

**Union Calendar No. 40**

104<sup>TH</sup> CONGRESS  
1<sup>ST</sup> SESSION

**H. R. 1215**

[Report No. 104-84]

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**A BILL**

To amend the Internal Revenue Code of 1986, to strengthen the American family and create jobs.

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MARCH 21, 1995

Committed to the Committee of the Whole House on the State of the Union and ordered to be printed

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### IN THE HOUSE OF REPRESENTATIVES

MARCH 13, 1995

Mr. ARCHER introduced the following bill; which was referred to the Committee on Ways and Means

MARCH 21, 1995

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## A BILL

To amend the Internal Revenue Code of 1986 to strengthen the American family and create jobs.

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

3 **SECTION 1. SHORT TITLE; AMENDMENT OF 1986 CODE.**

4 (a) SHORT TITLE.—This Act may be cited as the  
5 “Contract With America Tax Relief Act of 1995”.

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

7 (c) TABLE OF CONTENTS.—

Sec. 1. Short title; amendment of 1986 Code.

#### TITLE I—AMERICAN DREAM RESTORATION

Sec. 101. Family tax credit.

Sec. 102. Credit to reduce marriage penalty.

Sec. 103. Establishment of American dream savings accounts.

Sec. 104. Spousal IRA computed on basis of compensation of both spouses.

#### TITLE II—SENIOR CITIZENS' EQUITY

##### Subtitle A—Repeal of Increase in Tax on Social Security Benefits

Sec. 201. Repeal of increase in tax on Social Security benefits.

##### Subtitle B—Treatment of Long-term Care Insurance and Services

Sec. 211. Treatment of long-term care insurance.

Sec. 212. Qualified long-term care services treated as medical care.

Sec. 213. Certain exchanges of life insurance contracts for long-term care in-  
 surance contracts not taxable.

Sec. 214. Exclusion from gross income for amounts withdrawn from certain re-  
 tirement plans for long-term care insurance.

##### Subtitle C—Treatment of Accelerated Death Benefits

Sec. 221. Treatment of accelerated death benefits by recipient.

Sec. 222. Tax treatment of companies issuing qualified accelerated death bene-  
 fit riders.

##### Subtitle D—Inclusion in Gross Income of Excess Long-term Care Benefits

Sec. 231. Inclusion in income of excess long-term care benefits.

Sec. 232. Reporting requirements.

#### TITLE III—JOB CREATION AND WAGE ENHANCEMENT

##### Subtitle A—Capital Gains Reform

##### PART I—CAPITAL GAINS REDUCTION FOR TAXPAYERS OTHER THAN CORPORATIONS

Sec. 301. Capital gains deduction.

Sec. 302. Indexing of certain assets acquired after December 31, 1994, for purposes of determining gain.

PART II—CAPITAL GAINS REDUCTION FOR CORPORATIONS

Sec. 311. Reduction of alternative capital gain tax for corporations.

PART III—CAPITAL LOSS DEDUCTION ALLOWED WITH RESPECT TO SALE OR EXCHANGE OF PRINCIPAL RESIDENCE

Sec. 316. Capital loss deduction allowed with respect to sale or exchange of principal residence.

Subtitle B—Cost Recovery Provisions

Sec. 321. Depreciation adjustment for certain property placed in service after December 31, 1994.

Sec. 322. Treatment of abandonment of lessor improvements at termination of lease.

Subtitle C—Alternative Minimum Tax Relief

Sec. 331. Phaseout of application of alternative minimum tax to corporations.

Subtitle D—Public Debt Reduction Checkoff and Trust Fund

Sec. 341. Designation of amounts for reduction of public debt.

Sec. 342. Public Debt Reduction Trust Fund.

Subtitle E—Small Business Incentives

Sec. 351. Cost-of-living adjustments relating to estate and gift tax provisions.

Sec. 352. Increase in expense treatment for small businesses.

Sec. 353. Clarification of treatment of home office use for administrative and management activities.

Sec. 354. Treatment of storage of product samples.

TITLE IV—FAMILY REINFORCEMENT

Sec. 401. Credit for adoption expenses.

Sec. 402. Credit for taxpayers with certain persons requiring custodial care in their households.

TITLE V—SOCIAL SECURITY EARNINGS TEST

Sec. 501. Adjustments in monthly exempt amount for purposes of the Social Security earnings test.

TITLE VI—TECHNICAL CORRECTIONS

Sec. 601. Coordination with other titles.

Sec. 602. Amendments related to Revenue Reconciliation Act of 1990.

Sec. 603. Amendments related to Revenue Reconciliation Act of 1993.

Sec. 604. Miscellaneous provisions.

1           **TITLE I—AMERICAN DREAM**  
2                           **RESTORATION**

3   **SEC. 101. FAMILY TAX CREDIT.**

4           (a) IN GENERAL.—Subpart A of part IV of sub-  
5 chapter A of chapter 1 is amended by inserting after sec-  
6 tion 22 the following new section:

7   **“SEC. 23. FAMILY TAX CREDIT.**

8           “(a) ALLOWANCE OF CREDIT.—There shall be al-  
9 lowed as a credit against the tax imposed by this chapter  
10 for the taxable year an amount equal to \$500 multiplied  
11 by the number of qualifying children of the taxpayer.

12           “(b) LIMITATION.—The amount of credit which  
13 would (but for this subsection) be allowed by subsection  
14 (a) shall be reduced (but not below zero) by an amount  
15 which bears the same ratio to such amount of credit as—

16                   “(1) the excess (if any) of the taxpayer’s ad-  
17 justed gross income (determined without regard to  
18 sections 911, 931, and 933) over \$200,000, bears to

19                   “(2) an amount equal to 100 times the dollar  
20 amount in effect under subsection (a) for the taxable  
21 year.

22           “(c) QUALIFYING CHILD.—For purposes of this sec-  
23 tion—

24                   “(1) IN GENERAL.—The term ‘qualifying child’  
25 means any individual if—

1           “(A) the taxpayer is allowed a deduction  
2           under section 151 with respect to such individ-  
3           ual for such taxable year,

4           “(B) such individual has not attained the  
5           age of 18 as of the close of the calendar year  
6           in which the taxable year of the taxpayer be-  
7           gins, and

8           “(C) such individual bears a relationship to  
9           the taxpayer described in section 32(c)(3)(B)  
10          (determined without regard to clause (ii) there-  
11          of).

12          “(2) EXCEPTION FOR CERTAIN NONCITIZENS.—  
13          The term ‘qualifying child’ shall not include any in-  
14          dividual who would not be a dependent if the first  
15          sentence of section 152(b)(3) were applied without  
16          regard to all that follows ‘resident of the United  
17          States’.

18          “(d) INFLATION ADJUSTMENTS.—

19                 “(1) IN GENERAL.—In the case of a taxable  
20                 year beginning in a calendar year after 1996, the  
21                 \$500 and \$200,000 amounts contained in sub-  
22                 sections (a) and (b) shall each be increased by an  
23                 amount equal to—

24                         “(A) such dollar amount, multiplied by

1           “(B) the cost-of-living adjustment deter-  
2           mined under section 1(f)(3) for the calendar  
3           year in which the taxable year begins, deter-  
4           mined by substituting ‘calendar year 1995’ for  
5           ‘calendar year 1992’ in subparagraph (B)  
6           thereof.

7           “(2) ROUNDING.—If any amount as adjusted  
8           under paragraph (1) is not a multiple of \$50, such  
9           amount shall be rounded to the nearest multiple of  
10          \$50.

11          “(e) CERTAIN OTHER RULES APPLY.—Rules similar  
12          to the rules of subsections (d) and (e) of section 32 shall  
13          apply for purposes of this section.”

14          (b) CONFORMING AMENDMENT.—The table of sec-  
15          tions for subpart A of part IV of subchapter A of chapter  
16          1 is amended by inserting after the item relating to section  
17          22 the following new item:

                  “Sec. 23. Family tax credit.”

18          (c) EFFECTIVE DATE.—The amendments made by  
19          this section shall apply to taxable years beginning after  
20          December 31, 1995.

21          **SEC. 102. CREDIT TO REDUCE MARRIAGE PENALTY.**

22          (a) IN GENERAL.—Subpart A of part IV of sub-  
23          chapter A of chapter 1 is amended by inserting after sec-  
24          tion 23 the following new section:

1 **“SEC. 24. CREDIT TO REDUCE MARRIAGE PENALTY.**

2 “(a) ALLOWANCE OF CREDIT.—In the case of a joint  
3 return for the taxable year, there shall be allowed as a  
4 credit against the tax imposed by this chapter for such  
5 taxable year an amount equal to the marriage penalty re-  
6 duction credit.

7 “(b) LIMITATIONS.—

8 “(1) DOLLAR LIMITATION.—The amount of  
9 credit allowed by subsection (a) for the taxable year  
10 shall not exceed \$145.

11 “(2) CREDIT DISALLOWED FOR INDIVIDUALS  
12 CLAIMING SECTION 911, ETC.—No credit shall be al-  
13 lowed under this section for any taxable year if ei-  
14 ther spouse claims the benefits of section 911, 931,  
15 or 933 for such taxable year.

16 “(c) MARRIAGE PENALTY REDUCTION CREDIT.—For  
17 purposes of this section—

18 “(1) IN GENERAL.—The marriage penalty re-  
19 duction credit is an amount equal to the excess (if  
20 any) of—

21 “(A) the joint tax amount of the taxpayer,  
22 over

23 “(B) the sum of the unmarried tax  
24 amounts for each spouse.

25 “(2) UNMARRIED TAX AMOUNT.—For purposes  
26 of paragraph (1), the unmarried tax amount, with

1 respect to an individual, is the amount of tax which  
2 would be imposed by section 1(c) if such individual's  
3 taxable income were equal to the excess (if any) of—

4 “(A) such individual's qualified earned in-  
5 come for the taxable year, over

6 “(B) the sum of—

7 “(i) an amount equal to the basic  
8 standard deduction under section  
9 63(c)(2)(C) for the taxable year, plus

10 “(ii) the exemption amount (as de-  
11 fined in section 151(d)) for such taxable  
12 year.

13 “(3) JOINT TAX AMOUNT.—For purposes of  
14 paragraph (1), the joint tax amount is the amount  
15 of tax which would be imposed by section 1(a) if the  
16 taxpayer's taxable income were equal to the excess  
17 (if any) of—

18 “(A) the taxpayer's qualified earned in-  
19 come for the taxable year, over

20 “(B) the sum of—

21 “(i) an amount equal to the basic  
22 standard deduction under section  
23 63(c)(2)(A) for the taxable year, plus

1           “(ii) an amount equal to twice the ex-  
2           emption amount (as so defined) for such  
3           taxable year.

4           “(d) QUALIFIED EARNED INCOME.—For purposes of  
5 this section—

6           “(1) IN GENERAL.—The term ‘qualified earned  
7           income’ means an amount equal to the excess (if  
8           any) of—

9           “(A) the earned income for the taxable  
10          year, over

11          “(B) an amount equal to the sum of the  
12          deductions described in paragraphs (1), (2),  
13          (6), (7), and (12) of section 62(a) to the extent  
14          that such deductions are properly allocable to  
15          or chargeable against earned income for such  
16          taxable year.

17          The amount of qualified earned income shall be de-  
18          termined without regard to any community property  
19          laws.

20          “(2) EARNED INCOME.—For purposes of para-  
21          graph (1)—

22          “(A) IN GENERAL.—The term ‘earned in-  
23          come’ means income which is earned income  
24          within the meaning of section 401(c)(2)(C) or  
25          911(d)(2) (determined without regard to the

1 phrase ‘not in excess of 30 percent of his share  
2 of the net profits of such trade or business’ in  
3 subparagraph (B) thereof.

4 “(B) EXCEPTION.—Such term shall not in-  
5 clude any amount—

6 “(i) not includible in gross income,

7 “(ii) received as a pension or annuity,

8 “(iii) paid or distributed out of an in-  
9 dividual retirement plan (within the mean-  
10 ing of section 7701(a)(37)),

11 “(iv) received as deferred compensa-  
12 tion, or

13 “(v) received for services performed  
14 by an individual in the employ of the  
15 spouse (within the meaning of section  
16 3121(b)(3)(A)).

17 “(e) AMOUNT OF CREDIT TO BE DETERMINED  
18 UNDER TABLES.—

19 “(1) IN GENERAL.—The amount of the credit  
20 allowed by this section shall be determined under ta-  
21 bles prescribed by the Secretary.

22 “(2) REQUIREMENTS FOR TABLES.—The tables  
23 prescribed under paragraph (1) shall reflect the pro-  
24 visions of subsection (c) and shall round to the near-

1 est \$25 any amount of credit which is less than the  
2 maximum credit under subsection (b)(1).”

3 (b) CLERICAL AMENDMENT.—The table of sections  
4 for subpart A of part IV of subchapter A of chapter 1  
5 is amended by inserting after the item relating to section  
6 23 the following new item:

“Sec. 24. Credit to reduce marriage penalty.”

7 (c) EFFECTIVE DATE.—The amendments made by  
8 this section shall apply to taxable years beginning after  
9 December 31, 1995.

10 **SEC. 103. ESTABLISHMENT OF AMERICAN DREAM SAVINGS**  
11 **ACCOUNTS.**

12 (a) IN GENERAL.—Subpart A of part I of subchapter  
13 D of chapter 1 (relating to pension, profit-sharing, stock  
14 bonus plans, etc.) is amended by inserting after section  
15 408 the following new section:

16 **“SEC. 408A. AMERICAN DREAM SAVINGS ACCOUNTS.**

17 “(a) GENERAL RULE.—Except as provided in this  
18 section, an American Dream Savings Account shall be  
19 treated for purposes of this title in the same manner as  
20 an individual retirement plan.

21 “(b) AMERICAN DREAM SAVINGS ACCOUNT.—For  
22 purposes of this title, the term ‘American Dream Savings  
23 Account’ or ‘ADS account’ means an individual retirement  
24 plan which is designated at the time of the establishment  
25 of the plan as an American Dream Savings Account. Such

1 designation shall be made in such manner as the Secretary  
2 may prescribe.

3 “(c) CONTRIBUTION RULES.—

4 “(1) NO DEDUCTION ALLOWED.—No deduction  
5 shall be allowed under section 219 for a contribution  
6 to an ADS account.

7 “(2) CONTRIBUTION LIMIT.—

8 “(A) IN GENERAL.—The aggregate  
9 amount of contributions (other than rollover  
10 contributions) for any taxable year to all ADS  
11 accounts maintained for the benefit of an indi-  
12 vidual shall not exceed the lesser of—

13 “(i) \$2,000, or

14 “(ii) an amount equal to the com-  
15 pensation includible in the individual’s  
16 gross income for such taxable year.

17 “(B) \$4,000 LIMITATION FOR CERTAIN AD-  
18 DITIONAL MARRIED INDIVIDUALS.—

19 “(i) IN GENERAL.—In the case of an  
20 individual to whom this subparagraph ap-  
21 plies for the taxable year, the limitation of  
22 subparagraph (A)(ii) shall be equal to the  
23 sum of—

1           “(I) the compensation includible  
2           in such individual’s gross income for  
3           the taxable year, plus

4           “(II) the compensation includible  
5           in the gross income of such individ-  
6           ual’s spouse for the taxable year re-  
7           duced by the amount of the limitation  
8           under subparagraph (A) applicable to  
9           such spouse for such taxable year.

10           “(ii) INDIVIDUALS TO WHOM CLAUSE  
11           (i) APPLIES.—Clause (i) shall apply to any  
12           individual if—

13           “(I) such individual files a joint  
14           return for the taxable year, and

15           “(II) the amount of compensa-  
16           tion (if any) includible in such individ-  
17           ual’s gross income for the taxable year  
18           is less than the compensation includ-  
19           ible in the gross income of such indi-  
20           vidual’s spouse for the taxable year.

21           “(C) ADJUSTMENT FOR INFLATION.—

22           “(i) IN GENERAL.—In the case of a  
23           taxable year beginning in a calendar year  
24           after 1996, the \$2,000 amount contained

1 in subparagraph (A) shall be increased by  
2 an amount equal to—

3 “(I) such dollar amount, multi-  
4 plied by

5 “(II) the cost-of-living adjust-  
6 ment under section 1(f)(3) for the cal-  
7 endar year in which the taxable year  
8 begins, determined by substituting  
9 ‘calendar year 1995’ for ‘calendar  
10 year 1992’ in subparagraph (B) there-  
11 of.

12 “(ii) ROUNDING.—If any amount as  
13 adjusted under clause (i) is not a multiple  
14 of \$50, such amount shall be rounded to  
15 the nearest multiple of \$50.

16 “(D) TAX ON EXCESS CONTRIBUTIONS.—  
17 Section 4973 shall be applied separately with  
18 respect to individual retirement plans which are  
19 ADS accounts and individual retirement plans  
20 which are not ADS accounts; except that, for  
21 purposes of applying such section with respect  
22 to individual retirement plans which are ADS  
23 accounts, excess contributions shall be consid-  
24 ered to be any amounts in excess of the limita-  
25 tion under subsection (c)(2)(A).

1           “(3) CONTRIBUTIONS PERMITTED AFTER AGE  
2           70½.—Contributions to an ADS account may be  
3           made even after the individual for whom the account  
4           is maintained has attained age 70½.

5           “(4) MANDATORY DISTRIBUTION RULES NOT  
6           TO APPLY, ETC.—

7           “(A) IN GENERAL.—Except as provided in  
8           subparagraph (B), subsections (a)(6) and (b)(3)  
9           of section 408 (relating to required distribu-  
10          tions) and section 4974 (relating to excise tax  
11          on certain accumulations in qualified retirement  
12          plans) shall not apply to any ADS account.

13          “(B) POST-DEATH DISTRIBUTIONS.—Rules  
14          similar to the rules of section 401(a)(9) (other  
15          than subparagraph (A) thereof) shall apply for  
16          purposes of this section.

17          “(5) LIMITATIONS ON ROLLOVER CONTRIBU-  
18          TIONS.—No rollover contribution may be made to an  
19          ADS account unless—

20                 “(A) such contribution is from another  
21                 ADS account, or

22                 “(B) such contribution is from an individ-  
23                 ual retirement plan (other than an ADS ac-  
24                 count) and is made before January 1, 1998.

1       “(d) DISTRIBUTION RULES.—For purposes of this  
2 title—

3               “(1) GENERAL RULES.—

4                       “(A) EXCLUSION FROM GROSS INCOME.—

5               No portion of a qualified distribution from an  
6               ADS account shall be includible in gross in-  
7               come.

8                       “(B) EXCEPTION FROM PENALTY TAX.—

9               Section 72(t) shall not apply to—

10                      “(i) any qualified distribution from an  
11                      ADS account, and

12                      “(ii) any qualified special purpose dis-  
13                      tribution (whether or not a qualified dis-  
14                      tribution) from an ADS account.

15               “(2) QUALIFIED DISTRIBUTION.—For purposes  
16 of this subsection—

17                      “(A) IN GENERAL.—The term ‘qualified  
18                      distribution’ means any payment or distribu-  
19                      tion—

20                      “(i) made on or after the date on  
21                      which the individual attains age 59½,

22                      “(ii) made to a beneficiary (or to the  
23                      estate of the individual) on or after the  
24                      death of the individual,

1           “(iii) attributable to the individual’s  
2           being disabled (within the meaning of sec-  
3           tion 72(m)(7)), or

4           “(iv) which is a qualified special pur-  
5           pose distribution.

6           “(B) DISTRIBUTIONS WITHIN 5 YEARS.—  
7           No payment or distribution shall be treated as  
8           a qualified distribution if—

9           “(i) it is made within the 5-taxable  
10           year period beginning with the 1st taxable  
11           year for which the individual made a con-  
12           tribution to an ADS account (or such indi-  
13           vidual’s spouse made a contribution to an  
14           ADS account) established for such individ-  
15           ual, or

16           “(ii) in the case of a payment or dis-  
17           tribution properly allocable to a rollover  
18           contribution (or income allocable thereto),  
19           it is made within 5 years after the date on  
20           which such rollover contribution was made,  
21           as determined under regulations prescribed  
22           by the Secretary.

23           Clause (ii) shall not apply to a rollover con-  
24           tribution from an ADS account.

1           “(3) INCOME INCLUSION FOR ROLLOVERS FROM  
2 NON-ADS ACCOUNTS.—In the case of any amount  
3 paid or distributed out of an individual retirement  
4 plan (other than an ADS account) which is paid into  
5 an ADS account (established for the benefit of the  
6 payee or distributee, as the case may be) before the  
7 close of the 60th day after the day on which the  
8 payment or distribution is received—

9           “(A) sections 72(t) and 408(d)(3) shall not  
10 apply, and

11           “(B) any amount required to be included  
12 in gross income by reason of this paragraph  
13 shall be so included ratably over the 4-taxable  
14 year period beginning with the taxable year in  
15 which the payment or distribution is made.

16           “(e) QUALIFIED SPECIAL PURPOSE DISTRIBUTION.—

17           “(1) IN GENERAL.—For purposes of this section,  
18 the term ‘qualified special purpose distribution’  
19 means any payments or distributions from an ADS  
20 account to the individual for whose benefit such account  
21 is established—

22           “(A) if such payments or distributions are  
23 qualified first-time homebuyer distributions, or  
24

1           “(B) to the extent such payments or dis-  
2 tributions do not exceed—

3                   “(i) the qualified higher education ex-  
4 penses of the taxpayer for the taxable year  
5 in which received, and

6                   “(ii) the qualified medical expenses of  
7 the taxpayer for the taxable year in which  
8 received.

9           “(2) QUALIFIED FIRST-TIME HOMEBUYER DIS-  
10 TRIBUTIONS.—

11                   “(A) IN GENERAL.—For purposes of this  
12 subsection, the term ‘qualified first-time home-  
13 buyer distribution’ means any payment or dis-  
14 tribution received by an individual to the extent  
15 such payment or distribution is used by the in-  
16 dividual before the close of the 60th day after  
17 the day on which such payment or distribution  
18 is received to pay qualified acquisition costs  
19 with respect to a principal residence for such  
20 individual as a first-time homebuyer.

21                   “(B) QUALIFIED ACQUISITION COSTS.—  
22 For purposes of this paragraph, the term  
23 ‘qualified acquisition costs’ means the costs of  
24 acquiring, constructing, or reconstructing a res-  
25 idence. Such term includes any usual or reason-

1           able settlement, financing, or other closing  
2           costs.

3           “(C) FIRST-TIME HOMEBUYER; OTHER  
4           DEFINITIONS.—For purposes of this para-  
5           graph—

6                   “(i) FIRST-TIME HOMEBUYER.—The  
7                   term ‘first-time homebuyer’ means any in-  
8                   dividual if such individual (and, if married,  
9                   such individual’s spouse) had no present  
10                  ownership interest in a principal residence  
11                  during the 3-year period ending on the  
12                  date of acquisition of the principal resi-  
13                  dence to which this paragraph applies.

14                   “(ii) PRINCIPAL RESIDENCE.—The  
15                   term ‘principal residence’ has the same  
16                   meaning as when used in section 1034.

17                   “(iii) DATE OF ACQUISITION.—The  
18                   term ‘date of acquisition’ means the date—

19                           “(I) on which a binding contract  
20                           to acquire the principal residence to  
21                           which subparagraph (A) applies is en-  
22                           tered into, or

23                           “(II) on which a binding contract  
24                           to construct or reconstruct such a  
25                           principal residence is entered into.

1           “(D) SPECIAL RULE WHERE DELAY IN AC-  
2           QUISITION.—If any payment or distribution out  
3           of an ADS account fails to meet the require-  
4           ments of subparagraph (A) solely by reason of  
5           a delay or cancellation of the purchase, con-  
6           struction, or reconstruction of the residence, the  
7           amount of the payment or distribution may be  
8           contributed to an ADS account as provided in  
9           subsection (d)(3)(A)(i) of section 408 (deter-  
10          mined by substituting ‘120th day’ for ‘60th  
11          day’ in such subsection), except that—

12                   “(i) subsection (d)(3)(B) of such sec-  
13                   tion shall not be applied to such contribu-  
14                   tion, and

15                   “(ii) such amount shall not be taken  
16                   into account in determining whether sub-  
17                   section (d)(3)(A)(i) of such section applies  
18                   to any other amount.

19           “(3) QUALIFIED HIGHER EDUCATION EX-  
20          PENSES.—For purposes of this subsection—

21                   “(A) IN GENERAL.—The term ‘qualified  
22                   higher education expenses’ means tuition, fees,  
23                   books, supplies, and equipment required for the  
24                   enrollment or attendance of—

25                   “(i) the taxpayer,

1                   “(ii) the taxpayer’s spouse, or  
2                   “(iii) the taxpayer’s child (as defined  
3                   in section 151(c)(3)) or grandchild,  
4                   at an eligible educational institution (as defined  
5                   in section 135(c)(3)).

6                   “(B) COORDINATION WITH SAVINGS BOND  
7                   PROVISIONS.—The amount of qualified higher  
8                   education expenses for any taxable year shall be  
9                   reduced by any amount excludable from gross  
10                  income under section 135.

11                  “(4) QUALIFIED MEDICAL EXPENSES.—

12                  “(A) IN GENERAL.—For purposes of this  
13                  subsection, the term ‘qualified medical ex-  
14                  penses’ means any amounts paid during the  
15                  taxable year, not compensated for by insurance  
16                  or otherwise, for medical care (as defined in  
17                  section 213(d)) of the taxpayer, his spouse, or  
18                  a dependent (as defined in section 152).

19                  “(B) LONG-TERM CARE INSURANCE PRE-  
20                  MIUMS TREATED AS MEDICAL EXPENSES.—For  
21                  purposes of subparagraph (A), section  
22                  213(d)(1)(C) shall not apply but the term  
23                  ‘qualified medical expenses’ shall include pre-  
24                  miums for long-term care insurance (as defined

1 in section 7702B(b)) for coverage of the tax-  
2 payer or his spouse.

3 “(f) OTHER DEFINITIONS.—For purposes of this sec-  
4 tion—

5 “(1) ROLLOVER CONTRIBUTIONS.—The term  
6 ‘rollover contributions’ means contributions de-  
7 scribed in sections 402(c), 403(a)(4), 403(b)(8), or  
8 408(d)(3).

9 “(2) COMPENSATION.—The term ‘compensa-  
10 tion’ has the meaning given such term by section  
11 219(f).”

12 (b) TERMINATION OF NONDEDUCTIBLE IRA CON-  
13 TRIBUTIONS.—

14 (1) Section 408(o) is amended by adding at the  
15 end the following new paragraph:

16 “(5) TERMINATION.—This subsection shall not  
17 apply to any designated nondeductible contribution  
18 for any taxable year beginning after December 31,  
19 1995.”

20 (2) Section 219(f) of is amended by striking  
21 paragraph (7).

22 (c) EXCESS DISTRIBUTIONS TAX NOT TO APPLY.—  
23 Subparagraph (B) of section 4980A(e)(1) is amended by  
24 inserting “other than an ADS account (as defined in sec-  
25 tion 408A(b))” after “retirement plan”.

1 (d) CLERICAL AMENDMENT.—The table of sections  
2 for subpart A of part I of subchapter D of chapter 1 is  
3 amended by inserting after the item relating to section  
4 408 the following new item:

“Sec. 408A. American Dream Savings Accounts.”

5 (e) EFFECTIVE DATE.—The amendments made by  
6 this section shall apply to taxable years beginning after  
7 December 31, 1995.

8 **SEC. 104. SPOUSAL IRA COMPUTED ON BASIS OF COM-**  
9 **PENSATION OF BOTH SPOUSES.**

10 (a) IN GENERAL.—Subsection (c) of section 219 (re-  
11 lating to special rules for certain married individuals) is  
12 amended to read as follows:

13 “(c) SPECIAL RULES FOR CERTAIN MARRIED INDI-  
14 VIDUALS.—

15 “(1) IN GENERAL.—In the case of an individual  
16 to whom this paragraph applies for the taxable year,  
17 the limitation of subsection (b)(1) shall be equal to  
18 the lesser of—

19 “(A) \$2,000, or

20 “(B) the sum of—

21 “(i) the compensation includible in  
22 such individual’s gross income for the tax-  
23 able year, plus

24 “(ii) the compensation includible in  
25 the gross income of such individual’s

1 spouse for the taxable year reduced by the  
2 amount allowable as a deduction under  
3 subsection (a) to such spouse for such tax-  
4 able year.

5 “(2) INDIVIDUALS TO WHOM PARAGRAPH (1)  
6 APPLIES.—Paragraph (1) shall apply to any individ-  
7 ual if—

8 “(A) such individual files a joint return for  
9 the taxable year, and

10 “(B) the amount of compensation (if any)  
11 includible in such individual’s gross income for  
12 the taxable year is less than the compensation  
13 includible in the gross income of such individ-  
14 ual’s spouse for the taxable year.”

15 (b) TECHNICAL AMENDMENT.—Paragraph (2) of  
16 section 219(f) (relating to other definitions and special  
17 rules) is amended by striking “subsections (b) and (c)”  
18 and inserting “subsection (b)”.

19 (c) EFFECTIVE DATE.—The amendments made by  
20 this section shall apply to taxable years beginning after  
21 December 31, 1995.

1           **TITLE II—SENIOR CITIZENS’**  
 2                           **EQUITY**  
 3           **Subtitle A—Repeal of Increase in**  
 4           **Tax on Social Security Benefits**

5   **SEC. 201. REPEAL OF INCREASE IN TAX ON SOCIAL SECU-**  
 6                           **RITY BENEFITS.**

7           (a) **IN GENERAL.**—Subsection (a) of section 86 (re-  
 8 relating to social security and tier 1 railroad retirement ben-  
 9 efits) is amended by adding at the end the following new  
 10 paragraph:

11                   “(3) **PHASEOUT OF ADDITIONAL AMOUNT.**—In  
 12 the case of any taxable year beginning in a calendar  
 13 year after 1995 and before 2000, paragraph (2)  
 14 shall be applied by substituting the percentage deter-  
 15 mined under the following table for ‘85 percent’ each  
 16 place it appears:

<b>“In the case of a taxable year beginning in calendar year:</b>	<b>The percentage is:</b>
1996 .....	75 percent
1997 .....	65 percent
1998 .....	60 percent
1999 .....	55 percent.”

17           (b) **TERMINATION OF ADDITIONAL AMOUNT.**—Para-  
 18 graph (2) of section 86(a) is amended by adding at the  
 19 end the following new flush sentence:

20                   “‘This paragraph shall not apply to any taxable year  
 21 beginning after December 31, 1999.’”

22           (c) **CONFORMING AMENDMENTS.**—

1           (1) Subparagraph (A) of section 871(a)(3) is  
2 amended—

3           (A) by striking “85 percent” and inserting  
4 “50 percent”, and

5           (B) by inserting before the last sentence  
6 the following new flush sentence:

7           “In the case of any taxable year beginning in a cal-  
8 endar year after 1995 and before 2000, subpara-  
9 graph (A) shall be applied by substituting the per-  
10 centage determined for such calendar year under  
11 section 86(a)(3) for ‘50 percent.’”

12           (2)(A) Subparagraph (A) of section 121(e)(1)  
13 of the Social Security Amendments of 1983 (Public  
14 Law 98–21) is amended—

15           (i) by striking “(A) There” and inserting  
16 “There”;

17           (ii) by striking “(i)” immediately following  
18 “amounts equivalent to”; and

19           (iii) by striking “, less (ii)” and all that  
20 follows and inserting a period.

21           (B) Paragraph (1) of section 121(e) of such Act  
22 is amended by striking subparagraph (B).

23           (C) Paragraph (3) of section 121(e) of such Act  
24 is amended by striking subparagraph (B) and by re-  
25 designating subparagraph (C) as subparagraph (B).

1 (D) Paragraph (2) of section 121(e) of such  
2 Act is amended in the first sentence by striking  
3 “paragraph (1)(A)” and inserting “paragraph (1)”.

4 (d) EFFECTIVE DATE.—

5 (1) IN GENERAL.—Except as provided in para-  
6 graph (2), the amendments made by this section  
7 shall apply to taxable years beginning after Decem-  
8 ber 31, 1995.

9 (2) SUBSECTION (c)(2).—The amendments  
10 made by subsection (c)(2) shall apply to tax liabil-  
11 ities for taxable years beginning after December 31,  
12 1995.

## 13 **Subtitle B—Treatment of Long-** 14 **term Care Insurance and Services**

### 15 **SEC. 211. TREATMENT OF LONG-TERM CARE INSURANCE.**

16 (a) GENERAL RULE.—Chapter 79 (relating to defini-  
17 tions) is amended by inserting after section 7702A the fol-  
18 lowing new section:

#### 19 **“SEC. 7702B. TREATMENT OF LONG-TERM CARE INSUR-** 20 **ANCE.**

21 “(a) IN GENERAL.—For purposes of this title—

22 “(1) a long-term care insurance contract shall  
23 be treated as an accident and health insurance con-  
24 tract,

1           “(2) amounts (other than policyholder divi-  
2           dends, as defined in section 808, or premium re-  
3           funds) received under a long-term care insurance  
4           contract shall be treated as amounts received for  
5           personal injuries and sickness and shall be treated  
6           as reimbursement for expenses actually incurred for  
7           medical care (as defined in section 213(d)),

8           “(3) any plan of an employer providing cov-  
9           erage under a long-term care insurance contract  
10          shall be treated as an accident and health plan with  
11          respect to such coverage,

12          “(4) except as provided in subsection (d)(3),  
13          amounts paid for a long-term care insurance con-  
14          tract providing the benefits described in subsection  
15          (b)(2)(A) shall be treated as payments made for in-  
16          surance for purposes of section 213(d)(1)(D), and

17          “(5) a long-term care insurance contract shall  
18          be treated as a guaranteed renewable contract sub-  
19          ject to the rules of section 816(e).

20          “(b) LONG-TERM CARE INSURANCE CONTRACT.—  
21          For purposes of this title—

22                  “(1) IN GENERAL.—The term ‘long-term care  
23                  insurance contract’ means any insurance contract  
24                  if—

1           “(A) the only insurance protection pro-  
2           vided under such contract is coverage of quali-  
3           fied long-term care services,

4           “(B) such contract does not pay or reim-  
5           burse expenses incurred for services or items to  
6           the extent that such expenses are reimbursable  
7           under title XVIII of the Social Security Act or  
8           would be so reimbursable but for the applica-  
9           tion of a deductible or coinsurance amount,

10          “(C) such contract is guaranteed renew-  
11          able,

12          “(D) such contract does not provide for a  
13          cash surrender value or other money that can  
14          be—

15                 “(i) paid, assigned, or pledged as col-  
16                 lateral for a loan, or

17                 “(ii) borrowed,  
18          other than as provided in subparagraph (E) or  
19          paragraph (2)(C), and

20          “(E) all refunds of premiums, and all pol-  
21          icyholder dividends or similar amounts, under  
22          such contract are to be applied as a reduction  
23          in future premiums or to increase future bene-  
24          fits.

25          “(2) SPECIAL RULES.—

1           “(A) PER DIEM, ETC. PAYMENTS PER-  
2           MITTED.—A contract shall not fail to be de-  
3           scribed in subparagraph (A) or (B) of para-  
4           graph (1) by reason of payments being made on  
5           a per diem or other periodic basis without re-  
6           gard to the expenses incurred during the period  
7           to which the payments relate.

8           “(B) SPECIAL RULES RELATING TO MEDI-  
9           CARE.—

10           “(i) Paragraph (1)(B) shall not apply  
11           to expenses which are reimbursable under  
12           title XVIII of the Social Security Act only  
13           as a secondary payor.

14           “(ii) No provision of law shall be con-  
15           strued or applied so as to prohibit the of-  
16           fering of a long-term care insurance con-  
17           tract on the basis that the contract coordi-  
18           nates its benefits with those provided  
19           under such title.

20           “(C) REFUNDS OF PREMIUMS.—Paragraph  
21           (1)(E) shall not apply to any refund on the  
22           death of the insured, or on a complete surren-  
23           der or cancellation of the contract, which can-  
24           not exceed the aggregate premiums paid under  
25           the contract. Any refund on a complete surren-

1           der or cancellation of the contract shall be in-  
2           cludible in gross income to the extent that any  
3           deduction or exclusion was allowable with re-  
4           spect to the premiums.

5           “(c) QUALIFIED LONG-TERM CARE SERVICES.—For  
6 purposes of this section—

7           “(1) IN GENERAL.—The term ‘qualified long-  
8 term care services’ means necessary diagnostic, pre-  
9 ventive, therapeutic, curing, treating, mitigating, and  
10 rehabilitative services, and maintenance or personal  
11 care services, which—

12                   “(A) are required by a chronically ill indi-  
13 vidual, and

14                   “(B) are provided pursuant to a plan of  
15 care prescribed by a licensed health care practi-  
16 tioner.

17           “(2) CHRONICALLY ILL INDIVIDUAL.—

18                   “(A) IN GENERAL.—The term ‘chronically  
19 ill individual’ means any individual who has  
20 been certified by a licensed health care practi-  
21 tioner as—

22                           “(i) being unable to perform (without  
23 substantial assistance from another indi-  
24 vidual) at least 2 activities of daily living  
25 for a period of at least 90 days due to a

1           loss of functional capacity or to cognitive  
2           impairment, or

3           “(ii) having a level of disability simi-  
4           lar (as determined by the Secretary in con-  
5           sultation with the Secretary of Health and  
6           Human Services) to the level of disability  
7           described in clause (i).

8           Such term shall not include any individual oth-  
9           erwise meeting the requirements of the preced-  
10          ing sentence unless within the preceding 12-  
11          month period a licensed health care practitioner  
12          has certified that such individual meets such re-  
13          quirements.

14          “(B) ACTIVITIES OF DAILY LIVING.—For  
15          purposes of subparagraph (A), each of the fol-  
16          lowing is an activity of daily living:

17                  “(i) Eating.

18                  “(ii) Toileting.

19                  “(iii) Transferring.

20                  “(iv) Bathing.

21                  “(v) Dressing.

22                  “(vi) Continence.

23          Nothing in this section shall be construed to re-  
24          quire a contract to take into account all of the  
25          preceding activities of daily living.

1           “(3) MAINTENANCE OR PERSONAL CARE SERV-  
2           ICES.—The term ‘maintenance or personal care serv-  
3           ices’ means any care the primary purpose of which  
4           is the provision of needed assistance with any of the  
5           disabilities as a result of which the individual is a  
6           chronically ill individual (including the protection  
7           from threats to health and safety due to severe cog-  
8           nitive impairment).

9           “(4) LICENSED HEALTH CARE PRACTI-  
10          TIONER.—The term ‘licensed health care practi-  
11          tioner’ means any physician (as defined in section  
12          1861(r)(1) of the Social Security Act) and any reg-  
13          istered professional nurse, licensed social worker, or  
14          other individual who meets such requirements as  
15          may be prescribed by the Secretary.

16          “(d) TREATMENT OF COVERAGE PROVIDED AS PART  
17          OF A LIFE INSURANCE CONTRACT.—Except as otherwise  
18          provided in regulations prescribed by the Secretary, in the  
19          case of any long-term care insurance coverage (whether  
20          or not qualified) provided by a rider on a life insurance  
21          contract—

22                 “(1) IN GENERAL.—This section shall apply as  
23                 if the portion of the contract providing such cov-  
24                 erage is a separate contract.

1           “(2) APPLICATION OF 7702.—Section  
2           7702(c)(2) (relating to the guideline premium limi-  
3           tation) shall be applied by increasing the guideline  
4           premium limitation with respect to a life insurance  
5           contract, as of any date—

6                   “(A) by the sum of any charges (but not  
7                   premium payments) against the life insurance  
8                   contract’s cash surrender value (within the  
9                   meaning of section 7702(f)(2)(A)) for such cov-  
10                  erage made to that date under the contract, less

11                   “(B) any such charges the imposition of  
12                   which reduces the premiums paid for the con-  
13                   tract (within the meaning of section  
14                   7702(f)(1)).

15           “(3) APPLICATION OF SECTION 213.—No deduc-  
16           tion shall be allowed under section 213(a) for  
17           charges against the life insurance contract’s cash  
18           surrender value described in paragraph (2), unless  
19           such charges are includible in income as a result of  
20           the application of section 72(e)(10) and the rider is  
21           a long-term care insurance contract under sub-  
22           section (b).

23           “(4) PORTION DEFINED.—For purposes of this  
24           subsection, the term ‘portion’ means only the terms  
25           and benefits under a life insurance contract that are

1 in addition to the terms and benefits under the con-  
2 tract without regard to the coverage under a long-  
3 term care insurance contract.”

4 (b) RESERVE METHOD.—Clause (iii) of section  
5 807(d)(3)(A) is amended by inserting “(other than a long-  
6 term care insurance contract, as defined in section  
7 7702B(b))” after “insurance contract”.

8 (c) LONG-TERM CARE INSURANCE NOT PERMITTED  
9 UNDER CAFETERIA PLANS OR FLEXIBLE SPENDING AR-  
10 RANGEMENTS.—

11 (1) CAFETERIA PLANS.—Section 125(f) is  
12 amended by adding at the end the following new  
13 sentence: “Such term shall not include any long-  
14 term care insurance contract (as defined in section  
15 7702B(b)).”

16 (2) FLEXIBLE SPENDING ARRANGEMENTS.—  
17 The text of section 106 (relating to contributions by  
18 employer to accident and health plans) is amended  
19 to read as follows:

20 “(a) GENERAL RULE.—Except as provided in sub-  
21 section (b), gross income of an employee does not include  
22 employer-provided coverage under an accident or health  
23 plan.

1       “(b) INCLUSION OF LONG-TERM CARE BENEFITS  
2 PROVIDED THROUGH FLEXIBLE SPENDING ARRANGE-  
3 MENTS.—

4           “(1) IN GENERAL.—Effective on and after Jan-  
5 uary 1, 1996, gross income of an employee shall in-  
6 clude employer-provided coverage for qualified long-  
7 term care services (as defined in section 7702B(c))  
8 to the extent that such coverage is provided through  
9 a flexible spending or similar arrangement.

10          “(2) FLEXIBLE SPENDING ARRANGEMENT.—  
11 For purposes of this subsection, a flexible spending  
12 arrangement is a benefit program which provides  
13 employees with coverage under which—

14           “(A) specified incurred expenses may be  
15 reimbursed (subject to reimbursement maxi-  
16 mums and other reasonable conditions), and

17           “(B) the maximum amount of reimburse-  
18 ment which is reasonably available to a partici-  
19 pant for such coverage is less than 500 percent  
20 of the value of such coverage.

21       In the case of an insured plan, the maximum  
22 amount reasonably available shall be determined on  
23 the basis of the underlying coverage.”

1 (d) CONTINUATION COVERAGE EXCISE TAX NOT TO  
2 APPLY.—Subsection (f) of section 4980B is amended by  
3 adding at the end the following new paragraph:

4 “(9) CONTINUATION OF LONG-TERM CARE COV-  
5 ERAGE NOT REQUIRED.—A group health plan shall  
6 not be treated as failing to meet the requirements of  
7 this subsection solely by reason of failing to provide  
8 coverage under any long-term care insurance con-  
9 tract (as defined in section 7702B(b)).”

10 (e) AMOUNTS PAID TO RELATIVES TREATED AS NOT  
11 PAID FOR MEDICAL CARE.—Section 213(d) is amended  
12 by adding at the end the following new paragraph:

13 “(10) CERTAIN PAYMENTS TO RELATIVES  
14 TREATED AS NOT PAID FOR MEDICAL CARE.—An  
15 amount paid for a qualified long-term care service  
16 (as defined in section 7702B(c)) provided to an indi-  
17 vidual shall be treated as not paid for medical care  
18 if such service is provided—

19 “(A) by a relative (directly or through a  
20 partnership, corporation, or other entity) unless  
21 the relative is a licensed professional with re-  
22 spect to such services, or

23 “(B) by a corporation or partnership which  
24 is related (within the meaning of section 267(b)  
25 or 707(b)) to the individual.

1 For purposes of this paragraph, the term ‘relative’  
2 means an individual bearing a relationship to the in-  
3 dividual which is described in any of paragraphs (1)  
4 through (8) of section 152(a). This paragraph shall  
5 not apply for purposes of section 105(b) with respect  
6 to reimbursements through insurance.”

7 (f) CLERICAL AMENDMENT.—The table of sections  
8 for chapter 79 is amended by inserting after the item re-  
9 lating to section 7702A the following new item:

“Sec. 7702B. Treatment of long-term care insurance.”.

10 (g) EFFECTIVE DATE.—

11 (1) IN GENERAL.—The amendments made by  
12 this section shall apply to contracts issued after De-  
13 cember 31, 1995.

14 (2) CONTINUATION OF EXISTING POLICIES.—In  
15 the case of any contract issued before January 1,  
16 1996, which met the long-term care insurance re-  
17 quirements of the State in which the contract was  
18 situated at the time the contract was issued—

19 (A) such contract shall be treated for pur-  
20 poses of the Internal Revenue Code of 1986 as  
21 a long-term care insurance contract (as defined  
22 in section 7702B(b) of such Code), and

23 (B) services provided under, or reimbursed  
24 by, such contract shall be treated for such pur-

1           poses as qualified long-term care services (as  
2           defined in section 7702B(c) of such Code).

3           (3) EXCHANGES OF EXISTING POLICIES.—If,  
4           after the date of enactment of this Act and before  
5           January 1, 1996, a contract providing for long-term  
6           care insurance coverage is exchanged solely for a  
7           long-term care insurance contract (as defined in sec-  
8           tion 7702B(b) of such Code), no gain or loss shall  
9           be recognized on the exchange. If, in addition to a  
10          long-term care insurance contract, money or other  
11          property is received in the exchange, then any gain  
12          shall be recognized to the extent of the sum of the  
13          money and the fair market value of the other prop-  
14          erty received. For purposes of this paragraph, the  
15          cancellation of a contract providing for long-term  
16          care insurance coverage and reinvestment of the can-  
17          cellation proceeds in a long-term care insurance con-  
18          tract within 60 days thereafter shall be treated as  
19          an exchange.

20          (4) ISSUANCE OF CERTAIN RIDERS PER-  
21          MITTED.—For purposes of applying sections 101(f),  
22          7702, and 7702A of the Internal Revenue Code of  
23          1986 to any contract—

1 (A) the issuance of a rider which is treated  
2 as a long-term care insurance contract under  
3 section 7702B, and

4 (B) the addition of any provision required  
5 to conform any other long-term care rider to be  
6 so treated,

7 shall not be treated as a modification or material  
8 change of such contract.

9 **SEC. 212. QUALIFIED LONG-TERM CARE SERVICES TREAT-**  
10 **ED AS MEDICAL CARE.**

11 (a) GENERAL RULE.—Paragraph (1) of section  
12 213(d) (defining medical care) is amended by striking  
13 “or” at the end of subparagraph (B), by redesignating  
14 subparagraph (C) as subparagraph (D), and by inserting  
15 after subparagraph (B) the following new subparagraph:

16 “(C) for qualified long-term care services  
17 (as defined in section 7702B(c)), or”.

18 (b) TECHNICAL AMENDMENTS.—

19 (1) Subparagraph (D) of section 213(d)(1) (as  
20 redesignated by subsection (a)) is amended by strik-  
21 ing “subparagraphs (A) and (B)” and inserting  
22 “subparagraphs (A), (B), and (C)”.

23 (2)(A) Paragraph (1) of section 213(d) is  
24 amended by adding at the end the following new  
25 flush sentence:

1 “In the case of a long-term care insurance contract  
 2 (as defined in section 7702B(b)), only eligible long-  
 3 term care premiums (as defined in paragraph (11))  
 4 shall be taken into account under subparagraph  
 5 (D).”

6 (B) Subsection (d) of section 213 is amended  
 7 by adding at the end the following new paragraph:

8 “(11) ELIGIBLE LONG-TERM CARE PRE-  
 9 MIUMS.—

10 “(A) IN GENERAL.—For purposes of this  
 11 section, the term ‘eligible long-term care pre-  
 12 miums’ means the amount paid during a tax-  
 13 able year for any long-term care insurance con-  
 14 tract (as defined in section 7702B(b)) covering  
 15 an individual, to the extent such amount does  
 16 not exceed the limitation determined under the  
 17 following table:

<b>“In the case of an individual with an attained age before the close of the taxable year of:</b>	<b>The limitation is:</b>
40 or less .....	\$200
More than 40 but not more than 50 .....	375
More than 50 but not more than 60 .....	750
More than 60 but not more than 70 .....	2,000
More than 70 .....	2,500.

18 “(B) INDEXING.—

19 “(i) IN GENERAL.—In the case of any  
 20 taxable year beginning in a calendar year  
 21 after 1996, each dollar amount contained

1 in subparagraph (A) shall be increased by  
2 the medical care cost adjustment of such  
3 amount for such calendar year. If any in-  
4 crease determined under the preceding sen-  
5 tence is not a multiple of \$10, such in-  
6 crease shall be rounded to the nearest mul-  
7 tiple of \$10.

8 “(ii) MEDICAL CARE COST ADJUST-  
9 MENT.—For purposes of clause (i), the  
10 medical care cost adjustment for any cal-  
11 endar year is the percentage (if any) by  
12 which—

13 “(I) the medical care component  
14 of the Consumer Price Index (as de-  
15 fined in section 1(f)(5)) for August of  
16 the preceding calendar year, exceeds

17 “(II) such component for August  
18 of 1995.

19 The Secretary shall, in consultation with  
20 the Secretary of Health and Human Serv-  
21 ices, prescribe an adjustment which the  
22 Secretary determines is more appropriate  
23 for purposes of this paragraph than the  
24 adjustment described in the preceding sen-  
25 tence, and the adjustment so prescribed

1 shall apply in lieu of the adjustment de-  
2 scribed in the preceding sentence.”

3 (3) Paragraph (6) of section 213(d) is amend-  
4 ed—

5 (A) by striking “subparagraphs (A) and  
6 (B)” and inserting “subparagraphs (A), (B),  
7 and (C)”, and

8 (B) by striking “paragraph (1)(C)” in sub-  
9 paragraph (A) and inserting “paragraph  
10 (1)(D)”.

11 (4) Paragraph (7) of section 213(d) is amended  
12 by striking “subparagraphs (A) and (B)” and insert-  
13 ing “subparagraphs (A), (B), and (C)”.

14 (c) EFFECTIVE DATE.—The amendments made by  
15 this section shall apply to taxable years beginning after  
16 December 31, 1995.

17 **SEC. 213. CERTAIN EXCHANGES OF LIFE INSURANCE CON-**  
18 **TRACTS FOR LONG-TERM CARE INSURANCE**  
19 **CONTRACTS NOT TAXABLE.**

20 (a) IN GENERAL.—Subsection (a) of section 1035  
21 (relating to certain exchanges of insurance contracts) is  
22 amended by striking the period at the end of paragraph  
23 (3) and inserting “; or”, and by adding at the end the  
24 following new paragraph:

1           “(4) a contract of life insurance or an endow-  
2           ment or annuity contract for a long-term care insur-  
3           ance contract (as defined in section 7702B(b)).”

4           (b) EFFECTIVE DATE.—The amendment made by  
5 this section shall apply to taxable years beginning after  
6 December 31, 1995.

7 **SEC. 214. EXCLUSION FROM GROSS INCOME FOR AMOUNTS**  
8                           **WITHDRAWN FROM CERTAIN RETIREMENT**  
9                           **PLANS FOR LONG-TERM CARE INSURANCE.**

10          (a) IN GENERAL.—Part III of subchapter B of chap-  
11 ter 1 (relating to items specifically excluded from gross  
12 income) is amended by redesignating section 137 as sec-  
13 tion 138 and by inserting after section 136 the following  
14 new section:

15 **“SEC. 137. DISTRIBUTIONS FROM CERTAIN RETIREMENT**  
16                           **PLANS FOR LONG-TERM CARE INSURANCE.**

17          “(a) GENERAL RULE.—The amount which would  
18 (but for this section) be includible in the gross income of  
19 an individual for the taxable year by reason of eligible dis-  
20 tributions during the taxable year shall be reduced (but  
21 not below zero) by the aggregate premiums paid by such  
22 individual during such taxable year for any long-term care  
23 insurance contract (as defined in section 7702B(b)) for  
24 coverage of such individual or the spouse of such  
25 individual.

1       “(b) ELIGIBLE DISTRIBUTION.—For purposes of this  
2 section, the term ‘eligible distribution’ means any distribu-  
3 tion or payment to an individual from—

4               “(1) an individual retirement plan of such indi-  
5 vidual,

6               “(2) amounts attributable to employer contribu-  
7 tions made pursuant to elective deferrals described  
8 in subparagraph (A) or (C) of section 402(g)(3) or  
9 section 501(c)(18)(D)(iii), or

10              “(3) amounts deferred under section 457(a).”

11       (b) CONFORMING AMENDMENTS.—

12              (1) Section 401(k)(2)(B)(i) is amended by  
13 striking “or” at the end of subclause (III), by strik-  
14 ing “and” at the end of subclause (IV) and inserting  
15 “or”, and by inserting after subclause (IV) the fol-  
16 lowing new subclause:

17                              “(V) the date distributions for  
18                              premiums for a long-term care insur-  
19                              ance contract (as defined in section  
20                              7702B(b)) for coverage of such indi-  
21                              vidual or the spouse of such individual  
22                              are made, and”.

23              (2) Section 403(b)(11) is amended by striking  
24 “or” at the end of subparagraph (A), by striking the  
25 period at the end of subparagraph (B) and inserting

1 “, or”, and by inserting after subparagraph (B) the  
2 following new subparagraph:

3 “(C) for the payment of premiums for a  
4 long-term care insurance contract (as defined in  
5 section 7702B(b)) for coverage of the employee  
6 or the spouse of the employee.”

7 (3) Subparagraph (A) of section 457(d)(1) is  
8 amended by striking “or” at the end of clause (ii),  
9 by striking “and” at the end of clause (iii) and in-  
10 sserting “or”, and by inserting after clause (iii) the  
11 following new clause:

12 “(iv) the date distributions for pre-  
13 miums for a long-term care insurance con-  
14 tract (as defined in section 7702B(b)) for  
15 coverage of such individual or the spouse  
16 of such individual are made, and”.

17 (4) The table of sections for part III of sub-  
18 chapter B of chapter 1 is amended by striking the  
19 last item and inserting the following new items:

“Sec. 137. Distributions from certain retirement plans for long-  
term care insurance.

“Sec. 138. Cross references to other Acts.”

20 (c) EFFECTIVE DATE.—The amendments made by  
21 this section shall apply to payments and distributions after  
22 December 31, 1995.

1                   **Subtitle C—Treatment of**  
2                   **Accelerated Death Benefits**

3   **SEC. 221. TREATMENT OF ACCELERATED DEATH BENEFITS**

4                   **BY RECIPIENT.**

5           (a) IN GENERAL.—Section 101 (relating to certain  
6 death benefits) is amended by adding at the end the fol-  
7 lowing new subsection:

8           “(g) TREATMENT OF CERTAIN ACCELERATED  
9 DEATH BENEFITS.—

10           “(1) IN GENERAL.—For purposes of this sec-  
11 tion, the following amounts shall be treated as an  
12 amount paid by reason of the death of an insured:

13           “(A) Any amount received under a life in-  
14 surance contract on the life of an insured who  
15 is a terminally ill individual.

16           “(B) Any amount received under a life in-  
17 surance contract on the life of an insured who  
18 is a chronically ill individual (as defined in sec-  
19 tion 7702B(c)(2)) but only if such amount is  
20 received under a rider or other provision of  
21 such contract which is treated as a long-term  
22 care insurance contract under section 7702B.

23           “(2) TREATMENT OF VIATICAL SETTLE-  
24 MENTS.—

1           “(A) IN GENERAL.—In the case of a life  
2 insurance contract on the life of an insured de-  
3 scribed in paragraph (1), if—

4                   “(i) any portion of such contract is  
5 sold to any viatical settlement provider, or

6                   “(ii) any portion of the death benefit  
7 is assigned to such a provider,

8 the amount paid for such sale or assignment  
9 shall be treated as an amount paid under the  
10 life insurance contract by reason of the death of  
11 such insured.

12           “(B) VIATICAL SETTLEMENT PROVIDER.—  
13 The term ‘viatical settlement provider’ means  
14 any person regularly engaged in the trade or  
15 business of purchasing, or taking assignments  
16 of, life insurance contracts on the lives of  
17 insureds described in paragraph (1) if—

18                   “(i) such person is licensed for such  
19 purposes in the State in which the insured  
20 resides, or

21                   “(ii) in the case of an insured who re-  
22 sides in a State not requiring the licensing  
23 of such persons for such purposes, such  
24 person meets the requirements of sections  
25 8 and 9 of the Viatical Settlements Model

1 Act of the National Association of Insur-  
2 ance Commissioners.

3 “(3) DEFINITIONS.—For purposes of this sub-  
4 section—

5 “(A) TERMINALLY ILL INDIVIDUAL.—The  
6 term ‘terminally ill individual’ means an indi-  
7 vidual who has been certified by a physician as  
8 having an illness or physical condition which  
9 can reasonably be expected to result in death in  
10 24 months or less after the date of the certifi-  
11 cation.

12 “(B) PHYSICIAN.—The term ‘physician’  
13 has the meaning given to such term by section  
14 1861(r)(1) of the Social Security Act (42  
15 U.S.C. 1395x(r)(1)).

16 “(4) EXCEPTION FOR BUSINESS-RELATED POLI-  
17 CIES.—This subsection shall not apply in the case of  
18 any amount paid to any taxpayer other than the in-  
19 sured if such taxpayer has an insurable interest with  
20 respect to the life of the insured by reason of the in-  
21 sured being a director, officer, or employee of the  
22 taxpayer or by reason of the insured being finan-  
23 cially interested in any trade or business carried on  
24 by the taxpayer.

1 “(5) CROSS REFERENCE.—

“For inclusion in gross income of excess benefits,  
see section 91.”

2 (b) EFFECTIVE DATE.—The amendment made by  
3 subsection (a) shall apply to amounts received after De-  
4 cember 31, 1995.

5 **SEC. 222. TAX TREATMENT OF COMPANIES ISSUING QUALI-**  
6 **FIED ACCELERATED DEATH BENEFIT RID-**  
7 **ERS.**

8 (a) QUALIFIED ACCELERATED DEATH BENEFIT RID-  
9 ERS TREATED AS LIFE INSURANCE.—Section 818 (relat-  
10 ing to other definitions and special rules) is amended by  
11 adding at the end the following new subsection:

12 “(g) QUALIFIED ACCELERATED DEATH BENEFIT  
13 RIDERS TREATED AS LIFE INSURANCE.—For purposes of  
14 this part—

15 “(1) IN GENERAL.—Any reference to a life in-  
16 surance contract shall be treated as including a ref-  
17 erence to a qualified accelerated death benefit rider  
18 on such contract.

19 “(2) QUALIFIED ACCELERATED DEATH BENE-  
20 FIT RIDERS.—For purposes of this subsection, the  
21 term ‘qualified accelerated death benefit rider’  
22 means any rider on a life insurance contract if the  
23 only payments under the rider are payments meeting  
24 the requirements of section 101(g).

1           “(3) EXCEPTION FOR LONG-TERM CARE RID-  
2           ERS.—Paragraph (1) shall not apply to any rider  
3           which is treated as a long-term care insurance con-  
4           tract under section 7702B.”

5           (b) EFFECTIVE DATE.—

6           (1) IN GENERAL.—The amendment made by  
7           this section shall take effect on January 1, 1996.

8           (2) ISSUANCE OF RIDER NOT TREATED AS MA-  
9           TERIAL CHANGE.—For purposes of applying sections  
10          101(f), 7702, and 7702A of the Internal Revenue  
11          Code of 1986 to any contract—

12           (A) the issuance of a qualified accelerated  
13           death benefit rider (as defined in section 818(g)  
14           of such Code (as added by this Act)), and

15           (B) the addition of any provision required  
16           to conform an accelerated death benefit rider to  
17           the requirements of such section 818(g),  
18          shall not be treated as a modification or material  
19          change of such contract.

1 **Subtitle D—Inclusion in Gross In-**  
2 **come of Excess Long-term Care**  
3 **Benefits**

4 **SEC. 231. INCLUSION IN INCOME OF EXCESS LONG-TERM**  
5 **CARE BENEFITS.**

6 (a) IN GENERAL.—Part II of subchapter B of chap-  
7 ter 1 (relating to items specifically included in gross in-  
8 come) is amended by adding at the end the following new  
9 section:

10 **“SEC. 91. EXCESS LONG-TERM CARE BENEFITS.**

11 “(a) GENERAL RULE.—Notwithstanding any other  
12 provision of this title, gross income shall include the  
13 amount of excess long-term care benefits received by the  
14 taxpayer during the taxable year.

15 “(b) EXCEPTION FOR TERMINALLY ILL INDIVID-  
16 UALS.—Subsection (a) shall not apply to any long-term  
17 care benefit paid by reason of an insured who is a termi-  
18 nally ill individual (as defined in section 101(g)) as of the  
19 date the benefit is received.

20 “(c) EXCESS LONG-TERM CARE BENEFITS.—For  
21 purposes of this section—

22 “(1) IN GENERAL.—The term ‘excess long-term  
23 care benefits’ means the excess (if any) of—

1           “(A) the value of the long-term care bene-  
2           fits received by the taxpayer during the taxable  
3           year, over

4           “(B) the exclusion amount applicable to  
5           such benefits.

6           “(2) LONG-TERM CARE BENEFITS.—The term  
7           ‘long-term care benefits’ means—

8           “(A) payments and other benefits under  
9           long-term care insurance contracts (as defined  
10          in section 7702B(b)) to the extent excludable  
11          from gross income by reason of section  
12          7702B(a)(2), and

13          “(B) payments which are excludable from  
14          gross income by reason of section 101(g).

15          “(3) EXCLUSION AMOUNT.—

16          “(A) IN GENERAL.—In the case of long-  
17          term care benefits received by the taxpayer dur-  
18          ing the taxable year by reason of the taxpayer  
19          being a chronically ill individual, the term ‘ex-  
20          clusion amount’ means the aggregate of \$200  
21          for each day during such year on which the in-  
22          dividual is a chronically ill individual. In the  
23          case of individuals who are married to each  
24          other and who are both chronically ill individ-

1 uals, the preceding sentence shall be applied  
2 separately with respect to each spouse.

3 “(B) OTHER TAXPAYERS.—In the case of  
4 long-term care benefits received during the tax-  
5 able year by a taxpayer by reason of another in-  
6 dividual being a chronically ill individual, the  
7 term ‘exclusion amount’ means so much of such  
8 other individual’s exclusion amount (for such  
9 other individual’s taxable year which begins in  
10 the calendar year in which the taxpayer’s tax-  
11 able year begins) as is allocated by such other  
12 individual to the taxpayer. Such an allocation  
13 shall be made at the time and in the manner  
14 prescribed by the Secretary; and once made,  
15 shall be irrevocable.

16 “(d) CHRONICALLY ILL INDIVIDUAL.—For purposes  
17 of this section, the term ‘chronically ill individual’ has the  
18 meaning given to such term by section 7702B(c)(2).

19 “(e) INFLATION ADJUSTMENT OF \$200 BENEFIT  
20 LIMIT.—In the case of a calendar year after 1996, the  
21 \$200 amount contained in subsection (c)(3)(A) shall be  
22 increased at the same time and in the same manner as  
23 amounts are increased pursuant to section 213(d)(11).”

1 (b) CLERICAL AMENDMENT.—The table of sections  
2 for such part II is amended by adding at the end the fol-  
3 lowing new item:

“Sec. 91. Excess long-term care benefits.”

4 (c) EFFECTIVE DATE.—The amendments made by  
5 this section shall apply to taxable years beginning after  
6 December 31, 1995.

7 **SEC. 232. REPORTING REQUIREMENTS.**

8 (a) IN GENERAL.—Subpart B of part III of sub-  
9 chapter A of chapter 61 is amended by adding at the end  
10 the following new section:

11 **“SEC. 6050Q. CERTAIN LONG-TERM CARE BENEFITS.**

12 “(a) REQUIREMENT OF REPORTING.—Any person  
13 who pays long-term care benefits shall make a return, ac-  
14 cording to the forms or regulations prescribed by the Sec-  
15 retary, setting forth—

16 “(1) the aggregate amount of such benefits  
17 paid by such person to any individual during any  
18 calendar year, and

19 “(2) the name, address, and TIN of such indi-  
20 vidual.

21 “(b) STATEMENTS TO BE FURNISHED TO PERSONS  
22 WITH RESPECT TO WHOM INFORMATION IS REQUIRED.—  
23 Every person required to make a return under subsection  
24 (a) shall furnish to each individual whose name is required

1 to be set forth in such return a written statement show-  
2 ing—

3 “(1) the name of the person making the pay-  
4 ments, and

5 “(2) the aggregate amount of long-term care  
6 benefits paid to the individual which are required to  
7 be shown on such return.

8 The written statement required under the preceding sen-  
9 tence shall be furnished to the individual on or before Jan-  
10 uary 31 of the year following the calendar year for which  
11 the return under subsection (a) was required to be made.

12 “(c) LONG-TERM CARE BENEFITS.—For purposes of  
13 this section, the term ‘long-term care benefit’ has the  
14 meaning given such term by section 91(c).”

15 (b) PENALTIES.—

16 (1) Subparagraph (B) of section 6724(d)(1) is  
17 amended by redesignating clauses (ix) through (xiv)  
18 as clauses (x) through (xv), respectively, and by in-  
19 serring after clause (viii) the following new clause:

20 “(ix) section 6050Q (relating to cer-  
21 tain long-term care benefits),”.

22 (2) Paragraph (2) of section 6724(d) is amend-  
23 ed by redesignating subparagraphs (Q) through (T)  
24 as subparagraphs (R) through (U), respectively, and

1 by inserting after subparagraph (P) the following  
2 new subparagraph:

3 “(Q) section 6050Q(b) (relating to certain  
4 long-term care benefits),”.

5 (c) CLERICAL AMENDMENT.—The table of sections  
6 for subpart B of part III of subchapter A of chapter 61  
7 is amended by adding at the end the following new item:

“Sec. 6050Q. Certain long-term care benefits.”

8 (d) EFFECTIVE DATE.—The amendments made by  
9 this section shall apply to benefits paid after December  
10 31, 1995.

## 11 **TITLE III—JOB CREATION AND** 12 **WAGE ENHANCEMENT**

### 13 **Subtitle A—Capital Gains Reform**

#### 14 **PART I—CAPITAL GAINS REDUCTION FOR** 15 **TAXPAYERS OTHER THAN CORPORATIONS**

##### 16 **SEC. 301. CAPITAL GAINS DEDUCTION.**

17 (a) IN GENERAL.—Part I of subchapter P of chapter  
18 1 (relating to treatment of capital gains), as amended by  
19 subsection (d)(1), is amended by inserting after section  
20 1201 the following new section:

##### 21 **“SEC. 1202. CAPITAL GAINS DEDUCTION.**

22 “(a) GENERAL RULE.—If for any taxable year a tax-  
23 payer other than a corporation has a net capital gain, 50  
24 percent of such gain shall be a deduction from gross in-  
25 come.

1       “(b) ESTATES AND TRUSTS.—In the case of an es-  
2     tate or trust, the deduction shall be computed by excluding  
3     the portion (if any) of the gains for the taxable year from  
4     sales or exchanges of capital assets which, under sections  
5     652 and 662 (relating to inclusions of amounts in gross  
6     income of beneficiaries of trusts), is includible by the in-  
7     come beneficiaries as gain derived from the sale or ex-  
8     change of capital assets.

9       “(c) COORDINATION WITH TREATMENT OF CAPITAL  
10    GAIN UNDER LIMITATION ON INVESTMENT INTEREST.—  
11    For purposes of this section, the net capital gain for any  
12    taxable year shall be reduced (but not below zero) by the  
13    amount which the taxpayer takes into account as invest-  
14    ment income under section 163(d)(4)(B)(iii).

15       “(d) SPECIAL RULE FOR COLLECTIBLES.—

16           “(1) IN GENERAL.—At the election of the tax-  
17    payer, the rate of tax imposed by section 1 shall not  
18    exceed 28 percent on the excess of—

19                   “(A) the amount which would be the net  
20                   capital gain for the taxable year without regard  
21                   to the application of section 1222(12) to collect-  
22                   ibles specified in such election, over

23                   “(B) the net capital gain for such year.

1           “(2) ELECTION.—Any election under this sub-  
2           section, and any specification therein, once made,  
3           shall be irrevocable.

4           “(3) COORDINATION WITH INDEXING.—Any col-  
5           lectible specified in such an election shall be treated  
6           as not being an indexed asset for purposes of section  
7           1022.

8           “(e) TRANSITIONAL RULE.—

9           “(1) IN GENERAL.—In the case of a taxable  
10          year which includes January 1, 1995—

11           “(A) the amount taken into account as the  
12           net capital gain under subsection (a) shall not  
13           exceed the net capital gain determined by only  
14           taking into account gains and losses properly  
15           taken into account for the portion of the tax-  
16           able year on or after January 1, 1995, and

17           “(B) if the net capital gain for such year  
18           exceeds the amount taken into account under  
19           subsection (a), the rate of tax imposed by sec-  
20           tion 1 on such excess shall not exceed 28 per-  
21           cent.

22           “(2) SPECIAL RULES FOR PASS-THRU ENTI-  
23          TIES.—

24           “(A) IN GENERAL.—In applying paragraph  
25          (1) with respect to any pass-thru entity, the de-

1 termination of when gains and losses are prop-  
2 erly taken into account shall be made at the en-  
3 tity level.

4 “(B) PASS-THRU ENTITY DEFINED.—For  
5 purposes of subparagraph (A), the term ‘pass-  
6 thru entity’ means—

7 “(i) a regulated investment company,

8 “(ii) a real estate investment trust,

9 “(iii) an S corporation,

10 “(iv) a partnership,

11 “(v) an estate or trust, and

12 “(vi) a common trust fund.”

13 (b) DEDUCTION ALLOWABLE IN COMPUTING AD-  
14 JUSTED GROSS INCOME.—Subsection (a) of section 62 is  
15 amended by inserting after paragraph (15) the following  
16 new paragraph:

17 “(16) LONG-TERM CAPITAL GAINS.—The de-  
18 duction allowed by section 1202.”

19 (c) TREATMENT OF COLLECTIBLES.—

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

23 “(12) SPECIAL RULE FOR COLLECTIBLES.—

24 “(A) IN GENERAL.—Any gain or loss from  
25 the sale or exchange of a collectible shall be

1 treated as a short-term capital gain or loss (as  
2 the case may be), without regard to the period  
3 such asset was held. The preceding sentence  
4 shall apply only to the extent the gain or loss  
5 is taken into account in computing taxable in-  
6 come.

7 “(B) TREATMENT OF CERTAIN SALES OF  
8 INTEREST IN PARTNERSHIP, ETC.—For pur-  
9 poses of subparagraph (A), any gain from the  
10 sale or exchange of an interest in a partnership,  
11 S corporation, or trust which is attributable to  
12 unrealized appreciation in the value of collect-  
13 ibles held by such entity shall be treated as gain  
14 from the sale or exchange of a collectible. Rules  
15 similar to the rules of section 751(f) shall apply  
16 for purposes of the preceding sentence.

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

22 (2) CHARITABLE DEDUCTION NOT AF-  
23 FECTED.—

24 (A) Paragraph (1) of section 170(e) is  
25 amended by adding at the end the following

1 new sentence: “For purposes of this paragraph,  
2 section 1222 shall be applied without regard to  
3 paragraph (12) thereof (relating to special rule  
4 for collectibles).”

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

10 (d) TECHNICAL AND CONFORMING CHANGES.—

11 (1)(A) Section 13113 of the Revenue Reconcili-  
12 ation Act of 1993 (relating to 50-percent exclusion  
13 for gain from certain small business stock), and the  
14 amendments made by such section, are hereby re-  
15 pealed; and the Internal Revenue Code of 1986 shall  
16 be applied as if such section (and amendments) had  
17 never been enacted.

18 (B) At the election of a taxpayer who holds  
19 qualified small business stock (as defined in section  
20 1202 of such Code, as in effect on the day before  
21 the date of the enactment of this Act) as of such  
22 date of enactment—

23 (i) the provisions repealed by subparagraph  
24 (A) shall continue to apply to any disposition by

1 such taxpayer of such stock held on such date,  
2 and

3 (ii) the amendments made by this section  
4 and section 1002 shall not apply to such stock;  
5 except that losses from the sale or exchange of  
6 such stock shall be taken into account as pro-  
7 vided in the amendments made by paragraph  
8 (13) of this subsection.

9 Such an election may be made only during the 1-  
10 year period beginning on the date of the enactment  
11 of this Act and, once made, shall be irrevocable.

12 (2) Section 1 is amended by striking subsection  
13 (h).

14 (3) Paragraph (1) of section 170(e) is amended  
15 by striking “the amount of gain” in the material fol-  
16 lowing subparagraph (B)(ii) and inserting “50 per-  
17 cent ( $\frac{25}{35}$  in the case of a corporation) of the  
18 amount of gain”.

19 (4)(A) Paragraph (2) of section 172(d) is  
20 amended to read as follows:

21 “(2) CAPITAL GAINS AND LOSSES.—

22 “(A) LOSSES OF TAXPAYERS OTHER THAN  
23 CORPORATIONS.—In the case of a taxpayer  
24 other than a corporation, the amount deductible  
25 on account of losses from sales or exchanges of

1 capital assets shall not exceed the amount in-  
2 cludible on account of gains from sales or ex-  
3 changes of capital assets.

4 “(B) DEDUCTION UNDER SECTION 1202.—  
5 The deduction under section 1202 shall not be  
6 allowed.”

7 (B) Subparagraph (B) of section 172(d)(4) is  
8 amended by striking “paragraphs (1) and (3)” and  
9 inserting “paragraphs (1), (2)(B), and (3)”.

10 (5) The last sentence of section 453A(c)(3) is  
11 amended by striking all that follows “long-term cap-  
12 ital gain,” and inserting “the maximum rate on net  
13 capital gain under section 1201 or the deduction  
14 under section 1202 (whichever is appropriate) shall  
15 be taken into account.”

16 (6) Paragraph (4) of section 642(c) is amended  
17 to read as follows:

18 “(4) ADJUSTMENTS.—To the extent that the  
19 amount otherwise allowable as a deduction under  
20 this subsection consists of gain from the sale or ex-  
21 change of capital assets held for more than 1 year,  
22 proper adjustment shall be made for any deduction  
23 allowable to the estate or trust under section 1202  
24 (relating to deduction for excess of capital gains over  
25 capital losses). In the case of a trust, the deduction

1 allowed by this subsection shall be subject to section  
2 681 (relating to unrelated business income).”

3 (7) Paragraph (3) of section 643(a) is amended  
4 by adding at the end thereof the following new sen-  
5 tence: “The deduction under section 1202 (relating  
6 to deduction of excess of capital gains over capital  
7 losses) shall not be taken into account.”

8 (8) Subparagraph (C) of section 643(a)(6) is  
9 amended by inserting “(i)” before “there shall” and  
10 by inserting before the period “, and (ii) the deduc-  
11 tion under section 1202 (relating to capital gains de-  
12 duction) shall not be taken into account”.

13 (9) Paragraph (4) of section 691(c) is amended  
14 by striking “sections 1(h), 1201, and 1211” and in-  
15 serting “sections 1201, 1202, and 1211”.

16 (10) The second sentence of section 871(a)(2)  
17 is amended by inserting “such gains and losses shall  
18 be determined without regard to section 1202 (relat-  
19 ing to deduction for capital gains) and” after “ex-  
20 cept that”.

21 (11)(A) Paragraph (2) of section 904(b) is  
22 amended by striking subparagraph (A), by redesign-  
23 ating subparagraph (B) as subparagraph (A), and  
24 by inserting after subparagraph (A) (as so redesign-  
25 nated) the following new subparagraph:

1           “(B) OTHER TAXPAYERS.—In the case of  
2           a taxpayer other than a corporation, taxable in-  
3           come from sources outside the United States  
4           shall include gain from the sale or exchange of  
5           capital assets only to the extent of foreign  
6           source capital gain net income.”

7           (B) Subparagraph (A) of section 904(b)(2), as  
8           so redesignated, is amended—

9                   (i) by striking all that precedes clause (i)  
10                  and inserting the following:

11                   “(A) CORPORATIONS.—In the case of a  
12                  corporation—”, and

13                   (ii) by striking in clause (i) “in lieu of ap-  
14                  plying subparagraph (A),”.

15           (C) Paragraph (3) of section 904(b) is amended  
16           by striking subparagraphs (D) and (E) and inserting  
17           the following new subparagraph:

18                   “(D) RATE DIFFERENTIAL PORTION.—The  
19                  rate differential portion of foreign source net  
20                  capital gain, net capital gain, or the excess of  
21                  net capital gain from sources within the United  
22                  States over net capital gain, as the case may  
23                  be, is the same proportion of such amount as  
24                  the excess of the highest rate of tax specified in  
25                  section 11(b) over the alternative rate of tax

1 under section 1201(a) bears to the alternative  
2 rate of tax under section 1201(a).”

3 (12) Subsection (d) of section 1044 is amended  
4 by striking the last sentence.

5 (13)(A) Paragraph (2) of section 1211(b) is  
6 amended to read as follows:

7 “(2) the sum of—

8 “(A) the excess of the net short-term cap-  
9 ital loss over the net long-term capital gain, and

10 “(B) one-half of the excess of the net long-  
11 term capital loss over the net short-term capital  
12 gain.”

13 (B) So much of paragraph (2) of section  
14 1212(b) as precedes subparagraph (B) thereof is  
15 amended to read as follows:

16 “(2) SPECIAL RULES.—

17 “(A) ADJUSTMENTS.—

18 “(i) For purposes of determining the  
19 excess referred to in paragraph (1)(A),  
20 there shall be treated as short-term capital  
21 gain in the taxable year an amount equal  
22 to the lesser of—

23 “(I) the amount allowed for the  
24 taxable year under paragraph (1) or  
25 (2) of section 1211(b), or

1                   “(II) the adjusted taxable income  
2                   for such taxable year.

3                   “(ii) For purposes of determining the  
4                   excess referred to in paragraph (1)(B),  
5                   there shall be treated as short-term capital  
6                   gain in the taxable year an amount equal  
7                   to the sum of—

8                   “(I) the amount allowed for the  
9                   taxable year under paragraph (1) or  
10                  (2) of section 1211(b) or the adjusted  
11                  taxable income for such taxable year,  
12                  whichever is the least, plus

13                  “(II) the excess of the amount  
14                  described in subclause (I) over the net  
15                  short-term capital loss (determined  
16                  without regard to this subsection) for  
17                  such year.”

18                  (C) Subsection (b) of section 1212 is  
19                  amended by adding at the end the following  
20                  new paragraph:

21                  “(3) TRANSITIONAL RULE.—In the case of any  
22                  amount which, under paragraph (1) and section  
23                  1211(b) (as in effect for taxable years beginning be-  
24                  fore January 1, 1996), is treated as a capital loss  
25                  in the first taxable year beginning after December

1 31, 1995, paragraph (1) and section 1211(b) (as so  
2 in effect) shall apply (and paragraph (1) and section  
3 1211(b) as in effect for taxable years beginning  
4 after December 31, 1995, shall not apply) to the ex-  
5 tent such amount exceeds the total of any net cap-  
6 ital gains (determined without regard to this sub-  
7 section) of taxable years beginning after December  
8 31, 1995.”

9 (14) Paragraph (1) of section 1402(i) is amend-  
10 ed by inserting “, and the deduction provided by sec-  
11 tion 1202 shall not apply” before the period at the  
12 end thereof.

13 (15) Subsection (e) of section 1445 is amend-  
14 ed—

15 (A) in paragraph (1) by striking “35 per-  
16 cent (or, to the extent provided in regulations,  
17 28 percent)” and inserting “25 percent (or, to  
18 the extent provided in regulations, 19.8 per-  
19 cent)”, and

20 (B) in paragraph (2) by striking “35 per-  
21 cent” and inserting “25 percent”.

22 (16)(A) The second sentence of section  
23 7518(g)(6)(A) is amended—

24 (i) by striking “during a taxable year to  
25 which section 1(h) or 1201(a) applies”, and

1 (ii) by striking “28 percent (34 percent”  
2 and inserting “19.8 percent (25 percent”.

3 (B) The second sentence of section  
4 607(h)(6)(A) of the Merchant Marine Act, 1936 is  
5 amended—

6 (i) by striking “during a taxable year to  
7 which section 1(h) or 1201(a) of such Code ap-  
8 plies”, and

9 (ii) by striking “28 percent (34 percent”  
10 and inserting “19.8 percent (25 percent”.

11 (e) CLERICAL AMENDMENT.—The table of sections  
12 for part I of subchapter P of chapter 1 is amended by  
13 inserting after the item relating to section 1201 the follow-  
14 ing new item:

“Sec. 1202. Capital gains deduction.”

15 (f) EFFECTIVE DATE.—

16 (1) IN GENERAL.—Except as otherwise pro-  
17 vided in this subsection, the amendments made by  
18 this section shall apply to taxable years ending after  
19 December 31, 1994.

20 (2) CONTRIBUTIONS.—The amendment made  
21 by subsection (d)(3) shall apply to contributions on  
22 or after January 1, 1995.

23 (3) USE OF LONG-TERM LOSSES.—The amend-  
24 ments made by subsection (d)(13) shall apply to tax-  
25 able years beginning after December 31, 1995.

1           (4) WITHHOLDING.—The amendment made by  
2           subsection (d)(15) shall apply only to amounts paid  
3           after the date of the enactment of this Act.

4   **SEC. 302. INDEXING OF CERTAIN ASSETS ACQUIRED AFTER**  
5                   **DECEMBER 31, 1994, FOR PURPOSES OF DE-**  
6                   **TERMINING GAIN.**

7           (a) IN GENERAL.—Part II of subchapter O of chap-  
8   ter 1 (relating to basis rules of general application) is  
9   amended by inserting after section 1021 the following new  
10 section:

11   **“SEC. 1022. INDEXING OF CERTAIN ASSETS ACQUIRED**  
12                   **AFTER DECEMBER 31, 1994, FOR PURPOSES**  
13                   **OF DETERMINING GAIN.**

14           “(a) GENERAL RULE.—

15                   “(1) INDEXED BASIS SUBSTITUTED FOR AD-  
16   JUSTED BASIS.—Solely for purposes of determining  
17   gain on the sale or other disposition by a taxpayer  
18   (other than a corporation) of an indexed asset which  
19   has been held for more than 3 years, the indexed  
20   basis of the asset shall be substituted for its ad-  
21   justed basis.

22                   “(2) EXCEPTION FOR DEPRECIATION, ETC.—  
23   The deductions for depreciation, depletion, and am-  
24   ortization shall be determined without regard to the

1 application of paragraph (1) to the taxpayer or any  
2 other person.

3 “(b) INDEXED ASSET.—

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

6 “(A) common stock in a C corporation  
7 (other than a foreign corporation), and

8 “(B) tangible property,

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

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

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

17 “(B) EXCEPTION.—Subparagraph (A)  
18 shall not apply to—

19 “(i) stock of a foreign investment  
20 company (within the meaning of section  
21 1246(b)),

22 “(ii) stock in a passive foreign invest-  
23 ment company (as defined in section  
24 1296),

1           “(iii) stock in a foreign corporation  
2           held by a United States person who meets  
3           the requirements of section 1248(a)(2),  
4           and

5           “(iv) stock in a foreign personal hold-  
6           ing company (as defined in section 552).

7           “(C) TREATMENT OF AMERICAN DEPOSIT-  
8           TORY RECEIPTS.—An American depository re-  
9           ceipt for common stock in a foreign corporation  
10          shall be treated as common stock in such cor-  
11          poration.

12          “(c) INDEXED BASIS.—For purposes of this sec-  
13          tion—

14               “(1) GENERAL RULE.—The indexed basis for  
15               any asset is—

16                       “(A) the adjusted basis of the asset, in-  
17                       creased by

18                               “(B) the applicable inflation adjustment.

19               “(2) APPLICABLE INFLATION ADJUSTMENT.—  
20               The applicable inflation adjustment for any asset is  
21               an amount equal to—

22                       “(A) the adjusted basis of the asset, multi-  
23                       plied by

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

1           “(i) the gross domestic product  
2           deflator for the last calendar quarter end-  
3           ing before the asset is disposed of, exceeds

4           “(ii) the gross domestic product  
5           deflator for the last calendar quarter end-  
6           ing before the asset was acquired by the  
7           taxpayer.

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

10           “(3) GROSS DOMESTIC PRODUCT DEFLATOR.—

11           The gross domestic product deflator for any cal-  
12           endar quarter is the implicit price deflator for the  
13           gross domestic product for such quarter (as shown  
14           in the last revision thereof released by the Secretary  
15           of Commerce before the close of the following cal-  
16           endar quarter).

17           “(d) SUSPENSION OF HOLDING PERIOD WHERE DI-  
18           MINISHED RISK OF LOSS; TREATMENT OF SHORT  
19           SALES.—

20           “(1) IN GENERAL.—If the taxpayer (or a relat-  
21           ed person) enters into any transaction which sub-  
22           stantially reduces the risk of loss from holding any  
23           asset, such asset shall not be treated as an indexed  
24           asset for the period of such reduced risk.

25           “(2) SHORT SALES.—

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

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

17           “(e) TREATMENT OF REGULATED INVESTMENT  
18 COMPANIES AND REAL ESTATE INVESTMENT TRUSTS.—

19           “(1) ADJUSTMENTS AT ENTITY LEVEL.—

20           “(A) IN GENERAL.—Except as otherwise  
21 provided in this paragraph, the adjustment  
22 under subsection (a) shall be allowed to any  
23 qualified investment entity (including for pur-  
24 poses of determining the earnings and profits of  
25 such entity).

1                   “(B) EXCEPTION FOR CORPORATE SHARE-  
2                   HOLDERS.—Under regulations—

3                   “(i) in the case of a distribution by a  
4                   qualified investment entity (directly or in-  
5                   directly) to a corporation—

6                   “(I) the determination of whether  
7                   such distribution is a dividend shall be  
8                   made without regard to this section,  
9                   and

10                  “(II) the amount treated as gain  
11                  by reason of the receipt of any capital  
12                  gain dividend shall be increased by the  
13                  percentage by which the entity’s net  
14                  capital gain for the taxable year (de-  
15                  termined without regard to this sec-  
16                  tion) exceeds the entity’s net capital  
17                  gain for such year determined with re-  
18                  gard to this section, and

19                  “(ii) there shall be other appropriate  
20                  adjustments (including deemed distribu-  
21                  tions) so as to ensure that the benefits of  
22                  this section are not allowed (directly or in-  
23                  directly) to corporate shareholders of quali-  
24                  fied investment entities.

1 For purposes of the preceding sentence, any  
2 amount includible in gross income under section  
3 852(b)(3)(D) shall be treated as a capital gain  
4 dividend and an S corporation shall not be  
5 treated as a corporation.

6 “(C) EXCEPTION FOR QUALIFICATION  
7 PURPOSES.—This section shall not apply for  
8 purposes of sections 851(b) and 856(c).

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

11 “(i) TAX ON FAILURE TO DISTRIBUTE  
12 ENTIRE GAIN.—If any amount is subject to  
13 tax under section 852(b)(3)(A) for any  
14 taxable year, the amount on which tax is  
15 imposed under such section shall be in-  
16 creased by the percentage determined  
17 under subparagraph (B)(i)(II). A similar  
18 rule shall apply in the case of any amount  
19 subject to tax under paragraph (2) or (3)  
20 of section 857(b) to the extent attributable  
21 to the excess of the net capital gain over  
22 the deduction for dividends paid deter-  
23 mined with reference to capital gain divi-  
24 dends only. The first sentence of this  
25 clause shall not apply to so much of the

1 amount subject to tax under section  
2 852(b)(3)(A) as is designated by the com-  
3 pany under section 852(b)(3)(D).

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

8 “(2) ADJUSTMENTS TO INTERESTS HELD IN  
9 ENTITY.—

10 “(A) REGULATED INVESTMENT COMPA-  
11 NIES.—Stock in a regulated investment com-  
12 pany (within the meaning of section 851) shall  
13 be an indexed asset for any calendar quarter in  
14 the same ratio as—

15 “(i) the average of the fair market  
16 values of the indexed assets held by such  
17 company at the close of each month during  
18 such quarter, bears to

19 “(ii) the average of the fair market  
20 values of all assets held by such company  
21 at the close of each such month.

22 “(B) REAL ESTATE INVESTMENT  
23 TRUSTS.—Stock in a real estate investment  
24 trust (within the meaning of section 856) shall

1 be an indexed asset for any calendar quarter in  
2 the same ratio as—

3 “(i) the fair market value of the in-  
4 dexed assets held by such trust at the close  
5 of such quarter, bears to

6 “(ii) the fair market value of all as-  
7 sets held by such trust at the close of such  
8 quarter.

9 “(C) RATIO OF 80 PERCENT OR MORE.—If  
10 the ratio for any calendar quarter determined  
11 under subparagraph (A) or (B) would (but for  
12 this subparagraph) be 80 percent or more, such  
13 ratio for such quarter shall be 100 percent.

14 “(D) RATIO OF 20 PERCENT OR LESS.—If  
15 the ratio for any calendar quarter determined  
16 under subparagraph (A) or (B) would (but for  
17 this subparagraph) be 20 percent or less, such  
18 ratio for such quarter shall be zero.

19 “(E) LOOK-THRU OF PARTNERSHIPS.—For  
20 purposes of this paragraph, a qualified invest-  
21 ment entity which holds a partnership interest  
22 shall be treated (in lieu of holding a partnership  
23 interest) as holding its proportionate share of  
24 the assets held by the partnership.

1           “(3) TREATMENT OF RETURN OF CAPITAL DIS-  
2           TRIBUTIONS.—Except as otherwise provided by the  
3           Secretary, a distribution with respect to stock in a  
4           qualified investment entity which is not a dividend  
5           and which results in a reduction in the adjusted  
6           basis of such stock shall be treated as allocable to  
7           stock acquired by the taxpayer in the order in which  
8           such stock was acquired.

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

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

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

16          “(f) OTHER PASS-THRU ENTITIES.—

17                   “(1) PARTNERSHIPS.—

18                           “(A) IN GENERAL.—In the case of a part-  
19                           nership, the adjustment made under subsection  
20                           (a) at the partnership level shall be passed  
21                           through to the partners.

22                           “(B) SPECIAL RULE IN THE CASE OF SEC-  
23                           TION 754 ELECTIONS.—In the case of a transfer  
24                           of an interest in a partnership with respect to

1           which the election provided in section 754 is in  
2           effect—

3                   “(i) the adjustment under section  
4                   743(b)(1) shall, with respect to the trans-  
5                   feror partner, be treated as a sale of the  
6                   partnership assets for purposes of applying  
7                   this section, and

8                   “(ii) with respect to the transferee  
9                   partner, the partnership’s holding period  
10                  for purposes of this section in such assets  
11                  shall be treated as beginning on the date  
12                  of such adjustment.

13                  “(2) S CORPORATIONS.—In the case of an S  
14                  corporation, the adjustment made under subsection  
15                  (a) at the corporate level shall be passed through to  
16                  the shareholders. This section shall not apply for  
17                  purposes of determining the amount of any tax im-  
18                  posed by section 1374 or 1375.

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

23                  “(4) INDEXING ADJUSTMENT DISREGARDED IN  
24                  DETERMINING LOSS ON SALE OF INTEREST IN EN-  
25                  TITY.—Notwithstanding the preceding provisions of

1 this subsection, for purposes of determining the  
2 amount of any loss on a sale or exchange of an in-  
3 terest in a partnership, S corporation, or common  
4 trust fund, the adjustment made under subsection  
5 (a) shall not be taken into account in determining  
6 the adjusted basis of such interest.

7 “(g) DISPOSITIONS BETWEEN RELATED PERSONS.—

8 “(1) IN GENERAL.—This section shall not apply  
9 to any sale or other disposition of property between  
10 related persons except to the extent that the basis  
11 of such property in the hands of the transferee is a  
12 substituted basis.

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

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

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

20 “(h) TRANSFERS TO INCREASE INDEXING ADJUST-  
21 MENT.—If any person transfers cash, debt, or any other  
22 property to another person and the principal purpose of  
23 such transfer is to secure or increase an adjustment under  
24 subsection (a), the Secretary may disallow part or all of  
25 such adjustment or increase.

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

2 “(1) TREATMENT OF IMPROVEMENTS, ETC.—If  
3 there is an addition to the adjusted basis of any tan-  
4 gible property or of any stock in a corporation dur-  
5 ing the taxable year by reason of an improvement to  
6 such property or a contribution to capital of such  
7 corporation—

8 “(A) such addition shall never be taken  
9 into account under subsection (c)(1)(A) if the  
10 aggregate amount thereof during the taxable  
11 year with respect to such property or stock is  
12 less than \$1,000, and

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

18 A rule similar to the rule of the preceding sentence  
19 shall apply to any other portion of an asset to the  
20 extent that separate treatment of such portion is ap-  
21 propriate to carry out the purposes of this section.

22 “(2) ASSETS WHICH ARE NOT INDEXED ASSETS  
23 THROUGHOUT HOLDING PERIOD.—The applicable in-  
24 flation ratio shall be appropriately reduced for peri-  
25 ods during which the asset was not an indexed asset.



1           (1) IN GENERAL.—The amendments made by  
2 this section shall apply to the disposition of any  
3 property the holding period of which begins after  
4 December 31, 1994.

5           (2) CERTAIN TRANSACTIONS BETWEEN RELAT-  
6 ED PERSONS.—The amendments made by this sec-  
7 tion shall not apply to the disposition of any prop-  
8 erty acquired after December 31, 1994, from a re-  
9 lated person (as defined in section 1022(g)(2) of the  
10 Internal Revenue Code of 1986, as added by this  
11 section) if—

12                   (A) such property was so acquired for a  
13 price less than the property's fair market value,  
14 and

15                   (B) the amendments made by this section  
16 did not apply to such property in the hands of  
17 such related person.

18           (d) ELECTION TO RECOGNIZE GAIN ON ASSETS  
19 HELD ON JANUARY 1, 1995.—For purposes of the Inter-  
20 nal Revenue Code of 1986—

21           (1) IN GENERAL.—A taxpayer other than a cor-  
22 poration may elect to treat—

23                   (A) any readily tradable stock (which is an  
24 indexed asset) held by such taxpayer on Janu-  
25 ary 1, 1995, and not sold before the next busi-

1           ness day after such date, as having been sold  
2           on such next business day for an amount equal  
3           to its closing market price on such next busi-  
4           ness day (and as having been reacquired on  
5           such next business day for an amount equal to  
6           such closing market price), and

7                   (B) any other indexed asset held by the  
8           taxpayer on January 1, 1995, as having been  
9           sold on such date for an amount equal to its  
10          fair market value on such date (and as having  
11          been reacquired on such date for an amount  
12          equal to such fair market value).

13          (2) TREATMENT OF GAIN OR LOSS.—

14                   (A) Any gain resulting from an election  
15          under paragraph (1) shall be treated as received  
16          or accrued on the date the asset is treated as  
17          sold under paragraph (1) and shall be recog-  
18          nized notwithstanding any provision of the In-  
19          ternal Revenue Code of 1986.

20                   (B) Any loss resulting from an election  
21          under paragraph (1) shall not be allowed for  
22          any taxable year.

23          (3) ELECTION.—An election under paragraph  
24          (1) shall be made in such manner as the Secretary  
25          may prescribe and shall specify the assets for which

1 such election is made. Such an election, once made  
2 with respect to any asset, shall be irrevocable.

3 (4) READILY TRADABLE STOCK.—For purposes  
4 of this subsection, the term “readily tradable stock”  
5 means any stock which, as of January 1, 1995, is  
6 readily tradable on an established securities market  
7 or otherwise.

8 (e) TREATMENT OF PRINCIPAL RESIDENCES.—Prop-  
9 erty held and used by the taxpayer on January 1, 1995,  
10 as his principal residence (within the meaning of section  
11 1034 of the Internal Revenue Code of 1986) shall be treat-  
12 ed—

13 (1) for purposes of subsection (c)(1) of this sec-  
14 tion, as having a holding period which begins after  
15 December 31, 1994, and

16 (2) for purposes of section 1022(c)(2)(B)(ii) of  
17 such Code, as having been acquired on January 1,  
18 1995.

19 Subsection (d) shall not apply to property to which this  
20 subsection applies.

1           **PART II—CAPITAL GAINS REDUCTION FOR**  
2                                   **CORPORATIONS**

3   **SEC. 311. REDUCTION OF ALTERNATIVE CAPITAL GAIN TAX**  
4                                   **FOR CORPORATIONS.**

5           (a) IN GENERAL.—Section 1201 is amended to read  
6 as follows:

7   **“SEC. 1201. ALTERNATIVE TAX FOR CORPORATIONS.**

8           “(a) GENERAL RULE.—If for any taxable year a cor-  
9 poration has a net capital gain, then, in lieu of the tax  
10 imposed by sections 11, 511, and 831 (a) and (b) (which-  
11 ever is applicable), there is hereby imposed a tax (if such  
12 tax is less than the tax imposed by such sections) which  
13 shall consist of the sum of—

14                   “(1) a tax computed on the taxable income re-  
15 duced by the amount of the net capital gain, at the  
16 rates and in the manner as if this subsection had  
17 not been enacted, plus

18                   “(2) a tax of 25 percent of the net capital gain.

19           “(b) TRANSITIONAL RULE.—

20                   “(1) IN GENERAL.—In the case of any taxable  
21 year ending after December 31, 1994, and beginning  
22 before January 1, 1996, subsection (a)(2) shall be  
23 applied as if it read as follows:

24                           “ ‘(2)(A) a tax of 25 percent of the lesser of—

25                                   “ ‘(i) the net capital gain for the taxable  
26                                   year, or

1           “ ‘(ii) the net capital gain taking into ac-  
 2           count only gain or loss properly taken into ac-  
 3           count for the portion of the taxable year after  
 4           December 31, 1994, plus

5           “ ‘(B) a tax of 35 percent of the excess (if any)  
 6           of—

7           “ ‘(i) the net capital gain for the taxable  
 8           year, over

9           “ ‘(ii) the amount of net capital gain taken  
 10          into account under subparagraph (A).’

11          “(2) SPECIAL RULE FOR PASS-THRU ENTI-  
 12          TIES.—Section 1202(e)(2) shall apply for purposes  
 13          of paragraph (1).

14          “(c) CROSS REFERENCES.—

**“For computation of the alternative tax—**

**“(1) in the case of life insurance companies, see  
 section 801(a)(2),**

**“(2) in the case of regulated investment compa-  
 nies and their shareholders, see section 852(b)(3)(A)  
 and (D), and**

**“(3) in the case of real estate investment trusts,  
 see section 857(b)(3)(A).”**

15          (b) TECHNICAL AMENDMENT.—Clause (iii) of section  
 16          852(b)(3)(D) is amended by striking “65 percent” and in-  
 17          serting “75 percent”.

18          (c) EFFECTIVE DATE.—The amendments made by  
 19          this section shall apply to taxable years ending after De-  
 20          cember 31, 1994.

1 **PART III—CAPITAL LOSS DEDUCTION ALLOWED**  
2 **WITH RESPECT TO SALE OR EXCHANGE OF**  
3 **PRINCIPAL RESIDENCE**

4 **SEC. 316. CAPITAL LOSS DEDUCTION ALLOWED WITH RE-**  
5 **SPECT TO SALE OR EXCHANGE OF PRINCIPAL**  
6 **RESIDENCE.**

7 (a) IN GENERAL.—Subsection (c) of section 165 (re-  
8 lating to limitation on losses of individuals) is amended  
9 by striking “and” at the end of paragraph (2), by striking  
10 the period at the end of paragraph (3) and inserting “;  
11 and”, and by adding at the end the following new para-  
12 graph:

13 “(4) losses arising from the sale or exchange of  
14 the principal residence (within the meaning of sec-  
15 tion 1034) of the taxpayer.”

16 (b) EFFECTIVE DATE.—The amendment made by  
17 subsection (a) shall apply to sales and exchanges after De-  
18 cember 31, 1994, in taxable years ending after such date.

19 **Subtitle B—Cost Recovery**  
20 **Provisions**

21 **SEC. 321. DEPRECIATION ADJUSTMENT FOR CERTAIN**  
22 **PROPERTY PLACED IN SERVICE AFTER DE-**  
23 **CEMBER 31, 1994.**

24 (a) IN GENERAL.—Section 168 (relating to acceler-  
25 ated cost recovery system) is amended by adding at the  
26 end thereof the following new subsection:

1       “(k) DEDUCTION ADJUSTMENT TO ALLOW EQUIVA-  
2 LENT OF EXPENSING FOR CERTAIN PROPERTY PLACED  
3 IN SERVICE AFTER DECEMBER 31, 1994.—

4           “(1) IN GENERAL.—In the case of tangible  
5 property placed in service after December 31, 1994,  
6 the deduction under this section with respect to such  
7 property—

8           “(A) shall be determined by substituting  
9 ‘150 percent’ for ‘200 percent’ in subsection  
10 (b)(1) in the case of property to which the 200  
11 percent declining balance method would other-  
12 wise apply, and

13           “(B) for any taxable year after the taxable  
14 year during which the property is placed in  
15 service shall be—

16           “(i) the amount determined under this  
17 section for such taxable year without re-  
18 gard to this subparagraph, multiplied by

19           “(ii) the applicable neutral cost recov-  
20 ery ratio for such taxable year.

21           “(2) APPLICABLE NEUTRAL COST RECOVERY  
22 RATIO.—For purposes of paragraph (1)—

23           “(A) IN GENERAL.—The applicable neutral  
24 cost recovery ratio for the property for any tax-  
25 able year is the number determined by—

1 “(i) dividing—

2 “(I) the gross domestic product  
3 deflator for the calendar quarter  
4 which includes the mid-point of the  
5 taxable year, by

6 “(II) the gross domestic product  
7 deflator for the calendar quarter  
8 which includes the mid-point of the  
9 taxable year in which the property  
10 was placed in service by the taxpayer,  
11 and

12 “(ii) then multiplying the number de-  
13 termined under clause (i) by the number  
14 equal to 1.035 to the nth power where ‘n’  
15 is the number of full years (as of the close  
16 of the taxable year referred to in clause  
17 (i)(I)) after the date such property was  
18 placed in service.

19 The applicable neutral cost recovery ratio shall  
20 never be less than 1. The applicable neutral  
21 cost recovery ratio shall be rounded to the near-  
22 est  $\frac{1}{1000}$ .

23 “(B) SPECIAL RULE FOR CERTAIN PROP-  
24 ERTY.—In the case of property described in  
25 paragraph (2) or (3) of subsection (b) or in

1 subsection (g), the applicable neutral cost recov-  
2 ery ratio shall be determined without regard to  
3 subparagraph (A)(ii).

4 “(3) GROSS DOMESTIC PRODUCT DEFLATOR.—  
5 For purposes of paragraph (2), the gross domestic  
6 product deflator for any calendar quarter is the im-  
7 plicit price deflator for the gross domestic product  
8 for such quarter (as shown in the last revision there-  
9 of released by the Secretary of Commerce before the  
10 close of the following calendar quarter).

11 “(4) COORDINATION WITH INDEXING OF BASIS  
12 FOR PURPOSES OF DETERMINING GAIN.—Section  
13 1022 shall not apply to any property to which this  
14 subsection applies.

15 “(5) ELECTION NOT TO HAVE SUBSECTION  
16 APPLY.—This subsection shall not apply to any  
17 property if the taxpayer elects not to have this sub-  
18 section apply to such property. Such an election,  
19 once made, shall be irrevocable.

20 “(6) CHURNING TRANSACTIONS.—This sub-  
21 section shall not apply to any property if this section  
22 would not apply to such property were—

23 “(A) subsection (f)(5)(A)(ii) applied by  
24 substituting ‘1995’ for ‘1987’ and ‘1994’ for  
25 ‘1986’, and

1 “(B) subsection (f)(5)(B) not applied.

2 “(7) ADDITIONAL DEDUCTION NOT TO AFFECT  
3 BASIS OR RECAPTURE.—The additional amount de-  
4 termined under this section by reason of this sub-  
5 section shall not be taken into account in determin-  
6 ing the adjusted basis of any property or of any in-  
7 terest in a pass-thru entity (as defined in section  
8 1202(e)(2)) which holds such property and shall not  
9 be treated as a deduction for depreciation for pur-  
10 poses of sections 1245 and 1250.”

11 (b) MINIMUM TAX TREATMENT.—

12 (1) Paragraph (1) of section 56(a) is amended  
13 by adding at the end thereof the following new sub-  
14 paragraph:

15 “(E) USE OF NEUTRAL COST RECOVERY  
16 RATIO.—This paragraph shall not apply to  
17 property to which section 168(k) applies.”

18 (2) Clause (i) of section 56(g)(4)(A) is amended  
19 by striking “(a)(1)(A)” and inserting “(a)(1)”.

20 (3) Subparagraph (C) of section 56(g)(4) is  
21 amended by adding at the end the following new  
22 clause:

23 “(v) NEUTRAL COST RECOVERY DE-  
24 DUCTION.—Clause (i) shall not apply to

1           the additional deduction allowable by rea-  
2           son of section 168(k).”

3           (c) TECHNICAL AMENDMENTS.—

4           (1) Clause (i) of section 280F(a)(1)(B) is  
5           amended by adding at the end the following new  
6           sentence: “For purposes of this clause, the unre-  
7           covered basis of any passenger automobile shall be  
8           treated as including the additional amount deter-  
9           mined under section 168 by reason of subsection (k)  
10          thereof to the extent not allowed as a deduction by  
11          reason of this paragraph for any taxable year in the  
12          recovery period.”

13          (2) Subparagraph (B) of section 382(h)(2) is  
14          amended by adding at the end the following new  
15          sentence: “The amount of the net unrealized built-  
16          in loss shall be increased by the amount of the addi-  
17          tional deduction allowable by reason of section  
18          168(k) which is treated under the preceding sen-  
19          tence as a recognized built-in loss.”

20          (3) Subsection (a) of section 465 is amended by  
21          adding at the end the following new paragraph:

22                 “(4) TREATMENT OF NEUTRAL COST RECOVERY  
23          DEDUCTION.—

24                         “(A) IN GENERAL.—None of the additional  
25          deduction allowable by reason of section 168(k)

1 for the taxable year shall be disallowed under  
2 paragraph (1) unless there is a disallowed non-  
3 NCR loss for such year.

4 “(B) PROPORTIONATE DISALLOWANCE.—

5 “(i) IN GENERAL.—If there is a dis-  
6 allowed non-NCR loss for the taxable year,  
7 only the disallowed portion of the addi-  
8 tional deduction allowable by reason of sec-  
9 tion 168(k) shall be not allowed under  
10 paragraph (1).

11 “(ii) DISALLOWED PORTION.—For  
12 purposes of clause (i), the disallowed por-  
13 tion is the percentage which the disallowed  
14 non-NCR loss’s allocable share of non-  
15 NCR depreciation is of total non-NCR de-  
16 preciation.

17 “(iii) ALLOCABLE SHARE.—For pur-  
18 poses of clause (ii), a disallowed non-NCR  
19 loss’s allocable share of non-NCR deprecia-  
20 tion is the amount which bears the same  
21 ratio to the amount of the loss as the  
22 amount of non-NCR depreciation for the  
23 taxable year bears to the total amount of  
24 deductions for such taxable year.

1           “(C) DEFINITIONS.—For purposes of this  
2 paragraph—

3           “(i) DISALLOWED NON-NCR LOSS.—  
4           The term ‘disallowed non-NCR loss’  
5           means, for any taxable year, the amount of  
6           the loss from the activity which would be  
7           disallowed under paragraph (1) if such loss  
8           were determined without regard to the ad-  
9           ditional deduction allowable by reason of  
10          section 168(k).

11          “(ii) NON-NCR DEPRECIATION.—The  
12          term ‘non-NCR depreciation’ means the  
13          amount allowable as a deduction under  
14          section 168 without regard to subsection  
15          (k) thereof.”

16          (4) Subparagraph (A) of section 1503(e)(1) is  
17          amended by inserting before the comma “and shall  
18          be determined without regard to section 168(k)”.

19          (d) EFFECTIVE DATE.—The amendments made by  
20 this section shall apply to taxable years ending after De-  
21 cember 31, 1994.

22 **SEC. 322. TREATMENT OF ABANDONMENT OF LESSOR IM-**  
23 **PROVEMENTS AT TERMINATION OF LEASE.**

24          (a) IN GENERAL.—Paragraph (8) of section 168(i)  
25 is amended to read as follows:

1           “(8) TREATMENT OF LEASEHOLD IMPROVE-  
2           MENTS.—

3           “(A) IN GENERAL.—In the case of any  
4           building erected (or improvements made) on  
5           leased property, if such building or improve-  
6           ment is property to which this section applies,  
7           the depreciation deduction shall be determined  
8           under the provisions of this section.

9           “(B) TREATMENT OF LESSOR IMPROVE-  
10          MENTS WHICH ARE ABANDONED AT TERMI-  
11          NATION OF LEASE.—An improvement—

12           “(i) which is made by the lessor of  
13           leased property for the lessee of such prop-  
14           erty, and

15           “(ii) which is irrevocably disposed of  
16           or abandoned by the lessor at the termi-  
17           nation of the lease by such lessee,  
18           shall be treated for purposes of determining  
19           gain or loss under this title as disposed of by  
20           the lessor when so disposed of or abandoned.”

21          (b) EFFECTIVE DATE.—Subparagraph (B) of section  
22          168(i)(8) of the Internal Revenue Code of 1986, as added  
23          by the amendment made by subsection (a), shall apply to  
24          improvements disposed of or abandoned after March 13,  
25          1995.

1     **Subtitle C—Alternative Minimum**  
2                     **Tax Relief**

3     **SEC. 331. PHASEOUT OF APPLICATION OF ALTERNATIVE**  
4                     **MINIMUM TAX TO CORPORATIONS.**

5             (a) TERMINATION.—Subsection (a) of section 55 is  
6 amended by adding at the end the following new flush sen-  
7 tence:

8     “In the case of a corporation, the tentative minimum tax  
9 for any taxable year beginning after December 31, 2000,  
10 shall be zero.”

11            (b) EARLIER TERMINATION OF CERTAIN ADJUST-  
12 MENTS FOR ALL TAXPAYERS.—

13                (1) DEPRECIATION.—Paragraph (1) of section  
14 56(a) is amended by inserting “and before March  
15 14, 1995,” after “December 31, 1986,”.

16                (2) MINING EXPLORATION AND DEVELOPMENT  
17 COSTS.—Paragraph (2) of section 56(a) is amended  
18 by inserting “and before January 1, 1996,” after  
19 “December 31, 1986,”.

20                (3) LONG-TERM CONTRACTS.—Paragraph (3) of  
21 section 56(a) is amended by inserting “and before  
22 January 1, 1996,” after “March 1, 1986,”.

23                (4) POLLUTION CONTROL FACILITIES.—Para-  
24 graph (5) of section 56(a) is amended by inserting

1 “and before January 1, 1996,” after “December 31,  
2 1986,”.

3 (5) INSTALLMENT SALES.—Paragraph (6) of  
4 section 56(a) is amended by inserting “and before  
5 January 1, 1996,” after “March 1, 1986,”.

6 (c) EARLIER TERMINATION OF CIRCULATION AND  
7 RESEARCH AND EXPERIMENTAL EXPENDITURE ADJUST-  
8 MENT FOR INDIVIDUALS.—Subparagraph (A) of section  
9 56(b)(2) is amended by inserting “and before January 1,  
10 1996,” after “December 31, 1986,”.

11 (d) EARLIER TERMINATION OF CERTAIN ADJUST-  
12 MENTS FOR CORPORATIONS.—

13 (1) MERCHANT MARINE CAPITAL CONSTRUCC-  
14 TION FUNDS.—Paragraph (2) of section 56(c) is  
15 amended—

16 (A) by inserting “and before January 1,  
17 1996,” after “December 31, 1986,” each place  
18 it appears, and

19 (B) by striking the last sentence and in-  
20 serting the following new flush sentence:

21 “For purposes of this paragraph, any withdrawal of  
22 deposit or earnings from the fund shall be treated as  
23 allocable to deposits made, and earnings received or  
24 accrued, in the order in which made, received, or ac-  
25 crued.”

1           (2) SECTION 833(b) DEDUCTION.—Paragraph  
2           (3) of section 56(c) is amended by adding at the end  
3           the following new sentence: “This paragraph shall  
4           not apply to any taxable year beginning after De-  
5           cember 31, 1995.”

6           (3) CERTAIN EARNINGS AND PROFITS ITEMS.—

7           (A) Subparagraph (B) of section 56(g)(4)  
8           is amended by adding at the end the following  
9           new clause:

10                   “(iii) TERMINATION.—This subpara-  
11                   graph shall not apply to any taxable year  
12                   beginning after December 31, 1995.”

13           (B) Subparagraph (C) of section 56(g)(4)  
14           is amended by adding at the end the following  
15           new clause:

16                   “(v) TERMINATION.—This subpara-  
17                   graph shall not apply to any taxable year  
18                   beginning after December 31, 1995.”

19           (4) INTANGIBLE DRILLING COSTS.—Clause (i)  
20           of section 56(g)(4)(D) is amended by adding at the  
21           end the following new sentence: “This clause shall  
22           not apply to any taxable year beginning after De-  
23           cember 31, 1995.”

24           (5) CERTAIN AMORTIZATION PROVISIONS.—  
25           Clause (ii) of section 56(g)(4)(D) is amended by

1 adding at the end the following new sentence: “This  
2 clause shall not apply to any expenditure paid or in-  
3 curred after December 31, 1995.”

4 (6) LIFO INVENTORY ADJUSTMENTS.—Clause  
5 (iii) of section 56(g)(4)(D) is amended by adding at  
6 the end the following new sentence: “This clause  
7 shall not apply to any adjustment arising in a tax-  
8 able year beginning after December 31, 1995.”

9 (7) INSTALLMENT SALES.—Clause (iv) of sec-  
10 tion 56(g)(4)(D) is amended by adding at the end  
11 the following new sentence: “This clause shall not  
12 apply to any disposition after December 31, 1995.”

13 (8) DEBT POOLS.—Subparagraph (E) of section  
14 56(g)(4) is amended by adding at the end the follow-  
15 ing new sentence: “This subparagraph shall not  
16 apply to any exchange after December 31, 1995.”

17 (9) DEPLETION.—Subparagraph (F) of section  
18 56(g)(4) is amended by adding at the end the follow-  
19 ing new clause:

20 “(iii) TERMINATION.—This subpara-  
21 graph shall not apply to any deduction for  
22 depletion for any taxable year beginning  
23 after December 31, 1995.”

24 (10) OWNERSHIP CHANGES.—Subparagraph  
25 (G) of section 56(g)(4) is amended by adding at the

1 end the following new sentence: “This subparagraph  
2 shall not apply to any ownership change after De-  
3 cember 31, 1995.”

4 (e) EARLIER TERMINATION OF ITEMS OF TAX PREF-  
5 ERENCE.—

6 (1) DEPLETION.—Paragraph (1) of section  
7 57(a) is amended by adding at the end the following  
8 new sentence: “This paragraph shall not apply to  
9 any taxable year beginning after December 31,  
10 1995.”

11 (2) INTANGIBLE DRILLING COSTS.—Paragraph  
12 (2) of section 57(a) is amended by adding at the end  
13 the following new subparagraph:

14 “(F) TERMINATION.—This paragraph shall  
15 not apply to any taxable year beginning after  
16 December 31, 1995.”

17 (3) RESERVES FOR LOSSES ON BAD DEBTS.—  
18 Paragraph (4) of section 57(a) is amended by add-  
19 ing at the end the following new sentence: “This  
20 paragraph shall not apply to any taxable year begin-  
21 ning after December 31, 1995.”

22 (4) TAX-EXEMPT INTEREST.—Paragraph (5) of  
23 section 57(a) is amended by adding at the end the  
24 following new subparagraph:

1           “(D) TERMINATION FOR CORPORATIONS.—

2           In the case of a corporation (other than a cor-  
3           poration referred to in section 56(g)(6)), this  
4           paragraph shall not apply to interest accruing  
5           for periods after December 31, 1995.”

6           (f) NET OPERATING LOSS DEDUCTION.—Paragraph  
7           (1) of section 56(d) is amended by inserting “(100 percent  
8           in the case of taxable years beginning after December 31,  
9           1995)” after “90 percent” each place it appears.

10          (g) LOSSES.—

11           (1) Section 58 is amended by adding at the end  
12           the following new subsection:

13           “(d) TERMINATION.—This section shall not apply to  
14           any loss incurred for any taxable year beginning after De-  
15           cember 31, 1995.”

16           (2) Subsection (h) of section 59 is amended by  
17           inserting “469,” after “465,”.

18           (h) FOREIGN TAX CREDIT.—Paragraph (2) of section  
19           59(a) is amended by adding at the end the following new  
20           subparagraph:

21           “(D) TERMINATION.—This paragraph  
22           shall not apply to any taxable year beginning  
23           after December 31, 1995.”

24           (i) LIMITATION ON USE OF CREDIT FOR PRIOR YEAR  
25           MINIMUM TAX LIABILITY.—

1 (1) IN GENERAL.—Subsection (c) of section 53  
2 is amended to read as follows:

3 “(c) LIMITATION.—The credit allowable under sub-  
4 section (a) for any taxable year shall not exceed the lesser  
5 of—

6 “(1) the excess (if any) of—

7 “(A) the regular tax liability of the tax-  
8 payer for such taxable year reduced by the sum  
9 of the credits allowable under subparts A, B, D,  
10 E, and F of this part, over

11 “(B) the tentative minimum tax for the  
12 taxable year, or

13 “(2) 90 percent of the amount determined  
14 under paragraph (1)(A).”

15 (2) EFFECTIVE DATE.—The amendment made  
16 by paragraph (1) shall apply to taxable years begin-  
17 ning after December 31, 1995.

18 **Subtitle D—Public Debt Reduction**  
19 **Checkoff and Trust Fund**

20 **SEC. 341. DESIGNATION OF AMOUNTS FOR REDUCTION OF**  
21 **PUBLIC DEBT.**

22 (a) IN GENERAL.—Subchapter A of chapter 61 of the  
23 Internal Revenue Code of 1986 (relating to returns and  
24 records) is amended by adding at the end the following  
25 new part:

1     **“PART IX—DESIGNATION FOR REDUCTION OF**  
2                                   **PUBLIC DEBT**

“Sec. 6097. Designation.

3     **“SEC. 6097. DESIGNATION.**

4             “(a) IN GENERAL.—Every individual with adjusted  
5 income tax liability for any taxable year may designate  
6 that a portion of such liability (not to exceed 10 percent  
7 thereof) shall be used to reduce the public debt.

8             “(b) MANNER AND TIME OF DESIGNATION.—A des-  
9 ignation under subsection (a) may be made with respect  
10 to any taxable year only at the time of filing the return  
11 of tax imposed by chapter 1 for the taxable year. The des-  
12 ignation shall be made on the first page of the return or  
13 on the page bearing the taxpayer’s signature.

14             “(c) ADJUSTED INCOME TAX LIABILITY.—For pur-  
15 poses of this section, the term ‘adjusted income tax liabil-  
16 ity’ means income tax liability (as defined in section  
17 6096(b)) reduced by any amount designated under section  
18 6096 (relating to designation of income tax payments to  
19 Presidential Election Campaign Fund).”

20             (b) CLERICAL AMENDMENT.—The table of parts for  
21 such subchapter A is amended by adding at the end the  
22 following new item:

“Part IX. Designation for reduction of public debt.”

1 (c) EFFECTIVE DATE.—The amendments made by  
2 this section shall apply to taxable years ending after the  
3 date of the enactment of this Act.

4 **SEC. 342. PUBLIC DEBT REDUCTION TRUST FUND.**

5 (a) IN GENERAL.—Subchapter A of chapter 98 of the  
6 Internal Revenue Code of 1986 (relating to trust fund  
7 code) is amended by adding at the end the following new  
8 section:

9 **“SEC. 9512. PUBLIC DEBT REDUCTION TRUST FUND.**

10 “(a) CREATION OF TRUST FUND.—There is estab-  
11 lished in the Treasury of the United States a trust fund  
12 to be known as the ‘Public Debt Reduction Trust Fund’,  
13 consisting of any amount appropriated or credited to the  
14 Trust Fund as provided in this section or section 9602(b).

15 “(b) TRANSFERS TO TRUST FUND.—There are here-  
16 by appropriated to the Public Debt Reduction Trust Fund  
17 amounts equivalent to the amounts designated under sec-  
18 tion 6097 (relating to designation for public debt reduc-  
19 tion).

20 “(c) EXPENDITURES.—Amounts in the Public Debt  
21 Reduction Trust Fund shall be used by the Secretary of  
22 the Treasury for purposes of paying at maturity, or to  
23 redeem or buy before maturity, any obligation of the Fed-  
24 eral Government included in the public debt (other than  
25 an obligation held by the Federal Old-Age and Survivors

1 Insurance Trust Fund, the Civil Service Retirement and  
2 Disability Fund, or the Department of Defense Military  
3 Retirement Fund). Any obligation which is paid, re-  
4 deemed, or bought with amounts from the Public Debt Re-  
5 duction Trust Fund shall be canceled and retired and may  
6 not be reissued.”

7 (b) CLERICAL AMENDMENT.—The table of sections  
8 for such subchapter is amended by adding at the end the  
9 following new item:

“Sec. 9512. Public Debt Reduction Trust Fund.”

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

## 13 **Subtitle E—Small Business**

### 14 **Incentives**

#### 15 **SEC. 351. COST-OF-LIVING ADJUSTMENTS RELATING TO ES-**

#### 16 **TATE AND GIFT TAX PROVISIONS.**

17 (a) INCREASE IN UNIFIED ESTATE AND GIFT TAX  
18 CREDIT.—

19 (1) ESTATE TAX CREDIT.—

20 (A) Subsection (a) of section 2010 (relat-  
21 ing to unified credit against estate tax) is  
22 amended by striking “\$192,800” and inserting  
23 “the applicable credit amount”.

24 (B) Section 2010 is amended by redesign-  
25 ating subsection (c) as subsection (d) and by

1 inserting after subsection (b) the following new  
 2 subsection:

3 “(c) APPLICABLE CREDIT AMOUNT.—For purposes  
 4 of this section—

5 “(1) IN GENERAL.—The applicable credit  
 6 amount is the amount of the tentative tax which  
 7 would be determined under the rate schedule set  
 8 forth in section 2001(c) if the amount with respect  
 9 to which such tentative tax is to be computed were  
 10 the applicable exclusion amount determined in ac-  
 11 cordance with the following table:

<b>“In the case of estates of decedents dying, and gifts made, during:</b>	<b>The applicable exclusion amount is:</b>
1996 .....	\$700,000
1997 .....	\$725,000
1998 or thereafter .....	\$750,000.

12 “(2) COST-OF-LIVING ADJUSTMENTS.—In the  
 13 case of any decedent dying, and gift made, in a cal-  
 14 endar year after 1998, the \$750,000 amount set  
 15 forth in paragraph (1) shall be increased by an  
 16 amount equal to—

17 “(A) \$750,000, multiplied by

18 “(B) the cost-of-living adjustment deter-  
 19 mined under section 1(f)(3) for such calendar  
 20 year by substituting ‘calendar year 1997’ for  
 21 ‘calendar year 1992’ in subparagraph (B)  
 22 thereof.

1 If any amount as adjusted under the preceding sen-  
2 tence is not a multiple of \$10,000, such amount  
3 shall be rounded to the nearest multiple of  
4 \$10,000.”

5 (C) Paragraph (1) of section 6018(a) is  
6 amended by striking “\$600,000” and inserting  
7 “the applicable exclusion amount in effect  
8 under section 2010(c) (as adjusted under para-  
9 graph (2) thereof) for the calendar year which  
10 includes the date of death”.

11 (D) Paragraph (2) of section 2001(c) is  
12 amended by striking “\$21,040,000” and insert-  
13 ing “the amount at which the average tax rate  
14 under this section is 55 percent”.

15 (E) Subparagraph (A) of section  
16 2102(c)(3) is amended by striking “\$192,800”  
17 and inserting “the applicable credit amount in  
18 effect under section 2010(c) for the calendar  
19 year which includes the date of death”.

20 (2) UNIFIED GIFT TAX CREDIT.—Paragraph  
21 (1) of section 2505(a) is amended by striking  
22 “\$192,800” and inserting “the applicable credit  
23 amount in effect under section 2010(c) for such cal-  
24 endar year”.

1           (3) EFFECTIVE DATE.—The amendments made  
2           by this subsection shall apply to the estates of dece-  
3           dents dying, and gifts made, after December 31,  
4           1995.

5           (b) ALTERNATE VALUATION OF CERTAIN FARM,  
6           ETC., REAL PROPERTY.—Subsection (a) of section 2032A  
7           is amended by adding at the end the following new para-  
8           graph:

9           “(3) INFLATION ADJUSTMENT.—In the case of  
10           estates of decedents dying in a calendar year after  
11           1998, the \$750,000 amount contained in paragraph  
12           (2) shall be increased by an amount equal to—

13                   “(A) \$750,000, multiplied by

14                   “(B) the cost-of-living adjustment deter-  
15                   mined under section 1(f)(3) for such calendar  
16                   year by substituting ‘calendar year 1997’ for  
17                   ‘calendar year 1992’ in subparagraph (B)  
18                   thereof.

19           If any amount as adjusted under the preceding sen-  
20           tence is not a multiple of \$10,000, such amount  
21           shall be rounded to the nearest multiple of  
22           \$10,000.”

23           (c) ANNUAL GIFT TAX EXCLUSION.—Subsection (b)  
24           of section 2503 is amended—

1 (1) by striking the subsection heading and in-  
2 serting the following:

3 “(b) EXCLUSIONS FROM GIFTS.—

4 “(1) IN GENERAL.—”,

5 (2) by moving the text 2 ems to the right, and

6 (3) by adding at the end the following new  
7 paragraph:

8 “(2) INFLATION ADJUSTMENT.—In the case of  
9 gifts made in a calendar year after 1998, the  
10 \$10,000 amount contained in paragraph (1) shall be  
11 increased by an amount equal to—

12 “(A) \$10,000, multiplied by

13 “(B) the cost-of-living adjustment deter-  
14 mined under section 1(f)(3) for such calendar  
15 year by substituting ‘calendar year 1997’ for  
16 ‘calendar year 1992’ in subparagraph (B)  
17 thereof.

18 If any amount as adjusted under the preceding sen-  
19 tence is not a multiple of \$1,000, such amount shall  
20 be rounded to the nearest multiple of \$1,000.”

21 (d) EXEMPTION FROM GENERATION-SKIPPING  
22 TAX.—Section 2631 (relating to GST exemption) is  
23 amended by adding at the end the following new sub-  
24 section:

1       “(c) INFLATION ADJUSTMENT.—In the case of an in-  
2       dividual who dies in any calendar year after 1998, the  
3       \$1,000,000 amount contained in subsection (a) shall be  
4       increased by an amount equal to—

5               “(1) \$1,000,000, multiplied by

6               “(2) the cost-of-living adjustment determined  
7       under section 1(f)(3) for such calendar year by sub-  
8       stituting ‘calendar year 1997’ for ‘calendar year  
9       1992’ in subparagraph (B) thereof.

10      If any amount as adjusted under the preceding sentence  
11      is not a multiple of \$10,000, such amount shall be round-  
12      ed to the nearest multiple of \$10,000.”

13      (e) AMOUNT OF TAX ELIGIBLE FOR 4 PERCENT IN-  
14      TEREST RATE ON EXTENSION OF TIME FOR PAYMENT OF  
15      ESTATE TAX ON CLOSELY HELD BUSINESS.—

16              (1) Subparagraph (A) of section 6601(j)(2) is  
17              amended by striking “\$345,800” and inserting “the  
18              applicable limitation amount”.

19              (2) Subsection (j) of section 6601 is amended  
20              by redesignating paragraph (3) as paragraph (4)  
21              and by inserting after paragraph (2) the following  
22              new paragraph:

23                      “(3) APPLICABLE LIMITATION AMOUNT.—

24                              “(A) IN GENERAL.—For purposes of para-  
25                              graph (2), the applicable limitation amount is

1 the amount of the tentative tax which would be  
2 determined under the rate schedule set forth in  
3 section 2001(c) if the amount with respect to  
4 which such tentative tax is to be computed were  
5 \$1,000,000.

6 “(B) INFLATION ADJUSTMENT.—In the  
7 case of estates of decedents dying in a calendar  
8 year after 1998, the \$1,000,000 amount con-  
9 tained in subparagraph (A) shall be increased  
10 by an amount equal to—

11 “(i) \$1,000,000, multiplied by

12 “(ii) the cost-of-living adjustment de-  
13 termined under section 1(f)(3) for such  
14 calendar year by substituting ‘calendar  
15 year 1997’ for ‘calendar year 1992’ in sub-  
16 paragraph (B) thereof.

17 If any amount as adjusted under the preceding  
18 sentence is not a multiple of \$10,000, such  
19 amount shall be rounded to the nearest multiple  
20 of \$10,000.”

21 **SEC. 352. INCREASE IN EXPENSE TREATMENT FOR SMALL**  
22 **BUSINESSES.**

23 (a) GENERAL RULE.—Paragraph (1) of section  
24 179(b) (relating to dollar limitation) is amended to read  
25 as follows:



1 (b) EFFECTIVE DATE.—The amendment made by  
2 subsection (a) shall apply to taxable years beginning after  
3 December 31, 1995.

4 **SEC. 354. TREATMENT OF STORAGE OF PRODUCT SAMPLES.**

5 (a) IN GENERAL.—Paragraph (2) of section 280A(c)  
6 is amended by striking “inventory” and inserting “inven-  
7 tory or product samples”.

8 (b) EFFECTIVE DATE.—The amendment made by  
9 subsection (a) shall apply to taxable years beginning after  
10 December 31, 1995.

11 **TITLE IV—FAMILY**  
12 **REINFORCEMENT**

13 **SEC. 401. CREDIT FOR ADOPTION EXPENSES.**

14 (a) IN GENERAL.—Subpart A of part IV of sub-  
15 chapter A of chapter 1 is amended by inserting after sec-  
16 tion 25 the following new section:

17 **“SEC. 25A. ADOPTION EXPENSES.**

18 “(a) ALLOWANCE OF CREDIT.—In the case of an in-  
19 dividual, there shall be allowed as a credit against the tax  
20 imposed by this chapter for the taxable year the amount  
21 of the qualified adoption expenses paid or incurred by the  
22 taxpayer during such taxable year.

23 “(b) LIMITATIONS.—

24 “(1) DOLLAR LIMITATION.—The aggregate  
25 amount of qualified adoption expenses which may be

1 taken into account under subsection (a) with respect  
2 to the adoption of a child shall not exceed \$5,000.

3 “(2) INCOME LIMITATION.—The amount allow-  
4 able as a credit under subsection (a) for any taxable  
5 year shall be reduced (but not below zero) by an  
6 amount which bears the same ratio to the amount  
7 so allowable (determined without regard to this  
8 paragraph but with regard to paragraph (1)) as—

9 “(A) the amount (if any) by which the tax-  
10 payer’s adjusted gross income (determined  
11 without regard to sections 911, 931, and 933)  
12 exceeds \$60,000, bears to

13 “(B) \$40,000.

14 “(3) DENIAL OF DOUBLE BENEFIT.—

15 “(A) IN GENERAL.—No credit shall be al-  
16 lowed under subsection (a) for any expense for  
17 which a deduction or credit is allowable under  
18 any other provision of this chapter.

19 “(B) GRANTS.—No credit shall be allowed  
20 under subsection (a) for any expense to the ex-  
21 tent that funds for such expense are received  
22 under any Federal, State, or local program.  
23 The preceding sentence shall not apply to ex-  
24 penses for the adoption of a child with special  
25 needs.

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

2 “(1) QUALIFIED ADOPTION EXPENSES.—

3 “(A) IN GENERAL.—The term ‘qualified  
4 adoption expenses’ means reasonable and nec-  
5 essary adoption fees, court costs, attorney fees,  
6 and other expenses—

7 “(i) which are directly related to, and  
8 the principal purpose of which is for, the  
9 legal adoption of an eligible child by the  
10 taxpayer, and

11 “(ii) which are not incurred in viola-  
12 tion of State or Federal law or in carrying  
13 out any surrogate parenting arrangement.

14 “(B) EXPENSES FOR ADOPTION OF  
15 SPOUSE’S CHILD NOT ELIGIBLE.—The term  
16 ‘qualified adoption expenses’ shall not include  
17 any expenses in connection with the adoption by  
18 an individual of a child who is the child of such  
19 individual’s spouse.

20 “(2) ELIGIBLE CHILD.—The term ‘eligible  
21 child’ means any individual—

22 “(A) who has not attained age 18 as of the  
23 time of the adoption, or

24 “(B) who is physically or mentally incapa-  
25 ble of caring for himself.

1           “(3) CHILD WITH SPECIAL NEEDS.—The term  
2           ‘child with special needs’ means any child if—

3                   “(A) a State has determined that the child  
4                   cannot or should not be returned to the home  
5                   of his parents, and

6                   “(B) such State has determined that there  
7                   exists with respect to the child a specific factor  
8                   or condition (such as his ethnic background,  
9                   age, or membership in a minority or sibling  
10                  group, or the presence of factors such as medi-  
11                  cal conditions or physical, mental, or emotional  
12                  handicaps) because of which it is reasonable to  
13                  conclude that such child cannot be placed with  
14                  adoptive parents without providing adoption as-  
15                  sistance.

16           “(d) MARRIED COUPLES MUST FILE JOINT RE-  
17           TURNS, ETC.—Rules similar to the rules of paragraphs  
18           (2), (3), and (4) of section 21(e) shall apply for purposes  
19           of this section.”

20           (b) CONFORMING AMENDMENT.—The table of sec-  
21           tions for subpart A of part IV of subchapter A of chapter  
22           1 is amended by inserting after the item relating to section  
23           25 the following new item:

                  “Sec. 25A. Adoption expenses.”.

1 (c) EFFECTIVE DATE.—The amendments made by  
2 this section shall apply to taxable years beginning after  
3 December 31, 1995.

4 **SEC. 402. CREDIT FOR TAXPAYERS WITH CERTAIN PER-**  
5 **SONS REQUIRING CUSTODIAL CARE IN THEIR**  
6 **HOUSEHOLDS.**

7 (a) IN GENERAL.—Subpart A of part IV of sub-  
8 chapter A of chapter 1 is amended by inserting after sec-  
9 tion 25A the following new section:

10 **“SEC. 25B. CREDIT FOR TAXPAYERS WITH CERTAIN PER-**  
11 **SONS REQUIRING CUSTODIAL CARE IN THEIR**  
12 **HOUSEHOLDS.**

13 “(a) ALLOWANCE OF CREDIT.—In the case of an in-  
14 dividual who maintains a household which includes as a  
15 member one or more qualified persons, there shall be al-  
16 lowed as a credit against the tax imposed by this chapter  
17 for the taxable year an amount equal to \$500 for each  
18 such person.

19 “(b) QUALIFIED PERSON.—For purposes of this sec-  
20 tion, the term ‘qualified person’ means any individual—

21 “(1) who is a father or mother of the taxpayer,  
22 his spouse, or his former spouse or who is an ances-  
23 tor of such a father or mother,

24 “(2) who is physically or mentally incapable of  
25 caring for himself,

1           “(3) who has as his principal place of abode for  
2           more than half of the taxable year the home of the  
3           taxpayer, and

4           “(4) whose name and TIN are included on the  
5           taxpayer’s return for the taxable year.

6 For purposes of paragraph (1), a stepfather or stepmother  
7 shall be treated as a father or mother.

8           “(c) SPECIAL RULES.—For purposes of this section,  
9 rules similar to the rules of paragraphs (1), (2), (3), and  
10 (4) of section 21(e) shall apply.”

11           (b) CLERICAL AMENDMENT.—The table of sections  
12 for subpart A of part IV of subchapter A of chapter 1  
13 is amended by inserting after the item relating to section  
14 25A the following new item:

“Sec. 25B. Credit for taxpayers with certain persons requiring  
custodial care in their households.”

15           (c) EFFECTIVE DATE.—The amendments made by  
16 this section shall apply to taxable years beginning after  
17 December 31, 1995.

18           **TITLE V—SOCIAL SECURITY**  
19           **EARNINGS TEST**

20           **SEC. 501. ADJUSTMENTS IN MONTHLY EXEMPT AMOUNT**  
21           **FOR PURPOSES OF THE SOCIAL SECURITY**  
22           **EARNINGS TEST.**

23           (a) INCREASE IN MONTHLY EXEMPT AMOUNT FOR  
24 INDIVIDUALS WHO HAVE ATTAINED RETIREMENT

1 AGE.—Section 203(f)(8)(D) of the Social Security Act (42  
2 U.S.C. 403(f)(8)(D)) is amended to read as follows:

3 “(D)(i) Notwithstanding any other provision of  
4 this subsection, the exempt amount which is applica-  
5 ble to an individual who has attained retirement age  
6 (as defined in section 216(1)) before the close of the  
7 taxable year involved shall be—

8 “(I) for the taxable year beginning after  
9 1995 and before 1997, \$1,250.00,

10 “(II) for the taxable year beginning after  
11 1996 and before 1998, \$1,583.33<sup>1</sup>/<sub>3</sub>,

12 “(III) for the taxable year beginning after  
13 1997 and before 1999, \$1,916.66<sup>2</sup>/<sub>3</sub>,

14 “(IV) for the taxable year beginning after  
15 1998 and before 2000, \$2,250.00, and

16 “(V) for the taxable year beginning after  
17 1999 and before 2001, \$2,500.00.

18 “(ii) For purposes of subparagraph (B)(ii)(II),  
19 the increase in the exempt amount provided under  
20 clause (i)(V) shall be deemed to have resulted from  
21 a determination which shall be deemed to have been  
22 made under subparagraph (A) in 1999.”.

23 (b) CONFORMING AMENDMENT.—The second sen-  
24 tence of section 223(d)(4) of such Act (42 U.S.C.  
25 423(d)(4)) is amended by striking “the exempt amount

1 under section 203(f)(8) which is applicable to individuals  
2 described in subparagraph (D) thereof” and inserting the  
3 following: “an amount equal to the exempt amount which  
4 would have been applicable under section 203(f)(8), to in-  
5 dividuals described in subparagraph (D) thereof, if section  
6 501 of the Contract With America Tax Relief Act of 1995  
7 had not been enacted”.

8 (c) EFFECTIVE DATE.—The amendments made by  
9 this section shall apply with respect to taxable years begin-  
10 ning after 1995.

## 11 **TITLE VI—TECHNICAL** 12 **CORRECTIONS**

### 13 **SEC. 601. COORDINATION WITH OTHER TITLES.**

14 For purposes of applying the amendments made by  
15 any title of this Act other than this title, the provisions  
16 of this title shall be treated as having been enacted imme-  
17 diately before the provisions of such other titles.

### 18 **SEC. 602. AMENDMENTS RELATED TO REVENUE REC-** 19 **ONCILIATION ACT OF 1990.**

20 (a) AMENDMENTS RELATED TO SUBTITLE A.—

21 (1) Subparagraph (B) of section 59(j)(3) is  
22 amended by striking “section 1(i)(3)(B)” and insert-  
23 ing “section 1(g)(3)(B)”.

1           (2) Clause (i) of section 151(d)(3)(C) is amend-  
2           ed by striking “joint of a return” and inserting  
3           “joint return”.

4           (b) AMENDMENTS RELATED TO SUBTITLE B.—

5           (1) Paragraph (1) of section 11212(e) of the  
6           Revenue Reconciliation Act of 1990 is amended by  
7           striking “Paragraph (1) of section 6724(d)” and in-  
8           serting “Subparagraph (B) of section 6724(d)(1)”.

9           (2)(A) Subparagraph (B) of section 4093(c)(2),  
10          as in effect before the amendments made by the  
11          Revenue Reconciliation Act of 1993, is amended by  
12          inserting before the period “unless such fuel is sold  
13          for exclusive use by a State or any political subdivi-  
14          sion thereof”.

15          (B) Paragraph (4) of section 6427(l), as in ef-  
16          fect before the amendments made by the Revenue  
17          Reconciliation Act of 1993, is amended by inserting  
18          before the period “unless such fuel was used by a  
19          State or any political subdivision thereof”.

20          (3) Paragraph (1) of section 6416(b) is amend-  
21          ed by striking “chapter 32 or by section 4051” and  
22          inserting “chapter 31 or 32”.

23          (4) Section 7012 is amended—

1 (A) by striking “production or importation  
2 of gasoline” in paragraph (3) and inserting  
3 “taxes on gasoline and diesel fuel”, and

4 (B) by striking paragraph (4) and redesignating paragraphs (5) and (6) as paragraphs  
5 (4) and (5), respectively.

6  
7 (5) Subsection (c) of section 5041 is amended  
8 by striking paragraph (6) and by inserting the following new paragraphs:  
9

10 “(6) CREDIT FOR TRANSFEREE IN BOND.—If—

11 “(A) wine produced by any person would  
12 be eligible for any credit under paragraph (1)  
13 if removed by such person during the calendar  
14 year,

15 “(B) wine produced by such person is removed during such calendar year by any other  
16 person (hereafter in this paragraph referred to  
17 as the ‘transferee’) to whom such wine was  
18 transferred in bond and who is liable for the tax  
19 imposed by this section with respect to such  
20 wine, and

21  
22 “(C) such producer holds title to such wine  
23 at the time of its removal and provides to the  
24 transferee such information as is necessary to

1 properly determine the transferee's credit under  
2 this paragraph,  
3 then, the transferee (and not the producer) shall be  
4 allowed the credit under paragraph (1) which would  
5 be allowed to the producer if the wine removed by  
6 the transferee had been removed by the producer on  
7 that date.

8 “(7) REGULATIONS.—The Secretary may pre-  
9 scribe such regulations as may be necessary to carry  
10 out the purposes of this subsection, including regula-  
11 tions—

12 “(A) to prevent the credit provided in this  
13 subsection from benefiting any person who pro-  
14 duces more than 250,000 wine gallons during a  
15 calendar year, and

16 “(B) to assure proper reduction of such  
17 credit for persons producing more than 150,000  
18 wine gallons of wine during a calendar year.”.

19 (6) Paragraph (3) of section 5061(b) is amend-  
20 ed to read as follows:

21 “(3) section 5041(f),”.

22 (7) Section 5354 is amended by inserting “(tak-  
23 ing into account the appropriate amount of credit  
24 with respect to such wine under section 5041(c))”  
25 after “any one time”.

1 (c) AMENDMENTS RELATED TO SUBTITLE C.—

2 (1) Paragraph (4) of section 56(g) is amended  
3 by redesignating subparagraphs (I) and (J) as sub-  
4 subparagraphs (H) and (I), respectively.

5 (2) Subparagraph (B) of section 6724(d)(1) is  
6 amended—

7 (A) by striking “or” at the end of clause  
8 (xii), and

9 (B) by striking the period at the end of  
10 clause (xiii) and inserting “, or”.

11 (3) Subsection (g) of section 6302 is amended  
12 by inserting “, 22,” after “chapters 21”.

13 (4) The earnings and profits of any insurance  
14 company to which section 11305(c)(3) of the Reve-  
15 nue Reconciliation Act of 1990 applies shall be de-  
16 termined without regard to any deduction allowed  
17 under such section; except that, for purposes of ap-  
18 plying sections 56 and 902, and subpart F of part  
19 III of subchapter N of chapter 1 of the Internal  
20 Revenue Code of 1986, such deduction shall be  
21 taken into account.

22 (5) Subparagraph (D) of section 6038A(e)(4) is  
23 amended—

1 (A) by striking “any transaction to which  
2 the summons relates” and inserting “any af-  
3 fected taxable year”, and

4 (B) by adding at the end thereof the fol-  
5 lowing new sentence: “For purposes of this sub-  
6 paragraph, the term ‘affected taxable year’  
7 means any taxable year if the determination of  
8 the amount of tax imposed for such taxable  
9 year is affected by the treatment of the trans-  
10 action to which the summons relates.”.

11 (6) Subparagraph (A) of section 6621(c)(2) is  
12 amended by adding at the end thereof the following  
13 new flush sentence:

14 “The preceding sentence shall be applied with-  
15 out regard to any such letter or notice which is  
16 withdrawn by the Secretary.”.

17 (7) Clause (i) of section 6621(c)(2)(B) is  
18 amended by striking “this subtitle” and inserting  
19 “this title”.

20 (d) AMENDMENTS RELATED TO SUBTITLE D.—

21 (1) Notwithstanding section 11402(c) of the  
22 Revenue Reconciliation Act of 1990, the amendment  
23 made by section 11402(b)(1) of such Act shall apply  
24 to taxable years ending after December 31, 1989.

1           (2) Clause (ii) of section 143(m)(4)(C) is  
2 amended—

3           (A) by striking “any month of the 10-year  
4 period” and inserting “any year of the 4-year  
5 period”,

6           (B) by striking “succeeding months” and  
7 inserting “succeeding years”, and

8           (C) by striking “over the remainder of  
9 such period (or, if lesser, 5 years)” and insert-  
10 ing “to zero over the succeeding 5 years”.

11 (e) AMENDMENTS RELATED TO SUBTITLE E.—

12           (1)(A) Clause (ii) of section 56(d)(1)(B) is  
13 amended to read as follows:

14           “(ii) appropriate adjustments in the  
15 application of section 172(b)(2) shall be  
16 made to take into account the limitation of  
17 subparagraph (A).”

18           (B) For purposes of applying sections 56(g)(1)  
19 and 56(g)(3) of the Internal Revenue Code of 1986  
20 with respect to taxable years beginning in 1991 and  
21 1992, the reference in such sections to the alter-  
22 native tax net operating loss deduction shall be  
23 treated as including a reference to the deduction  
24 under section 56(h) of such Code as in effect before

1 the amendments made by section 1915 of the En-  
2 ergy Policy Act of 1992.

3 (2) Clause (i) of section 613A(c)(3)(A) is  
4 amended by striking “the table contained in”.

5 (3) Section 6501 is amended—

6 (A) by striking subsection (m) (relating to  
7 deficiency attributable to election under section  
8 44B) and by redesignating subsections (n) and  
9 (o) as subsections (m) and (n), respectively, and

10 (B) by striking “section 40(f) or 51(j)” in  
11 subsection (m) (as redesignated by subpara-  
12 graph (A)) and inserting “section 40(f), 43, or  
13 51(j)”.

14 (4) Subparagraph (C) of section 38(c)(2) (as in  
15 effect on the day before the date of the enactment  
16 of the Revenue Reconciliation Act of 1990) is  
17 amended by inserting before the period at the end  
18 of the first sentence the following: “and without re-  
19 gard to the deduction under section 56(h)”.

20 (5) The amendment made by section  
21 1913(b)(2)(C)(i) of the Energy Policy Act of 1992  
22 shall apply to taxable years beginning after Decem-  
23 ber 31, 1990.

24 (f) AMENDMENTS RELATED TO SUBTITLE F.—

1           (1)(A) Section 2701(a)(3) is amended by add-  
2           ing at the end thereof the following new subpara-  
3           graph:

4                   “(C) VALUATION OF QUALIFIED PAYMENTS  
5                   WHERE NO LIQUIDATION, ETC. RIGHTS.—In the  
6                   case of an applicable retained interest which is  
7                   described in subparagraph (B)(i) but not sub-  
8                   paragraph (B)(ii), the value of the distribution  
9                   right shall be determined without regard to this  
10                  section.”

11           (B) Section 2701(a)(3)(B) is amended by in-  
12           serting “CERTAIN” before “QUALIFIED” in the head-  
13           ing thereof.

14           (C) Sections 2701 (d)(1) and (d)(4) are each  
15           amended by striking “subsection (a)(3)(B)” and in-  
16           serting “subsection (a)(3) (B) or (C)”.

17           (2) Clause (i) of section 2701(a)(4)(B) is  
18           amended by inserting “(or, to the extent provided in  
19           regulations, the rights as to either income or cap-  
20           ital)” after “income and capital”.

21           (3)(A) Section 2701(b)(2) is amended by add-  
22           ing at the end thereof the following new subpara-  
23           graph:

24                   “(C) APPLICABLE FAMILY MEMBER.—For  
25                   purposes of this subsection, the term ‘applicable

1 family member' includes any lineal descendant  
2 of any parent of the transferor or the transfer-  
3 or's spouse."

4 (B) Section 2701(e)(3) is amended—

5 (i) by striking subparagraph (B), and

6 (ii) by striking so much of paragraph (3)  
7 as precedes "shall be treated as holding" and  
8 inserting:

9 "(3) CONTRIBUTION OF INDIRECT HOLDINGS  
10 AND TRANSFERS.—An individual".

11 (C) Section 2704(c)(3) is amended by striking  
12 "section 2701(e)(3)(A)" and inserting "section  
13 2701(e)(3)".

14 (4) Clause (i) of section 2701(c)(1)(B) is  
15 amended to read as follows:

16 "(i) a right to distributions with re-  
17 spect to any interest which is junior to the  
18 rights of the transferred interest,".

19 (5)(A) Clause (i) of section 2701(c)(3)(C) is  
20 amended to read as follows:

21 "(i) IN GENERAL.—Payments under  
22 any interest held by a transferor which  
23 (without regard to this subparagraph) are  
24 qualified payments shall be treated as  
25 qualified payments unless the transferor

1 elects not to treat such payments as quali-  
2 fied payments. Payments described in the  
3 preceding sentence which are held by an  
4 applicable family member shall be treated  
5 as qualified payments only if such member  
6 elects to treat such payments as qualified  
7 payments.”

8 (B) The first sentence of section  
9 2701(c)(3)(C)(ii) is amended to read as follows: “A  
10 transferor or applicable family member holding any  
11 distribution right which (without regard to this sub-  
12 paragraph) is not a qualified payment may elect to  
13 treat such right as a qualified payment, to be paid  
14 in the amounts and at the times specified in such  
15 election.”.

16 (C) The time for making an election under the  
17 second sentence of section 2701(c)(3)(C)(i) of the  
18 Internal Revenue Code of 1986 (as amended by sub-  
19 paragraph (A)) shall not expire before the due date  
20 (including extensions) for filing the transferor’s re-  
21 turn of the tax imposed by section 2501 of such  
22 Code for the first calendar year ending after the  
23 date of enactment.

24 (6) Section 2701(d)(3)(A)(iii) is amended by  
25 striking “the period ending on the date of”.

1           (7) Subclause (I) of section 2701(d)(3)(B)(ii) is  
2 amended by inserting “or the exclusion under sec-  
3 tion 2503(b),” after “section 2523,”.

4           (8) Section 2701(e)(5) is amended—

5           (A) by striking “such contribution to cap-  
6 ital or such redemption, recapitalization, or  
7 other change” in subparagraph (A) and insert-  
8 ing “such transaction”, and

9           (B) by striking “the transfer” in subpara-  
10 graph (B) and inserting “such transaction”.

11           (9) Section 2701(d)(4) is amended by adding at  
12 the end thereof the following new subparagraph:

13           “(C) TRANSFER TO TRANSFERORS.—In  
14 the case of a taxable event described in para-  
15 graph (3)(A)(ii) involving a transfer of an ap-  
16 plicable retained interest from an applicable  
17 family member to a transferor, this subsection  
18 shall continue to apply to the transferor during  
19 any period the transferor holds such interest.”

20           (10) Section 2701(e)(6) is amended by insert-  
21 ing “or to reflect the application of subsection (d)”  
22 before the period at the end thereof.

23           (11)(A) Section 2702(a)(3)(A) is amended—

24           (i) by striking “to the extent” and insert-  
25 ing “if” in clause (i),

1 (ii) by striking “or” at the end of clause

2 (i),

3 (iii) by striking the period at the end of  
4 clause (ii) and inserting “, or”, and

5 (iv) by adding at the end thereof the fol-  
6 lowing new clause:

7 “(iii) to the extent that regulations  
8 provide that such transfer is not inconsis-  
9 tent with the purposes of this section.”

10 (B)(i) Section 2702(a)(3) is amended by strik-  
11 ing “incomplete transfer” each place it appears and  
12 inserting “incomplete gift”.

13 (ii) The heading for section 2702(a)(3)(B) is  
14 amended by striking “INCOMPLETE TRANSFER” and  
15 inserting “INCOMPLETE GIFT”.

16 (g) AMENDMENTS RELATED TO SUBTITLE G.—

17 (1)(A) Subsection (a) of section 1248 is  
18 amended—

19 (i) by striking “, or if a United States per-  
20 son receives a distribution from a foreign cor-  
21 poration which, under section 302 or 331, is  
22 treated as an exchange of stock” in paragraph  
23 (1), and

24 (ii) by adding at the end thereof the follow-  
25 ing new sentence: “For purposes of this section,

1 a United States person shall be treated as hav-  
2 ing sold or exchanged any stock if, under any  
3 provision of this subtitle, such person is treated  
4 as realizing gain from the sale or exchange of  
5 such stock.”.

6 (B) Paragraph (1) of section 1248(e) is amend-  
7 ed by striking “, or receives a distribution from a  
8 domestic corporation which, under section 302 or  
9 331, is treated as an exchange of stock”.

10 (C) Subparagraph (B) of section 1248(f)(1) is  
11 amended by striking “or 361(c)(1)” and inserting  
12 “355(c)(1), or 361(c)(1)”.

13 (D) Paragraph (1) of section 1248(i) is amend-  
14 ed to read as follows:

15 “(1) IN GENERAL.—If any shareholder of a 10-  
16 percent corporate shareholder of a foreign corpora-  
17 tion exchanges stock of the 10-percent corporate  
18 shareholder for stock of the foreign corporation,  
19 such 10-percent corporate shareholder shall recog-  
20 nize gain in the same manner as if the stock of the  
21 foreign corporation received in such exchange had  
22 been—

23 “(A) issued to the 10-percent corporate  
24 shareholder, and

1           “(B) then distributed by the 10-percent  
2           corporate shareholder to such shareholder in re-  
3           demption or liquidation (whichever is appro-  
4           priate).

5           The amount of gain recognized by such 10-percent  
6           corporate shareholder under the preceding sentence  
7           shall not exceed the amount treated as a dividend  
8           under this section.”

9           (2) Section 897 is amended by striking sub-  
10          section (f).

11          (3) Paragraph (13) of section 4975(d) is  
12          amended by striking “section 408(b)” and inserting  
13          “section 408(b)(12)”.

14          (4) Clause (iii) of section 56(g)(4)(D) is amend-  
15          ed by inserting “, but only with respect to taxable  
16          years beginning after December 31, 1989” before  
17          the period at the end thereof.

18          (5)(A) Paragraph (11) of section 11701(a) of  
19          the Revenue Reconciliation Act of 1990 (and the  
20          amendment made by such paragraph) are hereby re-  
21          pealed, and section 7108(r)(2) of the Revenue Rec-  
22          onciliation Act of 1989 shall be applied as if such  
23          paragraph (and amendment) had never been en-  
24          acted.

1           (B) Subparagraph (A) shall not apply to any  
2 building if the owner of such building establishes to  
3 the satisfaction of the Secretary of the Treasury or  
4 his delegate that such owner reasonably relied on the  
5 amendment made by such paragraph (11).

6           (h) AMENDMENTS RELATED TO SUBTITLE H.—

7           (1)(A) Clause (vi) of section 168(e)(3)(B) is  
8 amended by striking “or” at the end of subclause  
9 (I), by striking the period at the end of subclause  
10 (II) and inserting “, or”, and by adding at the end  
11 thereof the following new subclause:

12                                 “(III) is described in section  
13                                 48(l)(3)(A)(ix) (as in effect on the  
14                                 day before the date of the enactment  
15                                 of the Revenue Reconciliation Act of  
16                                 1990).”

17           (B) Subparagraph (K) of section 168(g)(4) is  
18 amended by striking “section 48(a)(3)(A)(iii)” and  
19 inserting “section 48(l)(3)(A)(ix) (as in effect on the  
20 day before the date of the enactment of the Revenue  
21 Reconciliation Act of 1990)”.

22           (2) Clause (ii) of section 172(b)(1)(E) is  
23 amended by striking “subsection (m)” and inserting  
24 “subsection (h)”.

1           (3) Sections 805(a)(4)(E), 832(b)(5)(C)(ii)(II),  
2           and 832(b)(5)(D)(ii)(II) are each amended by strik-  
3           ing “243(b)(5)” and inserting “243(b)(2)”.

4           (4) Subparagraph (A) of section 243(b)(3) is  
5           amended by inserting “of” after “In the case”.

6           (5) The subsection heading for subsection (a) of  
7           section 280F is amended by striking “INVESTMENT  
8           TAX CREDIT AND”.

9           (6) Clause (i) of section 1504(c)(2)(B) is  
10          amended by inserting “section” before “243(b)(2)”.

11          (7) Paragraph (3) of section 341(f) is amended  
12          by striking “351, 361, 371(a), or 374(a)” and in-  
13          serting “351, or 361”.

14          (8) Paragraph (2) of section 243(b) is amended  
15          to read as follows:

16               “(2) AFFILIATED GROUP.—For purposes of this  
17          subsection:

18                       “(A) IN GENERAL.—The term ‘affiliated  
19                       group’ has the meaning given such term by sec-  
20                       tion 1504(b), except that for such purposes sec-  
21                       tions 1504(b)(2), 1504(b)(4), and 1504(c) shall  
22                       not apply.

23                       “(B) GROUP MUST BE CONSISTENT IN  
24                       FOREIGN TAX TREATMENT.—The requirements  
25                       of paragraph (1)(A) shall not be treated as

1 being met with respect to any dividend received  
2 by a corporation if, for any taxable year which  
3 includes the day on which such dividend is re-  
4 ceived—

5 “(i) 1 or more members of the affili-  
6 ated group referred to in paragraph (1)(A)  
7 choose to any extent to take the benefits of  
8 section 901, and

9 “(ii) 1 or more other members of such  
10 group claim to any extent a deduction for  
11 taxes otherwise creditable under section  
12 901.”

13 (9) The amendment made by section  
14 11813(b)(17) of the Revenue Reconciliation Act of  
15 1990 shall be applied as if the material stricken by  
16 such amendment included the closing parenthesis  
17 after “section 48(a)(5)”.

18 (10) Paragraph (1) of section 179(d) is amend-  
19 ed—

20 (A) by striking “in a trade or business”  
21 and inserting “a trade or business”, and

22 (B) by adding at the end thereof the fol-  
23 lowing new sentence: “Such term shall not in-  
24 clude any property described in section 50(b)

1           and shall not include air conditioning or heating  
2           units and horses.”

3           (11) Subparagraph (E) of section 50(a)(2) is  
4           amended by striking “section 48(a)(5)(A)” and in-  
5           serting “section 48(a)(5)”.

6           (12) The amendment made by section  
7           11801(c)(9)(G)(ii) of the Revenue Reconciliation Act  
8           of 1990 shall be applied as if it struck “Section  
9           422A(c)(2)” and inserted “Section 422(c)(2)”.

10          (13) Subparagraph (B) of section 424(c)(3) is  
11          amended by striking “a qualified stock option, an in-  
12          centive stock option, an option granted under an em-  
13          ployee stock purchase plan, or a restricted stock op-  
14          tion” and inserting “an incentive stock option or an  
15          option granted under an employee stock purchase  
16          plan”.

17          (14) Subparagraph (E) of section 1367(a)(2) is  
18          amended by striking “section 613A(c)(13)(B)” and  
19          inserting “section 613A(c)(11)(B)”.

20          (15) Subparagraph (B) of section 460(e)(6) is  
21          amended by striking “section 167(k)” and inserting  
22          “section 168(e)(2)(A)(ii)”.

23          (16) Subparagraph (C) of section 172(h)(4) is  
24          amended by striking “subsection (b)(1)(M)” and in-  
25          serting “subsection (b)(1)(E)”.

1 (17) Section 6503 is amended—

2 (A) by redesignating the subsection relat-  
3 ing to extension in case of certain summonses  
4 as subsection (j), and

5 (B) by redesignating the subsection relat-  
6 ing to cross references as subsection (k).

7 (18) Paragraph (4) of section 1250(e) is hereby  
8 repealed.

9 (i) EFFECTIVE DATE.—Except as otherwise expressly  
10 provided—

11 (1) the amendments made by this section shall  
12 be treated as amendments to the Internal Revenue  
13 Code of 1986 as amended by the Revenue Reconcili-  
14 ation Act of 1993; and

15 (2) any amendment made by this section shall  
16 apply to periods before the date of the enactment of  
17 this section in the same manner as if it had been in-  
18 cluded in the provision of the Revenue Reconciliation  
19 Act of 1990 to which such amendment relates.

20 **SEC. 603. AMENDMENTS RELATED TO REVENUE REC-**  
21 **ONCILIATION ACT OF 1993.**

22 (a) AMENDMENT RELATED TO SECTION 13114.—  
23 Paragraph (2) of section 1044(c) is amended to read as  
24 follows:

1           “(2) PURCHASE.—The taxpayer shall be consid-  
2           ered to have purchased any property if, but for sub-  
3           section (d), the unadjusted basis of such property  
4           would be its cost within the meaning of section  
5           1012.”

6           (b) AMENDMENTS RELATED TO SECTION 13142.—

7           (1) Subparagraph (B) of section 13142(b)(6) of  
8           the Revenue Reconciliation Act of 1993 is amended  
9           to read as follows:

10                   “(B) FULL-TIME STUDENTS, WAIVER AU-  
11                   THORITY, AND PROHIBITED DISCRIMINATION.—  
12                   The amendments made by paragraphs (2), (3),  
13                   and (4) shall take effect on the date of the en-  
14                   actment of this Act.”

15           (2) Subparagraph (C) of section 13142(b)(6) of  
16           such Act is amended by striking “paragraph (2)”  
17           and inserting “paragraph (5)”.

18           (c) AMENDMENT RELATED TO SECTION 13161.—

19           (1) IN GENERAL.—Subsection (e) of section  
20           4001 (relating to inflation adjustment) is amended  
21           to read as follows:

22                   “(e) INFLATION ADJUSTMENT.—

23                   “(1) IN GENERAL.—The \$30,000 amount in  
24                   subsection (a) and section 4003(a) shall be increased  
25                   by an amount equal to—

1           “(A) \$30,000, multiplied by

2           “(B) the cost-of-living adjustment under  
3           section 1(f)(3) for the calendar year in which  
4           the vehicle is sold, determined by substituting  
5           ‘calendar year 1990’ for ‘calendar year 1992’ in  
6           subparagraph (B) thereof.

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

11          (2) EFFECTIVE DATE.—The amendment made  
12          by paragraph (1) shall take effect on the date of the  
13          enactment of this Act.

14          (d) AMENDMENT RELATED TO SECTION 13201.—  
15          Clause (ii) of section 135(b)(2)(B) is amended by insert-  
16          ing before the period at the end thereof the following: “,  
17          determined by substituting ‘calendar year 1989’ for ‘cal-  
18          endar year 1992’ in subparagraph (B) thereof”.

19          (e) AMENDMENTS RELATED TO SECTION 13203.—  
20          Subsection (a) of section 59 is amended—

21                 (1) by striking “the amount determined under  
22                 section 55(b)(1)(A)” in paragraph (1)(A) and  
23                 (2)(A)(i) and inserting “the pre-credit tentative min-  
24                 imum tax”,

1           (2) by striking “specified in section  
2           55(b)(1)(A)” in paragraph (1)(C) and inserting  
3           “specified in subparagraph (A)(i) or (B)(i) of section  
4           55(b)(1) (whichever applies)”,

5           (3) by striking “which would be determined  
6           under section 55(b)(1)(A)” in paragraph (2)(A)(ii)  
7           and inserting “which would be the pre-credit ten-  
8           tative minimum tax”, and

9           (4) by adding at the end thereof the following  
10          new paragraph:

11          “(3) PRE-CREDIT TENTATIVE MINIMUM TAX.—  
12          For purposes of this subsection, the term ‘pre-credit  
13          tentative minimum tax’ means—

14                 “(A) in the case of a taxpayer other than  
15                 a corporation, the amount determined under the  
16                 first sentence of section 55(b)(1)(A)(i), or

17                 “(B) in the case of a corporation, the  
18                 amount determined under section  
19                 55(b)(1)(B)(i).”

20          (f) AMENDMENT RELATED TO SECTION 13221.—  
21          Sections 1201(a) and 1561(a) are each amended by strik-  
22          ing “last sentence” each place it appears and inserting  
23          “last 2 sentences”.

24          (g) AMENDMENTS RELATED TO SECTION 13222.—

1           (1) Subparagraph (B) of section 6033(e)(1) is  
2 amended by adding at the end thereof the following  
3 new clause:

4                   “(iii) COORDINATION WITH SECTION  
5                   527(f).—This subsection shall not apply to  
6 any amount on which tax is imposed by  
7 reason of section 527(f).”.

8           (2) Clause (i) of section 6033(e)(1)(B) is  
9 amended by striking “this subtitle” and inserting  
10 “section 501”.

11           (h) AMENDMENT RELATED TO SECTION 13225.—  
12 Paragraph (3) of section 6655(g) is amended by striking  
13 all that follows “‘3rd month’” in the sentence following  
14 subparagraph (C) and inserting “, subsection (e)(2)(A)  
15 shall be applied by substituting ‘2 months’ for ‘3 months’  
16 in clause (i)(I), the election under clause (i) of subsection  
17 (e)(2)(C) may be made separately for each installment,  
18 and clause (ii) of subsection (e)(2)(C) shall not apply.”.

19           (i) AMENDMENTS RELATED TO SECTION 13231.—

20           (1) Subparagraph (G) of section 904(d)(3) is  
21 amended by striking “section 951(a)(1)(B)” and in-  
22 serting “subparagraph (B) or (C) of section  
23 951(a)(1)”.

24           (2) Paragraph (1) of section 956A(b) is amend-  
25 ed to read as follows:

1           “(1) the amount (not including a deficit) re-  
2           ferred to in section 316(a)(1) to the extent such  
3           amount was accumulated in prior taxable years be-  
4           ginning after September 30, 1993, and”.

5           (3) Subsection (f) of section 956A is amended  
6           by inserting before the period at the end thereof:  
7           “and regulations coordinating the provisions of sub-  
8           sections (c)(3)(A) and (d)”.

9           (4) Subsection (b) of section 958 is amended by  
10          striking “956(b)(2)” each place it appears and in-  
11          serting “956(c)(2)”.

12          (5)(A) Subparagraph (A) of section 1297(d)(2)  
13          is amended by striking “The adjusted basis of any  
14          asset” and inserting “The amount taken into ac-  
15          count under section 1296(a)(2) with respect to any  
16          asset”.

17          (B) The paragraph heading of paragraph (2) of  
18          section 1297(d) is amended to read as follows:

19                 “(2) AMOUNT TAKEN INTO ACCOUNT.—”.

20          (6) Subsection (e) of section 1297 is amended  
21          by inserting “For purposes of this part—” after the  
22          subsection heading.

23          (j) AMENDMENT RELATED TO SECTION 13241.—  
24          Subparagraph (B) of section 40(e)(1) is amended to read  
25          as follows:

1           “(B) for any period before January 1,  
2           2001, during which the rates of tax under sec-  
3           tion 4081(a)(2)(A) are 4.3 cents per gallon.”

4           (k) AMENDMENT RELATED TO SECTION 13261.—  
5           Clause (iii) of section 13261(g)(2)(A) of the Revenue Rec-  
6           onciliation Act of 1993 is amended by striking “by the  
7           taxpayer” and inserting “by the taxpayer or a related per-  
8           son”.

9           (l) AMENDMENT RELATED TO SECTION 13301.—  
10          Subparagraph (B) of section 1397B(d)(5) is amended by  
11          striking “preceding”.

12          (m) CLERICAL AMENDMENTS.—

13           (1) Subsection (d) of section 39 is amended—

14           (A) by striking “45” in the heading of  
15           paragraph (5) and inserting “45A”, and

16           (B) by striking “45” in the heading of  
17           paragraph (6) and inserting “45B”.

18           (2) Subparagraph (A) of section 108(d)(9) is  
19           amended by striking “paragraph (3)(B)” and insert-  
20           ing “paragraph (3)(C)”.

21           (3) Subparagraph (C) of section 143(d)(2) is  
22           amended by striking the period at the end thereof  
23           and inserting a comma.

24           (4) Clause (ii) of section 163(j)(6)(E) is amend-  
25           ed by striking “which is a” and inserting “which is”.

1           (5) Subparagraph (A) of section 1017(b)(4) is  
2 amended by striking “subsection (b)(2)(D)” and in-  
3 serting “subsection (b)(2)(E)”.

4           (6) So much of section 1245(a)(3) as precedes  
5 subparagraph (A) thereof is amended to read as fol-  
6 lows:

7           “(3) SECTION 1245 PROPERTY.—For purposes  
8 of this section, the term ‘section 1245 property’  
9 means any property which is or has been property  
10 of a character subject to the allowance for deprecia-  
11 tion provided in section 167 and is either—”.

12           (7) Paragraph (2) of section 1394(e) is amend-  
13 ed—

14                   (A) by striking “(i)” and inserting “(A)”,  
15                   and

16                   (B) by striking “(ii)” and inserting “(B)”.

17           (8) Subsection (m) of section 6501 (as redesign-  
18 ated by section 602) is amended by striking “or  
19 51(j)” and inserting “45B, or 51(j)”.

20           (9)(A) The section 6714 added by section  
21 13242(b)(1) of the Revenue Reconciliation Act of  
22 1993 is hereby redesignated as section 6715.

23           (B) The table of sections for part I of sub-  
24 chapter B of chapter 68 is amended by striking

1 “6714” in the item added by such section  
2 13242(b)(2) of such Act and inserting “6715”.

3 (10) Paragraph (2) of section 9502(b) is  
4 amended by inserting “and before” after “1982,”.

5 (11) Subsection (a)(3) of section 13206 of the  
6 Revenue Reconciliation Act of 1993 are each amend-  
7 ed by striking “this section” and inserting “this sub-  
8 section”.

9 (12) Paragraph (1) of section 13215(c) of the  
10 Revenue Reconciliation Act of 1993 is amended by  
11 striking “Public Law 92–21” and inserting “Public  
12 Law 98–21”.

13 (13) Paragraph (2) of section 13311(e) of the  
14 Revenue Reconciliation Act of 1993 is amended by  
15 striking “section 1393(a)(3)” and inserting “section  
16 1393(a)(2)”.

17 (14) Subparagraph (B) of section 117(d)(2) is  
18 amended by striking “section 132(f)” and inserting  
19 “section 132(h)”.

20 (n) EFFECTIVE DATE.—Any amendment made by  
21 this section shall take effect as if included in the provision  
22 of the Revenue Reconciliation Act of 1993 to which such  
23 amendment relates.

1 **SEC. 604. MISCELLANEOUS PROVISIONS.**

2 (a) APPLICATION OF AMENDMENTS MADE BY TITLE  
3 XII OF OMNIBUS BUDGET RECONCILIATION ACT OF  
4 1990.—Except as otherwise expressly provided, whenever  
5 in title XII of the Omnibus Budget Reconciliation Act of  
6 1990 an amendment or repeal is expressed in terms of  
7 an amendment to, or repeal of, a section or other provi-  
8 sion, the reference shall be considered to be made to a  
9 section or other provision of the Internal Revenue Code  
10 of 1986.

11 (b) TREATMENT OF CERTAIN AMOUNTS UNDER  
12 HEDGE BOND RULES.—

13 (1) Clause (iii) of section 149(g)(3)(B) is  
14 amended to read as follows:

15 “(iii) AMOUNTS HELD PENDING REIN-  
16 VESTMENT OR REDEMPTION.—Amounts  
17 held for not more than 30 days pending re-  
18 investment or bond redemption shall be  
19 treated as invested in bonds described in  
20 clause (i).”

21 (2) The amendment made by paragraph (1)  
22 shall take effect as if included in the amendments  
23 made by section 7651 of the Omnibus Budget Rec-  
24 onciliation Act of 1989.

25 (c) TREATMENT OF CERTAIN DISTRIBUTIONS  
26 UNDER SECTION 1445.—

1           (1) IN GENERAL.—Paragraph (3) of section  
2           1445(e) is amended by adding at the end thereof  
3           the following new sentence: “Rules similar to the  
4           rules of the preceding provisions of this paragraph  
5           shall apply in the case of any distribution to which  
6           section 301 applies and which is not made out of the  
7           earnings and profits of such a domestic corpora-  
8           tion.”

9           (2) EFFECTIVE DATE.—The amendment made  
10          by paragraph (1) shall apply to distributions after  
11          the date of the enactment of this Act.

12          (d) TREATMENT OF CERTAIN CREDITS UNDER SEC-  
13          TION 469.—

14               (1) IN GENERAL.—Subparagraph (B) of section  
15               469(c)(3) is amended by adding at the end thereof  
16               the following new sentence: “If the preceding sen-  
17               tence applies to the net income from any property  
18               for any taxable year, any credits allowable under  
19               subpart B (other than section 27(a)) or D of part  
20               IV of subchapter A for such taxable year which are  
21               attributable to such property shall be treated as  
22               credits not from a passive activity to the extent the  
23               amount of such credits does not exceed the regular  
24               tax liability of the taxpayer for the taxable year  
25               which is allocable to such net income.”

1           (2) EFFECTIVE DATE.—The amendment made  
2           by paragraph (1) shall apply to taxable years begin-  
3           ning after December 31, 1986.

4           (e) TREATMENT OF DISPOSITIONS UNDER PASSIVE  
5 LOSS RULES.—

6           (1) IN GENERAL.—Subparagraph (A) of section  
7           469(g)(1) is amended to read as follows:

8                   “(A) IN GENERAL.—If all gain or loss real-  
9                   ized on such disposition is recognized, the ex-  
10                   cess of—

11                           “(i) any loss from such activity for  
12                           such taxable year (determined after the ap-  
13                           plication of subsection (b)), over

14                                   “(ii) any net income or gain for such  
15                                   taxable year from all other passive activi-  
16                                   ties (determined after the application of  
17                                   subsection (b)),

18                                   shall be treated as a loss which is not from a  
19                                   passive activity.”

20           (2) EFFECTIVE DATE.—The amendment made  
21           by paragraph (1) shall apply to taxable years begin-  
22           ning after December 31, 1986.

23           (f) MISCELLANEOUS AMENDMENTS TO FOREIGN  
24 PROVISIONS.—

1           (1) COORDINATION OF UNIFIED ESTATE TAX  
2 CREDIT WITH TREATIES.—Subparagraph (A) of sec-  
3 tion 2102(c)(3) is amended by adding at the end  
4 thereof the following new sentence: “For purposes  
5 of the preceding sentence, property shall not be  
6 treated as situated in the United States if such  
7 property is exempt from the tax imposed by this  
8 subchapter under any treaty obligation of the United  
9 States.”

10           (2) TREATMENT OF CERTAIN INTEREST PAID  
11 TO RELATED PERSON.—

12           (A) IN GENERAL.—Subparagraph (B) of  
13 section 163(j)(1) is amended by inserting before  
14 the period at the end thereof the following:  
15 “(and clause (ii) of paragraph (2)(A) shall not  
16 apply for purposes of applying this subsection  
17 to the amount so treated)”.

18           (B) EFFECTIVE DATE.—The amendment  
19 made by subparagraph (A) shall apply as if in-  
20 cluded in the amendments made by section  
21 7210(a) of the Revenue Reconciliation Act of  
22 1989.

23           (3) TREATMENT OF INTEREST ALLOCABLE TO  
24 EFFECTIVELY CONNECTED INCOME.—

25           (A) IN GENERAL.—

1 (i) Subparagraph (B) of section  
2 884(f)(1) is amended by striking “to the  
3 extent” and all that follows down through  
4 “subparagraph (A)” and inserting “to the  
5 extent that the allocable interest exceeds  
6 the interest described in subparagraph  
7 (A)”.

8 (ii) The second sentence of section  
9 884(f)(1) is amended by striking “reason-  
10 ably expected” and all that follows down  
11 through the period at the end thereof and  
12 inserting “reasonably expected to be alloca-  
13 ble interest.”

14 (iii) Paragraph (2) of section 884(f) is  
15 amended to read as follows:

16 “(2) ALLOCABLE INTEREST.—For purposes of  
17 this subsection, the term ‘allocable interest’ means  
18 any interest which is allocable to income which is ef-  
19 fectively connected (or treated as effectively con-  
20 nected) with the conduct of a trade or business in  
21 the United States.”

22 (B) EFFECTIVE DATE.—The amendments  
23 made by subparagraph (A) shall take effect as  
24 if included in the amendments made by section  
25 1241(a) of the Tax Reform Act of 1986.

1 (4) CLARIFICATION OF SOURCE RULE.—

2 (A) IN GENERAL.—Paragraph (2) of sec-  
3 tion 865(b) is amended by striking “863(b)”  
4 and inserting “863”.

5 (B) EFFECTIVE DATE.—The amendment  
6 made by subparagraph (A) shall take effect as  
7 if included in the amendments made by section  
8 1211 of the Tax Reform Act of 1986.

9 (5) REPEAL OF OBSOLETE PROVISIONS.—

10 (A) Paragraph (1) of section 6038(a) is  
11 amended by striking “, and” at the end of sub-  
12 paragraph (E) and inserting a period, and by  
13 striking subparagraph (F).

14 (B) Subsection (b) of section 6038A is  
15 amended by adding “and” at the end of para-  
16 graph (2), by striking “, and” at the end of  
17 paragraph (3) and inserting a period, and by  
18 striking paragraph (4).

19 (g) TREATMENT OF ASSIGNMENT OF INTEREST IN  
20 CERTAIN BOND-FINANCED FACILITIES.—

21 (1) IN GENERAL.—Subparagraph (A) of section  
22 1317(3) of the Tax Reform Act of 1986 is amended  
23 by adding at the end thereof the following new sen-  
24 tence: “A facility shall not fail to be treated as de-  
25 scribed in this subparagraph by reason of an assign-

1       ment (or an agreement to an assignment) by the  
2       governmental unit on whose behalf the bonds are is-  
3       sued of any part of its interest in the property fi-  
4       nanced by such bonds to another governmental  
5       unit.”

6           (2) EFFECTIVE DATE.—The amendment made  
7       by paragraph (1) shall take effect as if included in  
8       such section 1317 on the date of the enactment of  
9       the Tax Reform Act of 1986.

10       (h) CLARIFICATION OF TREATMENT OF MEDICARE  
11 ENTITLEMENT UNDER COBRA PROVISIONS.—

12           (1) IN GENERAL.—

13           (A) Subclause (V) of section  
14       4980B(f)(2)(B)(i) is amended to read as fol-  
15       lows:

16                   “(V) MEDICARE ENTITLEMENT  
17                   FOLLOWED BY QUALIFYING EVENT.—

18                   In the case of a qualifying event de-  
19                   scribed in paragraph (3)(B) that oc-  
20                   curs less than 18 months after the  
21                   date the covered employee became en-  
22                   titled to benefits under title XVIII of  
23                   the Social Security Act, the period of  
24                   coverage for qualified beneficiaries  
25                   other than the covered employee shall

1 not terminate under this clause before  
2 the close of the 36-month period be-  
3 ginning on the date the covered em-  
4 ployee became so entitled.”

5 (B) Clause (v) of section 602(2)(A) of the  
6 Employee Retirement Income Security Act of  
7 1974 is amended to read as follows:

8 “(v) MEDICARE ENTITLEMENT FOL-  
9 LOWED BY QUALIFYING EVENT.—In the  
10 case of a qualifying event described in sec-  
11 tion 603(2) that occurs less than 18  
12 months after the date the covered em-  
13 ployee became entitled to benefits under  
14 title XVIII of the Social Security Act, the  
15 period of coverage for qualified bene-  
16 ficiaries other than the covered employee  
17 shall not terminate under this subpara-  
18 graph before the close of the 36-month pe-  
19 riod beginning on the date the covered em-  
20 ployee became so entitled.”

21 (C) Clause (iv) of section 2202(2)(A) of  
22 the Public Health Service Act is amended to  
23 read as follows:

24 “(iv) MEDICARE ENTITLEMENT FOL-  
25 LOWED BY QUALIFYING EVENT.—In the

1 case of a qualifying event described in sec-  
2 tion 2203(2) that occurs less than 18  
3 months after the date the covered em-  
4 ployee became entitled to benefits under  
5 title XVIII of the Social Security Act, the  
6 period of coverage for qualified bene-  
7 ficiaries other than the covered employee  
8 shall not terminate under this subpara-  
9 graph before the close of the 36-month pe-  
10 riod beginning on the date the covered em-  
11 ployee became so entitled.”

12 (2) EFFECTIVE DATE.—The amendments made  
13 by this subsection shall apply to plan years begin-  
14 ning after December 31, 1989.

15 (i) TREATMENT OF CERTAIN REMIC INCLUSIONS.—

16 (1) IN GENERAL.—Subsection (a) of section  
17 860E is amended by adding at the end thereof the  
18 following new paragraph:

19 “(6) COORDINATION WITH MINIMUM TAX.—For  
20 purposes of part VI of subchapter A of this chap-  
21 ter—

22 “(A) the reference in section 55(b)(2) to  
23 taxable income shall be treated as a reference  
24 to taxable income determined without regard to  
25 this subsection,

1           “(B) the alternative minimum taxable in-  
2           come of any holder of a residual interest in a  
3           REMIC for any taxable year shall in no event  
4           be less than the excess inclusion for such tax-  
5           able year, and

6           “(C) any excess inclusion shall be dis-  
7           regarded for purposes of computing the alter-  
8           native tax net operating loss deduction.

9           The preceding sentence shall not apply to any orga-  
10          nization to which section 593 applies, except to the  
11          extent provided in regulations prescribed by the Sec-  
12          retary under paragraph (2).”

13          (2) EFFECTIVE DATE.—The amendment made  
14          by paragraph (1) shall take effect as if included in  
15          the amendments made by section 671 of the Tax Re-  
16          form Act of 1986 unless the taxpayer elects to apply  
17          such amendment only to taxable years beginning  
18          after the date of the enactment of this Act.

19          (j) EXEMPTION FROM HARBOR MAINTENANCE TAX  
20          FOR CERTAIN PASSENGERS.—

21          (1) IN GENERAL.—Subparagraph (D) of section  
22          4462(b)(1) (relating to special rule for Alaska, Ha-  
23          waii, and possessions) is amended by inserting be-  
24          fore the period the following: “, or passengers trans-  
25          ported on United States flag vessels operating solely

1 within the State waters of Alaska or Hawaii and ad-  
2 jacent international waters”.

3 (2) EFFECTIVE DATE.—The amendment made  
4 by paragraph (1) shall take effect as if included in  
5 the amendments made by section 1402(a) of the  
6 Harbor Maintenance Revenue Act of 1986.

7 (k) AMENDMENTS RELATED TO REVENUE PROVI-  
8 SIONS OF ENERGY POLICY ACT OF 1992.—

9 (1) Effective with respect to taxable years be-  
10 ginning after December 31, 1990, subclause (II) of  
11 section 53(d)(1)(B)(iv) is amended to read as fol-  
12 lows:

13 “(II) the adjusted net minimum  
14 tax for any taxable year is the amount  
15 of the net minimum tax for such year  
16 increased in the manner provided in  
17 clause (iii).”

18 (2) Subsection (g) of section 179A is redesi-  
19 gnated as subsection (f).

20 (3) Subparagraph (E) of section 6724(d)(3) is  
21 amended by striking “section 6109(f)” and inserting  
22 “section 6109(h)”.

23 (4)(A) Subsection (d) of section 30 is amend-  
24 ed—

1 (i) by inserting “(determined without re-  
2 gard to subsection (b)(3))” before the period at  
3 the end of paragraph (1) thereof, and

4 (ii) by adding at the end thereof the follow-  
5 ing new paragraph:

6 “(4) ELECTION TO NOT TAKE CREDIT.—No  
7 credit shall be allowed under subsection (a) for any  
8 vehicle if the taxpayer elects to not have this section  
9 apply to such vehicle.”

10 (B) Subsection (m) of section 6501 (as redesign-  
11 nated by section 101) is amended by striking “sec-  
12 tion 40(f)” and inserting “section 30(d)(4), 40(f)”.

13 (5) Subclause (III) of section 501(c)(21)(D)(ii)  
14 is amended by striking “section 101(6)” and insert-  
15 ing “section 101(7)” and by striking “1752(6)” and  
16 inserting “1752(7)”.

17 (6) Paragraph (1) of section 1917(b) of the En-  
18 ergy Policy Act of 1992 shall be applied as if “at a  
19 rate” appeared instead of “at the rate” in the mate-  
20 rial proposed to be stricken.

21 (7) Paragraph (2) of section 1921(b) of the En-  
22 ergy Policy Act of 1992 shall be applied as if a  
23 comma appeared after “(2)” in the material pro-  
24 posed to be stricken.

1           (8) Subsection (a) of section 1937 of the En-  
2           ergy Policy Act of 1992 shall be applied as if “Sub-  
3           part B” appeared instead of “Subpart C”.

4           (l) TREATMENT OF QUALIFIED FOOTBALL COACHES  
5 PLAN.—

6           (1) IN GENERAL.—Section 1022 of title II of  
7           the Employee Retirement Income Security Act of  
8           1974 is amended by adding at the end thereof the  
9           following new subsection:

10          “(l) QUALIFIED FOOTBALL COACHES PLAN.—For  
11 purposes of determining the qualified plan status of a  
12 qualified football coaches plan, section 3(37)(F) shall be  
13 treated as part of this title and a qualified football coaches  
14 plan shall be treated as a multiemployer collectively bar-  
15 gained plan for purposes of the Internal Revenue Code  
16 of 1986.”

17          (2) EFFECTIVE DATE.—The amendment made  
18          by paragraph (1) shall apply to years beginning  
19          after the date of the enactment of Public Law 100-  
20          202.

21          (m) DETERMINATION OF UNRECOVERED INVEST-  
22 MENT IN ANNUITY CONTRACT.—

23          (1) IN GENERAL.—Subparagraph (A) of section  
24          72(b)(4) is amended by inserting “(determined with-  
25          out regard to subsection (c)(2))” after “contract”.

1           (2) EFFECTIVE DATE.—The amendment made  
2           by paragraph (1) shall take effect as if included in  
3           the amendments made by section 1122(c) of the Tax  
4           Reform Act of 1986.

5           (n) MODIFICATIONS TO ELECTION TO INCLUDE  
6 CHILD’S INCOME ON PARENT’S RETURN.—

7           (1) ELIGIBILITY FOR ELECTION.—Clause (ii) of  
8           section 1(g)(7)(A) (relating to election to include  
9           certain unearned income of child on parent’s return)  
10          is amended to read as follows:

11                       “(ii) such gross income is more than  
12                       the amount described in paragraph  
13                       (4)(A)(ii)(I) and less than 10 times the  
14                       amount so described.”.

15          (2) COMPUTATION OF TAX.—Subparagraph (B)  
16          of section 1(g)(7) (relating to income included on  
17          parent’s return) is amended—

18                       (A) by striking “\$1,000” in clause (i) and  
19                       inserting “twice the amount described in para-  
20                       graph (4)(A)(ii)(I)”, and

21                       (B) by amending subclause (II) of clause  
22                       (ii) to read as follows:

23                                       “(II) for each such child, 15 per-  
24                                       cent of the lesser of the amount de-  
25                                       scribed in paragraph (4)(A)(ii)(I) or

1 the excess of the gross income of such  
2 child over the amount so described,  
3 and”.

4 (3) MINIMUM TAX.—Subparagraph (B) of sec-  
5 tion 59(j)(1) is amended by striking “\$1,000” and  
6 inserting “twice the amount in effect for the taxable  
7 year under section 63(c)(5)(A)”.

8 (4) EFFECTIVE DATE.—The amendments made  
9 by this subsection shall apply to taxable years begin-  
10 ning after December 31, 1994.

11 (o) MISCELLANEOUS CLERICAL AMENDMENTS.—

12 (1) Subclause (II) of section 56(g)(4)(C)(ii) is  
13 amended by striking “of the subclause” and insert-  
14 ing “of subclause”.

15 (2) Paragraph (2) of section 72(m) is amended  
16 by inserting “and” at the end of subparagraph (A),  
17 by striking subparagraph (B), and by redesignating  
18 subparagraph (C) as subparagraph (B).

19 (3) Paragraph (2) of section 86(b) is amended  
20 by striking “adusted” and inserting “adjusted”.

21 (4)(A) The heading for section 112 is amended  
22 by striking “**COMBAT PAY**” and inserting “**COM-**  
23 **BAT ZONE COMPENSATION**”.

24 (B) The item relating to section 112 in the  
25 table of sections for part III of subchapter B of

1 chapter 1 is amended by striking “combat pay” and  
2 inserting “combat zone compensation”.

3 (C) Paragraph (1) of section 3401(a) is amend-  
4 ed by striking “combat pay” and inserting “combat  
5 zone compensation”.

6 (5) Clause (i) of section 172(h)(3)(B) is amend-  
7 ed by striking the comma at the end thereof and in-  
8 serting a period.

9 (6) Clause (ii) of section 543(a)(2)(B) is  
10 amended by striking “section 563(c)” and inserting  
11 “section 563(d)”.

12 (7) Paragraph (1) of section 958(a) is amended  
13 by striking “sections 955(b)(1)(A) and (B),  
14 955(c)(2)(A)(ii), and 960(a)(1)” and inserting “sec-  
15 tion 960(a)(1)”.

16 (8) Subsection (g) of section 642 is amended by  
17 striking “under 2621(a)(2)” and inserting “under  
18 section 2621(a)(2)”.

19 (9) Section 1463 is amended by striking “this  
20 subsection” and inserting “this section”.

21 (10) Subsection (k) of section 3306 is amended  
22 by inserting a period at the end thereof.

23 (11) The item relating to section 4472 in the  
24 table of sections for subchapter B of chapter 36 is  
25 amended by striking “and special rules”.

1           (12) Paragraph (2) of section 4978(b) is  
2 amended by striking the period at the end of sub-  
3 paragraph (A) and inserting a comma, and by strik-  
4 ing the period and quotation marks at the end of  
5 subparagraph (B) and inserting a comma.

6           (13) Paragraph (3) of section 5134(c) is  
7 amended by striking “section 6662(a)” and inserting  
8 “section 6665(a)”.

9           (14) Paragraph (2) of section 5206(f) is  
10 amended by striking “section 5(e)” and inserting  
11 “section 105(e)”.

12           (15) Paragraph (1) of section 6050B(c) is  
13 amended by striking “section 85(c)” and inserting  
14 “section 85(b)”.

15           (16) Subsection (k) of section 6166 is amended  
16 by striking paragraph (6).

17           (17) Subsection (e) of section 6214 is amended  
18 to read as follows:

19           “(e) CROSS REFERENCE.—

**“For provision giving Tax Court jurisdiction to  
order a refund of an overpayment and to award  
sanctions, see section 6512(b)(2).”**

20           (18) The section heading for section 6043 is  
21 amended by striking the semicolon and inserting a  
22 comma.

23           (19) The item relating to section 6043 in the  
24 table of sections for subpart B of part III of sub-

1 chapter A of chapter 61 is amended by striking the  
2 semicolon and inserting a comma.

3 (20) The table of sections for part I of sub-  
4 chapter A of chapter 68 is amended by striking the  
5 item relating to section 6662.

6 (21)(A) Section 7232 is amended—

7 (i) by striking “**LUBRICATING OIL,**” in  
8 the heading, and

9 (ii) by striking “lubricating oil,” in the  
10 text.

11 (B) The table of sections for part II of sub-  
12 chapter A of chapter 75 is amended by striking “lu-  
13 bricating oil,” in the item relating to section 7232.

14 (22) Paragraph (1) of section 6701(a) of the  
15 Omnibus Budget Reconciliation Act of 1989 is  
16 amended by striking “subclause (IV)” and inserting  
17 “subclause (V)”.

18 (23) Clause (ii) of section 7304(a)(2)(D) of  
19 such Act is amended by striking “subsection (c)(2)”  
20 and inserting “subsection (c)”.

21 (24) Paragraph (1) of section 7646(b) of such  
22 Act is amended by striking “section 6050H(b)(1)”  
23 and inserting “section 6050H(b)(2)”.

24 (25) Paragraph (10) of section 7721(c) of  
25 such Act is amended by striking “section

1 6662(b)(2)(C)(ii)” and inserting “section  
2 6661(b)(2)(C)(ii)”.

3 (26) Subparagraph (A) of section 7811(i)(3) of  
4 such Act is amended by inserting “the first place it  
5 appears” before “in clause (i)”.

6 (27) Paragraph (10) of section 7841(d) of  
7 such Act is amended by striking “section 381(a)”  
8 and inserting “section 381(c)”.

9 (28) Paragraph (2) of section 7861(c) of such  
10 Act is amended by inserting “the second place it ap-  
11 pears” before “and inserting”.

12 (29) Paragraph (1) of section 460(b) is amend-  
13 ed by striking “the look-back method of paragraph  
14 (3)” and inserting “the look-back method of para-  
15 graph (2)”.

16 (30) Subparagraph (C) of section 50(a)(2) is  
17 amended by striking “subsection (c)(4)” and insert-  
18 ing “subsection (d)(5)”.

19 (31) Subparagraph (B) of section 172(h)(4) is  
20 amended by striking the material following the head-  
21 ing and preceding clause (i) and inserting “For pur-  
22 poses of subsection (b)(2)—”.

23 (32) Subparagraph (A) of section 355(d)(7) is  
24 amended by inserting “section” before “267(b)”.

1           (33) Subparagraph (C) of section 420(e)(1) is  
2 amended by striking “mean” and inserting “means”.

3           (34) Paragraph (4) of section 537(b) is amend-  
4 ed by striking “section 172(i)” and inserting “sec-  
5 tion 172(f)”.

6           (35) Subparagraph (B) of section 613(e)(1) is  
7 amended by striking the comma at the end thereof  
8 and inserting a period.

9           (36) Paragraph (4) of section 856(a) is amend-  
10 ed by striking “section 582(c)(5)” and inserting  
11 “section 582(c)(2)”.

12           (37) Sections 904(f)(2)(B)(i) and  
13 907(c)(4)(B)(iii) are each amended by inserting “(as  
14 in effect on the day before the date of the enactment  
15 of the Revenue Reconciliation Act of 1990)” after  
16 “section 172(h)”.

17           (38) Subsection (b) of section 936 is amended  
18 by striking “subparagraphs (D)(ii)(I)” and inserting  
19 “subparagraphs (D)(ii)”.

20           (39) Subsection (c) of section 2104 is amended  
21 by striking “subparagraph (A), (C), or (D) of sec-  
22 tion 861(a)(1)” and inserting “section  
23 861(a)(1)(A)”.

24           (40) Subparagraph (A) of section 280A(c)(1) is  
25 amended to read as follows:

1           “(A) as the principal place of business for  
2           any trade or business of the taxpayer.”.

3           (41) Section 6038 is amended by redesignating  
4           the subsection relating to cross references as sub-  
5           section (f).

6           (42) Clause (iv) of section 6103(e)(1)(A) is  
7           amended by striking all that follows “provisions of”  
8           and inserting “section 1(g) or 59(j);”.

9           (43) The subsection (f) of section 6109 of the  
10          Internal Revenue Code of 1986 which was added by  
11          section 2201(d) of Public Law 101-624 is redesign-  
12          ated as subsection (g).

13          (44) Subsection (b) of section 7454 is amended  
14          by striking “section 4955(e)(2)” and inserting “sec-  
15          tion 4955(f)(2)”.

16          (45) Subsection (d) of section 11231 of the  
17          Revenue Reconciliation Act of 1990 shall be applied  
18          as if “comma” appeared instead of “period” and as  
19          if the paragraph (9) proposed to be added ended  
20          with a comma.

21          (46) Paragraph (1) of section 11303(b) of the  
22          Revenue Reconciliation Act of 1990 shall be applied  
23          as if “paragraph” appeared instead of “subpara-  
24          graph” in the material proposed to be stricken.

1           (47) Subsection (f) of section 11701 of the Rev-  
2           enue Reconciliation Act of 1990 is amended by in-  
3           serting “(relating to definitions)” after “section  
4           6038(e)”.

5           (48) Subsection (i) of section 11701 of the Rev-  
6           enue Reconciliation Act of 1990 shall be applied as  
7           if “subsection” appeared instead of “section” in the  
8           material proposed to be stricken.

9           (49) Subparagraph (B) of section 11801(c)(2)  
10          of the Revenue Reconciliation Act of 1990 shall be  
11          applied as if “section 56(g)” appeared instead of  
12          “section 59(g)”.

13          (50) Subparagraph (C) of section 11801(c)(8)  
14          of the Revenue Reconciliation Act of 1990 shall be  
15          applied as if “reorganizations” appeared instead of  
16          “reorganization” in the material proposed to be  
17          stricken.

18          (51) Subparagraph (H) of section 11801(c)(9)  
19          of the Revenue Reconciliation Act of 1990 shall be  
20          applied as if “section 1042(c)(1)(B)” appeared in-  
21          stead of “section 1042(c)(2)(B)”.

22          (52) Subparagraph (F) of section 11801(c)(12)  
23          of the Revenue Reconciliation Act of 1990 shall be  
24          applied as if “and (3)” appeared instead of “and  
25          (E)”.

1           (53) Subparagraph (A) of section 11801(c)(22)  
2 of the Revenue Reconciliation Act of 1990 shall be  
3 applied as if “chapters 21” appeared instead of  
4 “chapter 21” in the material proposed to be stricken.  
5 en.

6           (54) Paragraph (3) of section 11812(b) of the  
7 Revenue Reconciliation Act of 1990 shall be applied  
8 by not executing the amendment therein to the  
9 heading of section 42(d)(5)(B).

10           (55) Clause (i) of section 11813(b)(9)(A) of the  
11 Revenue Reconciliation Act of 1990 shall be applied  
12 as if a comma appeared after “(3)(A)(ix)” in the  
13 material proposed to be stricken.

14           (56) Subparagraph (F) of section 11813(b)(13)  
15 of the Revenue Reconciliation Act of 1990 shall be  
16 applied as if “tax” appeared after “investment” in  
17 the material proposed to be stricken.

18           (57) Paragraph (19) of section 11813(b) of the  
19 Revenue Reconciliation Act of 1990 shall be applied  
20 as if “Paragraph (20) of section 1016(a), as redesign-  
21 nated by section 11801,” appeared instead of “Para-  
22 graph (21) of section 1016(a)”.

23           (58) Paragraph (5) section 8002(a) of the Sur-  
24 face Transportation Revenue Act of 1991 shall be

1 applied as if “4481(e)” appeared instead of  
2 “4481(c)”.

3 (59) Section 7872 is amended—

4 (A) by striking “foregone” each place it  
5 appears in subsections (a) and (e)(2) and in-  
6 serting “forgone”, and

7 (B) by striking “FOREGONE” in the head-  
8 ing for subsection (e) and the heading for para-  
9 graph (2) of subsection (e) and inserting “FOR-  
10 GONE”.

11 (60) Paragraph (7) of section 7611(h) is  
12 amended by striking “appropariate” and inserting  
13 “appropriate”.

14 (61) The heading of paragraph (3) of section  
15 419A(c) is amended by striking “SEVERENCE” and  
16 inserting “SEVERANCE”.

17 (62) Clause (ii) of section 807(d)(3)(B) is  
18 amended by striking “Commissoners’ ” and insert-  
19 ing “Commissioners’ ”.

20 (63) Subparagraph (B) of section 1274A(c)(1)  
21 is amended by striking “instument” and inserting  
22 “instrument”.

23 (64) Subparagraph (B) of section 724(d)(3) by  
24 striking “Subparagaph” and inserting “Subpara-  
25 graph”.

1           (65) The last sentence of paragraph (2) of sec-  
2           tion 42(c) is amended by striking “of 1988”.

3           (66) Paragraph (1) of section 9707(d) is  
4           amended by striking “diligence,” and inserting “dili-  
5           gence”.

6           (67) Subsection (c) of section 4977 is amended  
7           by striking “section 132(i)(2)” and inserting “sec-  
8           tion 132(h)”.

9           (68) The last sentence of section 401(a)(20) is  
10          amended by striking “section 211” and inserting  
11          “section 521”.

12          (69) Subparagraph (A) of section 402(g)(3) is  
13          amended by striking “subsection (a)(8)” and insert-  
14          ing “subsection (e)(3)”.

15          (70) The last sentence of section 403(b)(10) is  
16          amended by striking “an direct” and inserting “a di-  
17          rect”.

18          (71) Subparagraph (A) of section 4973(b)(1) is  
19          amended by striking “sections 402(c)” and inserting  
20          “section 402(c)”.

21          (72) Paragraph (12) of section 3405(e) is  
22          amended by striking “(b)(3)” and inserting  
23          “(b)(2)”.

24          (73) Paragraph (41) of section 521(b) of the  
25          Unemployment Compensation Amendments of 1992

1 shall be applied as if “section” appeared instead of  
2 “sections” in the material proposed to be stricken.

3 (74) Paragraph (27) of section 521(b) of the  
4 Unemployment Compensation Amendments of 1992  
5 shall be applied as if “Section 691(c)(5)” appeared  
6 instead of “Section 691(c)”.

7 (75) Paragraph (5) of section 860F(a) is  
8 amended by striking “paragraph (1)” and inserting  
9 “paragraph (2)”.

10 (76) Paragraph (1) of section 415(k) is amend-  
11 ed by adding “or” at the end of subparagraph (C),  
12 by striking subparagraphs (D) and (E), and by re-  
13 designating subparagraph (F) as subparagraph (D).

14 (77) Paragraph (2) of section 404(a) is amend-  
15 ed by striking “(18),”.

16 (78) Clause (ii) of section 72(p)(4)(A) is  
17 amended to read as follows:

18 “(ii) SPECIAL RULE.—The term  
19 ‘qualified employer plan’ shall not include  
20 any plan which was (or was determined to  
21 be) a qualified employer plan or a govern-  
22 ment plan.”

23 (79) Sections 461(i)(3)(C) and  
24 1274(b)(3)(B)(i) are each amended by striking “sec-

1       tion 6662(d)(2)(C)(ii)” and inserting “section  
2       6662(d)(2)(C)(iii)”.

3               (80) Subsection (a) of section 164 is amended  
4       by striking the paragraphs relating to the genera-  
5       tion-skipping tax and the environmental tax imposed  
6       by section 59A and by inserting after paragraph (3)  
7       the following new paragraphs:

8               “(4) The GST tax imposed on income distribu-  
9       tions.

10              “(5) The environmental tax imposed by section  
11       59A.”