404. EXPENSING OF ENVIRONMENTAL REMEDIATION**
16 **COSTS.**

17 Section 198 is amended by striking subsection (h).

18 **TITLE V—COMMUNITY**
19 **DEVELOPMENT INITIATIVES**

20 **SEC. 501. INCREASE IN STATE CEILING ON LOW-INCOME**
21 **HOUSING CREDIT.**

22 (a) IN GENERAL.—Clause (i) of section 42(h)(3)(C)
23 is amended by striking “\$1.25” and inserting “\$1.75”.

24 (b) ADJUSTMENT OF STATE CEILING FOR IN-
25 CREASES IN COST-OF-LIVING.—Paragraph (3) of section

1 42(h) (relating to housing credit dollar amount for agen-
2 cies) is amended by adding at the end the following new
3 subparagraph:

4 “(H) COST-OF-LIVING ADJUSTMENT.—

5 “(i) IN GENERAL.—In the case of a
6 calendar year after 2000, the dollar
7 amount contained in subparagraph (C)(i)
8 shall be increased by an amount equal to—

9 “(I) such dollar amount, multi-
10 plied by

11 “(II) the cost-of-living adjust-
12 ment determined under section 1(f)(3)
13 for such calendar year by substituting
14 ‘calendar year 1999’ for ‘calendar
15 year 1992’ in subparagraph (B) there-
16 of.

17 “(ii) ROUNDING.—If any increase
18 under clause (i) is not a multiple of 5
19 cents, such increase shall be rounded to
20 the next lowest multiple of 5 cents.”.

21 (c) EFFECTIVE DATE.—The amendments made by
22 this section shall apply to calendar years after 1999.

23 **SEC. 502. NEW MARKETS TAX CREDIT.**

24 (a) IN GENERAL.—Subpart D of part IV of sub-
25 chapter A of chapter 1 (relating to business-related cred-

1 its) is amended by adding at the end the following new
2 section:

3 **“SEC. 45D. NEW MARKETS TAX CREDIT.**

4 “(a) ALLOWANCE OF CREDIT.—

5 “(1) IN GENERAL.—For purposes of section 38,
6 in the case of a taxpayer who holds a qualified eq-
7 uity investment on a credit allowance date of such
8 investment which occurs during the taxable year, the
9 new markets tax credit determined under this sec-
10 tion for such taxable year is an amount equal to 6
11 percent of the amount paid to the qualified commu-
12 nity development entity for such investment at its
13 original issue.

14 “(2) CREDIT ALLOWANCE DATE.—The term
15 ‘credit allowance date’ means, with respect to any
16 qualified equity investment—

17 “(A) the date on which such investment is
18 initially made, and

19 “(B) each of the 4 anniversary dates of
20 such date thereafter.

21 “(b) QUALIFIED EQUITY INVESTMENT.—For pur-
22 poses of this section—

23 “(1) IN GENERAL.—The term ‘qualified equity
24 investment’ means any equity investment in a quali-
25 fied community development entity if—

1 “(A) such investment is acquired by the
2 taxpayer at its original issue (directly or
3 through an underwriter) solely in exchange for
4 cash,

5 “(B) substantially all of such cash is used
6 by the qualified community development entity
7 to make qualified low-income community invest-
8 ments, and

9 “(C) such investment is designated for
10 purposes of this section by the qualified com-
11 munity development entity.

12 Such term shall not include any equity investment
13 issued by a qualified community development entity
14 more than 5 years after the date that such entity re-
15 ceives an allocation under subsection (f). Any alloca-
16 tion not used within such 5-year period may be re-
17 allocated by the Secretary under subsection (f).

18 “(2) LIMITATION.—The maximum amount of
19 equity investments issued by a qualified community
20 development entity which may be designated under
21 paragraph (1)(C) by such entity shall not exceed the
22 portion of the limitation amount allocated under
23 subsection (f) to such entity.

24 “(3) SAFE HARBOR FOR DETERMINING USE OF
25 CASH.—The requirement of paragraph (1)(B) shall

1 be treated as met if at least 85 percent of the aggre-
2 gate gross assets of the qualified community devel-
3 opment entity are invested in qualified low-income
4 community investments.

5 “(4) TREATMENT OF SUBSEQUENT PUR-
6 CHASERS.—The term ‘qualified equity investment’
7 includes any equity investment which would (but for
8 paragraph (1)(A)) be a qualified equity investment
9 in the hands of the taxpayer if such investment was
10 a qualified equity investment in the hands of a prior
11 holder.

12 “(5) REDEMPTIONS.—A rule similar to the rule
13 of section 1202(c)(3) shall apply for purposes of this
14 subsection.

15 “(6) EQUITY INVESTMENT.—The term ‘equity
16 investment’ means—

17 “(A) any stock in a qualified community
18 development entity which is a corporation, and

19 “(B) any capital interest in a qualified
20 community development entity which is a part-
21 nership.

22 “(c) QUALIFIED COMMUNITY DEVELOPMENT EN-
23 TITY.—For purposes of this section—

1 “(1) IN GENERAL.—The term ‘qualified com-
2 munity development entity’ means any domestic cor-
3 poration or partnership if—

4 “(A) the primary mission of the entity is
5 serving, or providing investment capital for,
6 low-income communities or low-income persons,

7 “(B) the entity maintains accountability to
8 residents of low-income communities through
9 representation on governing or advisory boards
10 or otherwise, and

11 “(C) the entity is certified by the Secretary
12 for purposes of this section as being a qualified
13 community development entity.

14 “(2) SPECIAL RULES FOR CERTAIN ORGANIZA-
15 TIONS.—The requirements of paragraph (1) shall be
16 treated as met by—

17 “(A) any specialized small business invest-
18 ment company (as defined in section
19 1044(c)(3)), and

20 “(B) any community development financial
21 institution (as defined in section 103 of the
22 Community Development Banking and Finan-
23 cial Institutions Act of 1994 (12 U.S.C. 4702)).

24 “(d) QUALIFIED LOW-INCOME COMMUNITY INVEST-
25 MENTS.—For purposes of this section—

1 “(1) IN GENERAL.—The term ‘qualified low-in-
2 come community investment’ means—

3 “(A) any equity investment in, or loan to,
4 any qualified active low-income community busi-
5 ness,

6 “(B) the purchase from another commu-
7 nity development entity of any loan made by
8 such entity which is a qualified low-income com-
9 munity investment if the amount received by
10 such other entity from such purchase is used by
11 such other entity to make qualified low-income
12 community investments,

13 “(C) financial counseling and other serv-
14 ices specified in regulations prescribed by the
15 Secretary to businesses located in, and resi-
16 dents of, low-income communities, and

17 “(D) any equity investment in, or loan to,
18 any qualified community development entity if
19 substantially all of the investment or loan is
20 used by such entity to make qualified low-in-
21 come community investments described in sub-
22 paragraphs (A), (B), and (C).

23 “(2) QUALIFIED ACTIVE LOW-INCOME COMMU-
24 NITY BUSINESS.—

1 “(A) IN GENERAL.—For purposes of para-
2 graph (1), the term ‘qualified active low-income
3 community business’ means, with respect to any
4 taxable year, any corporation or partnership if
5 for such year—

6 “(i) at least 50 percent of the total
7 gross income of such entity is derived from
8 the active conduct of a qualified business
9 within any low-income community,

10 “(ii) a substantial portion of the use
11 of the tangible property of such entity
12 (whether owned or leased) is within any
13 low-income community,

14 “(iii) a substantial portion of the serv-
15 ices performed for such entity by its em-
16 ployees are performed in any low-income
17 community,

18 “(iv) less than 5 percent of the aver-
19 age of the aggregate unadjusted bases of
20 the property of such entity is attributable
21 to collectibles (as defined in section
22 408(m)(2)) other than collectibles that are
23 held primarily for sale to customers in the
24 ordinary course of such business, and

1 “(v) less than 5 percent of the aver-
2 age of the aggregate unadjusted bases of
3 the property of such entity is attributable
4 to nonqualified financial property (as de-
5 fined in section 1397B(e)).

6 “(B) PROPRIETORSHIP.—Such term shall
7 include any business carried on by an individual
8 as a proprietor if such business would meet the
9 requirements of subparagraph (A) were it incor-
10 porated.

11 “(C) PORTIONS OF BUSINESS MAY BE
12 QUALIFIED ACTIVE LOW-INCOME COMMUNITY
13 BUSINESS.—The term ‘qualified active low-in-
14 come community business’ includes any trades
15 or businesses which would qualify as a qualified
16 active low-income community business if such
17 trades or businesses were separately incor-
18 porated.

19 “(3) QUALIFIED BUSINESS.—For purposes of
20 this subsection, the term ‘qualified business’ has the
21 meaning given to such term by section 1397B(d);
22 except that—

23 “(A) in lieu of applying paragraph (2)(B)
24 thereof, the rental to others of real property lo-
25 cated in any low-income community shall be

1 treated as a qualified business if there are sub-
2 stantial improvements located on such property,

3 “(B) paragraph (3) thereof shall not apply,
4 and

5 “(C) such term shall not include any busi-
6 ness if a significant portion of the equity inter-
7 ests in such business are held by any person
8 who holds a significant portion of the equity in-
9 vestments in the community development entity.

10 “(e) LOW-INCOME COMMUNITY.—For purposes of
11 this section—

12 “(1) IN GENERAL.—The term ‘low-income com-
13 munity’ means any population census tract if—

14 “(A) the poverty rate for such tract is at
15 least 20 percent, or

16 “(B)(i) in the case of a tract not located
17 within a metropolitan area, the median family
18 income for such tract does not exceed 80 per-
19 cent of statewide median family income, or

20 “(ii) in the case of a tract located within
21 a metropolitan area, the median family income
22 for such tract does not exceed 80 percent of the
23 greater of statewide median family income or
24 the metropolitan area median family income.

1 “(2) AREAS NOT WITHIN CENSUS TRACTS.—In
2 the case of an area which is not tracted for popu-
3 lation census tracts, the equivalent county divisions
4 (as defined by the Bureau of the Census for pur-
5 poses of defining poverty areas) shall be used for
6 purposes of determining poverty rates and median
7 family income.

8 “(f) NATIONAL LIMITATION ON AMOUNT OF INVEST-
9 MENTS DESIGNATED.—

10 “(1) IN GENERAL.—There is a new markets tax
11 credit limitation of \$1,200,000,000 for each of cal-
12 endar years 2000 through 2004.

13 “(2) ALLOCATION OF LIMITATION.—The limita-
14 tion under paragraph (1) shall be allocated by the
15 Secretary among qualified community development
16 entities selected by the Secretary. In making alloca-
17 tions under the preceding sentence, the Secretary
18 shall give priority to entities with records of having
19 successfully provided capital or technical assistance
20 to disadvantaged businesses or communities.

21 “(3) CARRYOVER OF UNUSED LIMITATION.—If
22 the new markets tax credit limitation for any cal-
23 endar year exceeds the aggregate amount allocated
24 under paragraph (2) for such year, such limitation

1 for the succeeding calendar year shall be increased
2 by the amount of such excess.

3 “(g) RECAPTURE OF CREDIT IN CERTAIN CASES.—

4 “(1) IN GENERAL.—If, at any time during the
5 5-year period beginning on the date of the original
6 issue of a qualified equity investment in a qualified
7 community development entity, there is a recapture
8 event with respect to such investment, then the tax
9 imposed by this chapter for the taxable year in
10 which such event occurs shall be increased by the
11 credit recapture amount.

12 “(2) CREDIT RECAPTURE AMOUNT.—For pur-
13 poses of paragraph (1), the credit recapture amount
14 is an amount equal to the sum of—

15 “(A) the aggregate decrease in the credits
16 allowed to the taxpayer under section 38 for all
17 prior taxable years which would have resulted if
18 no credit had been determined under this sec-
19 tion with respect to such investment, plus

20 “(B) interest at the overpayment rate es-
21 tablished under section 6621 on the amount de-
22 termined under subparagraph (A) for each
23 prior taxable year for the period beginning on
24 the due date for filing the return for the prior
25 taxable year involved.

1 No deduction shall be allowed under this chapter for
2 interest described in subparagraph (B).

3 “(3) RECAPTURE EVENT.—For purposes of
4 paragraph (1), there is a recapture event with re-
5 spect to an equity investment in a qualified commu-
6 nity development entity if—

7 “(A) such entity ceases to be a qualified
8 community development entity,

9 “(B) the proceeds of the investment cease
10 to be used as required of subsection (b)(1)(B),
11 or

12 “(C) such investment is redeemed by such
13 entity.

14 “(4) SPECIAL RULES.—

15 “(A) TAX BENEFIT RULE.—The tax for
16 the taxable year shall be increased under para-
17 graph (1) only with respect to credits allowed
18 by reason of this section which were used to re-
19 duce tax liability. In the case of credits not so
20 used to reduce tax liability, the carryforwards
21 and carrybacks under section 39 shall be appro-
22 priately adjusted.

23 “(B) NO CREDITS AGAINST TAX.—Any in-
24 crease in tax under this subsection shall not be
25 treated as a tax imposed by this chapter for

1 purposes of determining the amount of any
2 credit under this chapter or for purposes of sec-
3 tion 55.

4 “(h) BASIS REDUCTION.—The basis of any qualified
5 equity investment shall be reduced by the amount of any
6 credit determined under this section with respect to such
7 investment.

8 “(i) REGULATIONS.—The Secretary shall prescribe
9 such regulations as may be appropriate to carry out this
10 section, including regulations—

11 “(1) which limit the credit for investments
12 which are directly or indirectly subsidized by other
13 Federal benefits (including the credit under section
14 42 and the exclusion from gross income under sec-
15 tion 103),

16 “(2) which prevent the abuse of the provisions
17 of this section through the use of related parties,

18 “(3) which impose appropriate reporting re-
19 quirements

20 “(4) which apply the provisions of this section
21 to newly formed entities.”

22 (b) CREDIT MADE PART OF GENERAL BUSINESS
23 CREDIT.—

24 (1) IN GENERAL.—Subsection (b) of section 38
25 is amended by striking “plus” at the end of para-

1 graph (12), by striking the period at the end of
2 paragraph (13) and inserting “, plus”, and by add-
3 ing at the end the following new paragraph:

4 “(14) the new markets tax credit determined
5 under section 45D(a).”

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

9 “(10) NO CARRYBACK OF NEW MARKETS TAX
10 CREDIT BEFORE JANUARY 1, 2000.—No portion of
11 the unused business credit for any taxable year
12 which is attributable to the credit under section 45D
13 may be carried back to a taxable year ending before
14 January 1, 2000.”

15 (c) DEDUCTION FOR UNUSED CREDIT.—Subsection
16 (c) of section 196 is amended by striking “and” at the
17 end of paragraph (7), by striking the period at the end
18 of paragraph (8) and inserting “, and”, and by adding
19 at the end the following new paragraph:

20 “(9) the new markets tax credit determined
21 under section 45D(a).”

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

“Sec. 45D. New markets tax credit.”

1 (e) EFFECTIVE DATE.—The amendments made by
2 this section shall apply to investments made after Decem-
3 ber 31, 1999.

4 **SEC. 503. CREDIT TO HOLDERS OF BETTER AMERICA**
5 **BONDS.**

6 (a) IN GENERAL.—Subpart B of part IV of sub-
7 chapter A of chapter 1 is amended by adding at the end
8 the following new section:

9 **“SEC. 30B. CREDIT TO HOLDERS OF BETTER AMERICA**
10 **BONDS.**

11 “(a) ALLOWANCE OF CREDIT.—In the case of a tax-
12 payer who holds a Better America Bond on a credit allow-
13 ance date of such bond which occurs during the taxable
14 year, there shall be allowed as a credit against the tax
15 imposed by this chapter for such taxable year an amount
16 equal to the sum of the credits determined under sub-
17 section (b) with respect to credit allowance dates during
18 such year on which the taxpayer holds such bond.

19 “(b) AMOUNT OF CREDIT.—

20 “(1) IN GENERAL.—The amount of the credit
21 determined under this subsection with respect to any
22 credit allowance date for a Better America Bond is
23 25 percent of the annual credit determined with re-
24 spect to such bond.

1 “(2) ANNUAL CREDIT.—The annual credit de-
2 termined with respect to any Better America Bond
3 is the product of—

4 “(A) the applicable credit rate, multiplied
5 by

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

8 “(3) APPLICABLE CREDIT RATE.—For purposes
9 of paragraph (1), the applicable credit rate with re-
10 spect to an issue is the rate equal to an average
11 market yield (as of the day before the date of
12 issuance of the issue) on outstanding long-term cor-
13 porate debt obligations (determined under regula-
14 tions prescribed by the Secretary).

15 “(4) SPECIAL RULE FOR ISSUANCE AND RE-
16 DEMPTION.—In the case of a bond which is issued
17 during the 3-month period ending on a credit allow-
18 ance date, the amount of the credit determined
19 under this subsection with respect to such credit al-
20 lowance date shall be a ratable portion of the credit
21 otherwise determined based on the portion of the 3-
22 month period during which the bond is outstanding.
23 A similar rule shall apply when the bond is re-
24 deemed.

1 “(c) BETTER AMERICA BOND.—For purposes of this
2 section—

3 “(1) IN GENERAL.—The term ‘Better America
4 Bond’ means any bond issued as part of an issue
5 if—

6 “(A) 95 percent or more of the proceeds of
7 such issue are to be used for any qualified pur-
8 pose,

9 “(B) the bond is issued by a State or local
10 government within the jurisdiction of which the
11 qualified purpose of the issue is to be carried
12 out,

13 “(C) the issuer designates such bond for
14 purposes of this section,

15 “(D) the term of each bond which is part
16 of such issue does not exceed 15 years,

17 “(E) the requirements of section 147(f)
18 are met with respect to such issue, and

19 “(F) except in the case of the proceeds of
20 such issue which are to be used for the qualified
21 purpose described in paragraph (2)(A)(iv), the
22 payment of the principal of such issue is se-
23 cured by taxes of general applicability imposed
24 by a general purpose governmental unit.

25 “(2) QUALIFIED PURPOSE.—

1 “(A) IN GENERAL.—The term ‘qualified
2 purpose’ means any of the following:

3 “(i) The acquisition of land for use as
4 open space, wetlands, public parks, or
5 greenways, and the provision of visitor fa-
6 cilities (such as campgrounds and hiking
7 or biking trails) for land so used, but only
8 if—

9 “(I) such land and facilities are
10 to be owned by the issuer or a quali-
11 fied owner, and

12 “(II) the initial owner of such
13 land and facilities records pursuant to
14 State law a qualified restrictive cov-
15 enant with respect to such land and
16 facilities.

17 “(ii) The remediation of land acquired
18 under clause (i) (or other publicly owned
19 land) to enhance water quality by—

20 “(I) restoring hydrology or plant-
21 ing trees or other vegetation,

22 “(II) undertaking reasonable
23 measures to control erosion,

24 “(III) restoring wetlands, or

1 “(IV) remediating conditions
2 caused by the prior disposal of toxic
3 or other waste.

4 “(iii) The acquisition by the issuer or
5 any qualified owner of any restriction on
6 privately owned open land which prevents
7 commercial development and any substan-
8 tial change in the use or character of the
9 land if such restriction would, if contrib-
10 uted by the owner of the open land to a
11 qualified organization (as defined in sec-
12 tion 170(h)(3)), be a qualified conservation
13 contribution (as defined in section 170(h)).

14 “(iv) The environmental assessment
15 and remediation of real property owned by
16 any State or local government if—

17 “(I) such property was acquired
18 by such government as a result of
19 being abandoned by the prior owner,
20 and

21 “(II) such property is located in
22 an area at or on which there has been
23 a release (or threat of release) or dis-
24 posal of any hazardous substance (as
25 defined in section 198).

1 “(B) REMEDIATION OF NATIONAL PRIOR-
2 ITIES LISTED SITES NOT QUALIFIED PUR-
3 POSE.—Subparagraph (A)(ii) shall not apply to
4 remediation of any site which is on, or proposed
5 for, the national priorities list under section
6 105(a)(8)(B) of the Comprehensive Environ-
7 mental Response, Compensation, and Liability
8 Act of 1980.

9 “(C) QUALIFIED OWNER.—For purposes of
10 this paragraph, the term ‘qualified owner’
11 means any organization described in section
12 501(c)(3) whose exempt purpose includes envi-
13 ronmental protection.

14 “(D) QUALIFIED RESTRICTIVE COV-
15 ENANT.—For purposes of subparagraph
16 (A)(i)(II), the term ‘qualified restrictive cov-
17 enant’ means, with respect to land or facilities,
18 any covenant which prohibits the person who
19 owns such land or facilities at the end of the
20 term of the bond from selling or otherwise per-
21 mitting a use of such land or facilities which is
22 not described in subparagraph (A) unless—

23 “(i) a reasonable period is allowed for
24 a qualified owner to purchase such land or
25 facilities,

1 “(ii) the purchase price is not greater
2 than the price originally paid in conjunc-
3 tion with the expenditure of bond proceeds,
4 and

5 “(iii) the purchaser records pursuant
6 to State law a covenant with respect to the
7 purchased land and facilities which pro-
8 tects in perpetuity the use of such land
9 and facilities for a use described in sub-
10 paragraph (A).

11 “(3) PUBLIC AVAILABILITY REQUIREMENT,
12 ETC.—

13 “(A) IN GENERAL.—The term ‘Better
14 America Bond’ shall not include any bond
15 which is part of an issue if—

16 “(i) any portion of the proceeds of the
17 issue are to be used for any private busi-
18 ness use (as defined in section 141(b)(6)),
19 or

20 “(ii) the payment of the principal of,
21 or the interest on, any portion of such pro-
22 ceeds is (under the terms of such issue or
23 any underlying arrangement) directly or
24 indirectly secured or to be derived as de-

1 scribed in subparagraph (A) or (B) of sec-
2 tion 141(b)(2).

3 “(B) EXCEPTION.—Subparagraph (A)
4 shall not apply to proceeds used for a qualified
5 purpose described in paragraph (2)(A)(iv).

6 “(d) LIMITATION ON AMOUNT OF BONDS DES-
7 IGNATED.—

8 “(1) IN GENERAL.—The maximum aggregate
9 face amount of bonds issued during any calendar
10 year which may be designated under subsection
11 (c)(1) by any issuer shall not exceed the limitation
12 amount allocated under paragraph (3) for such cal-
13 endar year to such issuer.

14 “(2) NATIONAL LIMITATION ON AMOUNT OF
15 BONDS DESIGNATED.—There is a national Better
16 America Bond limitation for each calendar year.
17 Such limitation is—

18 “(A) \$1,900,000,000 for each of calendar
19 years 2000, 2001, 2002, 2003, and 2004, and

20 “(B) except as provided in paragraph (4),
21 zero after 2004.

22 “(3) ALLOCATION OF LIMITATION AMONG
23 STATES AND LOCAL GOVERNMENTS.—

24 “(A) IN GENERAL.—The national Better
25 America Bond limitation for any calendar year

shall be allocated by the EPA Administrator to States and local governments having approved applications. As part of the competitive application process, the Environmental Protection Agency should, when possible, allocate such limitation on a per capita basis.

7 “(B) APPROVED APPLICATION.—For pur-
8 poses of subparagraph (A), the term ‘approved
9 application’ means an application which is ap-
10 proved by the EPA Administrator and includes
11 such information as the EPA Administrator
12 shall specify.

13 “(4) CARRYOVER OF UNUSED LIMITATION.—If
14 for any calendar year—

“(A) the amount allocated under paragraph (4) to any State or local government, exceeds

18 “(B) the amount of bonds issued during
19 such year which are designated under sub-
20 section (c)(1) pursuant to such allocation,
21 the limitation amount under paragraph (3) for such
22 State or local government for the following calendar
23 year shall be increased by the amount of such ex-
24 cess.

25 “(e) LIMITATION BASED ON AMOUNT OF TAX.—

1 “(1) IN GENERAL.—The credit allowed under
2 subsection (a) for any taxable year shall not exceed
3 the excess of—

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

7 “(B) the sum of the credits allowable
8 under part IV of subchapter A (other than sub-
9 part C thereof, relating to refundable credits).

10 “(2) CARRYOVER OF UNUSED CREDIT.—If the
11 credit allowable under subsection (a) exceeds the
12 limitation imposed by paragraph (1) for such taxable
13 year, such excess shall be carried to the succeeding
14 taxable year and added to the credit allowable under
15 subsection (a) for such taxable year.

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

18 “(1) CREDIT ALLOWANCE DATE.—The term
19 ‘credit allowance date’ means—

20 “(A) March 15,

21 “(B) June 15,

22 “(C) September 15, and

23 “(D) December 15.

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

1 “(2) BOND.—The term ‘bond’ includes any ob-
2 ligation.

3 “(3) STATE.—The term ‘State’ includes the
4 District of Columbia, any possession of the United
5 States, and any Indian tribal government (within the
6 meaning of section 7871).

7 “(4) LOCAL GOVERNMENT.—The term ‘local
8 government’ means—

9 “(A) any county, city, town, township, par-
10 ish, village, or other general purpose political
11 subdivision of a State, and

12 “(B) any combination of political subdivi-
13 sions described in subparagraph (A) recognized
14 by the EPA Administrator.

15 “(5) EPA ADMINISTRATOR.—The term ‘EPA
16 Administrator’ means the Administrator of the Envi-
17 ronmental Protection Agency.

18 “(g) CREDIT INCLUDED IN GROSS INCOME.—Gross
19 income includes the amount of the credit allowed to the
20 taxpayer under this section (determined without regard to
21 subsection (e)) and the amount so included shall be treat-
22 ed as interest income.

23 “(h) SPECIAL RULES RELATING TO ARBITRAGE.—

24 “(1) IN GENERAL.—A bond shall not be treated
25 as failing to meet the requirements of subsection

1 (c)(1) solely by reason of the fact that the proceeds
2 of the issue of which such bond is a part are in-
3 vested for a temporary period (but not more than 36
4 months) until such proceeds are needed for the pur-
5 pose for which such issue was issued.

6 “(2) REASONABLE EXPECTATION AND BINDING
7 COMMITMENT REQUIREMENTS.—Paragraph (1) shall
8 apply to an issue only if, as of the date of
9 issuance—

10 “(A) the issuer reasonably expects that—

11 “(i) at least 95 percent of the pro-
12 ceeds of the issue will be spent for a quali-
13 fied purpose within the 3-year period be-
14 ginning on such date, and

15 “(ii) property financed with such pro-
16 ceeds will be used for qualified purposes
17 for at least 15 years after being so fi-
18 nanced,

19 “(B) there is a binding commitment with
20 a third party to spend at least 10 percent of the
21 proceeds of the issue for qualified purposes
22 within the 6-month period beginning on such
23 date, and

1 “(C) the issuer reasonably expects that the
2 remaining proceeds of the issue will be spent
3 with due diligence for qualified purposes.

4 “(3) EARNINGS ON PROCEEDS.—Any earnings
5 on proceeds during the temporary period shall be
6 treated as proceeds of the issue for purposes of ap-
7 plying subsection (c)(1) and paragraph (1) of this
8 subsection.

9 “(i) DENIAL OF DEDUCTION FOR ENVIRONMENTAL
10 REMEDATION EXPENDITURES.—Expenditures financed
11 by any Better America Bond shall not be allowed as a
12 deduction under section 198.

13 “(j) OTHER SPECIAL RULES.—

14 “(1) BONDS HELD BY REGULATED INVEST-
15 MENT COMPANIES.—If any Better America Bond is
16 held by a regulated investment company, the credit
17 determined under subsection (a) shall be allowed to
18 shareholders of such company under procedures pre-
19 scribed by the Secretary.

20 “(2) CREDITS MAY BE STRIPPED.—Under regu-
21 lations prescribed by the Secretary—

22 “(A) IN GENERAL.—There may be a sepa-
23 ration (including at issuance) of the ownership
24 of a Better America Bond and the entitlement
25 to the credit under this section with respect to

1 such bond. In case of any such separation, the
2 credit under this section shall be allowed to the
3 person who on the credit allowance date holds
4 the instrument evidencing the entitlement to
5 the credit and not to the holder of the bond.

6 “(B) CERTAIN RULES TO APPLY.—In the
7 case of a separation described in subparagraph
8 (A), the rules of section 1286 shall apply to the
9 Better America Bond as if it were a stripped
10 bond and to the credit under this section as if
11 it were a stripped coupon.

12 “(3) TREATMENT FOR ESTIMATED TAX PUR-
13 POSES.—Solely for purposes of sections 6654 and
14 6655, the credit allowed by this section to a tax-
15 payer by reason of holding a Better America Bond
16 on a credit allowance date shall be treated as if it
17 were a payment of estimated tax made by the tax-
18 payer on such date.

19 “(4) CREDIT MAY BE TRANSFERRED.—Nothing
20 in any law or rule of law shall be construed to limit
21 the transferability of the credit allowed by this sec-
22 tion through sale and repurchase agreements.

23 “(5) REPORTING.—Issuers of Better America
24 Bonds shall submit reports similar to the reports re-
25 quired under section 149(e).

1 “(k) RECAPTURE OF PORTION OF CREDIT WHERE
2 CESSATION OF QUALIFIED USE.—

3 “(1) IN GENERAL.—If any bond which when
4 issued purported to be a Better America Bond
5 ceases to meet the requirements of subsection (c),
6 the issuer shall pay to the United States (at the
7 time required by the Secretary) an amount equal to
8 the aggregate of the credits allowable under this sec-
9 tion (determined without regard to subsection (e))
10 for taxable years ending during the calendar year in
11 which such cessation occurs and the 2 preceding cal-
12 endar years.

13 “(2) FAILURE TO PAY.—If the issuer fails to
14 timely pay the amount required by paragraph (1)
15 with respect to any issue, the tax imposed by this
16 chapter on each holder of any bond which is part of
17 such issue shall be increased (for the taxable year of
18 the holder in which such cessation occurs) by the ag-
19 gregate decrease in the credits allowed under this
20 section to such holder for taxable years beginning in
21 such 3 calendar years which would have resulted
22 solely from denying any credit under this section
23 with respect to such issue for such taxable years.

24 “(3) SPECIAL RULES.—

1 “(A) TAX BENEFIT RULE.—The tax for
2 the taxable year shall be increased under para-
3 graph (2) only with respect to credits allowed
4 by reason of this section which were used to re-
5 duce tax liability. In the case of credits not so
6 used to reduce tax liability, the carryforwards
7 and carrybacks under section 39 shall be appro-
8 priately adjusted.

9 “(B) NO CREDITS AGAINST TAX.—Any in-
10 crease in tax under paragraph (2) shall not be
11 treated as a tax imposed by this chapter for
12 purposes of determining—

13 “(i) the amount of any credit allow-
14 able under this part, or

15 “(ii) the amount of the tax imposed
16 by section 55.

17 “(l) TERMINATION.—This section shall not apply to
18 any bond issued after December 31, 2004.”

19 (b) REPORTING.—Subsection (d) of section 6049 (re-
20 lating to returns regarding payments of interest) is
21 amended by adding at the end the following new para-
22 graph:

23 “(8) REPORTING OF CREDIT ON BETTER AMER-
24 ICA BONDS.—

1 “(A) IN GENERAL.—For purposes of sub-
2 section (a), the term ‘interest’ includes amounts
3 includible in gross income under section 30B(g)
4 and such amounts shall be treated as paid on
5 the credit allowance date (as defined in section
6 30B(f)(1)).

7 “(B) REPORTING TO CORPORATIONS,
8 ETC.—Except as otherwise provided in regula-
9 tions, in the case of any interest described in
10 subparagraph (A) of this paragraph, subsection
11 (b)(4) of this section shall be applied without
12 regard to subparagraphs (A), (H), (I), (J), (K),
13 and (L)(i).

14 “(C) REGULATORY AUTHORITY.—The Sec-
15 retary may prescribe such regulations as are
16 necessary or appropriate to carry out the pur-
17 poses of this paragraph, including regulations
18 which require more frequent or more detailed
19 reporting.”

20 (c) CONFORMING AMENDMENT.—The table of sec-
21 tions for subpart B of part IV of subchapter A of chapter
22 1 is amended by adding at the end the following new item:

 “Sec. 30B. Credit to holders of Better America Bonds.”

23 (d) EFFECTIVE DATE.—The amendments made by
24 this section shall apply to obligations issued after Decem-
25 ber 31, 1999.

1 (e) GUIDELINES FOR APPLICATIONS.—Not later than
2 January 1, 2000, guidelines specifying the criteria to be
3 used in approving applications under section 30B(d)(3) of
4 the Internal Revenue Code of 1986 (as added by this Act)
5 shall be developed and published by the Administrator of
6 the Environmental Protection Agency in the Federal Reg-
7 ister.

8 **TITLE VI—SMALL BUSINESS**
9 **INCENTIVES**

10 **SEC. 601. ACCELERATION OF \$1,000,000 ESTATE TAX EXCLU-**
11 **SION.**

12 (a) ESTATE TAX CREDIT.—

13 (1) Subsection (a) of section 2010 (relating to
14 unified credit against estate tax) is amended by
15 striking “the applicable credit amount” and insert-
16 ing “\$345,800”.

17 (2) Paragraph (2) of section 2001(c) is amend-
18 ed by striking “\$10,000,000” and all that follows
19 and inserting “\$10,000,000. The amount of the in-
20 crease under the preceding sentence shall not exceed
21 \$705,000.”

22 (3)(A) Subparagraph (A) of section 2057(a)(3)
23 is amended by striking “ the applicable exclusion
24 amount under section 2010 shall be \$625,000” and

1 inserting “the credit under section 2010 shall be
2 \$202,050”.

3 (B) Subparagraph (B) of section 2057(a)(3) is
4 amended to read as follows:

5 “(B) INCREASE IN UNIFIED CREDIT IF DE-
6 DUCTION IS LESS THAN \$675,000.—If the deduc-
7 tion allowed by this section is less than
8 \$675,000, the amount of the credit under sec-
9 tion 2010 shall be equal to the lesser of
10 \$345,800 or the tentative tax which would be
11 determined under the rate schedule set forth in
12 section 2001(c) if the amount with respect to
13 which such tentative tax is computed were equal
14 to the sum of—

15 “(i) the excess of \$675,000 over the
16 amount of the deduction allowed, and

17 “(ii) \$625,000.”

18 (4) Subparagraph (A) of section 2102(c)(3) is
19 amended by striking “the applicable credit amount
20 in effect under section 2010(c) for the calendar year
21 which includes the date of death” and inserting
22 “\$345,800”.

23 (5) Paragraph (1) of section 6018(a) is amend-
24 ed by striking “the applicable exclusion amount in
25 effect under section 2010(c) for the calendar year

1 which includes the date of death” and inserting
2 “\$1,000,000”.

3 (6)(A) Subparagraph (A) of section 6601(j)(2)
4 is amended to read as follows:

5 “(A) \$345,800, or”.

6 (B) Paragraph (3) of section 6601(j) is
7 amended—

8 (i) by striking “\$1,000,000” each place it
9 occurs and inserting “\$345,800”, and

10 (ii) by striking “\$10,000” each place it ap-
11 pears and inserting “\$1,000”.

12 (b) UNIFIED GIFT TAX CREDIT.—Paragraph (1) of
13 section 2505(a) is amended to read as follows:

14 “(1) \$345,800, reduced by”.

15 (c) EFFECTIVE DATE.—The amendments made by
16 this section shall apply to the estates of decedents dying,
17 and gifts made, after December 31, 1999.

18 **SEC. 602. INCREASE IN EXPENSE TREATMENT FOR SMALL**
19 **BUSINESSES.**

20 (a) IN GENERAL.—Paragraph (1) of section 179(b)
21 (relating to dollar limitation) is amended to read as fol-
22 lows:

23 “(1) DOLLAR LIMITATION.—The aggregate cost
24 which may be taken into account under subsection
25 (a) for any taxable year shall not exceed \$30,000.”.

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

4 **TITLE VII—PENSION**
5 **PROVISIONS**

6 **SEC. 701. TREATMENT OF MULTIEMPLOYER PLANS UNDER**
7 **SECTION 415.**

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

11 “(11) SPECIAL LIMITATION RULE FOR GOVERN-
12 MENTAL AND MULTIEMPLOYER PLANS.—In the case
13 of a governmental plan (as defined in section
14 414(d)) or a multiemployer plan (as defined in sec-
15 tion 414(f)), subparagraph (B) of paragraph (1)
16 shall not apply.”.

17 (b) EXEMPTION FOR SURVIVOR AND DISABILITY
18 BENEFITS.—Subparagraph (I) of section 415(b)(2) (relat-
19 ing to limitation for defined benefit plans) is amended—

20 (1) by inserting “or a multiemployer plan (as
21 defined in section 414(f))” after “section 414(d))”
22 in clause (i),

23 (2) by inserting “or multiemployer plan” after
24 “governmental plan” in clause (ii), and

1 (3) by inserting “AND MULTIEMPLOYER” after
2 “GOVERNMENTAL” in the heading.

3 (c) COMBINING AND AGGREGATION OF PLANS.—

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

7 “(3) EXCEPTION FOR MULTIEMPLOYER
8 PLANS.—Notwithstanding paragraph (1) and sub-
9 section (g), a multiemployer plan (as defined in sec-
10 tion 414(f)) shall not be combined or aggregated
11 with any other plan maintained by an employer for
12 purposes of applying the limitations established in
13 this section, except that such plan shall be combined
14 or aggregated with another plan which is not such
15 a multiemployer plan solely for purposes of deter-
16 mining whether such other plan meets the require-
17 ments of subsection (b)(1)(A).”.

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

23 (d) EFFECTIVE DATE.—The amendments made by
24 this section shall apply to years beginning after December
25 31, 1999.

1 **SEC. 702. ACTUARIAL REDUCTION ONLY FOR BENEFITS BE-**
2 **GINNING BEFORE AGE 62 IN CASE OF BENE-**
3 **FITS UNDER MULTIEMPLOYER PLANS.**

4 (A) IN GENERAL.—Subparagraph (F) of section
5 415(b)(2) is amended to read as follows:

6 “(F) MULTIEMPLOYER PLANS AND PLANS
7 MAINTAINED BY GOVERNMENTS AND TAX EX-
8 EMPT ORGANIZATIONS.—

9 “(i) IN GENERAL.—In the case of a
10 governmental plan (within the meaning of
11 section 414(d)), a plan maintained by an
12 organization (other than a governmental
13 unit) exempt from tax under this subtitle,
14 a multiemployer plan (as defined in section
15 414(f)), or a qualified merchant marine
16 plan—

“(I) subparagraph (C) shall be applied by substituting ‘age 62’ for ‘social security retirement age’ each place it appears, and as if the last sentence thereof read as follows: ‘The reduction under this subparagraph shall not reduce the limitation of paragraph (1)(A) below (i) \$75,000 if the benefit begins at or after age 55, or (ii) if the benefit begins before age

1 55, the equivalent of the \$75,000 lim-
2 itation for age 55.’, and

3 “(II) subparagraph (D) shall be
4 applied by substituting ‘age 65’ for
5 ‘social security retirement age’ each
6 place it appears.

7 “(ii) SPECIAL RULE FOR MULTIEM-
8 PLOYER PLANS.—In the case of a multiem-
9 ployer plan (as so defined), the \$75,000
10 amount referred to in clause (i)(I) shall in
11 no event be less than the amount equal to
12 80 percent of the accrued benefit payable
13 at normal retirement age.

14 “(iii) DEFINITIONS.—For purposes of
15 this subparagraph—

16 “(I) QUALIFIED MERCHANT MA-
17 RINE PLAN.—The term ‘qualified mer-
18 chant marine plan’ means a plan in
19 existence on January 1, 1986, the
20 participants in which are merchant
21 marine officers holding licenses issued
22 by the Secretary of Transportation
23 under title 46, United States Code.

24 “(II) EXEMPT ORGANIZATION
25 PLAN COVERING 50 PERCENT OF ITS

1 EMPLOYEES.—A plan shall be treated
2 as a plan maintained by an organiza-
3 tion (other than a governmental unit)
4 exempt from tax under this subtitle if
5 at least 50 percent of the employees
6 benefiting under the plan are employ-
7 ees of an organization (other than a
8 governmental unit) exempt from tax
9 under this subtitle. If less than 50
10 percent of the employees benefiting
11 under a plan are employees of an or-
12 ganization (other than a governmental
13 unit) exempt from tax under this sub-
14 title, the plan shall be treated as a
15 plan maintained by an organization
16 (other than a governmental unit) ex-
17 empt from tax under this subtitle only
18 with respect to employees of such an
19 organization.”.

20 (b) EFFECTIVE DATE.—The amendment made by
21 this section shall apply to years beginning after December
22 31, 1999.

1 **TITLE VIII—REVENUE OFFSETS**

2 **SEC. 801. RETURNS RELATING TO CANCELLATIONS OF IN-**
3 **DEBTEDNESS BY ORGANIZATIONS LENDING**
4 **MONEY.**

5 (a) IN GENERAL.—Paragraph (2) of section
6 6050P(c) (relating to definitions and special rules) is
7 amended by striking “and” at the end of subparagraph
8 (B), by striking the period at the end of subparagraph
9 (C) and inserting “, and”, and by inserting after subpara-
10 graph (C) the following new subparagraph:

11 “(D) any organization a significant trade
12 or business of which is the lending of money.”

13 (b) EFFECTIVE DATE.—The amendment made by
14 subsection (a) shall apply to discharges of indebtedness
15 after December 31, 1999.

16 **SEC. 802. EXTENSION OF INTERNAL REVENUE SERVICE**
17 **USER FEES.**

18 (a) IN GENERAL.—Chapter 77 (relating to mis-
19 cellaneous provisions) is amended by adding at the end
20 the following new section:

21 **“SEC. 7527. INTERNAL REVENUE SERVICE USER FEES.**

22 “(a) GENERAL RULE.—The Secretary shall establish
23 a program requiring the payment of user fees for—

1 “(1) requests to the Internal Revenue Service
 2 for ruling letters, opinion letters, and determination
 3 letters, and

4 “(2) other similar requests.

5 “(b) PROGRAM CRITERIA.—

6 “(1) IN GENERAL.—The fees charged under the
 7 program required by subsection (a)—

8 “(A) shall vary according to categories (or
 9 subcategories) established by the Secretary,

10 “(B) shall be determined after taking into
 11 account the average time for (and difficulty of)
 12 complying with requests in each category (and
 13 subcategory), and

14 “(C) shall be payable in advance.

15 “(2) EXEMPTIONS, ETC.—The Secretary shall
 16 provide for such exemptions (and reduced fees)
 17 under such program as the Secretary determines to
 18 be appropriate.

19 “(3) AVERAGE FEE REQUIREMENT.—The aver-
 20 age fee charged under the program required by sub-
 21 section (a) shall not be less than the amount deter-
 22 mined under the following table:

“Category	Average Fee
Employee plan ruling and opinion	\$250
Exempt organization ruling	\$350
Employee plan determination	\$300
Exempt organization determination	\$275
Chief counsel ruling	\$200.

1 “(c) TERMINATION.—No fee shall be imposed under
2 this section with respect to requests made after September
3 30, 2009.”

4 (b) CONFORMING AMENDMENTS.—

5 (1) The table of sections for chapter 77 is
6 amended by adding at the end the following new
7 item:

“Sec. 7527. Internal Revenue Service user fees.”

8 (2) Section 10511 of the Revenue Act of 1987
9 is repealed.

10 (c) EFFECTIVE DATE.—The amendments made by
11 this section shall apply to requests made after the date
12 of the enactment of this Act.

13 **SEC. 803. LIMITATIONS ON WELFARE BENEFIT FUNDS OF 10**
14 **OR MORE EMPLOYER PLANS.**

15 (a) BENEFITS TO WHICH EXCEPTION APPLIES.—
16 Section 419A(f)(6)(A) (relating to exception for 10 or
17 more employer plans) is amended to read as follows:

18 “(A) IN GENERAL.—This subpart shall not
19 apply to a welfare benefit fund which is part of
20 a 10 or more employer plan if the only benefits
21 provided through the fund are 1 or more of the
22 following:

23 “(i) Medical benefits.

24 “(ii) Disability benefits.

1 “(iii) Group term life insurance bene-
2 fits which do not provide for any cash sur-
3 render value or other money that can be
4 paid, assigned, borrowed, or pledged for
5 collateral for a loan.

6 The preceding sentence shall not apply to any
7 plan which maintains experience-rating arrange-
8 ments with respect to individual employers.”

9 (b) LIMITATION ON USE OF AMOUNTS FOR OTHER
10 PURPOSES.—Section 4976(b) (defining disqualified bene-
11 fit) is amended by adding at the end the following new
12 paragraph:

13 “(5) SPECIAL RULE FOR 10 OR MORE EM-
14 PLOYER PLANS EXEMPTED FROM PREFUNDING LIM-
15 ITS.—For purposes of paragraph (1)(C), if—

16 “(A) subpart D of part I of subchapter D
17 of chapter 1 does not apply by reason of section
18 419A(f)(6) to contributions to provide 1 or
19 more welfare benefits through a welfare benefit
20 fund under a 10 or more employer plan, and

21 “(B) any portion of the welfare benefit
22 fund attributable to such contributions is used
23 for a purpose other than that for which the con-
24 tributions were made,

1 then such portion shall be treated as reverting to the
2 benefit of the employers maintaining the fund.”

3 (c) EFFECTIVE DATE.—The amendments made by
4 this section shall apply to contributions paid or accrued
5 after June 9, 1999, in taxable years ending after such
6 date.

7 **SEC. 804. INCREASE IN ELECTIVE WITHHOLDING RATE FOR**
8 **NONPERIODIC DISTRIBUTIONS FROM DE-**
9 **FERRED COMPENSATION PLANS.**

10 (a) IN GENERAL.—Section 3405(b)(1) (relating to
11 withholding) is amended by striking ‘10 percent’ and in-
12 serting ‘15 percent’.

13 (b) EFFECTIVE DATE.—The amendment made by
14 subsection (a) shall apply to distributions after December
15 31, 1999.

16 **SEC. 805. CONTROLLED ENTITIES INELIGIBLE FOR REIT**
17 **STATUS.**

18 (a) IN GENERAL.—Subsection (a) of section 856 (re-
19 lating to definition of real estate investment trust) is
20 amended by striking “and” at the end of paragraph (6),
21 by redesignating paragraph (7) as paragraph (8), and by
22 inserting after paragraph (6) the following new paragraph:

23 “(7) which is not a controlled entity (as defined
24 in subsection (l)); and”.

1 (b) CONTROLLED ENTITY.—Section 856 is amended
2 by adding at the end the following new subsection:

3 “(l) CONTROLLED ENTITY.—

4 “(1) IN GENERAL.—For purposes of subsection
5 (a)(7), an entity is a controlled entity if, at any time
6 during the taxable year, one person (other than a
7 qualified entity)—

8 “(A) in the case of a corporation, owns
9 stock—

10 “(i) possessing at least 50 percent of
11 the total voting power of the stock of such
12 corporation, or

13 “(ii) having a value equal to at least
14 50 percent of the total value of the stock
15 of such corporation, or

16 “(B) in the case of a trust, owns beneficial
17 interests in the trust which would meet the re-
18 quirements of subparagraph (A) if such inter-
19 ests were stock.

20 “(2) QUALIFIED ENTITY.—For purposes of
21 paragraph (1), the term ‘qualified entity’ means—

22 “(A) any real estate investment trust, and

23 “(B) any partnership in which one real es-
24 tate investment trust owns at least 50 percent

1 of the capital and profits interests in the part-
2 nership.

3 “(3) ATTRIBUTION RULES.—For purposes of
4 this paragraphs (1) and (2)—

5 “(A) IN GENERAL.—Rules similar to the
6 rules of subsections (d)(5) and (h)(3) shall
7 apply.

8 “(B) STAPLED ENTITIES.—A group of en-
9 tities which are stapled entities (as defined in
10 section 269B(c)(2)) shall be treated as 1 per-
11 son.

12 “(4) EXCEPTION FOR CERTAIN NEW REITS.—

13 “(A) IN GENERAL.—The term ‘controlled
14 entity’ shall not include an incubator REIT.

15 “(B) INCUBATOR REIT.—A corporation
16 shall be treated as an incubator REIT for any
17 taxable year during the eligibility period if it
18 meets all the following requirements for such
19 year:

20 “(i) The corporation elects to be treat-
21 ed as an incubator REIT.

22 “(ii) The corporation has only voting
23 common stock outstanding.

1 “(iii) Not more than 50 percent of the
2 corporation’s real estate assets consist of
3 mortgages.

4 “(iv) From not later than the begin-
5 ning of the last half of the second taxable
6 year, at least 10 percent of the corpora-
7 tion’s capital is provided by lenders or eq-
8 uity investors who are unrelated to the cor-
9 poration’s largest shareholder.

10 “(v) The directors of the corporation
11 adopt a resolution setting forth an intent
12 to engage in a going public transaction.

13 No election may be made with respect to any
14 REIT if an election under this subsection was
15 in effect for any predecessor of such REIT.

16 “(C) ELIGIBILITY PERIOD.—The eligibility
17 period (for which an incubator REIT election
18 can be made) begins with the REIT’s second
19 taxable year and ends at the close of the
20 REIT’s third taxable year, but, subject to the
21 following rules, it may be extended for an addi-
22 tional 2 taxable years if the REIT so elects:

23 “(i) A REIT cannot elect to extend
24 the eligibility period unless it agrees that,
25 if it does not engage in a going public

1 transaction by the end of the extended eli-
2 gibility period, it shall pay Federal income
3 taxes for the 2 years of the extended eligi-
4 bility period as if it had not made an incu-
5 bator REIT election and had ceased to
6 qualify as a REIT for those 2 taxable
7 years.

8 “(ii) In the event the corporation
9 ceases to be treated as a REIT by oper-
10 ation of clause (i), the corporation shall file
11 any appropriate amended returns reflecting
12 the change in status within 3 months of
13 the close of the extended eligibility period.
14 Interest would be payable but, unless there
15 was a finding under subparagraph (D), no
16 substantial underpayment penalties shall
17 be imposed. The corporation shall, at the
18 same time, also notify its shareholders and
19 any other persons whose tax position is, or
20 may reasonably be expected to be, affected
21 by the change in status so they also may
22 file any appropriate amended returns to
23 conform their tax treatment consistent
24 with the corporation’s loss of REIT status.
25 The Secretary shall provide appropriate

1 regulations setting forth transferee liability
2 and other provisions to ensure collection of
3 tax and the proper administration of this
4 provision.

5 “(iii) Clause (i) and (ii) shall not
6 apply if the corporation allows its incuba-
7 tor REIT status to lapse at the end of the
8 initial 2-year eligibility period without en-
9 gaging in a going public transaction, pro-
10 vided the corporation satisfies the require-
11 ments of the closely-held test commencing
12 with its fourth taxable year. In such a
13 case, the corporation’s directors may still
14 be liable for the penalties described in sub-
15 paragraph (D) during the eligibility period.

16 “(D) SPECIAL PENALTIES.—If the Sec-
17 retary determines that an incubator REIT elec-
18 tion was filed for a principal purpose other than
19 as part of a reasonable plan to undertake a
20 going public transaction, an excise tax of
21 \$20,000 would be imposed on each of the cor-
22 poration’s directors for each taxable year for
23 which an election was in effect.

1 “(E) GOING PUBLIC TRANSACTION.—For
2 purposes of this paragraph, a going public
3 transaction means—

4 “(i) a public offering of shares of the
5 stock of the incubator REIT;

6 “(ii) a transaction, or series of trans-
7 actions, that results in the stock of the in-
8 cubator REIT being regularly traded on an
9 established securities market and that re-
10 sults in at least 50 percent of such stock
11 being held by shareholders who are unre-
12 lated to persons who held such stock before
13 it began to be so regularly traded; or

14 “(iii) any transaction resulting in
15 ownership of the REIT by 200 or more
16 persons (excluding the largest single share-
17 holder) who in the aggregate own at least
18 50 percent of the stock of the REIT.

19 For the purposes of this subparagraph, the
20 rules of paragraph (3) shall apply in determin-
21 ing the ownership of stock.

22 “(F) DEFINITIONS.—The term ‘established
23 securities market’ shall have the meaning set
24 forth in the regulations under section 897.”

1 (c) CONFORMING AMENDMENT.—Paragraph (2) of
2 section 856(h) is amended by striking “and (6)” each
3 place it appears and inserting “, (6), and (7)”.

4 (d) EFFECTIVE DATE.—

5 (1) IN GENERAL.—The amendments made by
6 this section shall apply to taxable years ending after
7 July 12, 1999.

8 (2) EXCEPTION FOR EXISTING CONTROLLED
9 ENTITIES.—The amendments made by this section
10 shall not apply to any entity which is a controlled
11 entity (as defined in section 856(l) of the Internal
12 Revenue Code of 1986, as added by this section) as
13 of July 12, 1999, which is a real estate investment
14 trust for the taxable year which includes such date,
15 and which has significant business assets or activi-
16 ties as of such date.

17 **SEC. 806. TREATMENT OF GAIN FROM CONSTRUCTIVE OWN-**
18 **ERSHIP TRANSACTIONS.**

19 (a) IN GENERAL.—Part IV of subchapter P of chap-
20 ter 1 (relating to special rules for determining capital
21 gains and losses) is amended by inserting after section
22 1259 the following new section:

1 **“SEC. 1260. GAINS FROM CONSTRUCTIVE OWNERSHIP**
2 **TRANSACTIONS.**

3 “(a) IN GENERAL.—If the taxpayer has gain from
4 a constructive ownership transaction with respect to any
5 financial asset and such gain would (without regard to this
6 section) be treated as a long-term capital gain—

7 “(1) such gain shall be treated as ordinary in-
8 come to the extent that such gain exceeds the net
9 underlying long-term capital gain, and

10 “(2) to the extent such gain is treated as a
11 long-term capital gain after the application of para-
12 graph (1), the determination of the capital gain rate
13 (or rates) applicable to such gain under section 1(h)
14 shall be determined on the basis of the respective
15 rate (or rates) that would have been applicable to
16 the net underlying long-term capital gain.

17 “(b) INTEREST CHARGE ON DEFERRAL OF GAIN
18 RECOGNITION.—

19 “(1) IN GENERAL.—If any gain is treated as
20 ordinary income for any taxable year by reason of
21 subsection (a)(1), the tax imposed by this chapter
22 for such taxable year shall be increased by the
23 amount of interest determined under paragraph (2)
24 with respect to each prior taxable year during any
25 portion of which the constructive ownership trans-
26 action was open. Any amount payable under this

1 paragraph shall be taken into account in computing
2 the amount of any deduction allowable to the tax-
3 payer for interest paid or accrued during such tax-
4 able year.

5 “(2) AMOUNT OF INTEREST.—The amount of
6 interest determined under this paragraph with re-
7 spect to a prior taxable year is the amount of inter-
8 est which would have been imposed under section
9 6601 on the underpayment of tax for such year
10 which would have resulted if the gain (which is
11 treated as ordinary income by reason of subsection
12 (a)(1)) had been included in gross income in the tax-
13 able years in which it accrued (determined by treat-
14 ing the income as accruing at a constant rate equal
15 to the applicable Federal rate as in effect on the day
16 the transaction closed). The period during which
17 such interest shall accrue shall end on the due date
18 (without extensions) for the return of tax imposed
19 by this chapter for the taxable year in which such
20 transaction closed.

21 “(3) APPLICABLE FEDERAL RATE.—For pur-
22 poses of paragraph (2), the applicable Federal rate
23 is the applicable Federal rate determined under
24 1274(d) (compounded semiannually) which would

1 apply to a debt instrument with a term equal to the
2 period the transaction was open.

3 “(4) NO CREDITS AGAINST INCREASE IN TAX.—
4 Any increase in tax under paragraph (1) shall not
5 be treated as tax imposed by this chapter for pur-
6 poses of determining—

7 “(A) the amount of any credit allowable
8 under this chapter, or

9 “(B) the amount of the tax imposed by
10 section 55.

11 “(c) FINANCIAL ASSET.—For purposes of this
12 section—

13 “(1) IN GENERAL.—The term ‘financial asset’
14 means—

15 “(A) any equity interest in any pass-thru
16 entity, and

17 “(B) to the extent provided in
18 regulations—

19 “(i) any debt instrument, and

20 “(ii) any stock in a corporation which
21 is not a pass-thru entity.

22 “(2) PASS-THRU ENTITY.—For purposes of
23 paragraph (1), the term ‘pass-thru entity’ means—

24 “(A) a regulated investment company,

25 “(B) a real estate investment trust,

1 “(C) an S corporation,
2 “(D) a partnership,
3 “(E) a trust,
4 “(F) a common trust fund,
5 “(G) a passive foreign investment company
6 (as defined in section 1297),
7 “(H) a foreign personal holding company,
8 and
9 “(I) a foreign investment company (as de-
10 fined in section 1246(b)).

11 “(d) CONSTRUCTIVE OWNERSHIP TRANSACTION.—
12 For purposes of this section—

13 “(1) IN GENERAL.—The taxpayer shall be
14 treated as having entered into a constructive owner-
15 ship transaction with respect to any financial asset
16 if the taxpayer—

17 “(A) holds a long position under a notional
18 principal contract with respect to the financial
19 asset,

20 “(B) enters into a forward or futures con-
21 tract to acquire the financial asset,

22 “(C) is the holder of a call option, and is
23 the grantor of a put option, with respect to the
24 financial asset and such options have substan-

1 tially equal strike prices and substantially con-
2 temporaneous maturity dates, or

3 “(D) to the extent provided in regulations
4 prescribed by the Secretary, enters into 1 or
5 more other transactions (or acquires 1 or more
6 positions) that have substantially the same ef-
7 fect as a transaction described in any of the
8 preceding subparagraphs.

9 “(2) EXCEPTION FOR POSITIONS WHICH ARE
10 MARKED TO MARKET.—This section shall not apply
11 to any constructive ownership transaction if all of
12 the positions which are part of such transaction are
13 marked to market under any provision of this title
14 or the regulations thereunder.

15 “(3) LONG POSITION UNDER NOTIONAL PRIN-
16 CIPAL CONTRACT.—A person shall be treated as
17 holding a long position under a notional principal
18 contract with respect to any financial asset if such
19 person—

20 “(A) has the right to be paid (or receive
21 credit for) all or substantially all of the invest-
22 ment yield (including appreciation) on such fi-
23 nancial asset for a specified period, and

1 “(B) is obligated to reimburse (or provide
2 credit for) all or substantially all of any decline
3 in the value of such financial asset.

4 “(4) FORWARD CONTRACT.—The term ‘forward
5 contract’ means any contract to acquire in the fu-
6 ture (or provide or receive credit for the future value
7 of) any financial asset.

8 “(e) NET UNDERLYING LONG-TERM CAPITAL
9 GAIN.—For purposes of this section, in the case of any
10 constructive ownership transaction with respect to any fi-
11 nancial asset, the term ‘net underlying long-term capital
12 gain’ means the aggregate net capital gain that the tax-
13 payer would have had if—

14 “(1) the financial asset had been acquired for
15 fair market value on the date such transaction was
16 opened and sold for fair market value on the date
17 such transaction was closed, and

18 “(2) only gains and losses that would have re-
19 sulted from the deemed ownership under paragraph
20 (1) were taken into account.

21 The amount of the net underlying long-term capital gain
22 with respect to any financial asset shall be treated as zero
23 unless the amount thereof is established by clear and con-
24 vincing evidence.

1 “(f) SPECIAL RULE WHERE TAXPAYER TAKES DE-
2 LIVERY.—Except as provided in regulations prescribed by
3 the Secretary, if a constructive ownership transaction is
4 closed by reason of taking delivery, this section shall be
5 applied as if the taxpayer had sold all the contracts, op-
6 tions, or other positions which are part of such transaction
7 for fair market value on the closing date. The amount of
8 gain recognized under the preceding sentence shall not ex-
9 ceed the amount of gain treated as ordinary income under
10 subsection (a). Proper adjustments shall be made in the
11 amount of any gain or loss subsequently realized for gain
12 recognized and treated as ordinary income under this sub-
13 section.

14 “(g) REGULATIONS.—The Secretary shall prescribe
15 such regulations as may be necessary or appropriate to
16 carry out the purposes of this section, including
17 regulations—

18 “(1) to permit taxpayers to mark to market
19 constructive ownership transactions in lieu of apply-
20 ing this section, and

21 “(2) to exclude certain forward contracts which
22 do not convey substantially all of the economic re-
23 turn with respect to a financial asset.”

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

“Sec. 1260. Gains from constructive ownership transactions.”.

4 (c) EFFECTIVE DATE.—The amendments made by
5 this section shall apply to transactions entered into after
6 July 11, 1999.

7 **SEC. 807. TRANSFER OF EXCESS DEFINED BENEFIT PLAN**
8 **ASSETS FOR RETIREE HEALTH BENEFITS.**

9 (a) EXTENSION.—Paragraph (5) of section 420(b)
10 (relating to expiration) is amended by striking “in any
11 taxable year beginning after December 31, 2000” and in-
12 serting “made after September 30, 2009”.

13 (b) APPLICATION OF MINIMUM COST REQUIRE-
14 MENTS.—

15 (1) IN GENERAL.—Paragraph (3) of section
16 420(c) is amended to read as follows:

17 “(3) MINIMUM COST REQUIREMENTS.—

18 “(A) IN GENERAL.—The requirements of
19 this paragraph are met if each group health
20 plan or arrangement under which applicable
21 health benefits are provided provides that the
22 applicable employer cost for each taxable year
23 during the cost maintenance period shall not be
24 less than the higher of the applicable employer
25 costs for each of the 2 taxable years imme-

1 diately preceding the taxable year of the quali-
2 fied transfer.

3 “(B) APPLICABLE EMPLOYER COST.—For
4 purposes of this paragraph, the term ‘applicable
5 employer cost’ means, with respect to any tax-
6 able year, the amount determined by dividing—

7 “(i) the qualified current retiree
8 health liabilities of the employer for such
9 taxable year determined—

10 “(I) without regard to any reduc-
11 tion under subsection (e)(1)(B), and

12 “(II) in the case of a taxable
13 year in which there was no qualified
14 transfer, in the same manner as if
15 there had been such a transfer at the
16 end of the taxable year, by

17 “(ii) the number of individuals to
18 whom coverage for applicable health bene-
19 fits was provided during such taxable year.

20 “(C) ELECTION TO COMPUTE COST SEPA-
21 RATELY.—An employer may elect to have this
22 paragraph applied separately with respect to in-
23 dividuals eligible for benefits under title XVIII
24 of the Social Security Act at any time during

1 the taxable year and with respect to individuals
2 not so eligible.

3 “(D) COST MAINTENANCE PERIOD.—For
4 purposes of this paragraph, the term ‘cost
5 maintenance period’ means the period of 5 tax-
6 able years beginning with the taxable year in
7 which the qualified transfer occurs. If a taxable
8 year is in 2 or more overlapping cost mainte-
9 nance periods, this paragraph shall be applied
10 by taking into account the highest applicable
11 employer cost required to be provided under
12 subparagraph (A) for such taxable year.”

13 (2) CONFORMING AMENDMENTS.—

14 (A) Clause (iii) of section 420(b)(1)(C) is
15 amended by striking “benefits” and inserting
16 “cost”.

17 (B) Subparagraph (D) of section 420(e)(1)
18 is amended by striking “and shall not be sub-
19 ject to the minimum benefit requirements of
20 subsection (c)(3)” and inserting “or in calculat-
21 ing applicable employer cost under subsection
22 (c)(3)(B)”.

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

1 **SEC. 808. MODIFICATION OF INSTALLMENT METHOD AND**
2 **REPEAL OF INSTALLMENT METHOD FOR AC-**
3 **CRUAL METHOD TAXPAYERS.**

4 (a) REPEAL OF INSTALLMENT METHOD FOR AC-
5 CRUAL BASIS TAXPAYERS.—

6 (1) IN GENERAL.—Subsection (a) of section
7 453 (relating to installment method) is amended to
8 read as follows:

9 “(a) USE OF INSTALLMENT METHOD.—

10 “(1) IN GENERAL.—Except as otherwise pro-
11 vided in this section, income from an installment
12 sale shall be taken into account for purposes of this
13 title under the installment method.

14 “(2) ACCRUAL METHOD TAXPAYER.—The in-
15 stallment method shall not apply to income from an
16 installment sale if such income would be reported
17 under an accrual method of accounting without re-
18 gard to this section. The preceding sentence shall
19 not apply to a disposition described in subparagraph
20 (A) or (B) of subsection (l)(2).”

21 (2) CONFORMING AMENDMENTS.—Sections
22 453(d)(1), 453(i)(1), and 453(k) are each amended
23 by striking “(a)” each place it appears and inserting
24 “(a)(1)”.

25 (b) MODIFICATION OF PLEDGE RULES.—Paragraph
26 (4) of section 453A(d) (relating to pledges, etc., of install-

1 ment obligations) is amended by adding at the end the
2 following: “A payment shall be treated as directly secured
3 by an interest in an installment obligation to the extent
4 an arrangement allows the taxpayer to satisfy all or a por-
5 tion of the indebtedness with the installment obligation.”

6 (c) EFFECTIVE DATE.—The amendments made by
7 this section shall apply to sales or other dispositions occur-
8 ring on or after the date of the enactment of this Act.

9 **SEC. 809. LIMITATION ON USE OF NONACCRUAL EXPERI-**
10 **ENCE METHOD OF ACCOUNTING.**

11 (a) IN GENERAL.—Section 448(d)(5) (relating to
12 special rule for services) is amended—

13 (1) by inserting “in fields described in para-
14 graph (2)(A)” after “services by such person”, and

15 (2) by inserting “CERTAIN PERSONAL” before
16 “SERVICES” in the heading.

17 (b) EFFECTIVE DATE.—

18 (1) IN GENERAL.—The amendments made by
19 this section shall apply to taxable years ending after
20 the date of the enactment of this Act.

21 (2) CHANGE IN METHOD OF ACCOUNTING.—In
22 the case of any taxpayer required by the amend-
23 ments made by this section to change its method of
24 accounting for its first taxable year ending after the
25 date of the enactment of this Act—

1 (A) such change shall be treated as initi-
2 ated by the taxpayer,

3 (B) such change shall be treated as made
4 with the consent of the Secretary of the Treas-
5 ury, and

6 (C) the net amount of the adjustments re-
7 quired to be taken into account by the taxpayer
8 under section 481 of the Internal Revenue Code
9 of 1986 shall be taken into account over a pe-
10 riod (not greater than 4 taxable years) begin-
11 ning with such first taxable year.

12 **SEC. 810. EXCLUSION OF LIKE-KIND EXCHANGE PROPERTY**
13 **FROM NONRECOGNITION TREATMENT ON**
14 **THE SALE OF A PRINCIPAL RESIDENCE.**

15 (a) IN GENERAL.—Subsection (d) of section 121 (re-
16 lating to the exclusion of gain from the sale of a principal
17 residence) is amended by adding at the end the following
18 new paragraph:

19 “(9) LIKE-KIND EXCHANGES.—Subsection (a)
20 shall not apply to any sale or exchange of a resi-
21 dence if such residence was acquired by the taxpayer
22 during the 5-year period ending on the date of such
23 sale or exchange in an exchange in which any
24 amount of gain was not recognized under section
25 1031.”

1 (b) EFFECTIVE DATE.—The amendment made by
2 subsection (a) shall apply to any sale or exchange of a
3 principal residence after the date of the enactment of this
4 Act.

5 **SEC. 811. DISALLOWANCE OF NONECONOMIC TAX AT-**
6 **TRIBUTES.**

7 (a) IN GENERAL.—Section 7701 is amended by re-
8 designating subsection (m) as subsection (n) and by in-
9 serting after subsection (l) the following new subsection:

10 “(m) DISALLOWANCE OF NONECONOMIC TAX AT-
11 TRIBUTES.—

12 “(1) IN GENERAL.—In determining liability for
13 any tax under subtitle A, noneconomic tax attributes
14 shall not be allowed.

15 “(2) NONECONOMIC TAX ATTRIBUTE.—For
16 purposes of this subsection, a noneconomic tax at-
17 tribute is any deduction, loss, or credit claimed to
18 result from any transaction unless—

19 “(A) the transaction changes in a mean-
20 ingful way (apart from Federal income tax con-
21 sequences) the taxpayer’s economic position,
22 and

23 “(B)(i) the present value of the reasonably
24 expected potential income from the transaction
25 (and the taxpayer’s risk of loss from the trans-

1 action) are substantial in relationship to the
2 present value of the tax benefits claimed, or

3 “(ii) in the case of a transaction which is
4 in substance the borrowing of money or the ac-
5 quisition of financial capital, the deductions
6 claimed with respect to the transaction for any
7 period are not significantly in excess of the eco-
8 nomic return for such period realized by the
9 person lending the money or providing the fi-
10 nancial capital.

11 “(3) PRESUMPTION OF NONECONOMIC TAX AT-
12 TRIBUTES.—For purposes of paragraph (2), the fol-
13 lowing factors shall give rise to a presumption that
14 a transaction fails to meet the requirements of para-
15 graph (2):

16 “(A) The fact that the payments, liabil-
17 ities, or assets that purport to create a loss (or
18 other benefit) for tax purposes are not reflected
19 to any meaningful extent on the taxpayer’s
20 books and records for financial reporting pur-
21 poses.

22 “(B) The fact that the transaction results
23 in an allocation of income or gain to a tax-indif-
24 ferent party which is substantially in excess of

1 such party's economic income or gain from the
2 transaction.

3 “(4) TREATMENT OF BUILT-IN LOSS.—The de-
4 termination of whether a transaction results in the
5 realization of a built-in loss shall be made under
6 subtitle A as if this subsection had not been enacted.
7 For purposes of the preceding sentence, the term
8 ‘built-in loss’ means any loss or deduction to the ex-
9 tent that such loss or deduction had economically
10 been incurred before such transaction is entered into
11 and to the extent that the loss or deduction was eco-
12 nomically borne by the taxpayer.

13 “(5) DEFINITION AND SPECIAL RULES.—For
14 purposes of this subsection—

15 “(A) TAX-INDIFFERENT PARTY.—The
16 term ‘tax-indifferent party’ means any person
17 or entity exempt from tax under subtitle A. A
18 person shall be treated as a tax-indifferent
19 party with respect to a transaction if, by reason
20 of such person's method of accounting, the
21 items taken into account with respect to the
22 transaction have no substantial impact on such
23 person's liability under subtitle A.

24 “(B) SERIES OF RELATED TRANS-
25 ACTION.—A transaction which is part of a se-

1 ries of related transactions shall be treated as
2 meeting the requirements of paragraph (2) only
3 if—

4 “(i) such transaction meets such re-
5 quirements without regard to the other
6 transactions, and

7 “(ii) such transactions, if treated as 1
8 transaction, would meet such requirements.
9 A similar rule shall apply to a multiple step
10 transaction with each step being treated as a
11 separate related transaction.

12 “(C) NORMAL BUSINESS TRANSACTIONS.—
13 In the case of a transaction which is an integral
14 part of a taxpayer’s trade or business and
15 which is entered into in the normal course of
16 such trade or business, the determination of the
17 potential income from such transaction shall be
18 made by taking into account its relationship to
19 the overall trade or business of the taxpayer.

20 “(D) TREATMENT OF FEES.—In determin-
21 ing whether there is risk of loss from a trans-
22 action (and the amount thereof), potential loss
23 of fees and other transaction expenses shall be
24 disregarded.

1 “(E) TREATMENT OF ECONOMIC RETURN
2 ENHANCEMENTS.—The following shall be treat-
3 ed as economic returns and not tax benefits:

4 “(i) The credit under section 29 (re-
5 lating to credit for producing fuel from a
6 nonconventional source).

7 “(ii) The credit under section 42 (re-
8 lating to low-income housing credit).

9 “(iii) The credit under section 45 (re-
10 lating to electricity produced from certain
11 renewable resources).

12 “(iv) The credit under section 1397E
13 (relating to credit to holders of qualified
14 zone academy bonds) or any similar pro-
15 gram hereafter enacted.

16 “(v) Any other tax benefit specified in
17 regulations.

18 “(F) EXCEPTIONS FOR NONBUSINESS
19 TRANSACTIONS.—

20 “(i) INDIVIDUALS.—In the case of an
21 individual, this subsection shall only apply
22 to transactions entered into in connection
23 with a trade or business or activity en-
24 gaged in for profit.

“(ii) CHARITABLE TRANSFERS.—This subsection shall not apply in determining the amount allowable as a deduction under section 170, 545(b)(2), 556(b)(2), or 642(c).

6 “(6) ECONOMIC SUBSTANCE DOCTRINE, ETC.,
7 NOT AFFECTED.—The provisions of this subsection
8 shall not be construed as altering or supplanting any
9 rule of law referred to in section 6662(i)(2)(B) and
10 the requirements of this subsection shall be con-
11 strued as being in addition to any such rule of law.”

(b) INCREASE IN SUBSTANTIAL UNDERPAYMENT
PENALTY WITH RESPECT TO DISALLOWED NON-
ECONOMIC TAX ATTRIBUTES.—Section 6662 (relating to
imposition of accuracy-related penalty) is amended by
adding at the end the following new subsection:

17 “(i) INCREASE IN PENALTY IN CASE OF DIS-
18 ALLOWED NONECONOMIC TAX ATTRIBUTES.—

19 “(1) IN GENERAL.—In the case of the portion
20 of the underpayment to which this subsection
21 applies—

22 “(A) subsection (a) shall be applied with
23 respect to such portion by substituting ‘40 per-
24 cent’ for ‘20 percent’, and

1 “(B) subsection (d)(2)(B) and section
2 6664(c) shall not apply.

3 “(2) UNDERPAYMENTS TO WHICH SUBSECTION
4 APPLIES.—This subsection shall apply to an under-
5 payment to which this section applies by reason of
6 paragraph (1) or (2) of subsection (b) to the extent
7 that such underpayment is attributable to—

8 “(A) the disallowance of any noneconomic
9 tax attribute (determined under section
10 7701(m)), or

11 “(B) the disallowance of any other
12 benefit—

13 “(i) because of a lack of economic
14 substance or business purpose for the
15 transaction giving rise to the claimed bene-
16 fit,

17 “(ii) because the form of the trans-
18 action did not reflect its substance, or

19 “(iii) because of any other similar rule
20 of law.

21 “(3) INCREASE IN PENALTY NOT TO APPLY IF
22 COMPLIANCE WITH DISCLOSURE REQUIREMENTS.—
23 Paragraph (1)(A) shall not apply if the taxpayer—

24 “(A) discloses to the Secretary within 30
25 days after the closing of the transaction appro-

1 priate documents describing the transaction,
2 and

3 “(B) files with the taxpayer’s return of tax
4 imposed by subtitle A—

5 “(i) a statement verifying that such
6 disclosure has been made,

7 “(ii) a detailed description of the
8 facts, assumptions of facts, and factual
9 conclusions with respect to the business or
10 economic purposes or objectives of the
11 transaction that are relied upon to support
12 the manner in which it is reported on the
13 return,

14 “(iii) a description of the due dili-
15 gence performed to ascertain the accuracy
16 of such facts, assumptions, and factual
17 conclusions,

18 “(iv)(I) a statement (signed by the
19 senior financial officer of the corporation
20 under penalty of perjury) that the facts,
21 assumptions, or factual conclusions relied
22 upon in reporting the transaction are true
23 and correct as of the date the return is
24 filed, to the best of such officer’s knowl-
25 edge and belief, and

1 “(II) if the actual facts varied materi-
2 ally from the facts, assumptions, or factual
3 conclusions relied upon, a statement de-
4 scribing such variances,

5 “(v) copies of any written material
6 provided in connection with the offer of the
7 transaction to the taxpayer by a third
8 party,

9 “(vi) a full description of any express
10 or implied agreement or arrangement with
11 any advisor, or with any offeror, that the
12 fee payable to such person would be con-
13 tingent or subject to possible reimburse-
14 ment, and

15 “(vii) a full description of any express
16 or implied warranty from any person with
17 respect to the anticipated tax results from
18 the transaction.”

19 (c) EFFECTIVE DATE.—The amendments made by
20 this section shall apply to transactions after the date of
21 the enactment of this Act.

1 **TITLE IX—NATIONAL COMMIS-**
2 **SION ON TAX REFORM AND**
3 **SIMPLIFICATION**

4 **SEC. 901. ESTABLISHMENT.**

5 (a) IN GENERAL.—There is established the National
6 Commission on Tax Reform and Simplification. The Com-
7 mission shall be composed of 15 members appointed or
8 designated by the President and selected as follows:

9 (1) 5 members selected by the President from
10 among officers or employees of the Executive
11 Branch, private citizens of the United States, or
12 both. Not more than 3 of the members selected by
13 the President shall be members of the same political
14 party;

15 (2) 5 members selected by the Majority Leader
16 of the Senate from among members of the Senate,
17 private citizens of the United States, or both. Not
18 more than 3 of the members selected by the Major-
19 ity Leader shall be members of the same political
20 party;

21 (3) 5 members selected by the Speaker of the
22 House of Representatives from among members of
23 the House, private citizens of the United States, or
24 both. Not more than 3 of the members selected by

1 the Speaker shall be members of the same political
2 party.

3 (b) CHAIRMAN.—The President shall designate a
4 Chairman from among the members of the Commission.

5 **SEC. 902. FUNCTIONS.**

6 (a) IN GENERAL.—The Commission shall review the
7 Internal Revenue Code of 1986, identify provisions of such
8 Code which are unnecessarily complex and may be sim-
9 plified, and make appropriate recommendations to the
10 Secretary of the Treasury, the President, and to Congress.

11 (b) REPORT.—The Commission shall make its report
12 to the President not later than 1 year after the date of
13 the enactment of this Act.

14 **SEC. 903. ADMINISTRATION.**

15 (a) INFORMATION FROM EXECUTIVE AGENCIES.—
16 The heads of Executive agencies shall, to the extent per-
17 mitted by law, provide the Commission such information
18 as it may require for the purpose of carrying out its func-
19 tions.

20 (b) PAY.—Members of the Commission shall serve
21 without any additional compensation for their work on the
22 Commission. However, members appointed from among
23 private citizens of the United States may be allowed travel
24 expenses, including per diem in lieu of subsistence, as au-
25 thorized by law for persons serving intermittently in the

1 government service (5 U.S.C. 5701-5707), to the extent
2 funds are available therefor.

3 (c) STAFF.—The Commission shall have a staff head-
4 ed by an Executive Director. Any expenses of the Commis-
5 sion shall be paid from such funds as may be available
6 to the Secretary of Health and Human Services.

7 **SEC. 904. GENERAL.**

8 (a) AUTHORITY OF SECRETARY OF TREASURY.—
9 Notwithstanding any Executive Order, the responsibilities
10 of the President under the Federal Advisory Committee
11 Act, as amended, except that of reporting annually to the
12 Congress, which are applicable to the Commission, shall
13 be performed by the Secretary of the Treasury in accord-
14 ance with the guidelines and procedures established by the
15 Administrator of General Services.

16 (b) TERMINATION.—The Commission shall terminate
17 30 days after submitting its report.