To amend the Internal Revenue Code of 1986 to extend certain expiring provisions, and for other purposes.

IN THE HOUSE OF REPRESENTATIVES

OCTOBER 30, 2007

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

A BILL

To amend the Internal Revenue Code of 1986 to extend certain expiring provisions, and for other purposes.

Be it enacted by the Senate and House of Representatives of the United States of America in Congress assembled,

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 consid-
ered to be made to a section or other provision of the In-

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 per-
sonal credits.
Sec. 102. Extension of increased alternative minimum tax exemption amount.

TITLE II—ONE-YEAR EXTENDERS

Subtitle A—Extenders Primarily Affecting Individuals

Sec. 201. Deduction for State and local sales taxes.
Sec. 203. Treatment of certain dividends of regulated investment companies.
Sec. 204. Parity in the application of certain limits to mental health benefits.
Sec. 205. Qualified conservation contributions.
Sec. 206. Tax-free distributions from individual retirement plans for charitable
purposes.
Sec. 207. Deduction for certain expenses of elementary and secondary school
teachers.
Sec. 208. Election to include combat pay as earned income for purposes of
carried income tax credit.
Sec. 209. Modification of mortgage revenue bonds for veterans.
Sec. 210. Distributions from retirement plans to individuals called to active
duty.
Sec. 211. Stock in RIC for purposes of determining estates of nonresidents not
citizens.
Sec. 212. Qualified investment entities.
Sec. 213. Refundable child credit.
Sec. 214. State legislators’ travel expenses away from home.

Subtitle B—Extenders Primarily Affecting Businesses

Sec. 221. Research credit.
Sec. 222. Indian employment credit.
Sec. 223. New markets tax credit.
Sec. 224. Railroad track maintenance.
Sec. 225. Fifteen-year straight-line cost recovery for qualified leasehold im-
provements and qualified restaurant property.
Sec. 226. Seven-year cost recovery period for motorsports racing track facility.
Sec. 227. Accelerated depreciation for business property on Indian reservation.
Sec. 228. Expensing of environmental remediation costs.
Sec. 229. Deduction allowable with respect to income attributable to domestic
production activities in Puerto Rico.
Sec. 230. Modification of tax treatment of certain payments to controlling ex-
empt organizations.
Sec. 231. Extension and modification of credit to holders of qualified zone academy bonds.
Sec. 233. Extension of economic development credit for American Samoa.
Sec. 234. Enhanced charitable deduction for contributions of food inventory.
Sec. 236. Enhanced deduction for qualified computer contributions.
Sec. 237. Basis adjustment to stock of S corporations making charitable contributions of property.
Sec. 238. Extension of work opportunity tax credit for Hurricane Katrina employees.

Subtitle C—Other Extenders

Sec. 241. Disclosure for combined employment tax reporting.
Sec. 242. Disclosure of return information to apprise appropriate officials of terrorist activities.
Sec. 243. Disclosure upon request of information relating to terrorist activities.
Sec. 244. Disclosure of return information to carry out income contingent repayment of student loans.
Sec. 245. Authority for undercover operations.
Sec. 246. Increase in limit on cover over of rum excise tax to Puerto Rico and the Virgin Islands.
Sec. 247. Disclosure of return information for certain veterans programs.

TITLE III—MORTGAGE FORGIVENESS DEBT RELIEF

Sec. 301. Discharges of indebtedness on principal residence excluded from gross income.
Sec. 302. Long-term extension of deduction for mortgage insurance premiums.
Sec. 303. Alternative tests for qualifying as cooperative housing corporation.
Sec. 304. Gain from sale of principal residence allocated to nonqualified use not excluded from income.

TITLE IV—ADMINISTRATIVE PROVISIONS

Sec. 401. Repeal of authority to enter into private debt collection contracts.
Sec. 402. Delay of application of withholding requirement on certain governmental payments for goods and services.
Sec. 403. Clarification of entitlement of Virgin Islands residents to protections of limitations on assessment and collection of tax.
Sec. 404. Revision of tax rules on expatriation.
Sec. 405. Repeal of suspension of certain penalties and interest.
Sec. 406. Increase in information return penalties.
Sec. 407. Unused merchandise drawback.
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 begin-
ning in 2007)".

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

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

SEC. 201. 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

SEC. 202. DEDUCTION OF QUALIFIED TUITION AND RE-
LATED EXPENSES.

(a) IN GENERAL.—Subsection (e) of section 222 (re-
lating 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
SEC. 203. 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. 204. 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. 205. 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. 206. 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. 207. 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. 208. 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. 209. 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. 210. 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”.

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

4 SEC. 211. STOCK IN RIC FOR PURPOSES OF DETERMINING
5 ESTATES OF NONRESIDENTS NOT CITIZENS.
6 (a) In General.—Paragraph (3) of section 2105(d)
7 (relating to stock in a RIC) is amended by striking “De-
8 cember 31, 2007” and inserting “December 31, 2008”.
9 (b) Effective Date.—The amendment made by
10 this section shall apply to decedents dying after December

12 SEC. 212. QUALIFIED INVESTMENT ENTITIES.
13 (a) In General.—Clause (ii) of section
14 897(h)(4)(A) (relating to termination) is amended by
15 striking “December 31, 2007” and inserting “December
16 31, 2008”.
17 (b) Effective Date.—The amendment made by
18 subsection (a) shall take effect on January 1, 2008.

19 SEC. 213. REFUNDABLE CHILD CREDIT.
20 (a) Modification of Threshold Amount.—
21 Clause (i) of section 24(d)(1)(B) is amended by inserting
22 “($8,500 in the case of taxable years beginning in 2008)”
23 after “$10,000”.
(b) Effective Date.—The amendment made by subsection (a) shall apply to taxable years beginning after December 31, 2007.

SEC. 214. 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. 221. 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. 222. 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. 223. 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. 224. 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. 225. 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. 226. 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. 227. 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. 228. 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. 229. 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. 230. 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. 231. 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 following 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 December 31, 2007.

(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. 232. 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. 233. 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. 234. 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. 235. 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. 236. 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 after December 31, 2007.

SEC. 237. 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. 238. 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”.

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Subheading

Subtitle C—Other Extenders

SEC. 241. 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. 242. 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. 243. 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. 244. 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. 245. 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. 246. INCREASE IN LIMIT ON COVER OVER OF RUM EX-
CISE 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. 247. 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 III—MORTGAGE FORGIVENESS DEBT RELIEF

SEC. 301. 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 qualified principal residence indebtedness.’’.

(b) Special Rules Relating to Qualified Principal Residence Indebtedness.—Section 108 is amended by adding at the end the following new subsection:

‘‘(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 Indebtedness.—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 Condition.—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. 302. 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. 303. 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. 304. 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 non-qualified 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 non-qualified 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 IV—ADMINISTRATIVE PROVISIONS

SEC. 401. 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. 402. 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 require-
ments,

(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 govern-
ments.

SEC. 403. CLARIFICATION OF ENTITLEMENT OF VIRGIN IS-
LANDS RESIDENTS TO PROTECTIONS OF LIMIT-
ATIONS ON ASSESSMENT AND COLLECTION
OF TAX.

(a) IN GENERAL.—Subsection (c) of section 932 (re-
lating 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 re-
turn 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 in-
come 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-
ttempt 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. 404. 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 DEFER 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-
mined 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-
efined in subsection (d)(4)),

“(2) any specified tax deferred account (as de-
fined 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 require-
ments as the Secretary may provide to en-
sure that the payor will meet the require-
ments 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 with-
holding on such item.

“(4) Deferred Compensation Item.—For purposes of this subsection, the term ‘deferred com-
pensation 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-
ceding 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 sub-
section (d)(6) shall apply, and

“(B) the covered expatriate shall be treat-
ed as having waived any right to claim any re-
duction 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 expa-
triate was a beneficiary of the trust on the day be-
fore 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 ex-
patriate’ means an expatriate who meets the re-
quirements of subparagraph (A), (B), or (C) of
section 877(a)(2).

“(B) Exceptions.—An individual shall
not be treated as meeting the requirements of
subparagraph (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 relinquishment occurs before the individual has resided in the United States for 2 of the 5 years immediately preceding the date of the renunciation or voluntary relinquishment.
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 im-
posed 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 prop-
erty which would result in the reduction in the
amount of gain recognized with respect to prop-
erty 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-
tate 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), respectively.

(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. 405. 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. 406. INCREASE IN INFORMATION RETURN PENALTIES.

(a) FAILURE TO FILE CORRECT INFORMATION RETURNS.—

(1) IN GENERAL.—Subsections (a)(1), (b)(1)(A), and (b)(2)(A) of section 6721 are each amended by striking “$50” and inserting “$100”.

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(2) Aggregate Annual Limitation.—Subsections (a)(1), (d)(1)(A), and (e)(3)(A) of section 6721 are each amended by striking "$250,000" and inserting "$600,000".

(b) Reduction Where Correction Within 30 Days.—

(1) In General.—Subparagraph (A) of section 6721(b)(1) is amended by striking "$15" and inserting "$25".

(2) Aggregate Annual Limitation.—Subsections (b)(1)(B) and (d)(1)(B) of section 6721 are each amended by striking "$75,000" and inserting "$200,000".

(c) Reduction Where Correction on or Before August 1.—

(1) In General.—Subparagraph (A) of section 6721(b)(2) is amended by striking "$30" and inserting "$60".

(2) Aggregate Annual Limitation.—Subsections (b)(2)(B) and (d)(1)(C) of section 6721 are each amended by striking "$150,000" and inserting "$400,000".

(d) Aggregate Annual Limitations for Persons With Gross Receipts of Not More Than
$5,000,000.—Paragraph (1) of section 6721(d) is amended—

(1) by striking “$100,000” in subparagraph (A) and inserting “$250,000”,
(2) by striking “$25,000” in subparagraph (B) and inserting “$75,000”, and
(3) by striking “$50,000” in subparagraph (C) and inserting “$150,000”.

(e) Penalty in Case of Intentional Disregard.—Paragraph (2) of section 6721(e) is amended by striking “$100” and inserting “$250”.

(f) Failure To Furnish Correct Payee Statements.—

(1) In General.—Subsection (a) of section 6722 is amended by striking “$50” and inserting “$100”.

(2) Aggregate Annual Limitation.—Subsections (a) and (e)(2)(A) of section 6722 are each amended by striking “$100,000” and inserting “$600,000”.

(3) Penalty in Case of Intentional Disregard.—Paragraph (1) of section 6722(e) is amended by striking “$100” and inserting “$250”.
(g) Failure To Comply With Other Information Reporting Requirements.—Section 6723 is amended—
(1) by striking “$50” and inserting “$100”, and
(2) by striking “$100,000” and inserting “$600,000”.
(h) Effective Date.—The amendments made by this section shall apply with respect to information returns required to be filed on or after January 1, 2008.

SEC. 407. 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 take effect on the date of the enactment of this Act.