AMENDMENT IN THE NATURE OF A SUBSTITUTE
TO H.R. 3996
OFFERED BY MR. RANGEL OF NEW YORK

Strike all after the enacting clause and insert the following:

1 SECTION 1. SHORT TITLE, ETC.

(a) SHORT TITLE.—This Act may be cited as the “Temporary Tax Relief Act of 2007”.

(b) REFERENCE.—Except as otherwise expressly provided, whenever in this Act an amendment or repeal is expressed in terms of an amendment to, or repeal of, a section or other provision, the reference shall be considered to be made to a section or other provision of the Internal Revenue Code of 1986.

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

Sec. 1. Short title, etc.

TITLE I—AMT RELIEF

Sec. 101. Extension of alternative minimum tax relief for nonrefundable personal credits.
Sec. 102. Extension of increased alternative minimum tax exemption amount.

TITLE II—ADDITIONAL INDIVIDUAL TAX RELIEF

Sec. 201. Refundable child credit.

TITLE III—ONE-YEAR EXTENDERS
Subtitle A—Extenders Primarily Affecting Individuals

Sec. 301. Deduction for State and local sales taxes.
Sec. 302. Deduction of qualified tuition and related expenses.
Sec. 303. Treatment of certain dividends of regulated investment companies.
Sec. 304. Parity in the application of certain limits to mental health benefits.
Sec. 305. Qualified conservation contributions.
Sec. 306. Tax-free distributions from individual retirement plans for charitable purposes.
Sec. 307. Deduction for certain expenses of elementary and secondary school teachers.
Sec. 308. Election to include combat pay as earned income for purposes of earned income tax credit.
Sec. 309. Modification of mortgage revenue bonds for veterans.
Sec. 310. Distributions from retirement plans to individuals called to active duty.
Sec. 311. Stock in RIC for purposes of determining estates of nonresidents not citizens.
Sec. 312. Qualified investment entities.
Sec. 313. State legislators’ travel expenses away from home.

Subtitle B—Extenders Primarily Affecting Businesses

Sec. 321. Research credit.
Sec. 322. Indian employment credit.
Sec. 323. New markets tax credit.
Sec. 324. Railroad track maintenance.
Sec. 325. Fifteen-year straight-line cost recovery for qualified leasehold improvements and qualified restaurant property.
Sec. 326. Seven-year cost recovery period for motorsports racing track facility.
Sec. 327. Accelerated depreciation for business property on Indian reservation.
Sec. 328. Expensing of environmental remediation costs.
Sec. 329. Deduction allowable with respect to income attributable to domestic production activities in Puerto Rico.
Sec. 330. Modification of tax treatment of certain payments to controlling exempt organizations.
Sec. 331. Extension and modification of credit to holders of qualified zone academy bonds.
Sec. 332. Tax incentives for investment in the District of Columbia.
Sec. 333. Extension of economic development credit for American Samoa.
Sec. 334. Enhanced charitable deduction for contributions of food inventory.
Sec. 335. Enhanced charitable deduction for contributions of book inventory to public schools.
Sec. 336. Enhanced deduction for qualified computer contributions.
Sec. 337. Basis adjustment to stock of S corporations making charitable contributions of property.
Sec. 338. Extension of work opportunity tax credit for Hurricane Katrina employees.

Subtitle C—Other Extenders

Sec. 341. Disclosure for combined employment tax reporting.
Sec. 342. Disclosure of return information to apprise appropriate officials of terrorist activities.
Sec. 343. Disclosure upon request of information relating to terrorist activities.
Sec. 344. Disclosure of return information to carry out income contingent repayment of student loans.
Sec. 345. Authority for undercover operations.
Sec. 346. Increase in limit on cover over of rum excise tax to Puerto Rico and the Virgin Islands.
Sec. 347. Disclosure of return information for certain veterans programs.

TITLE IV—MORTGAGE FORGIVENESS DEBT RELIEF

Sec. 401. Discharges of indebtedness on principal residence excluded from gross income.
Sec. 402. Long-term extension of deduction for mortgage insurance premiums.
Sec. 403. Alternative tests for qualifying as cooperative housing corporation.
Sec. 404. Gain from sale of principal residence allocated to nonqualified use not excluded from income.

TITLE V—ADMINISTRATIVE PROVISIONS

Sec. 501. Repeal of authority to enter into private debt collection contracts.
Sec. 502. Delay of application of withholding requirement on certain governmental payments for goods and services.
Sec. 503. Clarification of entitlement of Virgin Islands residents to protections of limitations on assessment and collection of tax.
Sec. 504. Revision of tax rules on expatriation.
Sec. 505. Repeal of suspension of certain penalties and interest.
Sec. 506. Unused merchandise drawback.

TITLE VI—REVENUE PROVISIONS

Subtitle A—Nonqualified Deferred Compensation From Certain Tax Indifferent Parties

Sec. 601. Nonqualified deferred compensation from certain tax indifferent parties.

Subtitle B—Provisions Related to Certain Investment Partnerships

Sec. 611. Income of partners for performing investment management services treated as ordinary income received for performance of services.
Sec. 612. Indebtedness incurred by a partnership in acquiring securities and commodities not treated as acquisition indebtedness for organizations which are partners with limited liability.
Sec. 613. Application to partnership interests and tax sharing agreements of rule treating certain gain on sales between related persons as ordinary income.

Subtitle C—Other Provisions

Sec. 621. Delay in application of worldwide allocation of interest.
Sec. 622. Broker reporting of customer’s basis in securities transactions.
Sec. 623. Time for payment of corporate estimated taxes.
TITLE I—AMT RELIEF

SEC. 101. EXTENSION OF ALTERNATIVE MINIMUM TAX RELIEF FOR NONREFUNDABLE PERSONAL CREDITS.

(a) In General.—Paragraph (2) of section 26(a) (relating to special rule for taxable years 2000 through 2006) is amended—

(1) by striking “or 2006” and inserting “2006, or 2007”, and

(2) by striking “2006” in the heading thereof and inserting “2007”.

(b) Effective Date.—The amendments made by this section shall apply to taxable years beginning after December 31, 2006.

SEC. 102. EXTENSION OF INCREASED ALTERNATIVE MINIMUM TAX EXEMPTION AMOUNT.

(a) In General.—Paragraph (1) of section 55(d) (relating to exemption amount) is amended—

(1) by striking “($62,550 in the case of taxable years beginning in 2006)” in subparagraph (A) and inserting “($66,250 in the case of taxable years beginning in 2007)”, and

(2) by striking “($42,500 in the case of taxable years beginning in 2006)” in subparagraph (B) and
inserting ‘‘($44,350 in the case of taxable years be-
ginning in 2007)’’.

(b) EFFECTIVE DATE.—The amendments made by
this section shall apply to taxable years beginning after
December 31, 2006.

TITLE II—ADDITIONAL INDIVIDUAL TAX RELIEF

SEC. 201. REFUNDABLE CHILD CREDIT.

(a) MODIFICATION OF THRESHOLD AMOUNT.—
Clause (i) of section 24(d)(1)(B) is amended by inserting
‘‘($8,500 in the case of taxable years beginning in 2008)’’
after ‘‘$10,000’’.

(b) EFFECTIVE DATE.—The amendment made by
subsection (a) shall apply to taxable years beginning after

SEC. 202. ADDITIONAL STANDARD DEDUCTION FOR REAL
PROPERTY TAXES FOR NONITEMIZERS.

(a) IN GENERAL.—Section 63(c)(1) (defining stand-
ard deduction) is amended by striking ‘‘and’’ at the end
of subparagraph (A), by striking the period at the end
of subparagraph (B) and inserting ‘‘, and’’, and by adding
at the end the following new subparagraph:

‘‘(C) in the case of any taxable year begin-
ing in 2008, the real property tax deduction.’’.
(b) DEFINITION.—Section 63(c) is amended by adding at the end the following new paragraph:

“(8) REAL PROPERTY TAX DEDUCTION.—For purposes of paragraph (1), the real property tax deduction is so much of the amount of State and local real property taxes (within the meaning of section 164) paid or accrued by the taxpayer during the taxable year which do not exceed $350 ($700 in the case of a joint return).”.

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

TITLE III—ONE-YEAR EXTENDERS

Subtitle A—Extenders Primarily Affecting Individuals

SEC. 301. DEDUCTION FOR STATE AND LOCAL SALES TAXES.

(a) IN GENERAL.—Subparagraph (I) of section 164(b)(5) is amended by striking “January 1, 2008” and inserting “January 1, 2009”.

(b) EFFECTIVE DATE.—The amendment made by this section shall apply to taxable years beginning after December 31, 2007.
SEC. 302. DEDUCTION OF QUALIFIED TUITION AND RELATED EXPENSES.

(a) IN GENERAL.—Subsection (e) of section 222 (relating to termination) is amended by striking “December 31, 2007” and inserting “December 31, 2008”.

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

SEC. 303. TREATMENT OF CERTAIN DIVIDENDS OF REGULATED INVESTMENT COMPANIES.

(a) INTEREST-RELATED DIVIDENDS.—Subparagraph (C) of section 871(k)(1) (defining interest-related dividend) is amended by striking “December 31, 2007” and inserting “December 31, 2008”.

(b) SHORT-TERM CAPITAL GAIN DIVIDENDS.—Subparagraph (C) of section 871(k)(2) (defining short-term capital gain dividend) is amended by striking “December 31, 2007” and inserting “December 31, 2008”.

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

SEC. 304. PARITY IN THE APPLICATION OF CERTAIN LIMITS TO MENTAL HEALTH BENEFITS.

(a) IN GENERAL.—Paragraph (3) of section 9812(f) (relating to application of section) is amended by striking
“December 31, 2007” and inserting “December 31, 2008”.

(b) Effective Date.—The amendment made by this section shall apply to benefits for services furnished after December 31, 2007.

SEC. 305. QUALIFIED CONSERVATION CONTRIBUTIONS.

(a) In General.—Clause (vi) of section 170(b)(1)(E) (relating to termination) is amended by striking “December 31, 2007” and inserting “December 31, 2008”.

(b) Effective Date.—The amendment made by this section shall apply to contributions made in taxable years beginning after December 31, 2007.

SEC. 306. TAX-FREE DISTRIBUTIONS FROM INDIVIDUAL RETIREMENT PLANS FOR CHARITABLE PURPOSES.

(a) In General.—Subparagraph (F) of section 408(d)(8) (relating to termination) is amended by striking “December 31, 2007” and inserting “December 31, 2008”.

(b) Effective Date.—The amendment made by this section shall apply to distributions made in taxable years beginning after December 31, 2007.
SEC. 307. DEDUCTION FOR CERTAIN EXPENSES OF ELEMENTARY AND SECONDARY SCHOOL TEACHERS.

(a) In General.—Subparagraph (D) of section 62(a)(2) (relating to certain expenses of elementary and secondary school teachers) is amended by striking “or 2007” and inserting “2007, or 2008”.

(b) Effective Date.—The amendment made by subsection (a) shall apply to taxable years beginning after December 31, 2007.

SEC. 308. ELECTION TO INCLUDE COMBAT PAY AS EARNED INCOME FOR PURPOSES OF EARNED INCOME TAX CREDIT.

(a) In General.—Subclause (II) of section 32(c)(2)(B)(vi) (defining earned income) is amended by striking “January 1, 2008” and inserting “January 1, 2009”.

(b) Effective Date.—The amendment made by this section shall apply to taxable years ending after December 31, 2007.

SEC. 309. MODIFICATION OF MORTGAGE REVENUE BONDS FOR VETERANS.

(a) Qualified Mortgage Bonds Used To Finance Residences For Veterans Without Regard To First-Time Homebuyer Requirement.—Subparagraph (D) of section 143(d)(2) (relating to exceptions) is
amended by striking “January 1, 2008” and inserting “January 1, 2009”.

(b) Effective Date.—The amendment made by this section shall apply to bonds issued after December 31, 2007.

SEC. 310. DISTRIBUTIONS FROM RETIREMENT PLANS TO INDIVIDUALS CALLED TO ACTIVE DUTY.

(a) In General.—Clause (iv) of section 72(t)(2)(G) is amended by striking “December 31, 2007” and inserting “January 1, 2009”.

(b) Effective Date.—The amendment made by this section shall apply to individuals ordered or called to active duty on or after December 31, 2007.

SEC. 311. STOCK IN RIC FOR PURPOSES OF DETERMINING ESTATES OF NONRESIDENTS NOT CITIZENS.

(a) In General.—Paragraph (3) of section 2105(d) (relating to stock in a RIC) is amended by striking “December 31, 2007” and inserting “December 31, 2008”.

(b) Effective Date.—The amendment made by this section shall apply to decedents dying after December 31, 2007.

SEC. 312. QUALIFIED INVESTMENT ENTITIES.

(a) In General.—Clause (ii) of section 897(h)(4)(A) (relating to termination) is amended by
striking “December 31, 2007” and inserting “December 31, 2008”.

(b) Effective Date.—The amendment made by subsection (a) shall take effect on January 1, 2008.

SEC. 313. STATE LEGISLATORS’ TRAVEL EXPENSES AWAY FROM HOME.

(a) In General.—Paragraph (2) of section 162(h) (relating to legislative days) is amended by adding at the end the following flush sentence: “In the case of taxable years beginning in 2008, a legislature shall be treated for purposes of this paragraph as in session on any day in which it is formally called into session without regard to whether legislation was considered on such day.”.

(b) Effective Date.—The amendment made by subsection (a) shall apply to taxable years beginning after December 31, 2007.

Subtitle B—Extenders Primarily Affecting Businesses

SEC. 321. RESEARCH CREDIT.

(a) In General.—Subparagraph (B) of section 41(h)(1) (relating to termination) is amended by striking “December 31, 2007” and inserting “December 31, 2008”.

(b) Conforming Amendment.—Subparagraph (D) of section 45C(b)(1) (relating to qualified clinical testing
expenses) is amended by striking “December 31, 2007” and inserting “December 31, 2008”.

(c) EFFECTIVE DATE.—The amendments made by this section shall apply to amounts paid or incurred after December 31, 2007.

SEC. 322. INDIAN EMPLOYMENT CREDIT.

(a) IN GENERAL.—Subsection (f) of section 45A (relating to termination) is amended by striking “December 31, 2007” and inserting “December 31, 2008”.

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

SEC. 323. NEW MARKETS TAX CREDIT.

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

SEC. 324. RAILROAD TRACK MAINTENANCE.

(a) IN GENERAL.—Subsection (f) of section 45G (relating to application of section) is amended by striking “January 1, 2008” and inserting “January 1, 2009”.

(b) EFFECTIVE DATE.—The amendment made by this section shall apply to expenditures paid or incurred during taxable years beginning after December 31, 2007.
SEC. 325. FIFTEEN-YEAR STRAIGHT-LINE COST RECOVERY FOR QUALIFIED LEASEHOLD IMPROVEMENTS AND QUALIFIED RESTAURANT PROPERTY.

(a) In General.—Clauses (iv) and (v) of section 168(e)(3)(E) (relating to 15-year property) are each amended by striking “January 1, 2008” and inserting “January 1, 2009”.

(b) Effective Date.—The amendments made by this section shall apply to property placed in service after December 31, 2007.

SEC. 326. SEVEN-YEAR COST RECOVERY PERIOD FOR MOTORSPORTS RACING TRACK FACILITY.

(a) In General.—Subparagraph (D) of section 168(i)(15) (relating to termination) is amended by striking “December 31, 2007” and inserting “December 31, 2008”.

(b) Effective Date.—The amendment made by this section shall apply to property placed in service after December 31, 2007.

SEC. 327. ACCELERATED DEPRECIATION FOR BUSINESS PROPERTY ON INDIAN RESERVATION.

(a) In General.—Paragraph (8) of section 168(j) (relating to termination) is amended by striking “December 31, 2007” and inserting “December 31, 2008”.
(b) **Effective Date.**—The amendment made by this section shall apply to property placed in service after December 31, 2007.

**SEC. 328. EXPENSING OF ENVIRONMENTAL REMEDIATION COSTS.**

(a) **In General.**—Subsection (h) of section 198 (relating to termination) is amended by striking “December 31, 2007” and inserting “December 31, 2008”.

(b) **Effective Date.**—The amendment made by this section shall apply to expenditures paid or incurred after December 31, 2007.

**SEC. 329. DEDUCTION ALLOWABLE WITH RESPECT TO INCOME ATTRIBUTABLE TO DOMESTIC PRODUCTION ACTIVITIES IN PUERTO RICO.**

(a) **In General.**—Subparagraph (C) of section 199(d)(8) (relating to termination) is amended—

(1) by striking “first 2 taxable years” and inserting “first 3 taxable years”, and

(2) by striking “January 1, 2008” and inserting “January 1, 2009”.

(b) **Effective Date.**—The amendments made by this section shall apply to taxable years beginning after December 31, 2007.
SEC. 330. MODIFICATION OF TAX TREATMENT OF CERTAIN PAYMENTS TO CONTROLLING EXEMPT ORGANIZATIONS.

(a) In General.—Clause (iv) of section 512(b)(13)(E) (relating to termination) is amended by striking “December 31, 2007” and inserting “December 31, 2008”.

(b) Effective Date.—The amendment made by this section shall apply to payments received or accrued after December 31, 2007.

SEC. 331. EXTENSION AND MODIFICATION OF CREDIT TO HOLDERS OF QUALIFIED ZONE ACADEMY BONDS.


(b) Modification of Arbitrage Rules.—

(1) In General.—Subsection (g) of section 1397E (relating to special rules relating to arbitrage) is amended to read as follows:

“(g) Special Rules Relating to Arbitrage.—

“(1) In General.—An issue shall be treated as meeting the requirements of this subsection if the
issuer satisfies the requirements of section 148 with respect to the proceeds of the issue.

“(2) Special rule for investments during expenditure period.—An issue shall not be treated as failing to meet the requirements of paragraph (1) by reason of any investment of available project proceeds during the 5-year period described in subsection (f)(1)(A) (including any extension of such period under subsection (f)(2)).

“(3) Special rule for reserve funds.—An issue shall not be treated as failing to meet the requirements of paragraph (1) by reason of any fund which is expected to be used to repay such issue if—

“(A) such fund is funded at a rate not more rapid than equal annual installments,

“(B) such fund is funded in a manner that such fund will not exceed the amount necessary to repay the issue if invested at the maximum rate permitted under subparagraph (C), and

“(C) the yield on such fund is not greater than the discount rate determined under subsection (d)(3) with respect to the issue.”.

(2) Application of available project proceeds to other requirements.—Subsections (d)(1)(A), (d)(2)(A), (f)(1)(A), (f)(1)(B), (f)(1)(C),
and (f)(3) of section 1397E are each amended by
striking “proceeds” and inserting “available project
proceeds”

(3) AVAILABLE PROJECT PROCEEDS DEFINED.—Subsection (i) of section 1397E (relating to
definitions) is amended by adding at the end the fol-
lowing new paragraph:

“(4) AVAILABLE PROJECT PROCEEDS.—The
term ‘available project proceeds’ means—

“(A) the excess of—

“(i) the proceeds from the sale of an
issue, over

“(ii) the issuance costs financed by
the issue (to the extent that such costs do
not exceed 2 percent of such proceeds),
and

“(B) the proceeds from any investment of
the excess described in subparagraph (A).”.

(c) EFFECTIVE DATE.—

(1) EXTENSION.—The amendment made by
subsection (a) shall apply to obligations issued after

(2) MODIFICATION OF ARBITRAGE RULES.—
The amendments made by subsection (b) shall apply
to obligations issued after the date of the enactment of this Act.

SEC. 332. TAX INCENTIVES FOR INVESTMENT IN THE DISTRICT OF COLUMBIA.

(a) DESIGNATION OF ZONE.—

(1) IN GENERAL.—Subsection (f) of section 1400 is amended by striking “2007” both places it appears and inserting “2008”.

(2) EFFECTIVE DATE.—The amendments made by this subsection shall apply to periods beginning after December 31, 2007.

(b) TAX-EXEMPT ECONOMIC DEVELOPMENT BONDS.—

(1) IN GENERAL.—Subsection (b) of section 1400A is amended by striking “2007” and inserting “2008”.

(2) EFFECTIVE DATE.—The amendment made by this subsection shall apply to bonds issued after December 31, 2007.

(c) ZERO PERCENT CAPITAL GAINS RATE.—

(1) IN GENERAL.—Subsection (b) of section 1400B is amended by striking “2008” each place it appears and inserting “2009”.

(2) CONFORMING AMENDMENTS.—

(A) Section 1400B(e)(2) is amended—
(i) by striking “2012” and inserting “2013”, and

(ii) by striking “2012” in the heading thereof and inserting “2013”.

(B) Section 1400B(g)(2) is amended by striking “2012” and inserting “2013”.

(C) Section 1400F(d) is amended by striking “2012” and inserting “2013”.

(3) EFFECTIVE DATES.—

(A) EXTENSION.—The amendments made by paragraph (1) shall apply to acquisitions after December 31, 2007.

(B) CONFORMING AMENDMENTS.—The amendments made by paragraph (2) shall take effect on the date of the enactment of this Act.

(d) FIRST-TIME HOMEBUYER CREDIT.—

(1) IN GENERAL.—Subsection (i) of section 1400C is amended by striking “2008” and inserting “2009”.

(2) EFFECTIVE DATE.—The amendment made by this subsection shall apply to property purchased after December 31, 2007.
SEC. 333. EXTENSION OF ECONOMIC DEVELOPMENT CREDIT FOR AMERICAN SAMOA.

(a) In General.—Subsection (d) of section 119 of division A of the Tax Relief and Health Care Act of 2006 is amended—

(1) by striking “first two taxable years” and inserting “first 3 taxable years”, and

(2) by striking “January 1, 2008” and inserting “January 1, 2009”.

(b) Effective Date.—The amendment made by this section shall apply to taxable years beginning after December 31, 2007.

SEC. 334. ENHANCED CHARITABLE DEDUCTION FOR CONTRIBUTIONS OF FOOD INVENTORY.

(a) In General.—Clause (iv) of section 170(e)(3)(C) (relating to termination) is amended by striking “December 31, 2007” and inserting “December 31, 2008”.

(b) Effective Date.—The amendment made by this section shall apply to contributions made after December 31, 2007.

SEC. 335. ENHANCED CHARITABLE DEDUCTION FOR CONTRIBUTIONS OF BOOK INVENTORY TO PUBLIC SCHOOLS.

(a) In General.—Clause (iv) of section 170(e)(3)(D) (relating to termination) is amended by
striking “December 31, 2007” and inserting “December 31, 2008”.

(b) **Effective Date.**—The amendment made by this section shall apply to contributions made after December 31, 2007.

**SEC. 336. ENHANCED DEDUCTION FOR QUALIFIED COMPUTER CONTRIBUTIONS.**

(a) **In General.**—Subparagraph (G) of section 170(e)(6) (relating to termination) is amended by striking “December 31, 2007” and inserting “December 31, 2008”.

(b) **Effective Date.**—The amendment made by this section shall apply to contributions made during taxable years beginning after December 31, 2007.

**SEC. 337. BASIS ADJUSTMENT TO STOCK OF S CORPORATIONS MAKING CHARITABLE CONTRIBUTIONS OF PROPERTY.**

(a) **In General.**—The last sentence of section 1367(a)(2) (relating to decreases in basis) is amended by striking “December 31, 2007” and inserting “December 31, 2008”.

(b) **Technical Amendment Related to Section 1203 of the Pension Protection Act of 2006.**—Subsection (d) of section 1366 is amended by adding at the end the following new paragraph:
“(4) APPLICATION OF LIMITATION ON CHARITABLE CONTRIBUTIONS.—In the case of any charitable contribution of property to which the second sentence of section 1367(a)(2) applies, paragraph (1) shall not apply to the extent of the excess (if any) of—

“(A) the shareholder’s pro rata share of such contribution, over

“(B) the shareholder’s pro rata share of the adjusted basis of such property.”.

(c) EFFECTIVE DATE.—

(1) IN GENERAL.—Except as provided in paragraph (2), the amendments made by this section shall apply to contributions made in taxable years beginning after December 31, 2007.

(2) TECHNICAL AMENDMENT.—The amendment made by subsection (b) shall take effect as if included in the provision of the Pension Protection Act of 2006 to which it relates.

SEC. 338. EXTENSION OF WORK OPPORTUNITY TAX CREDIT FOR HURRICANE KATRINA EMPLOYEES.

(a) IN GENERAL.—Paragraph (1) of section 201(b) of the Katrina Emergency Tax Relief Act of 2005 is amended by striking “2-year” and inserting “3-year”.
Subtitle C—Other Extenders

SEC. 341. DISCLOSURE FOR COMBINED EMPLOYMENT TAX REPORTING.

(a) In General.—Subparagraph (B) of section 6103(d)(5) (relating to termination) is amended by striking “December 31, 2007” and inserting “December 31, 2008”.

(b) Effective Date.—The amendment made by this section shall apply to disclosures after December 31, 2007.

SEC. 342. DISCLOSURE OF RETURN INFORMATION TO APPROPRIATE OFFICIALS OF TERRORIST ACTIVITIES.

(a) In General.—Clause (iv) of section 6103(i)(3)(C) (relating to termination) is amended by striking “December 31, 2007” and inserting “December 31, 2008”.

(b) Effective Date.—The amendment made by this section shall apply to disclosures after December 31, 2007.
SEC. 343. DISCLOSURE UPON REQUEST OF INFORMATION RELATING TO TERRORIST ACTIVITIES.

(a) In General.—Subparagraph (E) of section 6103(i)(7) (relating to termination) is amended by striking “December 31, 2007” and inserting “December 31, 2008”.

(b) Effective Date.—The amendment made by this section shall apply to disclosures after December 31, 2007.

SEC. 344. DISCLOSURE OF RETURN INFORMATION TO CARRY OUT INCOME CONTINGENT REPAYMENT OF STUDENT LOANS.

(a) In General.—Subparagraph (D) of section 6103(l)(13) (relating to termination) is amended by striking “December 31, 2007” and inserting “December 31, 2008”.

(b) Effective Date.—The amendment made by this section shall apply to requests made after December 31, 2007.

SEC. 345. AUTHORITY FOR UNDERCOVER OPERATIONS.

(a) In General.—Paragraph (6) of section 7608(c) (relating to application of section) is amended by striking “January 1, 2008” each place it appears and inserting “January 1, 2009”.

(b) Effective Date.—The amendment made by this section shall take effect on January 1, 2008.
SEC. 346. INCREASE IN LIMIT ON COVER OVER OF RUM EXCISE TAX TO PUERTO RICO AND THE VIRGIN ISLANDS.

(a) IN GENERAL.—Paragraph (1) of section 7652(f) is amended by striking “January 1, 2008” and inserting “January 1, 2009”.

(b) EFFECTIVE DATE.—The amendment made by this section shall apply to distilled spirits brought into the United States after December 31, 2007.

SEC. 347. DISCLOSURE OF RETURN INFORMATION FOR CERTAIN VETERANS PROGRAMS.

(a) IN GENERAL.—The last sentence of paragraph (7) of section 6103(l) is amended by striking “September 30, 2008” and inserting “December 31, 2008”.

(b) EFFECTIVE DATE.—The amendment made by subsection (a) shall apply to requests made after September 30, 2008.

TITLE IV—MORTGAGE FORGIVENESS DEBT RELIEF

SEC. 401. DISCHARGES OF INDEBTEDNESS ON PRINCIPAL RESIDENCE EXCLUDED FROM GROSS INCOME.

(a) IN GENERAL.—Paragraph (1) of section 108(a) is amended by striking “or” at the end of subparagraph (C), by striking the period at the end of subparagraph (D)
and inserting “, or”, and by inserting after subparagraph 
(D) the following new subparagraph:

“(E) the indebtedness discharged is qualify-

fied principal residence indebtedness.”.

(b) Special Rules Relating to Qualified Prin-
cipal Residence Indebtedness.—Section 108 is 
amended by adding at the end the following new sub-
section:

“(h) Special Rules Relating to Qualified 
Principal Residence Indebtedness.—

“(1) Basis reduction.—The amount excluded 
from gross income by reason of subsection (a)(1)(E) 
shall be applied to reduce (but not below zero) the 
basis of the principal residence of the taxpayer.

“(2) Qualified principal residence in-
debtedness.—For purposes of this section, the 
term ‘qualified principal residence indebtedness’ 
means acquisition indebtedness (within the meaning 
of section 163(h)(3)(B), applied by substituting 
‘$2,000,000 ($1,000,000’ for ‘$1,000,000 
($500,000’ in clause (ii) thereof) with respect to the 
principal residence of the taxpayer.

“(3) Exception for certain discharges 
not related to taxpayer’s financial condi-
tion.—Subsection (a)(1)(E) shall not apply to the
discharge of a loan if the discharge is on account of services performed for the lender or any other factor not directly related to a decline in the value of the residence or to the financial condition of the taxpayer.

“(4) ORDERING RULE.—If any loan is discharged, in whole or in part, and only a portion of such loan is qualified principal residence indebtedness, subsection (a)(1)(E) shall apply only to so much of the amount discharged as exceeds the amount of the loan (as determined immediately before such discharge) which is not qualified principal residence indebtedness.

“(5) PRINCIPAL RESIDENCE.—For purposes of this subsection, the term ‘principal residence’ has the same meaning as when used in section 121.”.

(c) COORDINATION.—

(1) Subparagraph (A) of section 108(a)(2) is amended by striking “and (D)” and inserting “(D), and (E)”.

(2) Paragraph (2) of section 108(a) is amended by adding at the end the following new subparagraph:

“(C) PRINCIPAL RESIDENCE EXCLUSION TAKES PRECEDENCE OVER INSOLVENCY EXCLU-
SION UNLESS ELECTED OTHERWISE.—Paragraph (1)(B) shall not apply to a discharge to
which paragraph (1)(E) applies unless the taxpayer elects to apply paragraph (1)(B) in lieu
of paragraph (1)(E).”.

(d) EFFECTIVE DATE.—The amendments made by this section shall apply to discharges of indebtedness on or after January 1, 2007.

SEC. 402. LONG-TERM EXTENSION OF DEDUCTION FOR MORTGAGE INSURANCE PREMIUMS.

(a) IN GENERAL.—Subparagraph (E) of section 163(h)(3) (relating to mortgage insurance premiums treated as interest) is amended by striking clauses (iii) and (iv) and inserting the following new clause:

“(iii) APPLICATION.—Clause (i) shall not apply with respect to any mortgage insurance contract issued before January 1, 2007, or after December 31, 2014.”.

(b) EFFECTIVE DATE.—The amendment made by subsection (a) shall apply to contracts issued after December 31, 2006.
SEC. 403. ALTERNATIVE TESTS FOR QUALIFYING AS COOPERATIVE HOUSING CORPORATION.

(a) In General.—Subparagraph (D) of section 216(b)(1) (defining cooperative housing corporation) is amended to read as follows:

“(D) meeting 1 or more of the following requirements for the taxable year in which the taxes and interest described in subsection (a) are paid or incurred:

“(i) 80 percent or more of the corporation’s gross income for such taxable year is derived from tenant-stockholders.

“(ii) At all times during such taxable year, 80 percent or more of the total square footage of the corporation’s property is used or available for use by the tenant-stockholders for residential purposes or purposes ancillary to such residential use.

“(iii) 90 percent or more of the expenditures of the corporation paid or incurred during such taxable year are paid or incurred for the acquisition, construction, management, maintenance, or care of the corporation’s property for the benefit of the tenant-stockholders.”.
(b) EFFECTIVE DATE.—The amendment made by this section shall apply to taxable years ending after the date of the enactment of this Act.

SEC. 404. GAIN FROM SALE OF PRINCIPAL RESIDENCE ALLOCATED TO NONQUALIFIED USE NOT EXCLUDED FROM INCOME.

(a) IN GENERAL.—Subsection (b) of section 121 (relating to limitations) is amended by adding at the end the following new paragraph:

“(4) EXCLUSION OF GAIN ALLOCATED TO NONQUALIFIED USE.—

“(A) IN GENERAL.—Subsection (a) shall not apply to so much of the gain from the sale or exchange of property as is allocated to periods of nonqualified use.

“(B) GAIN ALLOCATED TO PERIODS OF NONQUALIFIED USE.—For purposes of subparagraph (A), gain shall be allocated to periods of nonqualified use based on the ratio which—

“(i) the aggregate periods of nonqualified use during the period such property was owned by the taxpayer, bears to

“(ii) the period such property was owned by the taxpayer.
“(C) Period of nonqualified use.—

For purposes of this paragraph—

“(i) In general.—The term ‘period of nonqualified use’ means any period (other than the portion of any period preceding January 1, 2008) during which the property is not used as the principal residence of the taxpayer or the taxpayer’s spouse or former spouse.

“(ii) Exceptions.—The term ‘period of nonqualified use’ does not include—

“(I) any portion of the 5-year period described in subsection (a) which is after the last date that such property is used as the principal residence of the taxpayer or the taxpayer’s spouse,

“(II) any period (not to exceed an aggregate period of 10 years) during which the taxpayer or the taxpayer’s spouse is serving on qualified official extended duty (as defined in subsection (d)(9)(C)) described in clause (i), (ii), or (iii) of subsection (d)(9)(A), and
“(III) any other period of temporary absence (not to exceed an aggregate period of 2 years) due to change of employment, health conditions, or such other unforeseen circumstances as may be specified by the Secretary.

“(D) COORDINATION WITH RECOGNITION OF GAIN ATTRIBUTABLE TO DEPRECIATION.—

For purposes of this paragraph—

“(i) subparagraph (A) shall be applied after the application of subsection (d)(6), and

“(ii) subparagraph (B) shall be applied without regard to any gain to which subsection (d)(6) applies.”.

(b) EFFECTIVE DATE.—The amendment made by this section shall apply to sales and exchanges after December 31, 2007.

TITLE V—ADMINISTRATIVE PROVISIONS

SEC. 501. REPEAL OF AUTHORITY TO ENTER INTO PRIVATE DEBT COLLECTION CONTRACTS.

(a) IN GENERAL.—Subchapter A of chapter 64 is amended by striking section 6306.
(b) CONFORMING AMENDMENTS.—

(1) Subchapter B of chapter 76 is amended by striking section 7433A.

(2) Section 7811 is amended by striking subsection (g).

(3) Section 1203 of the Internal Revenue Service Restructuring Act of 1998 is amended by striking subsection (c).

(4) The table of sections for subchapter A of chapter 64 is amended by striking the item relating to section 6306.

(5) The table of sections for subchapter B of chapter 76 is amended by striking the item relating to section 7433A.

(c) EFFECTIVE DATE.—

(1) IN GENERAL.—Except as otherwise provided in this subsection, the amendments made by this section shall take effect on the date of the enactment of this Act.

(2) EXCEPTION FOR EXISTING CONTRACTS, ETC.—The amendments made by this section shall not apply to any contract which was entered into before July 18, 2007, and is not renewed or extended on or after such date.
(3) Unauthorized contracts and extensions treated as void.—Any qualified tax collection contract (as defined in section 6306 of the Internal Revenue Code of 1986, as in effect before its repeal) which is entered into on or after July 18, 2007, and any extension or renewal on or after such date of any qualified tax collection contract (as so defined) shall be void.

SEC. 502. DELAY OF APPLICATION OF WITHHOLDING REQUIREMENT ON CERTAIN GOVERNMENTAL PAYMENTS FOR GOODS AND SERVICES.

(a) In General.—Subsection (b) of section 511 of the Tax Increase Prevention and Reconciliation Act of 2005 is amended by striking “December 31, 2010” and inserting “December 31, 2011”.

(b) Report to Congress.—Not later than 6 months after the date of the enactment of this Act, the Secretary of the Treasury shall submit to the Committee on Ways and Means of the House of Representatives and the Committee on Finance of the Senate a report with respect to the withholding requirements of section 3402(t) of the Internal Revenue Code of 1986, including a detailed analysis of—
(1) the problems, if any, which are anticipated in administering and complying with such requirements,

(2) the burdens, if any, that such requirements will place on governments and businesses (taking into account such mechanisms as may be necessary to administer such requirements), and

(3) the application of such requirements to small expenditures for services and goods by governments.

SEC. 503. CLARIFICATION OF ENTITLEMENT OF VIRGIN ISLANDS RESIDENTS TO PROTECTIONS OF LIMITATIONS ON ASSESSMENT AND COLLECTION OF TAX.

(a) IN GENERAL.—Subsection (c) of section 932 (relating to treatment of Virgin Islands residents) is amended by adding at the end the following new paragraph:

“(5) Treatment of income tax return filed with Virgin Islands.—An income tax return filed with the Virgin Islands by an individual claiming to be described in paragraph (1) for the taxable year shall be treated for purposes of subtitle F in the same manner as if such return were an income tax return filed with the United States for such taxable year. The preceding sentence shall not
apply where such return is false or fraudulent with
the intent to evade tax or otherwise is a willful at-
tempt in any manner to defeat or evade tax.”

(b) EFFECTIVE DATE.—The amendment made by
this section shall apply to taxable years beginning after
1986.

SEC. 504. REVISION OF TAX RULES ON EXPATRIATION.

(a) IN GENERAL.—Subpart A of part II of sub-
chapter N of chapter 1 is amended by inserting after sec-
tion 877 the following new section:

“SEC. 877A. TAX RESPONSIBILITIES OF EXPATRIATION.

“(a) GENERAL RULES.—For purposes of this sub-
title—

“(1) MARK TO MARKET.—All property of a cov-
ered expatriate shall be treated as sold on the day
before the expatriation date for its fair market
value.

“(2) RECOGNITION OF GAIN OR LOSS.—In the
case of any sale under paragraph (1)—

“(A) notwithstanding any other provision
of this title, any gain arising from such sale
shall be taken into account for the taxable year
of the sale, and

“(B) any loss arising from such sale shall
be taken into account for the taxable year of
the sale to the extent otherwise provided by this
title, except that section 1091 shall not apply to
any such loss.

Proper adjustment shall be made in the amount of
any gain or loss subsequently realized for gain or
loss taken into account under the preceding sen-
tence, determined without regard to paragraph (3).

“(3) EXCLUSION FOR CERTAIN GAIN.—

“(A) IN GENERAL.—The amount which
would (but for this paragraph) be includible in
the gross income of any individual by reason of
paragraph (1) shall be reduced (but not below
zero) by $600,000.

“(B) ADJUSTMENT FOR INFLATION.—

“(i) IN GENERAL.—In the case of any
taxable year beginning in a calendar year
after 2008, the dollar amount in subpara-
graph (A) shall be increased by an amount
equal to—

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

“(II) the cost-of-living adjust-
ment determined under section 1(f)(3)
for the calendar year in which the tax-
able year begins, by substituting ‘cal-
endar year 2007’ for ‘calendar year 1992’ in subparagraph (B) thereof.

“(ii) Rounding.—If any amount as adjusted under clause (i) is not a multiple of $1,000, such amount shall be rounded to the nearest multiple of $1,000.

“(b) Election To Defere Tax.—

“(1) In General.—If the taxpayer elects the application of this subsection with respect to any property treated as sold by reason of subsection (a), the time for payment of the additional tax attributable to such property shall be extended until the due date of the return for the taxable year in which such property is disposed of (or, in the case of property disposed of in a transaction in which gain is not recognized in whole or in part, until such other date as the Secretary may prescribe).

“(2) Determination of Tax With Respect to Property.—For purposes of paragraph (1), the additional tax attributable to any property is an amount which bears the same ratio to the additional tax imposed by this chapter for the taxable year solely by reason of subsection (a) as the gain taken into account under subsection (a) with respect to such property bears to the total gain taken into ac-
count under subsection (a) with respect to all property to which subsection (a) applies.

“(3) TERMINATION OF EXTENSION.—The due date for payment of tax may not be extended under this subsection later than the due date for the return of tax imposed by this chapter for the taxable year which includes the date of death of the expatriate (or, if earlier, the time that the security provided with respect to the property fails to meet the requirements of paragraph (4), unless the taxpayer corrects such failure within the time specified by the Secretary).

“(4) SECURITY.—

“(A) IN GENERAL.—No election may be made under paragraph (1) with respect to any property unless adequate security is provided with respect to such property.

“(B) ADEQUATE SECURITY.—For purposes of subparagraph (A), security with respect to any property shall be treated as adequate security if—

“(i) it is a bond which is furnished to, and accepted by, the Secretary, which is conditioned on the payment of tax (and in-
terest thereon), and which meets the re-
quirements of section 6325, or

“(ii) it is another form of security for
such payment (including letters of credit)
that meets such requirements as the Sec-
retary may prescribe.

“(5) WAIVER OF CERTAIN RIGHTS.—No elec-
tion may be made under paragraph (1) unless the
taxpayer makes an irrevocable waiver of any right
under any treaty of the United States which would
preclude assessment or collection of any tax imposed
by reason of this section.

“(6) ELECTIONS.—An election under paragraph
(1) shall only apply to property described in the elec-
tion and, once made, is irrevocable.

“(7) INTEREST.—For purposes of section 6601,
the last date for the payment of tax shall be deter-
mained without regard to the election under this sub-
section.

“(c) EXCEPTION FOR CERTAIN PROPERTY.—Sub-
section (a) shall not apply to—

“(1) any deferred compensation item (as de-
dined in subsection (d)(4)),

“(2) any specified tax deferred account (as de-
dined in subsection (e)(2)), and
“(3) any interest in a nongrantor trust (as defined in subsection (f)(3)).

“(d) Treatment of Deferred Compensation Items.—

“(1) Withholding on Eligible Deferred Compensation Items.—

“(A) In general.—In the case of any eligible deferred compensation item, the payor shall deduct and withhold from any taxable payment to a covered expatriate with respect to such item a tax equal to 30 percent thereof.

“(B) Taxable Payment.—For purposes of subparagraph (A), the term ‘taxable payment’ means with respect to a covered expatriate any payment to the extent it would be includible in the gross income of the covered expatriate if such expatriate continued to be subject to tax as a citizen or resident of the United States. A deferred compensation item shall be taken into account as a payment under the preceding sentence when such item would be so includible.

“(2) Other Deferred Compensation Items.—In the case of any deferred compensation
item which is not an eligible deferred compensation item—

“(A)(i) with respect to any deferred compensation item to which clause (ii) does not apply, an amount equal to the present value of the covered expatriate’s accrued benefit shall be treated as having been received by such individual on the day before the expatriation date as a distribution under the plan, and

“(ii) with respect to any deferred compensation item referred to in paragraph (4)(D), the rights of the covered expatriate to such item shall be treated as becoming transferable and not subject to a substantial risk of forfeiture on the day before the expatriation date,

“(B) no early distribution tax shall apply by reason of such treatment, and

“(C) appropriate adjustments shall be made to subsequent distributions from the plan to reflect such treatment.

“(3) Eligible Deferred Compensation Items.—For purposes of this subsection, the term ‘eligible deferred compensation item’ means any deferred compensation item with respect to which—

“(A) the payor of such item is—
“(i) a United States person, or

“(ii) a person who is not a United States person but who elects to be treated as a United States person for purposes of paragraph (1) and meets such requirements as the Secretary may provide to ensure that the payor will meet the requirements of paragraph (1), and

“(B) the covered expatriate—

“(i) notifies the payor of his status as a covered expatriate, and

“(ii) makes an irrevocable waiver of any right to claim any reduction under any treaty with the United States in withholding on such item.

“(4) DEFERRED COMPENSATION ITEM.—For purposes of this subsection, the term ‘deferred compensation item’ means—

“(A) any interest in a plan or arrangement described in section 219(g)(5),

“(B) any interest in a foreign pension plan or similar retirement arrangement or program,

“(C) any item of deferred compensation, and
“(D) any property, or right to property, which the individual is entitled to receive in connection with the performance of services to the extent not previously taken into account under section 83 or in accordance with section 83.

“(5) EXCEPTION.—Paragraphs (1) and (2) shall not apply to any deferred compensation item which is attributable to services performed outside the United States while the covered expatriate was not a citizen or resident of the United States.

“(6) SPECIAL RULES.—

“(A) APPLICATION OF WITHHOLDING RULES.—Rules similar to the rules of subchapter B of chapter 3 shall apply for purposes of this subsection.

“(B) APPLICATION OF TAX.—Any item subject to the withholding tax imposed under paragraph (1) shall be subject to tax under section 871.

“(C) COORDINATION WITH OTHER WITHHOLDING REQUIREMENTS.—Any item subject to withholding under paragraph (1) shall not be subject to withholding under section 1441 or chapter 24.
“(e) TREATMENT OF SPECIFIED TAX DEFERRED ACCOUNTS.—

“(1) ACCOUNT TREATED AS DISTRIBUTED.—In the case of any interest in a specified tax deferred account held by a covered expatriate on the day before the expatriation date—

“(A) the covered expatriate shall be treated as receiving a distribution of his entire interest in such account on the day before the expatriation date,

“(B) no early distribution tax shall apply by reason of such treatment, and

“(C) appropriate adjustments shall be made to subsequent distributions from the account to reflect such treatment.

“(2) SPECIFIED TAX DEFERRED ACCOUNT.—For purposes of paragraph (1), the term ‘specified tax deferred account’ means an individual retirement plan (as defined in section 7701(a)(37)) other than any arrangement described in subsection (k) or (p) of section 408, a qualified tuition program (as defined in section 529), a Coverdell education savings account (as defined in section 530), a health savings account (as defined in section 223), and an Archer MSA (as defined in section 220).
“(f) **Special Rules for Nongrantor Trusts.**—

“(1) **In General.**—In the case of a distribution (directly or indirectly) of any property from a nongrantor trust to a covered expatriate—

“(A) the trustee shall deduct and withhold from such distribution an amount equal to 30 percent of the taxable portion of the distribution, and

“(B) if the fair market value of such property exceeds its adjusted basis in the hands of the trust, gain shall be recognized to the trust as if such property were sold to the expatriate at its fair market value.

“(2) **Taxable Portion.**—For purposes of this subsection, the term ‘taxable portion’ means, with respect to any distribution, that portion of the distribution which would be includible in the gross income of the covered expatriate if such expatriate continued to be subject to tax as a citizen or resident of the United States.

“(3) **Nongrantor Trust.**—For purposes of this subsection, the term ‘nongrantor trust’ means the portion of any trust that the individual is not considered the owner of under subpart E of part I of subchapter J. The determination under the pre-
ceeding sentence shall be made immediately before the expatriation date.

“(4) Special rules relating to withholding.—For purposes of this subsection—

“(A) rules similar to the rules of subsection (d)(6) shall apply, and

“(B) the covered expatriate shall be treated as having waived any right to claim any reduction under any treaty with the United States in withholding on any distribution to which paragraph (1)(A) applies.

“(5) Application.—This subsection shall apply to a nongrantor trust only if the covered expatriate was a beneficiary of the trust on the day before the expatriation date.

“(g) Definitions and special rules relating to expatriation.—For purposes of this section—

“(1) Covered expatriate.—

“(A) In general.—The term ‘covered expatriate’ means an expatriate who meets the requirements of subparagraph (A), (B), or (C) of section 877(a)(2).

“(B) Exceptions.—An individual shall not be treated as meeting the requirements of
subsection (A) or (B) of section 877(a)(2) if—

“(i) the individual—

“(I) became at birth a citizen of the United States and a citizen of another country and, as of the expatriation date, continues to be a citizen of, and is taxed as a resident of, such other country, and

“(II) has been a resident of the United States (as defined in section 7701(b)(1)(A)(ii)) for not more than 10 taxable years during the 15-taxable year period ending with the taxable year during which the expatriation date occurs, or

“(ii)(I) the individual’s relinquishment of United States citizenship occurs before such individual attains age 18½, and

“(II) the individual has been a resident of the United States (as so defined) for not more than 10 taxable years before the date of relinquishment.

“(C) COVERED EXPATRIATES ALSO SUBJECT TO TAX AS CITIZENS OR RESIDENTS.—In
the case of any covered expatriate who is sub-
ject to tax as a citizen or resident of the United
States for any period beginning after the expa-
triation date, such individual shall not be treat-
ed as a covered expatriate during such period
for purposes of subsections (d)(1) and (f) and
section 2801.

“(2) EXPATRIATE.—The term ‘expatriate’
means—

“(A) any United States citizen who relin-
quishes his citizenship, and

“(B) any long-term resident of the United
States who ceases to be a lawful permanent
resident of the United States (within the mean-
ing of section 7701(b)(6)).

“(3) EXPATRIATION DATE.—The term ‘expa-
triation date’ means—

“(A) the date an individual relinquishes
United States citizenship, or

“(B) in the case of a long-term resident of
the United States, the date on which the indi-
vidual ceases to be a lawful permanent resident
of the United States (within the meaning of
section 7701(b)(6)).
(4) RELINQUISHMENT OF CITIZENSHIP.—A citizen shall be treated as relinquishing his United States citizenship on the earliest of—

“(A) the date the individual renounces his United States nationality before a diplomatic or consular officer of the United States pursuant to paragraph (5) of section 349(a) of the Immigration and Nationality Act (8 U.S.C. 1481(a)(5)),

“(B) the date the individual furnishes to the United States Department of State a signed statement of voluntary relinquishment of United States nationality confirming the performance of an act of expatriation specified in paragraph (1), (2), (3), or (4) of section 349(a) of the Immigration and Nationality Act (8 U.S.C. 1481(a)(1)–(4)),

“(C) the date the United States Department of State issues to the individual a certificate of loss of nationality, or

“(D) the date a court of the United States cancels a naturalized citizen’s certificate of naturalization.

Subparagraph (A) or (B) shall not apply to any individual unless the renunciation or voluntary relin-
quishment is subsequently approved by the issuance to the individual of a certificate of loss of nationality by the United States Department of State.

“(5) LONG-TERM RESIDENT.—The term ‘long-term resident’ has the meaning given to such term by section 877(e)(2).

“(6) EARLY DISTRIBUTION TAX.—The term ‘early distribution tax’ means any increase in tax imposed under section 72(t), 220(e)(4), 223(f)(4), 409A(a)(1)(B), 529(c)(6), or 530(d)(4).

“(h) OTHER RULES.—

“(1) TERMINATION OF DEFERRALS, ETC.—In the case of any covered expatriate, notwithstanding any other provision of this title—

“(A) any time period for acquiring property which would result in the reduction in the amount of gain recognized with respect to property disposed of by the taxpayer shall terminate on the day before the expatriation date, and

“(B) any extension of time for payment of tax shall cease to apply on the day before the expatriation date and the unpaid portion of such tax shall be due and payable at the time and in the manner prescribed by the Secretary.
“(2) Step-up in basis.— Solely for purposes of determining any tax imposed by reason of subsection (a), property which was held by an individual on the date the individual first became a resident of the United States (within the meaning of section 7701(b)) shall be treated as having a basis on such date of not less than the fair market value of such property on such date. The preceding sentence shall not apply if the individual elects not to have such sentence apply. Such an election, once made, shall be irrevocable.

“(3) Coordination with section 684.— If the expatriation of any individual would result in the recognition of gain under section 684, this section shall be applied after the application of section 684.

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

(b) Tax on gifts and bequests received by United States citizens and residents from expatriates.—

(1) In general.— Subtitle B (relating to estate and gift taxes) is amended by inserting after chapter 14 the following new chapter:
"CHAPTER 15—GIFTS AND BEQUESTS FROM EXPATRIATES

"Sec. 2801. Imposition of tax.

"SEC. 2801. IMPOSITION OF TAX.

"(a) IN GENERAL.—If, during any calendar year, any United States citizen or resident receives any covered gift or bequest, there is hereby imposed a tax equal to the product of—

"(1) the highest rate of tax specified in the table contained in section 2001(c) as in effect on the date of such receipt (or, if greater, the highest rate of tax specified in the table applicable under section 2502(a) as in effect on the date), and

"(2) the value of such covered gift or bequest.

"(b) TAX TO BE PAID BY RECIPIENT.—The tax imposed by subsection (a) on any covered gift or bequest shall be paid by the person receiving such gift or bequest.

"(c) EXCEPTION FOR CERTAIN GIFTS.—Subsection (a) shall apply only to the extent that the value of covered gifts and bequests received by any person during the calendar year exceeds $10,000.

"(d) TAX REDUCED BY FOREIGN GIFT OR ESTATE TAX.—The tax imposed by subsection (a) on any covered gift or bequest shall be reduced by the amount of any gift
or estate tax paid to a foreign country with respect to such
covered gift or bequest.

“(e) COVERED GIFT OR BEQUEST.—

“(1) IN GENERAL.—For purposes of this chap-
ter, the term ‘covered gift or bequest’ means—

“(A) any property acquired by gift directly
or indirectly from an individual who, at the
time of such acquisition, is a covered expatriate,
and

“(B) any property acquired directly or in-
directly by reason of the death of an individual
who, immediately before such death, was a cov-
ered expatriate.

“(2) EXCEPTIONS FOR TRANSFERS OTHERWISE
subject to estate or gift tax.—Such term shall
not include—

“(A) any property shown on a timely filed
return of tax imposed by chapter 12 which is a
taxable gift by the covered expatriate, and

“(B) any property included in the gross es-
teate of the covered expatriate for purposes of
chapter 11 and shown on a timely filed return
of tax imposed by chapter 11 of the estate of
the covered expatriate.

“(3) TRANSFERS IN TRUST.—
“(A) DOMESTIC TRUSTS.—In the case of a covered gift or bequest made to a domestic trust—

“(i) subsection (a) shall apply in the same manner as if such trust were a United States citizen, and

“(ii) the tax imposed by subsection (a) on such gift or bequest shall be paid by such trust.

“(B) FOREIGN TRUSTS.—

“(i) IN GENERAL.—In the case of a covered gift or bequest made to a foreign trust, subsection (a) shall apply to any distribution attributable to such gift or bequest from such trust (whether from income or corpus) to a United States citizen or resident in the same manner as if such distribution were a covered gift or bequest.

“(ii) DEDUCTION FOR TAX PAID BY RECIPIENT.—There shall be allowed as a deduction under section 164 the amount of tax imposed by this section which is paid or accrued by a United States citizen or resident by reason of a distribution from a foreign trust, but only to the extent such
tax is imposed on the portion of such distribution which is included in the gross income of such citizen or resident.

“(iii) Election to be treated as domestic trust.—Solely for purposes of this section, a foreign trust may elect to be treated as a domestic trust. Such an election may be revoked with the consent of the Secretary.

“(f) Covered expatriate.—For purposes of this section, the term ‘covered expatriate’ has the meaning given to such term by section 877A(g)(1).”.

(2) Clerical amendment.—The table of chapters for subtitle B is amended by inserting after the item relating to chapter 14 the following new item:

“Chapter 15. Gifts and Bequests From Expatriates.”.

(c) Definition of termination of United States citizenship.—

(1) In general.—Section 7701(a) is amended by adding at the end the following new paragraph:

“(50) Termination of United States citizenship.—

“(A) In general.—An individual shall not cease to be treated as a United States citizen before the date on which the individual’s
citizenship is treated as relinquished under section 877A(g)(4).

“(B) DUAL CITIZENS.—Under regulations prescribed by the Secretary, subparagraph (A) shall not apply to an individual who became at birth a citizen of the United States and a citizen of another country.”.

(2) CONFORMING AMENDMENTS.—

(A) Paragraph (1) of section 877(e) is amended to read as follows:

“(1) IN GENERAL.—Any long-term resident of the United States who ceases to be a lawful permanent resident of the United States (within the meaning of section 7701(b)(6)) shall be treated for purposes of this section and sections 2107, 2501, and 6039G in the same manner as if such resident were a citizen of the United States who lost United States citizenship on the date of such cessation or commencement.”.

(B) Paragraph (6) of section 7701(b) is amended by adding at the end the following flush sentence:

“An individual shall cease to be treated as a lawful permanent resident of the United States if such individual commences to be treated as a resident of a
foreign country under the provisions of a tax treaty
between the United States and the foreign country,
does not waive the benefits of such treaty applicable
to residents of the foreign country, and notifies the
Secretary of the commencement of such treatment.”.

(C) Section 7701 is amended by striking
subsection (n) and by redesignating subsections
(o) and (p) as subsections (n) and (o), respec-
tively.

(d) INFORMATION RETURNS.—Section 6039G is
amended—

(1) by inserting “or 877A” after “section
877(b)” in subsection (a), and

(2) by inserting “or 877A” after “section
877(a)” in subsection (d).

(e) CLERICAL AMENDMENT.—The table of sections
for subpart A of part II of subchapter N of chapter 1
is amended by inserting after the item relating to section
877 the following new item:

“Sec. 877A. Tax responsibilities of expatriation.”.

(f) EFFECTIVE DATE.—

(1) IN GENERAL.—Except as provided in this
subsection, the amendments made by this section
shall apply to expatriates (as defined in section
877A(g) of the Internal Revenue Code of 1986, as
added by this section) whose expatriation date (as so
defined) is on or after the date of the enactment of this Act.

(2) GIFTS AND BEQUESTS.—Chapter 15 of the Internal Revenue Code of 1986 (as added by subsection (b)) shall apply to covered gifts and bequests (as defined in section 2801 of such Code, as so added) received on or after the date of the enactment of this Act, regardless of when the transferor expatriated.

SEC. 505. REPEAL OF SUSPENSION OF CERTAIN PENALTIES AND INTEREST.

(a) IN GENERAL.—Section 6404 is amended by striking subsection (g) and by redesignating subsection (h) as subsection (g).

(b) EFFECTIVE DATE.—The amendment made by subsection (a) shall apply to notices provided by the Secretary of the Treasury, or his delegate, after the date which is 6 months after the date of the enactment of the Small Business and Work Opportunity Tax Act of 2007.

SEC. 506. UNUSED MERCHANDISE DRAWBACK.

(a) IN GENERAL.—Section 313(j)(2) of the Tariff Act of 1930 (19 U.S.C. 1313(j)(2)) is amended by adding at the end the following: “For purposes of subparagraph (A) of this paragraph, wine of the same color shall be deemed to be commercially interchangeable.”.
(b) EFFECTIVE DATE.—The amendment made by subsection (a) shall apply with respect to claims filed for drawback under section 313(j)(2) of the Tariff Act of 1930 on or after the date of the enactment of this Act.

TITLE VI—REVENUE PROVISIONS

Subtitle A—Nonqualified Deferred Compensation From Certain Tax Indifferent Parties

SEC. 601. NONQUALIFIED DEFERRED COMPENSATION FROM CERTAIN TAX INDIFFERENT PARTIES.

(a) IN GENERAL.—Subpart B of part II of subchapter E of chapter 1 (relating to taxable year for which items of gross income included) is amended by inserting after section 457 the following new section:

“SEC. 457A. NONQUALIFIED DEFERRED COMPENSATION FROM CERTAIN TAX INDIFFERENT PARTIES.

“(a) IN GENERAL.—Any compensation which is deferred under a nonqualified deferred compensation plan of a nonqualified entity shall be taken into account for purposes of this chapter when there is no substantial risk of forfeiture of the rights to such compensation.

“(b) NONQUALIFIED ENTITY.—For purposes of this section, the term ‘nonqualified entity’ means—
“(1) any foreign corporation unless substantially all of such income is—

“(A) effectively connected with the conduct of a trade or business in the United States, or

“(B) subject to a comprehensive foreign income tax, and

“(2) any partnership unless substantially all of such income is allocated to persons other than—

“(A) foreign persons with respect to whom such income is not subject to a comprehensive foreign income tax, and

“(B) organizations which are exempt from tax under this title.

“(c) ASCERTAINABILITY OF AMOUNTS OF COMPENSATION.—

“(1) IN GENERAL.—If the amount of any compensation is not ascertainable at the time that such compensation is otherwise to be taken into account under subsection (a)—

“(A) such amount shall be so taken into account when ascertainable, and

“(B) the tax imposed under this chapter for the taxable year in which such compensation is taken into account under subparagraph (A) shall be increased by the sum of—
“(i) the amount of interest determined under paragraph (2), and

“(ii) an amount equal to 20 percent of the amount of such compensation.

“(2) INTEREST.—For purposes of paragraph (1)(B)(i), the interest determined under this paragraph for any taxable year is the amount of interest at the underpayment rate under section 6621 plus 1 percentage point on the underpayments that would have occurred had the deferred compensation been in includible in gross income for the taxable year in which first deferred or, if later, the first taxable year in which such deferred compensation is not subject to a substantial risk of forfeiture.

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

“(1) SUBSTANTIAL RISK OF FORFEITURE.—The rights of a person to compensation shall be treated as subject to a substantial risk of forfeiture only if such person’s rights to such compensation are conditioned upon the future performance of substantial services by any individual.

“(2) COMPREHENSIVE FOREIGN INCOME TAX.—The term ‘comprehensive foreign income tax’ means,
with respect to any foreign person, the income tax of a foreign country if—

“(A) such person is eligible for the benefits of a comprehensive income tax treaty between such foreign country and the United States, or

“(B) such person demonstrates to the satisfaction of the Secretary that such foreign country has a comprehensive income tax.

Such term shall not include any tax unless such tax includes rules for the deductibility of deferred compensation which are similar to the rules of this title.

“(3) Nonqualified deferred compensation plan.—The term ‘nonqualified deferred compensation plan’ has the meaning given such term under section 409A(d), except that such term shall include any plan that provides a right to compensation based on the appreciation in value of a specified number of equity units of the service recipient.

“(4) Application of rules.—Rules similar to the rules of paragraphs (5) and (6) of section 409A(d) shall apply.

“(e) Regulations.—The Secretary shall prescribe such regulations as may be necessary or appropriate to carry out the purposes of this section, including regulations disregarding a substantial risk of forfeiture in cases
where necessary to carry out the purposes of this section.”.

(b) CONFORMING AMENDMENT.—Section 26(b)(2) is amended by striking “and” at the end of subparagraph (S), by striking the period at the end of subparagraph (T) and inserting “, and”, and by adding at the end the following new subparagraph:

“(U) section 457A(c)(1)(B) (relating to ascertainability of amounts of compensation).”.

(c) CLERICAL AMENDMENT.—The table of sections of subpart B of part II of subchapter E of chapter 1 is amended by inserting after the item relating to section 457 the following new item:

“Sec. 457A. Nonqualified deferred compensation from certain tax indifferent parties.”.

(d) EFFECTIVE DATE.—

(1) IN GENERAL.—Except as otherwise provided in this subsection, the amendments made by this section shall apply to amounts deferred which are attributable to services performed after December 31, 2007.

(2) APPLICATION TO EXISTING DEFERRALS.—In the case of any amount deferred to which the amendments made by this section do not apply solely by reason of the fact that the amount is attributable to services performed before January 1, 2008, to the
extent such amount is not includible in gross income in a taxable year beginning before 2017, such amounts shall be includible in gross income in the later of—

(A) the last taxable year beginning before 2017, or

(B) the taxable year in which there is no substantial risk of forfeiture of the rights to such compensation (determined in the same manner as determined for purposes of section 457A of the Internal Revenue Code of 1986, as added by this section).

(3) ACCELERATED PAYMENTS.—No later than 60 days after the date of the enactment of this Act, the Secretary shall issue guidance providing a limited period of time during which a nonqualified deferred compensation arrangement attributable to services performed on or before December 31, 2007, may, without violating the requirements of section 409A(a) of the Internal Revenue Code of 1986, be amended to conform the date of distribution to the date the amounts are required to be included in income.
Subtitle B—Provisions Related to Certain Investment Partnerships

SEC. 611. INCOME OF PARTNERS FOR PERFORMING INVESTMENT MANAGEMENT SERVICES TREATED AS ORDINARY INCOME RECEIVED FOR PERFORMANCE OF SERVICES.

(a) In General.—Part I of subchapter K of chapter 1 is amended by adding at the end the following new section:

“SEC. 710. SPECIAL RULES FOR PARTNERS PROVIDING INVESTMENT MANAGEMENT SERVICES TO PARTNERSHIP.

“(a) Treatment of Distributive Share of Partnership Items.—For purposes of this title, in the case of an investment services partnership interest—

“(1) In General.—Notwithstanding section 702(b)—

“(A) any net income with respect to such interest for any partnership taxable year shall be treated as ordinary income for the performance of services, and

“(B) any net loss with respect to such interest for such year, to the extent not disallowed under paragraph (2) for such year, shall be treated as an ordinary loss.
“(2) TREATMENT OF LOSSES.—

“(A) LIMITATION.—Any net loss with respect to such interest shall be allowed for any partnership taxable year only to the extent that such loss does not exceed the excess (if any) of—

“(i) the aggregate net income with respect to such interest for all prior partnership taxable years, over

“(ii) the aggregate net loss with respect to such interest not disallowed under this subparagraph for all prior partnership taxable years.

“(B) CARRYFORWARD.—Any net loss for any partnership taxable year which is not allowed by reason of subparagraph (A) shall be treated as an item of loss with respect to such partnership interest for the succeeding partnership taxable year.

“(C) BASIS ADJUSTMENT.—No adjustment to the basis of a partnership interest shall be made on account of any net loss which is not allowed by reason of subparagraph (A).

“(D) EXCEPTION FOR BASIS ATTRIBUTABLE TO PURCHASE OF A PARTNERSHIP IN-
TEREST.—In the case of an investment services partnership interest acquired by purchase, paragraph (1)(B) shall not apply to so much of any net loss with respect to such interest for any taxable year as does not exceed the excess of—

“(i) the basis of such interest immediately after such purchase, over

“(ii) the aggregate net loss with respect to such interest to which paragraph (1)(B) did not apply by reason of this subparagraph for all prior taxable years.

Any net loss to which paragraph (1)(B) does not apply by reason of this subparagraph shall not be taken into account under subparagraph (A).

“(E) PRIOR PARTNERSHIP YEARS.—Any reference in this paragraph to prior partnership taxable years shall only include prior partnership taxable years to which this section applies.

“(3) NET INCOME AND LOSS.—For purposes of this section—

“(A) NET INCOME.—The term ‘net income’ means, with respect to any investment services partnership interest, for any partnership taxable year, the excess (if any) of—
“(i) all items of income and gain taken into account by the holder of such interest under section 702 with respect to such interest for such year, over

“(ii) all items of deduction and loss so taken into account.

“(B) Net Loss.—The term ‘net loss’ means with respect to such interest for such year, the excess (if any) of the amount described in subparagraph (A)(ii) over the amount described in subparagraph (A)(i).

“(b) Dispositions of Partnership Interests.—

“(1) Gain.—Any gain on the disposition of an investment services partnership interest shall be treated as ordinary income for the performance of services.

“(2) Loss.—Any loss on the disposition of an investment services partnership interest shall be treated as an ordinary loss to the extent of the excess (if any) of—

“(A) the aggregate net income with respect to such interest for all partnership taxable years, over
“(B) the aggregate net loss with respect to such interest allowed under subsection (a)(2) for all partnership taxable years.

“(3) DISPOSITION OF PORTION OF INTEREST.—In the case of any disposition of an investment services partnership interest, the amount of net loss which otherwise would have (but for subsection (a)(2)(C)) applied to reduce the basis of such interest shall be disregarded for purposes of this section for all succeeding partnership taxable years.

“(4) DISTRIBUTIONS OF PARTNERSHIP PROPERTY.—In the case of any distribution of appreciated property by a partnership with respect to any investment services partnership interest, gain shall be recognized by the partnership in the same manner as if the partnership sold such property at fair market value at the time of the distribution. For purposes of this paragraph, the term ‘appreciated property’ means any property with respect to which gain would be determined if sold as described in the preceding sentence.

“(5) APPLICATION OF SECTION 751.—In applying section 751(a), an investment services partnership interest shall be treated as an inventory item.
“(c) Investment Services Partnership Interest.—For purposes of this section—

“(1) In General.—The term ‘investment services partnership interest’ means any interest in a partnership which is held by any person if such person provides (directly or indirectly) a substantial quantity of any of the following services with respect to the assets of the partnership in the conduct of the trade or business of providing such services:

“(A) Advising as to the advisability of investing in, purchasing, or selling any specified asset.

“(B) Managing, acquiring, or disposing of any specified asset.

“(C) Arranging financing with respect to acquiring specified assets.

“(D) Any activity in support of any service described in subparagraphs (A) through (C).

For purposes of this paragraph, the term ‘specified asset’ means securities (as defined in section 475(c)(2) without regard to the last sentence thereof), real estate, commodities (as defined in section 475(e)(2)), or options or derivative contracts with respect to securities (as so defined), real estate, or commodities (as so defined).
“(2) Exception for certain capital interests.—

“(A) In general.—If—

“(i) a portion of an investment services partnership interest is acquired on account of a contribution of invested capital, and

“(ii) the partnership makes a reasonable allocation of partnership items between the portion of the distributive share that is with respect to invested capital and the portion of such distributive share that is not with respect to invested capital,

then subsection (a) shall not apply to the portion of the distributive share that is with respect to invested capital. An allocation will not be treated as reasonable for purposes of this subparagraph if such allocation would result in the partnership allocating a greater portion of income to invested capital than any other partner not providing services would have been allocated with respect to the same amount of invested capital.

“(B) Special rule for dispositions.—

In any case to which subparagraph (A) applies,
subsection (b) shall not apply to any gain or loss allocable to invested capital. The portion of any gain or loss attributable to invested capital is the proportion of such gain or loss which is based on the distributive share of gain or loss that would have been allocable to invested capital under subparagraph (A) if the partnership sold all of its assets immediately before the disposition.

“(C) **INVESTED CAPITAL.**—For purposes of this paragraph, the term ‘invested capital’ means, the fair market value at the time of contribution of any money or other property contributed to the partnership.

“(D) **TREATMENT OF CERTAIN LOANS.**—

“(i) **PROCEEDS OF PARTNERSHIP LOANS NOT TREATED AS INVESTED CAPITAL OF SERVICE PROVIDING PARTNERS.**—

For purposes of this paragraph, an investment services partnership interest shall not be treated as acquired on account of a contribution of invested capital to the extent that such capital is attributable to the proceeds of any loan or other advance made or
guaranteed, directly or indirectly, by any
partner or the partnership.

“(ii) Loans from Nonservice Providing Partners to the Partnership Treated as Invested Capital.—For purposes of this paragraph, any loan or other advance to the partnership made or guaranteed, directly or indirectly, by a partner not providing services to the partnership shall be treated as invested capital of such partner and amounts of income and loss treated as allocable to invested capital shall be adjusted accordingly.

“(d) Other Income and Gain in Connection with Investment Management Services.—

“(1) In General.—If—

“(A) a person performs (directly or indirectly) investment management services for any entity,

“(B) such person holds a disqualified interest with respect to such entity, and

“(C) the value of such interest (or payments thereunder) is substantially related to the amount of income or gain (whether or not realized) from the assets with respect to which
the investment management services are performed,
any income or gain with respect to such interest shall be treated as ordinary income for the performance of services. Rules similar to the rules of subsection (c)(2) shall apply where such interest was acquired on account of invested capital in such entity.

“(2) DEFINITIONS.—For purposes of this subsection—

“(A) DISQUALIFIED INTEREST.—The term ‘disqualified interest’ means, with respect to any entity—

“(i) any interest in such entity other than indebtedness,

“(ii) convertible or contingent debt of such entity,

“(iii) any option or other right to acquire property described in clause (i) or (ii), and

“(iv) any derivative instrument entered into (directly or indirectly) with such entity or any investor in such entity.

Such term shall not include a partnership interest and shall not include stock in a taxable corporation.
“(B) TAXABLE CORPORATION.—The term ‘taxable corporation’ means—

“(i) a domestic C corporation, or
“(ii) a foreign corporation subject to a comprehensive foreign income tax (as defined in section 457A(d)(4)).

“(C) INVESTMENT MANAGEMENT SERVICES.—The term ‘investment management services’ means a substantial quantity of any of the services described in subsection (c)(1) which are provided in the conduct of the trade or business of providing such services.

“(e) REGULATIONS.—The Secretary shall prescribe such regulations as are necessary or appropriate to carry out the purposes of this section, including regulations to—

“(1) prevent the avoidance of the purposes of this section, and
“(2) coordinate this section with the other provisions of this subchapter.

“(f) CROSS REFERENCE.—For 40 percent no fault penalty on certain underpayments due to the avoidance of this section, see section 6662.”.

(b) APPLICATION TO REAL ESTATE INVESTMENT TRUSTS.—Subsection (c) of section 856 is amended by adding at the end the following new paragraph:
“(8) Exception from Reclassification of Income from Investment Services Partnership Interests.—

“(A) In General.—Paragraphs (2), (3), and (4) shall be applied without regard to section 710 (relating to special rules for partners providing investment management services to partnership).

“(B) Special Rule for Partnerships Owned by REITs.—Section 7704 shall be applied without regard to section 710 in the case of a partnership which meets each of the following requirements:

“(i) Such partnership is treated as publicly traded under section 7704 solely by reason of interests in such partnership being convertible into interests in a real estate investment trust which is publicly traded.

“(ii) 50 percent or more of the capital and profits interests of such partnership are owned, directly or indirectly, at all times during the taxable year by such real estate investment trust (determined with the application of section 267(e)).
“(iii) Such partnership meets the requirements of paragraphs (2), (3), and (4) (applied without regard to section 710).”.

(c) Imposition of Penalty on Underpayments.—

(1) In general.—Subsection (b) of section 6662 is amended by inserting after paragraph (5) the following new paragraph:

“(6) The application of subsection (d) of section 710 or the regulations prescribed under section 710(e) to prevent the avoidance of the purposes of section 710.”.

(2) Amount of penalty.—

(A) In general.—Section 6662 is amended by adding at the end the following new subsection:

“(i) Increase in Penalty in Case of Property Transferred for Investment Management Services.—In the case of any portion of an underpayment to which this section applies by reason of subsection (b)(6), subsection (a) shall be applied with respect to such portion by substituting ‘40 percent’ for ‘20 percent’.”.

(B) Conforming amendments.—Subparagraph (B) of section 6662A(e)(2) is amended—
(i) by striking “section 6662(h)” and inserting “subsection (h) or (i) of section 6662”, and

(ii) by striking “GROSS VALUATION MISSTATEMENT PENALTY” in the heading and inserting “CERTAIN INCREASED UNDERPAYMENT PENALTIES”.

(3) REASONABLE CAUSE EXCEPTION NOT APPLICABLE.—Subsection (e) of section 6664 is amended—

(A) by redesignating paragraphs (2) and (3) as paragraphs (3) and (4), respectively,

(B) by striking “paragraph (2)” in paragraph (4), as so redesignated, and inserting “paragraph (3)”, and

(C) by inserting after paragraph (1) the following new paragraph:

“(2) Exception.—Paragraph (1) shall not apply to any portion of an underpayment to which this section applies by reason of subsection (b)(6).”.

(d) CONFORMING AMENDMENTS.—

(1) Subsection (d) of section 731 is amended by inserting “section 710(b)(4) (relating to distributions of partnership property),” before “section 736”.


(2) Section 741 is amended by inserting “or section 710 (relating to special rules for partners providing investment management services to partnership)” before the period at the end.

(3) Paragraph (13) of section 1402(a) is amended—

(A) by striking “other than guaranteed” and inserting “other than—

“(A) guaranteed”,

(B) by striking the semi-colon at the end and inserting “, and”, and

(C) by adding at the end the following new subparagraph:

“(B) any income treated as ordinary income under section 710 received by an individual who provides investment management services (as defined in section 710(d)(2));”.

(4) Paragraph (12) of section 211(a) of the Social Security Act is amended—

(A) by striking “other than guaranteed” and inserting “other than—

“(A) guaranteed”,

(B) by striking the semi-colon at the end and inserting “, and”, and
(C) by adding at the end the following new subparagraph:

“(B) any income treated as ordinary income under section 710 of the Internal Revenue Code of 1986 received by an individual who provides investment management services (as defined in section 710(d)(2) of such Code);”.

(5) The table of sections for part I of subchapter K of chapter 1 is amended by adding at the end the following new item:

“Sec. 710. Special rules for partners providing investment management services to partnership.”.

(e) EFFECTIVE DATE.—

(1) IN GENERAL.—Except as otherwise provided in this subsection, the amendments made by this section shall apply to taxable years ending after November 1, 2007.

(2) PARTNERSHIP TAXABLE YEARS WHICH INCLUDE EFFECTIVE DATE.—In applying section 710(a) of the Internal Revenue Code of 1986 (as added by this section) in the case of any partnership taxable year which includes November 1, 2007, the amount of the net income referred to in such section shall be treated as being the lesser of the net income for the entire partnership taxable year or the net income determined by only taking into account items
attributable to the portion of the partnership taxable
year which is after such date.

(3) **Dispositions of partnership interests.**—Section 710(b) of the Internal Revenue Code of 1986 (as added by this section) shall apply to dispositions and distributions after November 1, 2007.

(4) **Other income and gain in connection with investment management services.**—Section 710(d) of such Code (as added by this section) shall take effect on November 1, 2007.

(5) **Publicly traded partnerships.**—For purposes of applying section 7704, the amendments made by this section shall apply to taxable years beginning after December 31, 2009.

**SEC. 612. INDEBTEDNESS INCURRED BY A PARTNERSHIP IN ACQUIRING SECURITIES AND COMMODITIES NOT TREATED AS ACQUISITION INDEBTEDNESS FOR ORGANIZATIONS WHICH ARE PARTNERS WITH LIMITED LIABILITY.**

(a) **In General.**—Subsection (e) of section 514 (relating to acquisition indebtedness) is amended by adding at the end the following new paragraph:

“(10) **Securities and commodities acquired by partnerships in which an organization is a partner with limited liability.**—
“(A) IN GENERAL.—In the case of any organization which is a partner with limited liability in a partnership, the term ‘acquisition indebtedness’ does not, for purposes of this section, include indebtedness incurred or continued by such partnership in purchasing or carrying any qualified security or commodity.

“(B) QUALIFIED SECURITY OR COMMODITY.—For purposes of this paragraph, the term ‘qualified security or commodity’ means any security (as defined in section 475(c)(2) without regard to the last sentence thereof), any commodity (as defined in section 475(e)(2)), or any option or derivative contract with respect to such a security or commodity.

“(C) APPLICATION TO TIERED PARTNERSHIPS AND OTHER PASS-THRU ENTITIES.—Rules similar to the rules of subparagraph (A) shall apply in the case of tiered partnerships and other pass-thru entities.

“(D) REGULATIONS.—The Secretary may prescribe such regulations as may be necessary or appropriate to carry out the purposes of this paragraph, including regulations to prevent the abuse of this paragraph.”.
(b) **EFFECTIVE DATE.**—The amendment made by this section shall apply to taxable years beginning after the date of the enactment of this Act.

**SEC. 613. APPLICATION TO PARTNERSHIP INTERESTS AND TAX SHARING AGREEMENTS OF RULE TREATING CERTAIN GAIN ON SALES BETWEEN RELATED PERSONS AS ORDINARY INCOME.**

(a) **PARTNERSHIP INTERESTS.**—Subsection (a) of section 1239 is amended to read as follows:

“(a) **TREATMENT OF GAIN AS ORDINARY INCOME.**—In the case of a sale or exchange of property, directly or indirectly, between related persons, any gain recognized to the transferor shall be treated as ordinary income if—

“(1) such property is, in the hands of the transferee, of a character which is subject to the allowance for depreciation provided in section 167, or

“(2) such property is an interest in a partnership, but only to the extent of gain attributable to unrealized appreciation in property which is of a character subject to the allowance for depreciation provided in section 167.”.

(b) **TAX SHARING AGREEMENTS.**—Section 1239 (relating to gain from sale of depreciable property between certain related taxpayers) is amended by adding at the end the following new subsection:
“(f) Application to Tax Sharing Agreements.—

“(1) In General.—If there is a tax sharing agreement with respect to any sale or exchange, the transferee and the transferor shall be treated as related persons for purposes of this section.

“(2) Tax Sharing Agreement.—For purposes of this subsection, the term ‘tax sharing agreement’ means any agreement which provides for the payment to the transferor of any amount which is determined by reference to any portion of the tax benefit realized by the transferee with respect to the depreciation (or amortization) of the property transferred.”.

(c) Effective Date.—

(1) In General.—Except as provided in paragraph (2), the amendments made by this section shall apply to sales and exchanges after the date of the enactment of this Act.

(2) Exception for Binding Contracts.—The amendment made by subsection (b) shall not apply to any sale or exchange pursuant to a written binding contract which includes a tax sharing agreement and which is in effect on November 1, 2007, and not modified thereafter in any material respect.
Subtitle C—Other Provisions

SEC. 621. DELAY IN APPLICATION OF WORLDWIDE ALLOCATION OF INTEREST.

(a) In General.—Paragraphs (5)(D) and (6) of section 864(f) are each amended by striking “December 31, 2008” and inserting “December 31, 2016”.

(b) Effective Date.—The amendments made by this section shall apply to taxable years beginning after December 31, 2008.

SEC. 622. BROKER REPORTING OF CUSTOMER’S BASIS IN SECURITIES TRANSACTIONS.

(a) In General.—

(1) Broker reporting for securities transactions.—Section 6045 (relating to returns of brokers) is amended by adding at the end the following new subsection:

“(g) Additional information required in the case of securities transactions.—

“(1) In general.—If a broker is otherwise required to make a return under subsection (a) with respect to the gross proceeds of the sale of a covered security, the broker shall include in such return the information described in paragraph (2).

“(2) Additional information required.—
“(A) In general.—The information required under paragraph (1) to be shown on a return with respect to a covered security of a customer shall include the customer’s adjusted basis in such security and whether any gain or loss with respect to such security is long-term or short-term (within the meaning of section 1222).

“(B) Determination of adjusted basis.—For purposes of subparagraph (A)—

“(i) In general.—The customer’s adjusted basis shall be determined—

“(I) in the case of any stock (other than any stock in an open-end fund), in accordance with the first-in first-out method unless the customer notifies the broker by means of making an adequate identification of the stock sold or transferred,

“(II) in the case of any stock in an open-end fund acquired before January 1, 2011, in accordance with any acceptable method under section 1012 with respect to the account in which such interest is held,
“(III) in the case of any stock in an open-end fund acquired after December 31, 2010, in accordance with the broker’s default method unless the customer notifies the broker that he elects another acceptable method under section 1012 with respect to the account in which such interest is held, and

“(IV) in any other case, under the method for making such determination under section 1012.

“(ii) Exception for wash sales.—Except as otherwise provided by the Secretary, the customer’s adjusted basis shall be determined without regard to section 1091 (relating to loss from wash sales of stock or securities) unless the transactions occur in the same account with respect to identical securities.

“(3) Covered security.—For purposes of this subsection—

“(A) In general.—The term ‘covered security’ means any specified security acquired on or after the applicable date if such security—
“(i) was acquired through a transaction in the account in which such security is held, or

“(ii) was transferred to such account from an account in which such security was a covered security, but only if the broker received a statement under section 6045A with respect to the transfer.

“(B) SPECIFIED SECURITY.—The term ‘specified security’ means—

“(i) any share of stock in a corporation,

“(ii) any note, bond, debenture, or other evidence of indebtedness,

“(iii) any commodity, or contract or derivative with respect to such commodity, if the Secretary determines that adjusted basis reporting is appropriate for purposes of this subsection, and

“(iv) any other financial instrument with respect to which the Secretary determines that adjusted basis reporting is appropriate for purposes of this subsection.

“(C) APPLICABLE DATE.—The term ‘applicable date’ means—
“(i) January 1, 2009, in the case of any specified security which is stock in a corporation, and

“(ii) January 1, 2011, or such later date determined by the Secretary in the case of any other specified security.

“(4) OPEN-END FUND.—For purposes of this subsection, the term ‘open-end fund’ means a regulated investment company (as defined in section 851) which is offering for sale or has outstanding any redeemable security of which it is the issuer and the shares of which are not traded on an established securities exchange.”.

(2) BROKER INFORMATION REQUIRED WITH RESPECT TO OPTIONS.—Section 6045, as amended by subsection (a), is amended by adding at the end the following new subsection:

“(h) APPLICATION TO OPTIONS ON COVERED SECURITIES.—

“(1) EXERCISE OF OPTION.—For purposes of this section, in the case of any exercise of an option on a covered security where the taxpayer is the grantor of the option and the option was acquired in the same account as the covered security, the amount received for the grant of an option on a cov-
ered security shall be treated as an adjustment to
 gross proceeds or as an adjustment to basis, as the
case may be. A similar rule shall apply in the case
of the exercise of an option where the taxpayer is
not the grantor of the option.

“(2) Lapse or closing transaction.—For
 purposes of this section, in the case of the lapse (or
closing transaction (as defined in section
1234(b)(2)(A))) of an option on a covered security
where the taxpayer is the grantor of the option, this
section shall apply as if the premium received for
such option were gross proceeds received on the date
of the lapse or closing transaction, and the cost (if
any) of the closing transaction shall be taken into
account as adjusted basis. A similar rule shall apply
in the case of a lapse or closing transaction where
the taxpayer is not the grantor of the option.

“(3) Prospective application.—Paragraphs
(1) and (2) shall not apply to any option which is
granted or acquired before January 1, 2011.

“(4) Covered security.—For purposes of
this subsection, the term ‘covered security’ shall
have the meaning given such term in subsection
(g)(3).”.
(3) Extension of period for statements sent to customers.—

(A) In general.—Subsection (b) of section 6045 is amended by striking “January 31” and inserting “February 15”.

(B) Statements related to substitute payments.—Subsection (d) of section 6045 is amended—

(i) by striking “at such time and”,

and

(ii) by inserting after “other item.”

the following new sentence: “The written statement required under the preceding sentence shall be furnished on or before February 15 of the year following the calendar year during which such payment was made.”.

(C) Other statements.—Subsection (b) of section 6045 is amended by adding at the end the following: “In the case of a consolidated reporting statement (as defined in regulations) with respect to any account which includes the statement required by this subsection, any statement which would otherwise be required to be furnished on or before January 31 under
section 6042(c), 6049(c)(2)(A), or 6050N(b) with respect to any item in such account shall instead be required to be furnished on or before February 15 if furnished as part of such consolidated reporting statement.”.

(b) Determination of Basis of Certain Securities on Account by Account Method.—Section 1012 relating to basis of property—cost) is amended—

(1) by striking “The basis of property” and inserting the following:

“(a) In General.—The basis of property”,

(2) by striking “The cost of real property” and inserting the following:

“(b) Special Rule for Apportioned Real Estate Taxes.—The cost of real property”, and

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

“(c) Determinations by Account.—

“(1) In General.—In the case of the sale, exchange, or other disposition of a specified security on or after the applicable date, the conventions prescribed by regulations under this section shall be applied on an account by account basis.

“(2) Application to Open-End Funds.—
“(A) IN GENERAL.—Except as provided in subparagraph (B), any stock in an open-end fund acquired before January 1, 2009, shall be treated as a separate account from any such stock acquired on or after such date.

“(B) ELECTION BY OPEN-END FUND FOR TREATMENT AS SINGLE ACCOUNT.—If an open-end fund elects (at such time and in such form and manner as the Secretary may prescribe) to have this subparagraph apply with respect to one or more of its stockholders—

“(i) subparagraph (A) shall not apply with respect to any stock in such fund held by such stockholders, and

“(ii) all stock in such fund which is held by such stockholders shall be treated as covered securities described in section 6045(g)(3) without regard to the date of the acquisition of such stock.

“(3) DEFINITIONS.—For purposes of this section, the terms ‘specified security’, ‘applicable date’, and ‘open-end fund’ shall have the meaning given such terms in section 6045(g).”.

(c) INFORMATION BY TRANSFERORS TO AID BROKERS.—
1 (1) IN GENERAL.—Subpart B of part III of
2 subchapter A of chapter 61 is amended by inserting
3 after section 6045 the following new section:
4 “SEC. 6045A. INFORMATION REQUIRED IN CONNECTION
5 WITH TRANSFERS OF COVERED SECURITIES
6 TO BROKERS.
7 “(a) FURNISHING OF INFORMATION.—Every applicable
8 person which transfers to a broker (as defined in sec-
9 tion 6045(c)(1)) a security which is a covered security (as
10 defined in section 6045(g)(3)) in the hands of such appli-
11 cable person shall furnish to such broker a written state-
12 ment in such manner and setting forth such information
13 as the Secretary may by regulations prescribe for purposes
14 of enabling such broker to meet the requirements of sec-
15 tion 6045(g).
16 “(b) APPLICABLE PERSON.—For purposes of sub-
17 section (a), the term ‘applicable person’ means—
18 “(1) any broker (as defined in section
19 6045(c)(1)), and
20 “(2) any other person as provided by the Sec-
21 retary in regulations.
22 “(c) TIME FOR FURNISHING STATEMENT.—Any
23 statement required by subsection (a) shall be furnished
24 not later than the earlier of—
“(1) 45 days after the date of the transfer described in subsection (a), or

“(2) January 15 of the year following the calendar year during which such transfer occurred.”.

(2) ASSESSABLE PENALTIES.—Paragraph (2) of section 6724(d) (defining payee statement) is amended by redesignating subparagraphs (I) through (CC) as subparagraphs (J) through (DD), respectively, and by inserting after subparagraph (H) the following new subparagraph:

“(I) section 6045A (relating to information required in connection with transfers of covered securities to brokers).”.

(3) CLERICAL AMENDMENT.—The table of sections for subpart B of part III of subchapter A of chapter 61 is amended by inserting after the item relating to section 6045 the following new item:

“Sec. 6045A. Information required in connection with transfers of covered securities to brokers.”.

(d) ADDITIONAL ISSUER INFORMATION TO AID BROKERS.—

(1) IN GENERAL.—Subpart B of part III of subchapter A of chapter 61 of the Internal Revenue Code of 1986, as amended by subsection (b), is amended by inserting after section 6045A the following new section:
“SEC. 6045B. RETURNS RELATING TO ACTIONS AFFECTING BASIS OF SPECIFIED SECURITIES.

“(a) IN GENERAL.—According to the forms or regulations prescribed by the Secretary, any issuer of a specified security shall make a return setting forth—

“(1) a description of any organizational action which affects the basis of such specified security of such issuer,

“(2) the quantitative effect on the basis of such specified security resulting from such action, and

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

“(b) TIME FOR FILING RETURN.—Any return required by subsection (a) shall be filed not later than the earlier of—

“(1) 45 days after the date of the action described in subsection (a), or

“(2) January 31 of the year following the calendar year during which such action occurred.

“(c) STATEMENTS TO BE FURNISHED TO HOLDERS OF SPECIFIED SECURITIES OR THEIR NOMINEES.—According to the forms or regulations prescribed by the Secretary, every person required to make a return under subsection (a) with respect to a specified security shall furnish to the nominee with respect to the specified security (or
certificate holder if there is no nominee) a written statement showing—

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

“(2) the information required to be shown on such return with respect to such security, and

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

The written statement required under the preceding sentence shall be furnished to the holder on or before January 31 of the year following the calendar year during which the action described in subsection (a) occurred.

“(d) SPECIFIED SECURITY.—For purposes of this section, the term ‘specified security’ has the meaning given such term by section 6045(g)(3)(B). No return shall be required under this section with respect to actions described in subsection (a) with respect to a specified security which occur before the applicable date (as defined in section 6045(g)(3)(C) with respect to such security.

“(e) PUBLIC REPORTING IN LIEU OF RETURN.—The Secretary may waive the requirements under subsections (a) and (e) with respect to a specified security, if the person required to make the return under subsection (a) makes publicly available, in such form and manner as the
Secretary determines necessary to carry out the purposes of this section—

“(1) the name, address, phone number, and email address of the information contact of such person, and

“(2) the information described in paragraphs (1), (2), and (3) of subsection (a).”.

(2) ASSESSABLE PENALTIES.—

(A) Subparagraph (B) of section 6724(d)(1) of such Code (defining information return) is amended by redesignating clauses (iv) through (xix) as clauses (v) through (xx), respectively, and by inserting after clause (iii) the following new clause:

“(iv) section 6045B(a) (relating to returns relating to actions affecting basis of specified securities),”.

(B) Paragraph (2) of section 6724(d) of such Code (defining payee statement), as amended by subsection (c)(2), is amended by redesignating subparagraphs (J) through (DD) as subparagraphs (K) through (EE), respectively, and by inserting after subparagraph (I) the following new subparagraph:
“(J) subsections (c) and (e) of section 6045B (relating to returns relating to actions affecting basis of specified securities).”.

(3) CLERICAL AMENDMENT.—The table of sections for subpart B of part III of subchapter A of chapter 61 of such Code, as amended by subsection (b)(3), is amended by inserting after the item relating to section 6045A the following new item:

“Sec. 6045B. Returns relating to actions affecting basis of specified securities.”.

(e) EFFECTIVE DATE.—The amendments made by this section shall take effect on January 1, 2009.

SEC. 623. TIME FOR PAYMENT OF CORPORATE ESTIMATED TAXES.

Subparagraph (B) of section 401(1) of the Tax Increase Prevention and Reconciliation Act of 2005 is amended by striking “115 percent” and inserting “178 percent”.