

107TH CONGRESS  
1ST SESSION

# H. R. 3090

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## AN ACT

To provide tax incentives for economic recovery.

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

1 **SECTION 1. SHORT TITLE; ETC.**

2 (a) **SHORT TITLE.**—This Act may be cited as the  
3 “Economic Security and Recovery Act of 2001”.

4 (b) **REFERENCES TO INTERNAL REVENUE CODE OF**  
5 **1986.**—Except as otherwise expressly provided, whenever  
6 in this Act an amendment or repeal is expressed in terms  
7 of 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 (c) **TABLE OF CONTENTS.**—

Sec. 1. Short title; etc.

**TITLE I—BUSINESS PROVISIONS**

- Sec. 101. Special depreciation allowance for certain property acquired after September 10, 2001, and before September 11, 2004.
- Sec. 102. Temporary increase in expensing under section 179.
- Sec. 103. Repeal of alternative minimum tax on corporations.
- Sec. 104. Carryback of certain net operating losses allowed for 5 years.
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**TITLE II—INDIVIDUAL PROVISIONS**

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- Sec. 301. Allowance of nonrefundable personal credits against regular and minimum tax liability.
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- Sec. 306. Deduction for clean-fuel vehicles and certain refueling property.

- Sec. 307. Taxable income limit on percentage depletion for oil and natural gas produced from marginal properties.
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- Sec. 321. One-year extension of availability of medical savings accounts.

Subtitle C—Permanent Extensions

- Sec. 331. Subpart F exemption for active financing.

Subtitle D—Other Provisions

- Sec. 341. Excluded cancellation of indebtedness income of S corporation not to result in adjustment to basis of stock of shareholders.
- Sec. 342. Limitation on use of nonaccrual experience method of accounting.

TITLE IV—SUPPLEMENTAL REBATE; OTHER PROVISIONS

- Sec. 401. Supplemental rebate.
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TITLE V—HEALTH CARE ASSISTANCE FOR THE UNEMPLOYED

- Sec. 501. Health care assistance for the unemployed.

**1 TITLE I—BUSINESS PROVISIONS**

**2 SEC. 101. SPECIAL DEPRECIATION ALLOWANCE FOR CER-**  
**3 TAIN PROPERTY ACQUIRED AFTER SEP-**  
**4 TEMBER 10, 2001, AND BEFORE SEPTEMBER**  
**5 11, 2004.**

**6 (a) IN GENERAL.**—Section 168 (relating to acceler-  
**7 ated cost recovery system) is amended by adding at the**  
**8 end the following new subsection:**

**9 “(k) SPECIAL ALLOWANCE FOR CERTAIN PROPERTY**  
**10 ACQUIRED AFTER SEPTEMBER 10, 2001, AND BEFORE**  
**11 SEPTEMBER 11, 2004.—**

1           “(1) ADDITIONAL ALLOWANCE.—In the case of  
2 any qualified property—

3           “(A) the depreciation deduction provided  
4 by section 167(a) for the taxable year in which  
5 such property is placed in service shall include  
6 an allowance equal to 30 percent of the ad-  
7 justed basis of the qualified property, and

8           “(B) the adjusted basis of the qualified  
9 property shall be reduced by the amount of  
10 such deduction before computing the amount  
11 otherwise allowable as a depreciation deduction  
12 under this chapter for such taxable year and  
13 any subsequent taxable year.

14           “(2) QUALIFIED PROPERTY.—For purposes of  
15 this subsection—

16           “(A) IN GENERAL.—The term ‘qualified  
17 property’ means property—

18           “(i)(I) to which this section applies  
19 which has a recovery period of 20 years or  
20 less or which is water utility property, or

21           “(II) which is computer software (as  
22 defined in section 167(f)(1)(B)) for which  
23 a deduction is allowable under section  
24 167(a) without regard to this subsection,

1           “(ii) the original use of which com-  
2 mences with the taxpayer after September  
3 10, 2001,

4           “(iii) which is—

5           “(I) acquired by the taxpayer  
6 after September 10, 2001, and before  
7 September 11, 2004, but only if no  
8 written binding contract for the acqui-  
9 sition was in effect before September  
10 11, 2001, or

11           “(II) acquired by the taxpayer  
12 pursuant to a written binding contract  
13 which was entered into after Sep-  
14 tember 10, 2001, and before Sep-  
15 tember 11, 2004, and

16           “(iv) which is placed in service by the  
17 taxpayer before January 1, 2005.

18           “(B) EXCEPTIONS.—

19           “(i) ALTERNATIVE DEPRECIATION  
20 PROPERTY.—The term ‘qualified property’  
21 shall not include any property to which the  
22 alternative depreciation system under sub-  
23 section (g) applies, determined—

1                   “(I) without regard to paragraph  
2                   (7) of subsection (g) (relating to elec-  
3                   tion to have system apply), and

4                   “(II) after application of section  
5                   280F(b) (relating to listed property  
6                   with limited business use).

7                   “(ii) ELECTION OUT.—If a taxpayer  
8                   makes an election under this clause with  
9                   respect to any class of property for any  
10                  taxable year, this subsection shall not  
11                  apply to all property in such class placed  
12                  in service during such taxable year.

13                  “(iii) REPAIRED OR RECONSTRUCTED  
14                  PROPERTY.—Except as otherwise provided  
15                  in regulations, the term ‘qualified property’  
16                  shall not include any repaired or recon-  
17                  structed property.

18                  “(iv) QUALIFIED LEASEHOLD IM-  
19                  PROVEMENT PROPERTY.—The term ‘quali-  
20                  fied property’ shall not include any quali-  
21                  fied leasehold improvement property (as  
22                  defined in section 168(e)(6)).

23                  “(C) SPECIAL RULES RELATING TO ORIGI-  
24                  NAL USE.—

1           “(i) SELF-CONSTRUCTED PROP-  
2           ERTY.—In the case of a taxpayer manufac-  
3           turing, constructing, or producing property  
4           for the taxpayer’s own use, the require-  
5           ments of clause (iii) of subparagraph (A)  
6           shall be treated as met if the taxpayer be-  
7           gins manufacturing, constructing, or pro-  
8           ducing the property after September 10,  
9           2001, and before September 11, 2004.

10           “(ii) SALE-LEASEBACKS.—For pur-  
11           poses of subparagraph (A)(ii), if  
12           property—

13                   “(I) is originally placed in service  
14                   after September 10, 2001, by a per-  
15                   son, and

16                   “(II) sold and leased back by  
17                   such person within 3 months after the  
18                   date such property was originally  
19                   placed in service,

20                   such property shall be treated as originally  
21                   placed in service not earlier than the date  
22                   on which such property is used under the  
23                   leaseback referred to in subclause (II).

24           “(D) COORDINATION WITH SECTION  
25           280F.—For purposes of section 280F—

1           “(i) AUTOMOBILES.—In the case of a  
2           passenger automobile (as defined in section  
3           280F(d)(5)) which is qualified property,  
4           the Secretary shall increase the limitation  
5           under section 280F(a)(1)(A)(i) by \$4,600.

6           “(ii) LISTED PROPERTY.—The deduc-  
7           tion allowable under paragraph (1) shall be  
8           taken into account in computing any re-  
9           capture amount under section  
10          280F(b)(2).”

11          (b) ALLOWANCE AGAINST ALTERNATIVE MINIMUM  
12          TAX.—

13               (1) IN GENERAL.—Section 56(a)(1)(A) (relat-  
14               ing to depreciation adjustment for alternative min-  
15               imum tax) is amended by adding at the end the fol-  
16               lowing new clause:

17                       “(iii) ADDITIONAL ALLOWANCE FOR  
18                       CERTAIN PROPERTY ACQUIRED AFTER SEP-  
19                       TEMBER 10, 2001, AND BEFORE SEP-  
20                       TEMBER 11, 2004.—The deduction under  
21                       section 168(k) shall be allowed.”

22               (2) CONFORMING AMENDMENT.—Clause (i) of  
23               section 56(a)(1)(A) is amended by striking “clause  
24               (ii)” both places it appears and inserting “clauses  
25               (ii) and (iii)”.

1 (c) EFFECTIVE DATE.—The amendments made by  
 2 this section shall apply to property placed in service after  
 3 September 10, 2001, in taxable years ending after such  
 4 date.

5 **SEC. 102. TEMPORARY INCREASE IN EXPENSING UNDER**  
 6 **SECTION 179.**

7 (a) IN GENERAL.—The table contained in section  
 8 179(b)(1) (relating to dollar limitation) is amended to  
 9 read as follows:

<b>“If the taxable year begins in:</b>	<b>The applicable amount is:</b>
2001 .....	\$24,000
2002 or 2003 .....	\$35,000
2004 or thereafter .....	\$25,000.”.

10 (b) TEMPORARY INCREASE IN AMOUNT OF PROP-  
 11 erty TRIGGERING PHASEOUT OF MAXIMUM BENEFIT.—  
 12 Paragraph (2) of section 179(b) is amended by inserting  
 13 before the period “(\$325,000 in the case of taxable years  
 14 beginning during 2002 or 2003)”.

15 (c) EFFECTIVE DATE.—The amendments made by  
 16 this section shall apply to taxable years beginning after  
 17 December 31, 2001.

18 **SEC. 103. REPEAL OF ALTERNATIVE MINIMUM TAX ON COR-**  
 19 **PORATIONS.**

20 (a) IN GENERAL.—So much of section 55 as precedes  
 21 subsection (b)(2) is amended to read as follows:

1 **“SEC. 55. ALTERNATIVE MINIMUM TAX FOR TAXPAYERS**  
2 **OTHER THAN CORPORATIONS.**

3 “(a) IN GENERAL.—In the case of a taxpayer other  
4 than a corporation, there is hereby imposed (in addition  
5 to any other tax imposed by this subtitle) a tax equal to  
6 the excess (if any) of—

7 “(1) the tentative minimum tax for the taxable  
8 year, over

9 “(2) the regular tax for the taxable year.

10 “(b) TENTATIVE MINIMUM TAX.—For purposes of  
11 this part—

12 “(1) AMOUNT OF TENTATIVE TAX.—

13 “(A) IN GENERAL.—The tentative min-  
14 imum tax for the taxable year is the sum of—

15 “(i) 26 percent of so much of the tax-  
16 able excess as does not exceed \$175,000,  
17 plus

18 “(ii) 28 percent of so much of the tax-  
19 able excess as exceeds \$175,000.

20 The amount determined under the preceding  
21 sentence shall be reduced by the alternative  
22 minimum tax foreign tax credit for the taxable  
23 year.

24 “(B) TAXABLE EXCESS.—For purposes of  
25 this subsection, the term ‘taxable excess’ means  
26 so much of the alternative minimum taxable in-

1           come for the taxable year as exceeds the exemp-  
2           tion amount.

3           “(C) MARRIED INDIVIDUAL FILING SEPA-  
4           RATE RETURN.—In the case of a married indi-  
5           vidual filing a separate return, clause (i) shall  
6           be applied by substituting ‘\$87,500’ for  
7           ‘\$175,000’ each place it appears. For purposes  
8           of the preceding sentence, marital status shall  
9           be determined under section 7703.”

10          (b) CONFORMING AMENDMENTS.—

11           (1) Paragraph (3) of section 55(b) is amended  
12          by striking “paragraph (1)(A)(i)” and inserting  
13          “paragraph (1)(A)”.

14           (2) Paragraph (1) of section 55(c) is amended  
15          by striking “, the section 936 credit allowable under  
16          section 27(b), and the Puerto Rico economic activity  
17          credit under section 30A”.

18           (3)(A) Paragraph (1) of section 55(d) is  
19          amended by—

20           (i) by striking “FOR TAXPAYERS OTHER  
21          THAN CORPORATIONS” in the heading, and

22           (ii) by striking “In the case of a taxpayer  
23          other than a corporation, the” and inserting  
24          “The”.

1 (B) Section 55(d) is amended by striking para-  
2 graph (2) and by redesignating paragraph (3) as  
3 paragraph (2).

4 (C) Subparagraph (A) of section 55(d)(2), as so  
5 redesignated is amended by striking “or (2)”.

6 (4) Section 55 is amended by striking sub-  
7 section (e).

8 (5)(A) The designation and heading for sub-  
9 section (a) of section 56 is amended to read as fol-  
10 lows:

11 “(a) GENERAL RULES.—”.

12 (B) Paragraph (1) of section 56(a) is amended  
13 by striking subparagraph (D).

14 (C) Paragraph (6) of section 56(a) is  
15 amended—

16 (i) by striking “paragraph (2) or sub-  
17 section (b)(2)” and inserting “paragraph (2) or  
18 (9)”, and

19 (ii) by striking “or (5), or subsection  
20 (b)(2)” and inserting “(5), or (9)”.

21 (6)(A) Subsection (b) of section 56 is amended  
22 by striking so much of such subsection as precedes  
23 paragraph (1) and by redesignating paragraphs (1),  
24 (2), and (3) as paragraphs (8), (9), and (10), re-  
25 spectively, of subsection (a).

1 (B) Paragraph (9) of section 56(a), as so redesi-  
2 gnated, is amended by striking subparagraph (C)  
3 and by redesignating subparagraph (D) as subpara-  
4 graph (C).

5 (7) Section 56 is amended by striking sub-  
6 sections (c) and (g) and by redesignating subsections  
7 (d) and (e) as subsections (b) and (c), respectively.

8 (8) Subparagraph (E) of section 57(a)(2) is  
9 amended—

10 (A) by striking “FOR INDEPENDENT PRO-  
11 DUCERS” in the heading, and

12 (B) by striking clause (i) and inserting the  
13 following new clause:

14 “(i) IN GENERAL.—This paragraph  
15 shall not apply to any taxable year begin-  
16 ning after December 31, 1992.”

17 (9) Subsection (a) of section 58 is amended by  
18 striking paragraph (3) and by redesignating para-  
19 graph (4) as paragraph (3).

20 (10)(A) Section 59 is amended by striking sub-  
21 sections (b) and (f) and by redesignating subsections  
22 (c), (d), (e), (g), (h), (i), and (j) as subsections (b),  
23 (c), (d), (e), (f), (g), and (h), respectively.

1           (B) Paragraph (2) of section 59(d), as so rededesignated, is amended by striking “(determined without regard to section 291)”.

2  
3  
4           (C) Sections 173(b), 174(f)(2), 263(c), 263A(c)(6), 616(e), 617(i), and 1016(a)(20) are each amended by striking “59(e)” each place it appears and inserting “59(d)”.

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6  
7  
8           (11) Subsection (d) of section 11 is amended by striking “the taxes imposed by subsection (a) and section 55” and inserting “the tax imposed by subsection (a)”.

9  
10  
11  
12           (12) Section 12 is amended by striking paragraph (7).

13  
14           (13) Paragraph (6) of section 29(b) is amended to read as follows:

15  
16           “(6) APPLICATION WITH OTHER CREDITS.—  
17           The credit allowed by subsection (a) for any taxable  
18           year shall not exceed the excess (if any) of the regular tax for the taxable year reduced by the sum of  
19           the credits allowable under subpart A and section  
20           27. In the case of a taxpayer other than a corporation, such excess shall be further reduced (but not  
21           below zero) by the tentative minimum tax for the  
22           taxable year.”  
23  
24

1           (14) Paragraph (3) of section 30(b) is amended  
2 to read as follows:

3           “(3) APPLICATION WITH OTHER CREDITS.—  
4 The credit allowed by subsection (a) for any taxable  
5 year shall not exceed the excess (if any) of the reg-  
6 ular tax for the taxable year reduced by the sum of  
7 the credits allowable under subpart A and sections  
8 27 and 29. In the case of a taxpayer other than a  
9 corporation, such excess shall be further reduced  
10 (but not below zero) by the tentative minimum tax  
11 for the taxable year.”

12           (15)(A) Paragraph (1) of section 38(c) is  
13 amended to read as follows:

14           “(1) IN GENERAL.—

15           “(A) CORPORATIONS.—In the case of a  
16 corporation, the credit allowed under subsection  
17 (a) for any taxable year shall not exceed the ex-  
18 cess (if any) of the taxpayer’s net income tax  
19 over 25 percent of so much of the taxpayer’s  
20 net regular tax liability as exceeds \$25,000.

21           “(B) TAXPAYERS OTHER THAN CORPORA-  
22 TIONS.—In the case of a taxpayer other than a  
23 corporation, the credit allowed under subsection  
24 (a) for any taxable year shall not exceed the ex-

1           cess (if any) of the taxpayer’s net income tax  
2           over the greater of—

3                   “(i) the tentative minimum tax for the  
4                   taxable year, or

5                   “(ii) 25 percent of so much of the tax-  
6                   payer’s net regular tax liability as exceeds  
7                   \$25,000.

8                   “(C) DEFINITIONS.—For purposes of this  
9                   paragraph—

10                   “(i) the term ‘net income tax’ means  
11                   the sum of the regular tax liability and the  
12                   tax imposed by section 55, reduced by the  
13                   credits allowable under subparts A and B  
14                   of this part, and

15                   “(ii) the term ‘net regular tax liabil-  
16                   ity’ means the regular tax liability reduced  
17                   by the sum of the credits allowable under  
18                   subparts A and B of this part.”

19                   (B) Clause (ii) of section 38(c)(2)(A) is amend-  
20                   ed to read as follows:

21                   “(ii) for purposes of applying para-  
22                   graph (1) to such credit—

23                   “(I) the applicable limitation  
24                   under paragraph (1) (as modified by  
25                   subclause (II) in the case of a tax-

1 payer other than a corporation) shall  
2 be reduced by the credit allowed  
3 under subsection (a) for the taxable  
4 year (other than the empowerment  
5 zone employment credit), and

6 “(II) in the case of a taxpayer  
7 other than a corporation, 75 percent  
8 of the tentative minimum tax shall be  
9 substituted for the tentative minimum  
10 tax under subparagraph (B)(i) there-  
11 of.”

12 (C) Paragraph (3) of section 38(c) is amended  
13 by striking “subparagraph (B) of” each place it ap-  
14 pears.

15 (16)(A) Subclause (I) of section 53(d)(1)(B)(ii)  
16 is amended by striking “subsection (b)(1)” and in-  
17 serting “subsection (a)(8)”.

18 (B) Clause (iv) of section 53(d)(1)(B) is hereby  
19 repealed.

20 (17)(A) Part VII of subchapter A of chapter 1  
21 is hereby repealed.

22 (B) The table of parts for subchapter A of  
23 chapter 1 is amended by striking the item relating  
24 to part VII.

1           (C) Paragraph (2) of section 26(b) is amended  
2           by striking subparagraph (B) and by redesignating  
3           the succeeding subparagraphs accordingly.

4           (D) Subsection (c) of section 30A is amended  
5           by striking paragraph (1) and redesignating the suc-  
6           ceeding paragraphs accordingly.

7           (E) Subsection (a) of section 164 is amended  
8           by striking paragraph (5).

9           (F) Subsection (a) of section 275 is amended  
10          by striking “Paragraph (1) shall not apply to the  
11          tax imposed by section 59A.”

12          (G) Paragraph (1) of section 882(a) is amended  
13          by striking “59A,”.

14          (H) Paragraph (3) of section 936(a) is amend-  
15          ed by striking subparagraph (A) and redesignating  
16          the succeeding subparagraphs accordingly.

17          (I) Subsection (a) of section 1561 is amended  
18          by adding “and” at the end of paragraph (2), by  
19          striking “, and” at the end of paragraph (3) and in-  
20          serting a period, and by striking paragraph (4).

21          (J) Subparagraph (A) of section 6425(c)(1) is  
22          amended by adding “plus” at the end of clause (i),  
23          by striking “plus” at the end of clause (ii) and in-  
24          serting “over”, and by striking clause (iii).

1           (18) Section 382(l) (relating to limitation on  
2 net operating loss carryforwards and certain built-in  
3 losses following ownership change) is amended by  
4 striking paragraph (7) and by redesignating para-  
5 graph (8) as paragraph (7).

6           (19) Paragraph (2) of section 815(c) (relating  
7 to distributions to shareholders from pre-1984 pol-  
8 icyholders surplus account) is amended by striking  
9 the last sentence.

10          (20) Section 847 (relating to special estimated  
11 tax payments) is amended—

12                 (A) in paragraph (9), by striking the last  
13 sentence; and

14                 (B) in paragraph (10), by inserting “and”  
15 at the end of subparagraph (A) and by striking  
16 subparagraph (B) and redesignating subpara-  
17 graph (C) as subparagraph (B).

18          (21) Section 848 (relating to capitalization of  
19 certain policy acquisition expenses) is amended by  
20 striking subsection (i) and by redesignating sub-  
21 section (j) as subsection (i).

22          (22) Paragraph (1) of section 882(a) (relating  
23 to tax on income of foreign corporations connected  
24 with United States business) is amended by striking  
25 “55,”.

1           (23) Paragraph (1) of section 962(a) (relating  
2           to election by individuals to be subject to tax at cor-  
3           porate rates) is amended by striking “sections 11  
4           and 55” and inserting “section 11”.

5           (24) Subsection (a) of section 1561 (relating to  
6           limitations on certain multiple tax benefits in the  
7           case of certain controlled corporations) is amended  
8           by striking the last sentence.

9           (25) Subparagraph (A) of section 6425(c)(1)  
10          (defining income tax liability), as amended by para-  
11          graph (17) is amended to read as follows:

12                   “(A) the tax imposed by section 11 or  
13                   1201(a), or subchapter L of chapter 1, which-  
14                   ever is applicable, over”.

15          (26)(A) Paragraph (2) of section 6655(e) is  
16          amended—

17                   (i) by striking “, alternative minimum tax-  
18                   able income, and modified alternative minimum  
19                   taxable income” each place it appears in sub-  
20                   paragraphs (A) and (B)(i), and

21                   (ii) by striking clause (iii) of subparagraph  
22                   (B).

23          (B) Subparagraph (A) of section 6655(g)(1)  
24          (relating to failure by corporation to pay estimated  
25          income tax), is amended to read as follows:

1                   “(A) the sum of—  
2                               “(i) the tax imposed by section 11 or  
3                               1201(a), or subchapter L of chapter 1,  
4                               whichever applies, plus  
5                               “(ii) the tax imposed by section 887,  
6                               over”.

7                   (27) The table of sections for part VI of sub-  
8                   chapter A of chapter 1 is amended by striking the  
9                   item relating to section 55 and inserting the fol-  
10                   lowing new item:

                              “Sec. 55. Alternative minimum tax for taxpayers other than cor-  
                              porations.”

11                   (c) EFFECTIVE DATE.—The amendments made by  
12                   this section shall apply to taxable years beginning after  
13                   December 31, 2000.

14                   (d) REFUND OF UNUSED MINIMUM TAX CREDIT.—

15                               (1) IN GENERAL.—In the case of a  
16                   corporation—

17                               (A) section 53(c) of the Internal Revenue  
18                               Code of 1986 shall not apply to such corpora-  
19                               tion’s first taxable year beginning after Decem-  
20                               ber 31, 2000, and

21                               (B) for purposes of such Code (other than  
22                               section 53 of such Code), the credit allowed by  
23                               section 53 of such Code for such first taxable  
24                               year shall be treated as if it were allowed by

1           subpart C of part IV of subchapter A of chap-  
2           ter 1 of such Code (relating to refundable cred-  
3           its).

4           (2)     SPECIAL     RULES     RELATING     TO  
5     CARRYBACKS.—In the case of a carryback of a cor-  
6     poration from a taxable year beginning after Decem-  
7     ber 31, 2000, to a taxable year beginning before  
8     January 1, 2001—

9           (A) the tax imposed by section 55 of such  
10          Code shall not be increased or decreased by rea-  
11          son of such a carryback,

12          (B) tentative minimum tax shall not be in-  
13          creased or decreased by reason of such a  
14          carryback for purposes of determining the  
15          amount of any credit other than the credit al-  
16          lowed by section 38, and

17          (C) the amount of such a carryback which  
18          is taken into account in determining tentative  
19          minimum tax for purposes of section 38(c) shall  
20          be the amount of such carryback which is taken  
21          into account in determining regular tax liability.

1 **SEC. 104. CARRYBACK OF CERTAIN NET OPERATING**  
2 **LOSSES ALLOWED FOR 5 YEARS.**

3 (a) IN GENERAL.—Paragraph (1) of section 172(b)  
4 (relating to years to which loss may be carried) is amended  
5 by adding at the end the following new subparagraph:

6 “(H) In the case of a taxpayer which has  
7 a net operating loss for any taxable year ending  
8 after September 10, 2001, and before Sep-  
9 tember 11, 2004, subparagraph (A)(i) shall be  
10 applied by substituting ‘5’ for ‘2’ and subpara-  
11 graph (F) shall not apply.”.

12 (b) ELECTION TO DISREGARD 5-YEAR  
13 CARRYBACK.—Section 172 (relating to net operating loss  
14 deduction) is amended by redesignating subsection (j) as  
15 subsection (k) and by inserting after subsection (i) the fol-  
16 lowing new subsection:

17 “(j) ELECTION TO DISREGARD 5-YEAR CARRYBACK  
18 FOR CERTAIN NET OPERATING LOSSES.—Any taxpayer  
19 entitled to a 5-year carryback under subsection (b)(1)(H)  
20 from any loss year may elect to have the carryback period  
21 with respect to such loss year determined without regard  
22 to subsection (b)(1)(H). Such election shall be made in  
23 such manner as may be prescribed by the Secretary and  
24 shall be made by the due date (including extensions of  
25 time) for filing the taxpayer’s return for the taxable year

1 of the net operating loss. Such election, once made for any  
2 taxable year, shall be irrevocable for such taxable year.”.

3 (c) TEMPORARY SUSPENSION OF 90 PERCENT LIMIT  
4 ON CERTAIN NOL CARRYBACKS.—Subparagraph (A) of  
5 section 56(b)(1) (relating to general rule defining alter-  
6 native tax net operating loss deduction), as amended by  
7 section 103, is amended to read as follows:

8 “(A) the amount of such deduction shall  
9 not exceed the sum of—

10 “(i) the lesser of—

11 “(I) the amount of such deduc-  
12 tion attributable to net operating  
13 losses (other than the deduction at-  
14 tributable to carrybacks described in  
15 clause (ii)(I)), or

16 “(II) 90 percent of alternate  
17 minimum taxable income determined  
18 without regard to such deduction, plus

19 “(ii) the lesser of—

20 “(I) the amount of such deduc-  
21 tion attributable to carrybacks of net  
22 operating losses for taxable years end-  
23 ing after September 10, 2001, and be-  
24 fore September 11, 2004, or

1                   “(II) alternate minimum taxable  
2                   income determined without regard to  
3                   such deduction reduced by the amount  
4                   determined under clause (i), and”.

5           (d) **EFFECTIVE DATE.**—The amendments made by  
6 this section shall apply to net operating losses for taxable  
7 years ending after September 10, 2001.

8 **SEC. 105. RECOVERY PERIOD FOR DEPRECIATION OF CER-**  
9 **TAIN LEASEHOLD IMPROVEMENTS.**

10           (a) **15-YEAR RECOVERY PERIOD.**—Subparagraph  
11 (E) of section 168(e)(3) (relating to 15-year property) is  
12 amended by striking “and” at the end of clause (ii), by  
13 striking the period at the end of clause (iii) and inserting  
14 “, and”, and by adding at the end the following new  
15 clause:

16                   “(iv) any qualified leasehold improve-  
17                   ment property.”.

18           (b) **QUALIFIED LEASEHOLD IMPROVEMENT PROP-**  
19 **ERTY.**—Subsection (e) of section 168 is amended by add-  
20 ing at the end the following new paragraph:

21                   “(6) **QUALIFIED LEASEHOLD IMPROVEMENT**  
22 **PROPERTY.**—

23                   “(A) **IN GENERAL.**—The term ‘qualified  
24                   leasehold improvement property’ means any im-

1           provement to an interior portion of a building  
2           which is nonresidential real property if—

3                   “(i) such improvement is made under  
4                   or pursuant to a lease (as defined in sub-  
5                   section (h)(7))—

6                           “(I) by the lessee (or any subles-  
7                           see) of such portion, or

8                           “(II) by the lessor of such por-  
9                           tion,

10                   “(ii) such portion is to be occupied ex-  
11                   clusively by the lessee (or any sublessee) of  
12                   such portion, and

13                   “(iii) such improvement is placed in  
14                   service more than 3 years after the date  
15                   the building was first placed in service.

16                   “(B) CERTAIN IMPROVEMENTS NOT IN-  
17                   CLUDED.—Such term shall not include any im-  
18                   provement for which the expenditure is attrib-  
19                   utable to—

20                           “(i) the enlargement of the building,

21                           “(ii) any elevator or escalator,

22                           “(iii) any structural component bene-  
23                   fitting a common area, and

24                           “(iv) the internal structural frame-  
25                   work of the building.

1                   “(C) DEFINITIONS AND SPECIAL RULES.—

2                   For purposes of this paragraph—

3                   “(i) COMMITMENT TO LEASE TREAT-  
4                   ED AS LEASE.—A commitment to enter  
5                   into a lease shall be treated as a lease, and  
6                   the parties to such commitment shall be  
7                   treated as lessor and lessee, respectively.

8                   “(ii) RELATED PERSONS.—A lease be-  
9                   tween related persons shall not be consid-  
10                  ered a lease. For purposes of the preceding  
11                  sentence, the term ‘related persons’  
12                  means—

13                  “(I) members of an affiliated  
14                  group (as defined in section 1504),  
15                  and

16                  “(II) persons having a relation-  
17                  ship described in subsection (b) of  
18                  section 267; except that, for purposes  
19                  of this clause, the phrase ‘80 percent  
20                  or more’ shall be substituted for the  
21                  phrase ‘more than 50 percent’ each  
22                  place it appears in such subsection.

23                  “(D) IMPROVEMENTS MADE BY LESSOR.—

24                  “(i) IN GENERAL.—In the case of an  
25                  improvement made by the person who was

1 the lessor of such improvement when such  
2 improvement was placed in service, such  
3 improvement shall be qualified leasehold  
4 improvement property (if at all) only so  
5 long as such improvement is held by such  
6 person.

7 “(ii) EXCEPTION FOR CHANGES IN  
8 FORM OF BUSINESS.—Property shall not  
9 cease to be qualified leasehold improve-  
10 ment property under clause (i) by reason  
11 of—

12 “(I) death,

13 “(II) a transaction to which sec-  
14 tion 381(a) applies, or

15 “(III) a mere change in the form  
16 of conducting the trade or business so  
17 long as the property is retained in  
18 such trade or business as qualified  
19 leasehold improvement property and  
20 the taxpayer retains a substantial in-  
21 terest in such trade or business.”

22 (c) REQUIREMENT TO USE STRAIGHT LINE METH-  
23 OD.—Paragraph (3) of section 168(b) is amended by add-  
24 ing at the end the following new subparagraph:

1           “(G) Qualified leasehold improvement property  
2           described in subsection (e)(6).”.

3           (d) ALTERNATIVE SYSTEM.—The table contained in  
4 section 168(g)(3)(B) is amended by adding at the end the  
5 following new item:

        “(E)(iv) ..... 15”.

6           (e) EFFECTIVE DATE.—The amendments made by  
7 this section shall apply to qualified leasehold improvement  
8 property placed in service after September 10, 2001.

## 9           **TITLE II—INDIVIDUAL** 10           **PROVISIONS**

### 11   **SEC. 201. ACCELERATION OF 25 PERCENT INDIVIDUAL IN-** 12           **COME TAX RATE.**

13           (a) IN GENERAL.—The table contained in paragraph  
14 (2) of section 1(i) (relating to reductions in rates after  
15 June 30, 2001) is amended—

16           (1) by striking “27.0%” and inserting  
17 “25.0%”, and

18           (2) by striking “26.0%” and inserting  
19 “25.0%”.

20           (b) REDUCTION NOT TO INCREASE MINIMUM TAX.—

21           (1) Subparagraph (A) of section 55(d)(1) is  
22 amended by striking “(\$49,000 in the case of tax-  
23 able years beginning in 2001, 2002, 2003, and  
24 2004)” and inserting “(\$49,000 in the case of tax-  
25 able years beginning in 2001, \$52,200 in the case of

1 taxable years beginning in 2002 or 2003, and  
2 \$50,700 in the case of taxable years beginning in  
3 2004”.

4 (2) Subparagraph (B) of section 55(d)(1) is  
5 amended by striking “(\$35,750 in the case of tax-  
6 able years beginning in 2001, 2002, 2003, and  
7 2004)” and inserting “(\$35,750 in the case of tax-  
8 able years beginning in 2001, \$37,350 in the case of  
9 taxable years beginning in 2002 or 2003, and  
10 \$36,600 in the case of taxable years beginning in  
11 2004”.

12 (c) EFFECTIVE DATE.—The amendments made by  
13 this section shall apply to taxable years beginning after  
14 December 31, 2001.

15 (d) SECTION 15 NOT TO APPLY.—No amendment  
16 made by this section shall be treated as a change in a  
17 rate of tax for purposes of section 15 of the Internal Rev-  
18 enue Code of 1986 .

19 **SEC. 202. REPEAL OF 5-YEAR HOLDING PERIOD REQUIRE-**  
20 **MENT FOR REDUCED INDIVIDUAL CAPITAL**  
21 **GAINS RATES.**

22 (a) IN GENERAL.—

23 (1) Sections 1(h)(1)(B) and 55(b)(3)(B) are  
24 each amended by striking “10 percent” and insert-  
25 ing “8 percent”.

1           (2) The following sections are each amended by  
2 striking “20 percent” and inserting “18 percent”:

3           (A) Section 1(h)(1)(C).

4           (B) Section 55(b)(3)(C).

5           (C) Section 1445(e)(1).

6           (D) The second sentence of section  
7 7518(g)(6)(A).

8           (E) The second sentence of section  
9 607(h)(6)(A) of the Merchant Marine Act,  
10 1936.

11 (b) CONFORMING AMENDMENTS.—

12           (1) Subsection (e) of section 311 of the Tax-  
13 payer Relief Act of 1997 is repealed.

14           (2) Section 1(h) is amended—

15           (A) by striking paragraphs (2) and (9),

16           (B) by redesignating paragraphs (3)  
17 through (8) as paragraphs (2) through (7), re-  
18 spectively, and

19           (C) by redesignating paragraphs (10),  
20 (11), and (12) as paragraphs (8), (9), and (10),  
21 respectively.

22           (3) Paragraph (3) of section 55(b) is amended  
23 by striking “In the case of taxable years beginning  
24 after December 31, 2000, rules similar to the rules

1 of section 1(h)(2) shall apply for purposes of sub-  
2 paragraphs (B) and (C).”.

3 (4) Paragraph (7) of section 57(a) is amended  
4 by striking the last sentence and by striking “42  
5 percent” and inserting “28 percent”.

6 (c) TRANSITIONAL RULES FOR TAXABLE YEARS  
7 WHICH INCLUDE OCTOBER 12, 2001.—For purposes of  
8 applying section 1(h) of the Internal Revenue Code of  
9 1986 in the case of a taxable year which includes October  
10 12, 2001—

11 (1) The amount of tax determined under sub-  
12 paragraph (B) of section 1(h)(1) of such Code shall  
13 be the sum of—

14 (A) 8 percent of the lesser of—

15 (i) the sum of—

16 (I) the net capital gain taking  
17 into account only gain or loss properly  
18 taken into account for the portion of  
19 the taxable year on or after October  
20 12, (determined without regard to col-  
21 lectibles gain or loss, gain described in  
22 section (1)(h)(6)(A)(i) of such Code,  
23 and section 1202 gain), and

24 (II) the qualified 5-year gain (as  
25 defined in section 1(h)(9) of the Inter-

1           nal Revenue Code of 1986, as in ef-  
2           fect on the day before the date of the  
3           enactment of this Act) properly taken  
4           into account for the portion of the  
5           taxable year before October 12, 2001,  
6           or

7           (ii) the amount on which a tax is de-  
8           termined under such subparagraph (with-  
9           out regard to this subsection), plus

10          (B) 10 percent of the excess (if any) of—

11           (i) the amount on which a tax is de-  
12           termined under such subparagraph (with-  
13           out regard to this subsection), over

14           (ii) the amount on which a tax is de-  
15           termined under subparagraph (A).

16          (2) The amount of tax determined under sub-  
17          paragraph (C) of section (1)(h)(1) of such Code  
18          shall be the sum of—

19           (A) 18 percent of the lesser of—

20           (i) the excess (if any) of the amount  
21           of net capital gain determined under sub-  
22           paragraph (A)(i)(I) of paragraph (1) of  
23           this subsection over the amount on which  
24           a tax is determined under subparagraph  
25           (A) of paragraph (1) of this subsection, or

1                   (ii) the amount on which a tax is de-  
2                   termined under such subparagraph (C)  
3                   (without regard to this subsection), plus  
4                   (B) 20 percent of the excess (if any) of—  
5                   (i) the amount on which a tax is de-  
6                   termined under such subparagraph (C)  
7                   (without regard to this subsection), over  
8                   (ii) the amount on which a tax is de-  
9                   termined under subparagraph (A) of this  
10                  paragraph.

11               (3) For purposes of applying section 55(b)(3)  
12               of such Code, rules similar to the rules of para-  
13               graphs (1) and (2) of this subsection shall apply.

14               (4) In applying this subsection with respect to  
15               any pass-thru entity, the determination of when  
16               gains and loss are properly taken into account shall  
17               be made at the entity level.

18               (5) Terms used in this subsection which are  
19               also used in section 1(h) of such Code shall have the  
20               respective meanings that such terms have in such  
21               section.

22               (d) EFFECTIVE DATES.—

23               (1) IN GENERAL.—Except as otherwise pro-  
24               vided by this subsection, the amendments made by

1 this section shall apply to taxable years ending on or  
2 after October 12, 2001.

3 (2) WITHHOLDING.—The amendment made by  
4 subsection (a)(2)(C) shall apply to amounts paid  
5 after the date of the enactment of this Act.

6 (3) ELECTION TO RECOGNIZE GAIN ON ASSETS  
7 HELD ON JANUARY 1, 2001.—The repeal made by  
8 subsection (b)(1) shall take effect as if included in  
9 section 311 of the Taxpayer Relief Act of 1997, and  
10 the Internal Revenue Code of 1986 shall be applied  
11 and administered as if subsection (e) of such section  
12 311 had never been enacted.

13 (4) SMALL BUSINESS STOCK.—The amend-  
14 ments made by subsection (b)(4) shall apply to dis-  
15 positions on or after October 12, 2001.

16 **SEC. 203. TEMPORARY INCREASE IN DEDUCTION FOR CAP-**  
17 **ITAL LOSSES OF TAXPAYERS OTHER THAN**  
18 **CORPORATIONS.**

19 (a) IN GENERAL.—Subsection (b) of section 1211  
20 (relating to limitation on capital losses for taxpayers other  
21 than corporations) is amended by adding at the end the  
22 following flush sentence:

23 “Paragraph (1) shall be applied by substituting ‘\$4,000’  
24 for ‘\$3,000’ and ‘\$2,000’ for ‘\$1,500’ in the case of tax-  
25 able years beginning in 2001, and by substituting ‘\$5,000’

1 for ‘\$3,000’ and ‘\$2,500’ for ‘\$1,500’ in the case of tax-  
2 able years beginning in 2002.”.

3 (b) **EFFECTIVE DATE.**—The amendment made by  
4 subsection (a) shall apply to taxable years beginning after  
5 December 31, 2000.

6 **SEC. 204. TEMPORARY EXPANSION OF PENALTY-FREE RE-**  
7 **TIREMENT PLAN DISTRIBUTIONS FOR**  
8 **HEALTH INSURANCE PREMIUMS OF UNEM-**  
9 **EMPLOYED INDIVIDUALS.**

10 (a) **IN GENERAL.**—Subparagraph (D) of section  
11 72(t)(2) is amended by adding at the end the following  
12 new clause:

13 “(iv) **SPECIAL RULES FOR INDIVID-**  
14 **UALS RECEIVING UNEMPLOYMENT COM-**  
15 **PENSATION AFTER SEPTEMBER 10, 2001,**  
16 **AND BEFORE JANUARY 1, 2003.**—In the  
17 case of an individual who receives unem-  
18 ployment compensation for 4 consecutive  
19 weeks after September 10, 2001, and be-  
20 fore January 1, 2003—

21 “(I) clause (i) shall apply to dis-  
22 tributions from all qualified retire-  
23 ment plans (as defined in section  
24 4974(c)), and

1                   “(II) such 4 consecutive weeks  
2                   shall be substituted for the 12 con-  
3                   secutive weeks referred to in subclause  
4                   (I) of clause (i).”

5           (b) EFFECTIVE DATE.—The amendment made by  
6 this section shall apply to distributions after the date of  
7 the enactment of this Act.

8                   **TITLE III—EXTENSIONS OF**  
9                   **CERTAIN EXPIRING PROVISIONS**  
10                  **Subtitle A—Two-Year Extensions**

11                  **SEC. 301. ALLOWANCE OF NONREFUNDABLE PERSONAL**  
12                                 **CREDITS AGAINST REGULAR AND MINIMUM**  
13                                 **TAX LIABILITY.**

14           (a) IN GENERAL.—Paragraph (2) of section 26(a) is  
15 amended—

16                   (1) by striking “RULE FOR 2000 AND 2001.—”  
17                   and inserting “RULE FOR 2000, 2001, 2002, AND  
18                   2003.—”, and

19                   (2) by striking “during 2000 or 2001,” and in-  
20                   serting “during 2000, 2001, 2002, or 2003,”.

21           (b) CONFORMING AMENDMENTS.—

22                   (1) Section 904(h) is amended by striking “dur-  
23                   ing 2000 or 2001” and inserting “during 2000,  
24                   2001, 2002, or 2003”.

1           (2) The amendments made by sections 201(b),  
2           202(f), and 618(f) of the Economic Growth and Tax  
3           Relief Reconciliation Act of 2001 shall not apply to  
4           taxable years beginning during 2002 and 2003.

5           (c) TECHNICAL CORRECTION.—Section 24(d)(1)(B)  
6           is amended by striking “amount of credit allowed by this  
7           section” and inserting “aggregate amount of credits al-  
8           lowed by this subpart”.

9           (d) EFFECTIVE DATES.—

10           (1) The amendments made by subsections (a)  
11           and (b) shall apply to taxable years beginning after  
12           December 31, 2001.

13           (2) The amendment made by subsection (c)  
14           shall apply to taxable years beginning after Decem-  
15           ber 31, 2000.

16 **SEC. 302. CREDIT FOR QUALIFIED ELECTRIC VEHICLES.**

17           (a) IN GENERAL.—Section 30 is amended—

18           (1) in subsection (b)(2)—

19           (A) by striking “December 31, 2001,” and  
20           inserting “December 31, 2003,” and

21           (B) in subparagraphs (A), (B), and (C), by  
22           striking “2002”, “2003”, and “2004”, respec-  
23           tively, and inserting “2004”, “2005”, and  
24           “2006”, respectively, and

1           (2) in subsection (e), by striking “December 31,  
2           2004” and inserting “December 31, 2006”.

3           (b) CONFORMING AMENDMENTS.—

4           (1) Subparagraph (C) of section 280F(a)(1) is  
5           amended by adding at the end the following new  
6           clause

7                               “(iii) APPLICATION OF SUBPARA-  
8                               GRAPH.—This subparagraph shall apply to  
9                               property placed in service after August 5,  
10                              1997, and before January 1, 2007.”.

11           (2) Subsection (b) of section 971 of the Tax-  
12           payer Relief Act of 1997 is amended by striking  
13           “and before January 1, 2005”.

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

17   **SEC. 303. CREDIT FOR ELECTRICITY PRODUCED FROM RE-**  
18                               **NEWABLE RESOURCES.**

19           (a) IN GENERAL.—Subparagraphs (A), (B), and (C)  
20           of section 45(c)(3) are each amended by striking “2002”  
21           and inserting “2004”.

22           (b) EFFECTIVE DATE.—The amendments made by  
23           subsection (a) shall take effect on the date of the enact-  
24           ment of this Act.

1 **SEC. 304. WORK OPPORTUNITY CREDIT.**

2 (a) IN GENERAL.—Subparagraph (B) of section  
3 51(c)(4) is amended by striking “2001” and inserting  
4 “2003”.

5 (b) EFFECTIVE DATE.—The amendment made by  
6 subsection (a) shall apply to individuals who begin work  
7 for the employer after December 31, 2001.

8 **SEC. 305. WELFARE-TO-WORK CREDIT.**

9 (a) IN GENERAL.—Subsection (f) of section 51A is  
10 amended by striking “2001” and inserting “2003”.

11 (b) EFFECTIVE DATE.—The amendment made by  
12 subsection (a) shall apply to individuals who begin work  
13 for the employer after December 31, 2001.

14 **SEC. 306. DEDUCTION FOR CLEAN-FUEL VEHICLES AND**  
15 **CERTAIN REFUELING PROPERTY.**

16 (a) IN GENERAL.—Section 179A is amended—

17 (1) in subsection (b)(1)(B)—

18 (A) by striking “December 31, 2001,” and  
19 inserting “December 31, 2003,” and

20 (B) in clauses (i), (ii), and (iii), by striking  
21 “2002”, “2003”, and “2004”, respectively, and  
22 inserting “2004”, “2005”, and “2006”, respec-  
23 tively, and

24 (2) in subsection (f), by striking “December 31,  
25 2004” and inserting “December 31, 2006”.

1 (b) EFFECTIVE DATE.—The amendments made by  
2 subsection (a) shall take effect on the date of the enact-  
3 ment of this Act.

4 **SEC. 307. TAXABLE INCOME LIMIT ON PERCENTAGE DEPLE-**  
5 **TION FOR OIL AND NATURAL GAS PRODUCED**  
6 **FROM MARGINAL PROPERTIES.**

7 (a) IN GENERAL.—Subparagraph (H) of section  
8 613A(c)(6) is amended by striking “2002” and inserting  
9 “2004”.

10 (b) EFFECTIVE DATE.—The amendment made by  
11 subsection (a) shall apply to taxable years beginning after  
12 December 31, 2001.

13 **SEC. 308. QUALIFIED ZONE ACADEMY BONDS.**

14 (a) IN GENERAL.—Paragraph (1) of section  
15 1397E(e) is amended by striking “2000, and 2001” and  
16 inserting “2000, 2001, 2002, and 2003”.

17 (b) EFFECTIVE DATE.—The amendment made by  
18 subsection (a) shall take effect on the date of the enact-  
19 ment of this Act.

20 **SEC. 309. COVER OVER OF TAX ON DISTILLED SPIRITS.**

21 (a) IN GENERAL.—Paragraph (1) of section 7652(f)  
22 is amended by striking “January 1, 2002” and inserting  
23 “January 1, 2004”.

1 (b) EFFECTIVE DATE.—The amendment made by  
2 subsection (a) shall take effect on the date of the enact-  
3 ment of this Act.

4 **SEC. 310. PARITY IN THE APPLICATION OF CERTAIN LIMITS**  
5 **TO MENTAL HEALTH BENEFITS.**

6 (a) IN GENERAL.—Subsection (f) of section 9812 is  
7 amended by striking “2001” and inserting “2003”.

8 (b) EFFECTIVE DATE.—The amendment made by  
9 subsection (a) shall apply to plan years beginning after  
10 December 31, 2001.

11 **SEC. 311. DELAY IN EFFECTIVE DATE OF REQUIREMENT**  
12 **FOR APPROVED DIESEL OR KEROSENE TER-**  
13 **MINALS.**

14 Paragraph (2) of section 1032(f) of the Taxpayer Re-  
15 lief Act of 1997 (Public Law 105–34) is amended by strik-  
16 ing “January 1, 2002” and inserting “January 1, 2004”.

17 **Subtitle B—One-Year Extensions**

18 **SEC. 321. ONE-YEAR EXTENSION OF AVAILABILITY OF MED-**  
19 **ICAL SAVINGS ACCOUNTS.**

20 (a) IN GENERAL.—Paragraphs (2) and (3)(B) of sec-  
21 tion 220(i) (defining cut-off year) are each amended by  
22 striking “2002” each place it appears and inserting  
23 “2003”.

24 (b) CONFORMING AMENDMENTS.—

1           (1) Paragraph (2) of section 220(j) is amended  
2           by striking “1998, 1999, or 2001” each place it ap-  
3           pears and inserting “1998, 1999, 2001, or 2002”.

4           (2) Subparagraph (A) of section 220(j)(4) is  
5           amended by striking “and 2001” and inserting  
6           “2001, and 2002”.

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

## 10   **Subtitle C—Permanent Extensions**

### 11   **SEC. 331. SUBPART F EXEMPTION FOR ACTIVE FINANCING.**

12           (a) IN GENERAL.—

13               (1) Section 953(e)(10) is amended—

14                     (A) by striking “, and before January 1,  
15                     2002,” and

16                     (B) by striking the second sentence.

17               (2) Section 954(h)(9) is amended by striking “,  
18               and before January 1, 2002,”.

19           (b) LIFE INSURANCE AND ANNUITY CONTRACTS.—

20               (1) IN GENERAL.—Subparagraph (B) of section  
21               954(i)(4) is amended to read as follows:

22                     “(B) LIFE INSURANCE AND ANNUITY CON-  
23                     TRACTS.—

24                             “(i) IN GENERAL.—Except as pro-  
25                             vided in clause (ii), the amount of the re-

1           serve of a qualifying insurance company or  
2           qualifying insurance company branch for  
3           any life insurance or annuity contract shall  
4           be equal to the greater of—

5                   “(I) the net surrender value of  
6                   such contract (as defined in section  
7                   807(e)(1)(A)), or

8                   “(II) the reserve determined  
9                   under paragraph (5).

10                   “(ii) RULING REQUEST.—The amount  
11                   of the reserve under clause (i) shall be the  
12                   foreign statement reserve for the contract  
13                   (less any catastrophe, deficiency, equali-  
14                   zation, or similar reserves), if, pursuant to  
15                   a ruling request submitted by the taxpayer,  
16                   the Secretary determines that the factors  
17                   taken into account in determining the for-  
18                   eign statement reserve provide an appro-  
19                   priate means of measuring income.”.

20           (c) EFFECTIVE DATE.—The amendments made by  
21 this section shall apply to taxable years beginning after  
22 December 31, 2001.

1           **Subtitle D—Other Provisions**

2   **SEC. 341. EXCLUDED CANCELLATION OF INDEBTEDNESS**  
3                   **INCOME OF S CORPORATION NOT TO RESULT**  
4                   **IN ADJUSTMENT TO BASIS OF STOCK OF**  
5                   **SHAREHOLDERS.**

6           (a) IN GENERAL.—Subparagraph (A) of section  
7 108(d)(7) (relating to certain provisions to be applied at  
8 corporate level) is amended by inserting before the period  
9 “, including by not taking into account under section  
10 1366(a) any amount excluded under subsection (a) of this  
11 section”.

12           (b) EFFECTIVE DATE.—The amendment made by  
13 this section shall apply to discharges of indebtedness after  
14 October 11, 2001, in taxable years ending after such date.

15   **SEC. 342. LIMITATION ON USE OF NONACCRUAL EXPERI-**  
16                   **ENCE METHOD OF ACCOUNTING.**

17           (a) IN GENERAL.—Paragraph (5) of section 448(d)  
18 is amended to read as follows:

19                   “(5) SPECIAL RULE FOR CERTAIN SERVICES.—

20                           “(A) IN GENERAL.—In the case of any  
21                   person using an accrual method of accounting  
22                   with respect to amounts to be received for the  
23                   performance of services by such person, such  
24                   person shall not be required to accrue any por-  
25                   tion of such amounts which (on the basis of

1 such person's experience) will not be collected  
2 if—

3 “(i) such services are in fields referred  
4 to in paragraph (2)(A), or

5 “(ii) such person meets the gross re-  
6 ceipts test of subsection (c) for all prior  
7 taxable years.

8 “(B) EXCEPTION.—This paragraph shall  
9 not apply to any amount if interest is required  
10 to be paid on such amount or there is any pen-  
11 alty for failure to timely pay such amount.

12 “(C) REGULATIONS.—The Secretary shall  
13 prescribe regulations to permit taxpayers to de-  
14 termine amounts referred to in subparagraph  
15 (A) using computations or formulas which,  
16 based on experience, accurately reflect the  
17 amount of income that will not be collected by  
18 such person. A taxpayer may adopt, or request  
19 consent of the Secretary to change to, a com-  
20 putation or formula that clearly reflects the tax-  
21 payer's experience. A request under the pre-  
22 ceding sentence shall be approved only if such  
23 computation or formula clearly reflects the tax-  
24 payer's experience.”.

25 (b) EFFECTIVE DATE.—

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

4           (2) CHANGE IN METHOD OF ACCOUNTING.—In  
5 the case of any taxpayer required by the amend-  
6 ments made by this section to change its method of  
7 accounting for its first taxable year ending after the  
8 date of the enactment of this Act—

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

11                   (B) such change shall be treated as made  
12 with the consent of the Secretary of the Treas-  
13 ury, and

14                   (C) the net amount of the adjustments re-  
15 quired to be taken into account by the taxpayer  
16 under section 481 of the Internal Revenue Code  
17 of 1986 shall be taken into account over a pe-  
18 riod of 4 years (or if less, the number of taxable  
19 years that the taxpayer used the method per-  
20 mitted under section 448(d)(5) of such Code as  
21 in effect before the date of the enactment of  
22 this Act) beginning with such first taxable year.

1           **TITLE IV—SUPPLEMENTAL**  
2           **REBATE; OTHER PROVISIONS**

3   **SEC. 401. SUPPLEMENTAL REBATE.**

4           (a) IN GENERAL.—Section 6428 (relating to accel-  
5   eration of 10 percent income tax rate bracket benefit for  
6   2001) is amended by adding at the end the following new  
7   subsection:

8           “(f) SUPPLEMENTAL REBATE.—

9                 “(1) IN GENERAL.—Each individual who was  
10   an eligible individual for such individual’s first tax-  
11   able year beginning in 2000 and who, before October  
12   16, 2001, filed a return of tax imposed by subtitle  
13   A for such taxable year shall be treated as having  
14   made a payment against the tax imposed by chapter  
15   1 for such first taxable year in an amount equal to  
16   the supplemental refund amount for such taxable  
17   year.

18                 “(2) SUPPLEMENTAL REFUND AMOUNT.—For  
19   purposes of this subsection, the supplemental refund  
20   amount is an amount equal to the excess (if any)  
21   of—

22                         “(A)(i) \$600 in the case of taxpayers to  
23   whom section 1(a) applies,

24                         “(ii) \$500 in the case of taxpayers to  
25   whom section 1(b) applies, and

1           “(iii) \$300 in the case of taxpayers to  
2           whom subsections (c) or (d) of section 1 ap-  
3           plies, over

4           “(B) the taxpayer’s advance refund  
5           amount under subsection (e).

6           “(3) TIMING OF PAYMENTS.—In the case of  
7           any overpayment attributable to this subsection, the  
8           Secretary shall, subject to the provisions of this title,  
9           refund or credit such overpayment as rapidly as pos-  
10          sible.

11          “(4) NO INTEREST.—No interest shall be al-  
12          lowed on any overpayment attributable to this sub-  
13          section.”

14          (b) CONFORMING AMENDMENTS.—

15                 (1) Subparagraph (A) of section 6428(d)(1) is  
16                 amended by striking “subsection (e)” and inserting  
17                 “subsections (e) and (f)”.

18                 (2) Subparagraph (B) of section 6428(d)(1) is  
19                 amended by striking “subsection (e)” and inserting  
20                 “subsection (e) or (f)”.

21                 (3) Paragraph (3) of section 6428(e) is amend-  
22                 ed by striking “December 31, 2001” and inserting  
23                 “the date of the enactment of the Economic Security  
24                 and Recovery Act of 2001”.

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

4 **SEC. 402. SPECIAL REED ACT TRANSFER IN FISCAL YEAR**  
5 **2002.**

6 (a) REPEAL OF CERTAIN PROVISIONS ADDED BY  
7 THE BALANCED BUDGET ACT OF 1997.—

8 (1) IN GENERAL.—The following provisions of  
9 section 903 of the Social Security Act (42 U.S.C.  
10 1103) are repealed:

11 (A) Paragraph (3) of subsection (a).

12 (B) The last sentence of subsection (c)(2).

13 (2) SAVINGS PROVISION.—Any amounts trans-  
14 ferred before the date of enactment of this Act  
15 under the provision repealed by paragraph (1)(A)  
16 shall remain subject to section 903 of the Social Se-  
17 curity Act, as last in effect before such date of en-  
18 actment.

19 (b) SPECIAL TRANSFER IN FISCAL YEAR 2002.—  
20 Section 903 of the Social Security Act is amended by add-  
21 ing at the end the following:

22 “Special Transfer in Fiscal Year 2002

23 “(d)(1) The Secretary of the Treasury shall transfer  
24 (as of the date determined under paragraph (5)(A)) from  
25 the Federal unemployment account to the account of each

1 State in the Unemployment Trust Fund the amount deter-  
2 mined with respect to such State under paragraph (2).

3 “(2) The amount to be transferred under this sub-  
4 section to a State account shall (as determined by the Sec-  
5 retary of Labor and certified by such Secretary to the Sec-  
6 retary of the Treasury) be equal to—

7 “(A) the amount which would have been re-  
8 quired to have been transferred under this section to  
9 such account at the beginning of fiscal year 2002 if  
10 section 402(a)(1) of the Economic Security and Re-  
11 covery Act of 2001 had been enacted before the close  
12 of fiscal year 2001, minus

13 “(B) the amount which was in fact transferred  
14 under this section to such account at the beginning  
15 of fiscal year 2002.

16 “(3)(A) Except as provided in paragraph (4),  
17 amounts transferred to a State account pursuant to this  
18 subsection may be used only in the payment of cash  
19 benefits—

20 “(i) to individuals with respect to their unem-  
21 ployment, and

22 “(ii) which are allowable under subparagraph  
23 (B) or (C).

24 “(B)(i) At the option of the State, cash benefits  
25 under this paragraph may include amounts which shall be

1 payable as regular or additional compensation for individ-  
2 uals eligible for regular compensation under the unemploy-  
3 ment compensation law of such State.

4 “(ii) Any additional compensation under clause (i)  
5 may not be taken into account for purposes of any deter-  
6 mination relating to the amount of any extended com-  
7 pensation for which an individual might be eligible.

8 “(C)(i) At the option of the State, cash benefits  
9 under this paragraph may include amounts which shall be  
10 payable to 1 or more categories of individuals not other-  
11 wise eligible for regular compensation under the unem-  
12 ployment compensation law of such State.

13 “(ii) The benefits paid under this subparagraph to  
14 any individual may not, for any period of unemployment,  
15 exceed the maximum amount of regular compensation au-  
16 thorized under the unemployment compensation law of  
17 such State for that same period, plus any additional bene-  
18 fits (described in subparagraph (B)(i)) which could have  
19 been paid with respect to that amount.

20 “(D) Amounts transferred to a State account under  
21 this subsection may be used in the payment of cash bene-  
22 fits to individuals only for weeks of unemployment—

23 “(i) beginning after the date of enactment of  
24 this subsection, and

25 “(ii) ending on or before March 11, 2003.

1       “(4) Amounts transferred to a State account under  
2 this subsection may be used for the administration of its  
3 unemployment compensation law and public employment  
4 offices (including in connection with benefits described in  
5 paragraph (3) and any recipients thereof), subject to the  
6 same conditions as set forth in subsection (c)(2) (exclud-  
7 ing subparagraph (B) thereof, and deeming the reference  
8 to ‘subsections (a) and (b)’ in subparagraph (D) thereof  
9 to include this subsection).

10       “(5) Transfers under this subsection—

11               “(A) shall be made on such date as the Sec-  
12 retary of Labor (in consultation with the Secretary  
13 of the Treasury) shall determine, but in no event  
14 later than 10 days after the date of enactment of  
15 this subsection, and

16               “(B) may, notwithstanding any other provision  
17 of this subsection, be made only to the extent that  
18 they do not to exceed—

19                       “(i) the balance in the Federal unemploy-  
20 ment account as of the date determined under  
21 subparagraph (A), or

22                       “(ii) the total amount that was transferred  
23 under this section to the Federal unemployment  
24 account at the beginning of fiscal year 2002,

25       whichever is less.”

1           (c) LIMITATIONS ON TRANSFERS.—Section 903(b) of  
2 the Social Security Act shall apply to transfers under sec-  
3 tion 903(d) of such Act (as amended by this section). For  
4 purposes of the preceding sentence, such section 903(b)  
5 shall be deemed to be amended as follows:

6           (1) By substituting “the transfer date described  
7 in subsection (d)(5)(A)” for “October 1 of any fiscal  
8 year”.

9           (2) By substituting “remain in the Federal un-  
10 employment account” for “be transferred to the  
11 Federal unemployment account as of the beginning  
12 of such October 1”.

13           (3) By substituting “fiscal year 2002 (after the  
14 transfer date described in subsection (d)(5)(A))” for  
15 “the fiscal year beginning on such October 1”.

16           (4) By substituting “under subsection (d)” for  
17 “as of October 1 of such fiscal year”.

18           (5) By substituting “(as of the close of fiscal  
19 year 2002)” for “(as of the close of such fiscal  
20 year)”.

21           (d) TECHNICAL AMENDMENTS.—(1) Sections  
22 3304(a)(4)(B) and 3306(f)(2) of the Internal Revenue  
23 Code of 1986 are amended by inserting “or 903(d)(4)”  
24 before “of the Social Security Act”.

1       (2) Section 303(a)(5) of the Social Security Act is  
2 amended in the second proviso by inserting “or 903(d)(4)”  
3 after “903(c)(2)”.

4       (e) REGULATIONS.—The Secretary of Labor may  
5 prescribe any operating instructions or regulations nec-  
6 essary to carry out this section and the amendments made  
7 by this section.

8       **TITLE V—HEALTH CARE ASSIST-**  
9       **ANCE FOR THE UNEMPLOYED**

10       **SEC. 501. HEALTH CARE ASSISTANCE FOR THE UNEM-**  
11       **PLOYED.**

12       Title XX of the Social Security Act (42 U.S.C. 1397–  
13 1397f) is amended by adding at the end the following:

14       **“SEC. 2008. GRANTS FOR HEALTH CARE ASSISTANCE FOR**  
15       **THE UNEMPLOYED.**

16       “(a) FUNDING.—For purposes of section 2003, the  
17 amount specified in section 2003(c) for fiscal year 2002  
18 is increased by \$3,000,000,000.

19       “(b) USE OF FUNDS.—Notwithstanding any other  
20 provision of this title, to the extent that an amount paid  
21 to a State under section 2002 is attributable to funds  
22 made available by reason of subsection (a) of this  
23 section—

24               “(1) the State shall use the amount to assist an  
25 unemployed individual who is not eligible for Federal

1 health coverage to purchase health care coverage for  
2 the individual or any member of the family of the in-  
3 dividual who is not so eligible; and

4 “(2) the amount—

5 “(A) shall be used to supplement, not sup-  
6 plant, any other Federal, State, or local funds  
7 that are used for the provision of health care  
8 coverage; and

9 “(B) may not be included in determining  
10 the amount of non-Federal contributions re-  
11 quired under any program.

12 “(c) DEFINITIONS.—In this section:

13 “(1) UNEMPLOYED INDIVIDUAL.—The term  
14 ‘unemployed individual’ means an individual who—

15 “(A) is without a job (determined in ac-  
16 cordance with the criteria used by the Bureau  
17 of Labor Statistics of the Department of Labor  
18 in defining individuals as unemployed);

19 “(B) is seeking and available for work; and

20 “(C) has or had a benefit year (within the  
21 meaning of section 205 of the Federal-State  
22 Extended Unemployment Compensation Act of  
23 1970) beginning on or after January 1, 2001.

24 “(2) FEDERAL HEALTH COVERAGE.—

1           “(A) IN GENERAL.—Subject to subpara-  
2 graph (B), the term ‘Federal health coverage’  
3 means coverage under any medical care pro-  
4 gram described in—

5                   “(i) title XVIII, XIX, or XXI of this  
6 Act (other than under section 1928);

7                   “(ii) chapter 55 of title 10, United  
8 States Code;

9                   “(iii) chapter 17 of title 38, United  
10 States Code;

11                   “(iv) chapter 89 of title 5, United  
12 States Code (other than coverage which is  
13 comparable to continuation coverage under  
14 section 4980B of the Internal Revenue  
15 Code of 1986); or

16                   “(v) the Indian Health Care Improve-  
17 ment Act.

18           “(B) SPECIAL RULE.—Such term does not  
19 include coverage under a qualified long-term  
20 care insurance contract.”.

Passed the House of Representatives October 24,  
2001.

Attest:

*Clerk.*



107TH CONGRESS  
1ST SESSION

**H. R. 3090**

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**AN ACT**

To provide tax incentives for economic recovery.