To amend the Internal Revenue Code of 1986 to provide additional tax relief to low and moderate income individuals, to repeal the individual alternative minimum tax, to reform the corporate income tax, and for other purposes.

IN THE HOUSE OF REPRESENTATIVES

OCTOBER 25, 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 provide additional tax relief to low and moderate income individuals, to repeal the individual alternative minimum tax, to reform the corporate income tax, 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 “Tax Reduction and Reform 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—INDIVIDUAL TAX PROVISIONS

Subtitle A—Individual Tax Relief

PART 1—GENERAL TAX REDUCTIONS

Sec. 1001. Increase in standard deduction.
Sec. 1002. Modification of earned income credit amount for individuals with no qualifying children.
Sec. 1003. Change in refundable child credit.

PART 2—AMT RELIEF

SUBPART A—AMT EXTENSION FOR 2007

Sec. 1011. Extension of alternative minimum tax relief for nonrefundable personal credits.
Sec. 1012. Extension of increased alternative minimum tax exemption amount.

SUBPART B—REPEAL OF THE INDIVIDUAL AMT

Sec. 1021. Repeal of alternative minimum tax on individuals.
Sec. 1022. Limitation of benefits of individual AMT repeal.
Sec. 1023. High income individuals subject to overall limitation on itemized deductions and phaseout of deductions for personal exemptions.
Sec. 1024. Modification of 2-percent floor on miscellaneous itemized deductions.

SUBPART C—CONFORMING AMENDMENTS

Sec. 1031. Conforming amendments, etc.

Subtitle B—Other Reforms

PART 1—PROVISIONS RELATED TO CERTAIN INVESTMENT PARTNERSHIPS

Sec. 1201. Income of partners for performing investment management services treated as ordinary income received for performance of services.
Sec. 1202. Nonqualified deferred compensation for investment services.
Sec. 1203. Indebtedness incurred by a partnership in acquiring securities and commodities not treated as acquisition indebtedness for organizations which are partners with limited liability.
Sec. 1204. Application to partnership interests and tax sharing agreements of rule treating certain gain on sales between related persons as ordinary income.

PART 2—SELF-EMPLOYMENT TAX TREATMENT OF CERTAIN INTEREST HOLDERS IN SERVICE PROVIDING ENTITIES

Sec. 1211. Certain service providing S corporation shareholders and partners subject to self-employment taxes.

PART 3—BROKER REPORTING OF CUSTOMER'S BASIS IN SECURITIES TRANSACTIONS

Sec. 1221. Broker reporting of customer’s basis in securities transactions.

TITLE II—ONE-YEAR EXTENDERS

Sec. 2001. Research credit.
Sec. 2002. Indian employment credit.
Sec. 2005. Mortgage insurance premiums treated as interest.
Sec. 2006. Deduction for State and local sales taxes.
Sec. 2007. Fifteen-year straight-line cost recovery for qualified leasehold improvements and qualified restaurant property.
Sec. 2008. Seven-year cost recovery period for motorsports racing track facility.
Sec. 2010. Expensing of environmental remediation costs.
Sec. 2011. Deduction allowable with respect to income attributable to domestic production activities in Puerto Rico.
Sec. 2012. Deduction of qualified tuition and related expenses.
Sec. 2013. Modification of tax treatment of certain payments to controlling exempt organizations.
Sec. 2014. Treatment of certain dividends of regulated investment companies.
Sec. 2015. Extension and modification of credit to holders of qualified zone academy bonds.
Sec. 2017. Disclosure for combined employment tax reporting.
Sec. 2018. Disclosure of return information to apprise appropriate officials of terrorist activities.
Sec. 2019. Disclosure upon request of information relating to terrorist activities.
Sec. 2020. Disclosure of return information to carry out income contingent repayment of student loans.
Sec. 2021. Authority for undercover operations.
Sec. 2022. Increase in limit on cover over of rum excise tax to Puerto Rico and the Virgin Islands.
Sec. 2023. Parity in the application of certain limits to mental health benefits.
Sec. 2024. Extension of economic development credit for American Samoa.
Sec. 2025. Qualified conservation contributions.
Sec. 2026. Enhanced charitable deduction for contributions of food inventory.
Sec. 2027. Enhanced charitable deduction for contributions of book inventory to public schools.
Sec. 2028. Enhanced deduction for qualified computer contributions.
Sec. 2029. Tax-free distributions from individual retirement plans for charitable purposes.
Sec. 2030. Basis adjustment to stock of S corporations making charitable contributions of property.
Sec. 2031. Deduction for certain expenses of elementary and secondary school teachers.
Sec. 2032. Election to include combat pay as earned income for purposes of earned income tax credit.
Sec. 2033. Modification of mortgage revenue bonds for veterans.
Sec. 2034. Distributions from retirement plans to individuals called to active duty.
Sec. 2035. Stock in RIC for purposes of determining estates of nonresidents not citizens.
Sec. 2036. Qualified investment entities.
Sec. 2037. Disclosure of return information for certain veterans programs.

TITLE III—CORPORATE TAX REFORM

Subtitle A—Corporate Rate Reduction
Sec. 3001. Reduction in top corporate marginal rate.

Subtitle B—Repeal of Deduction for Income Attributable to Domestic Production Activities
Sec. 3101. Repeal of deduction for income attributable to domestic production activities.

Subtitle C—Provisions Related to Foreign Source Income
Sec. 3201. Allocation of expenses and taxes on basis of repatriation of foreign income.
Sec. 3202. Foreign currency conversion for determination of foreign taxes and foreign corporation’s earnings and profits.
Sec. 3203. Repeal of worldwide allocation of interest.
Sec. 3204. Limitation on treaty benefits for certain deductible payments.

Subtitle D—Modification of Accounting Rules
Sec. 3301. Repeal of last-in, first-out method of inventory.
Sec. 3302. Repeal of lower of cost or market method of inventory.
Sec. 3303. Special rule for service providers on accrual method not applicable to C corporations.

Subtitle E—Modification to Expensing and Depreciation Rules
Sec. 3401. Small business expensing provisions made permanent.
Sec. 3402. Amortization of goodwill and other intangibles.

Subtitle F—Codification of Economic Substance Doctrine
Sec. 3501. Codification of economic substance doctrine.
Sec. 3502. Penalties for underpayments.

Subtitle G—Modifications to Deductions for Dividends Received
Sec. 3601. Modifications to deductions for dividends received.

Subtitle H—Other Provisions
Sec. 3701. Recognition of ordinary income on sale or exercise of stock option in S corporation with an ESOP.
Sec. 3702. Termination of special rules for domestic international sales corporations.
Sec. 3703. Treatment of securities of a controlled corporation exchanged for assets in certain reorganizations.

TITLE I—INDIVIDUAL TAX PROVISIONS

Subtitle A—Individual Tax Relief

PART 1—GENERAL TAX REDUCTIONS

SEC. 1001. INCREASE IN STANDARD DEDUCTION.

(a) In General.—Paragraph (1) of section 63(c) (defining standard 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 inserting after subparagraph (B) the following:

“(C) the additional amount.”.

(b) Additional Amount.—Subsection (c) of section 63 (defining standard deduction) is amended by adding at the end the following new paragraph:

“(8) Additional Amount.—For purposes of paragraph (1), the additional amount is—

“(A) 200 percent of the amount in effect under subparagraph (C) for the taxable year in the case of a joint return or a surviving spouse (as defined in section 2(a)),
“(B) $625 in the case of a head of household (as defined in section 2(b)), and
“(C) $425 in any other case.”.

(c) ADJUSTMENT FOR INFLATION.—
(1) IN GENERAL.—Section 63(c)(4) (relating to adjustments for inflation) is amended—
(A) in the matter preceding subparagraph (A) by striking “or (5)” and inserting “(5),
(8)(B), or (8)(C)”, and
(B) in subparagraph (B) by striking “and”
at the end of clause (i), by striking the period
at the end of clause (ii) and inserting “, and”,
and by inserting after clause (ii) the following
new clause:
“(iii) ‘calendar year 2007’ in the case
of the dollar amounts contained in para-
graph (8)(B) or (8)(C).”.
(2) ROUNDING.—Section 1(f)(6) (relating to rounding) is amended by adding at the end the fol-
lowing new subparagraph:
“(C) SPECIAL RULE FOR STANDARD DE-
DUCTION ADDITIONAL AMOUNT.—In the case of
an increase with respect to section 63(c)(8) by
reason of section 63(c)(4), subparagraph (A)
shall be applied by substituting ‘$25’ for ‘$50’
each place it appears and subparagraph (B) shall not apply.”.

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

SEC. 1002. MODIFICATION OF EARNED INCOME CREDIT AMOUNT FOR INDIVIDUALS WITH NO QUALIFYING CHILDREN.

(a) INCREASE IN CREDIT PERCENTAGE AND PHASE-OUT PERCENTAGE FOR INDIVIDUALS WITH NO CHILDREN.—The table contained in subparagraph (A) of section 32(b)(1) is amended by striking “7.65” each place it appears and inserting “15.3”.

(b) INCREASE IN BEGINNING PHASEOUT AMOUNT.—

(1) IN GENERAL.—The table contained in subparagraph (A) of section 32(b)(2) is amended by striking “$5,280” and inserting “$10,900”.

(2) INFLATION ADJUSTMENT.—Subparagraph (B) of section 32(j)(1) is amended—

(A) by striking “and” at the end of clause (i), by redesignating clause (ii) as clause (iii), and by inserting after clause (i) the following new clause:

“(ii) in the case of the $10,900 amount in subsection (b)(2)(A), by sub-
stituting ‘calendar year 2007’ for ‘calendar year 1992’ in subparagraph (B) thereof, and (B) in clause (i) by inserting “except as provided in clause (ii),” before “in the case of”. (c) EFFECTIVE DATE.—The amendments made by this section shall apply to taxable years beginning after December 31, 2007.

SEC. 1003. CHANGE IN REFUNDABLE CHILD CREDIT.

(a) MODIFICATION OF THRESHOLD AMOUNT.—Clause (i) of section 24(d)(1)(B) is amended by striking “$10,000” and inserting “$8,500”.

(b) REPEAL OF INFLATION ADJUSTMENT TO EARNED INCOME BASE.—Subsection (d) of section 24 (relating to portion of credit refundable) is amended by striking paragraph (3).

(c) EFFECTIVE DATE.—The amendment made by subsection (a) shall apply to taxable years beginning after December 31, 2007.
PART 2—AMT RELIEF

Subpart A—AMT Extension for 2007

SEC. 1011. 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. 1012. 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 “($64,950 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 “($44,150 in the case of taxable years beginning in 2007)”.

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

Subpart B—Repeal of the Individual AMT

SEC. 1021. REPEAL OF ALTERNATIVE MINIMUM TAX ON INDIVIDUALS.

(a) IN GENERAL.—Subsection (a) of section 55 (relating to alternative minimum tax imposed) is amended by adding at the end the following new flush sentence:

“Except in the case of a corporation, no tax shall be imposed by this section for any taxable year beginning after December 31, 2007, and the tentative minimum tax of any taxpayer other than a corporation for any such taxable year shall be zero for purposes of this title.”.

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

SEC. 1022. LIMITATION OF BENEFITS OF INDIVIDUAL AMT REPEAL.

(a) IN GENERAL.—Part VI of subchapter A of chapter 1 (relating to alternative minimum tax) is amended by inserting after section 55 the following new section:
SEC. 55A. LIMITATION OF BENEFITS OF INDIVIDUAL AMT REPEAL.

“(a) GENERAL RULE.—In the case of a taxpayer other than a corporation, there is hereby imposed (in addition to any other tax imposed by this subtitle) a tax equal to the sum of—

“(1) 4 percent of so much of modified adjusted gross income as exceeds the initial threshold amount, plus

“(2) 0.6 percent of so much of modified adjusted gross income as exceeds $250,000 ($500,000 in the case of a joint return or a surviving spouse (as defined in section 2(a)).

“(b) INITIAL THRESHOLD AMOUNT.—For purposes of this section—

“(1) IN GENERAL.—The term ‘initial threshold amount’ means—

“(A) in the case of a joint return or a surviving spouse (as defined in section 2(a)), the greater of—

“(i) the amount which the Secretary estimates is the lowest adjusted gross income level (rounded to the nearest multiple of $10,000) above which at least 90 percent of married individuals filing a joint return would (but for the repeal of such
tax) be affected by the alternative minimum tax for their first taxable year beginning in 2008, or

“(ii) $200,000,

“(B) in the case of any married individual filing a separate return, \(\frac{1}{2}\) of the amount determined under subparagraph (A), and

“(C) in any other case, \(\frac{3}{4}\) of the amount determined under subparagraph (A).

“(2) CITIZENS AND RESIDENTS LIVING ABROAD.—The initial threshold amount determined under paragraph (1) shall be decreased by any amount excluded from the taxpayer’s gross income under section 911.

“(c) MODIFIED ADJUSTED GROSS INCOME.—For purposes of this section, the term ‘modified adjusted gross income’ means adjusted gross income reduced by any deduction allowed for investment interest (as defined in section 163(d)).

“(d) NONRESIDENT ALIEN.—In the case of a nonresident alien individual, only amounts taken into account in connection with the tax imposed under section 871(b) shall be taken into account under this section.

“(e) INFLATION ADJUSTMENTS.—
“(1) IN GENERAL.—In the case of taxable years beginning after 2008, the amount in effect under subsection (b)(1)(A) for taxable years beginning in 2008 shall be increased by an amount equal to—

“(A) such dollar amount, multiplied by

“(B) the cost-of-living adjustment determined under section 1(f)(3) for the calendar year in which the taxable year begins, by substituting ‘calendar year 2007’ for ‘calendar year 1992’ in subparagraph (B) thereof.

“(2) Rounding.—If any amount as adjusted under paragraph (1) is not a multiple of $5,000, such amount shall be rounded to the next lowest multiple of $5,000.

“(f) MARITAL STATUS.—For purposes of this section, marital status shall be determined under section 7703.”.

(b) CONFORMING AMENDMENT.—Subparagraph (A) of section 26(b)(2) is amended by striking “section 55” and inserting “sections 55 and 55A”.

(c) EFFECTIVE DATE.—The amendments made by this section shall apply to taxable years beginning after December 31, 2007.
SEC. 1023. HIGH INCOME INDIVIDUALS SUBJECT TO OVER-
ALL LIMITATION ON ITEMIZED DEDUCTIONS
AND PHASEOUT OF DEDUCTIONS FOR PER-
SONAL EXEMPTIONS.

(a) OVERALL LIMITATION ON ITEMIZED DEDU-
CTIONS.—Section 68 (relating to overall limitation on
itemized deductions) is amended by striking subsections
(f) and (g) and inserting the following new subsection:

“(f) PHASEOUT OF LIMITATION.—

“(1) IN GENERAL.—In the case of a taxpayer
whose adjusted gross income is not more than
$250,000 ($500,000 in the case of a joint return or
a surviving spouse (as defined in section 2(a))—

“(A) in the case of any taxable year begin-
ing in 2008 or 2009, the reduction under sub-
section (a) shall be equal to 1⁄3 of the amount
which would (but for this subsection) be the
amount of such reduction, and

“(B) in the case of any taxable year begin-
ing after 2009, subsection (a) shall not apply.

“(2) PHASEOUT BASED ON INCOME.—

“(A) IN GENERAL.—In the case of a tax-
payer whose adjusted gross income is more
than $250,000 ($500,000 in the case of a joint
return or a surviving spouse (as defined in sec-
tion 2(a)), the reduction under subsection (a)
shall be equal to the applicable fraction of the
amount which would (but for this subsection)
be the amount of such reduction.

“(B) APPLICABLE FRACTION.—For pur-
poses of subparagraph (A), the term ‘applicable
fraction’ means—

“(i) in the case of any taxable year
beginning in 2008 or 2009, a fraction (not in excess of 1) equal to the sum of—

“(I) 1⁄3, plus

“(II) 1⁄30 for each $1,000 (or fraction thereof) by which the tax-
payer’s adjusted gross income exceeds
$250,000 ($500,000 in the case of a joint return or a surviving spouse (as defined in section 2(a)), and

“(ii) in the case of any taxable year
beginning in 2010, a fraction (not in ex-
cess of 1) equal to 1⁄20 for each $1,000 (or
fraction thereof) by which the taxpayer’s adjusted gross income exceeds $250,000 ($500,000 in the case of a joint return or a surviving spouse (as defined in section 2(a))).”.
(b) PHASEOUT OF DEDUCTIONS FOR PERSONAL EXEMPTIONS.—Paragraph (3) of section 151(d) is amended by striking subparagraphs (E) and (F) and inserting the following new subparagraphs:

“(E) REDUCTION OF PHASEOUT.—In the case of a taxpayer whose adjusted gross income is not more than $250,000 ($500,000 in the case of a joint return or a surviving spouse (as defined in section 2(a))—

“(i) in the case of any taxable year beginning in 2008 or 2009, the reduction under subparagraph (A) shall be equal to $1/3 of the amount which would (but for this subparagraph) be the amount of such reduction, and

“(ii) in the case of any taxable year beginning after 2009, subparagraph (A) shall not apply.

“(F) PHASEOUT BASED ON INCOME.—In the case of a taxpayer whose adjusted gross income is more than $250,000 ($500,000 in the case of a joint return or a surviving spouse (as defined in section 2(a)), the reduction under subparagraph (A) shall be equal to the applicable fraction of the amount which would (but for
this subparagraph) be the amount of such redu-
donction.

“(G) APPLICABLE FRACTION.—For purposes of subparagraph (F), the term ‘applicable fraction’ means—

“(i) in the case of any taxable year beginning in 2008 or 2009, the fraction (not in excess of 1) equal to the sum of—

“(I) 1⁄3, plus

“(II) 1⁄30 for each $1,000 (or fraction thereof) by which the taxpayer’s adjusted gross income exceeds $250,000 ($500,000 in the case of a joint return or a surviving spouse (as defined in section 2(a)), and

“(ii) in the case of any taxable year beginning in 2010, the fraction (not in excess of 1) equal to 1⁄20 for each $1,000 (or fraction thereof) by which the taxpayer’s adjusted gross income exceeds $250,000 ($500,000 in the case of a joint return or a surviving spouse (as defined in section 2(a))).”.
(c) Effective Date.—The amendments made by this section shall apply to taxable years beginning after December 31, 2007.

SEC. 1024. MODIFICATION OF 2-PERCENT FLOOR ON MISCELLANEOUS ITEMIZED DEDUCTIONS.

(a) In General.—Subsection (a) of section 67 is amended by striking “exceeds” and all that follows and inserting “exceeds the sum of—

“(1) 2 percent of so much of modified adjusted gross income (as defined in section 55A(e)) as does not exceed the initial threshold amount applicable to the taxpayer under section 55A, plus

“(2) 5 percent of so much of modified adjusted gross income (as so defined) as exceeds such initial threshold amount.”.

(b) Conforming Amendment.—

(1) The heading for section 67 is amended by striking “2-PERCENT FLOOR” and inserting “FLOOR”.

(2) The item in the table of sections for part I of subchapter B of chapter 1 relating to section 67 is amended by striking “2-percent floor” and inserting “Floor”.

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

**Subpart C—Conforming Amendments**

**SEC. 1031. CONFORMING AMENDMENTS, ETC.**

(a) **Conforming Amendments Related to Repeal of Alternative Minimum Tax on Individuals.**—

(1) Subparagraph (B) of section 1(g)(7) is amended by adding “and” at the end of clause (i), by striking “, and” at the end of clause (ii) and inserting a period, and by striking clause (iii).

(2) Section 2(d) is amended by striking “taxes imposed by sections 1 and 55” and inserting “tax imposed by section 1”.

(3) Section 5(a) is amended by striking paragraph (4).

(4) Section 23 is amended—

(A) by striking subsection (b)(4), and

(B) by amending subsection (e) by striking paragraphs (1) and (2), by redesignating paragraph (3) as paragraph (2) and inserting before paragraph (2) (as so redesignated) the following:
“(1) IN GENERAL.—If the credit allowable under subsection (a) for any taxable year exceeds the limitation imposed by section 26(a) for such taxable year reduced by the sum of the credits allowable under this subpart (other than this section and sections 25D and 1400C), such excess shall be carried to the next succeeding taxable year and added to the credit allowable under subsection (a) for such succeeding taxable year.”.

(5) Section 24(b) is amended by striking paragraph (3).

(6) Section 24(d)(1) is amended—

(A) by striking “section 26(a)(2) or subsection (b)(3), as the case may be” in subparagraph (A) and inserting “section 26(a)”, and

(B) by striking “section 26(a)(2) or subsection (b)(3), as the case may be,” in subparagraph (B) and inserting “section 26(a)”.

(7) Section 25(e)(1)(C) is amended to read as follows:

“(C) APPLICABLE TAX LIMIT.—For purposes of this paragraph, the term ‘applicable tax limit’ means the limitation imposed by section 26(a) for the taxable year reduced by the sum of the credits allowable under this subpart
(other than this section and sections 23, 25D, and 1400C).

(8) Section 25B is amended by striking subsection (g).

(9) Section 25D(c) is amended to read as follows:

“(c) CARRYFORWARD OF UNUSED CREDIT.—If the credit allowable under subsection (a) for any taxable year exceeds the limitation imposed by section 26(a) for such taxable year reduced by the sum of the credits allowable under this subpart (other than this section), such excess shall be carried to the next succeeding taxable year and added to the credit allowable under subsection (a) for such succeeding taxable year.”.

(10) Section 26 is amended—

(A) by striking subsection (c), and

(B) by amending subsection (a) to read as follows:

“(a) IN GENERAL.—The aggregate amount of credits allowable by this subpart for the taxable year shall not exceed the taxpayer’s regular tax liability for the taxable year.”.

(11) Sections 30B(g)(2) and 30C(d)(2) are each amended to read as follows:
“(2) PERSONAL CREDIT.—The credit allowed under subsection (a) (after the application of paragraph (1)) shall be treated as a credit allowable under subpart A.”.

(12) Subsection (c) of section 38 is amended by inserting at the end the following new paragraph:

“(6) TENTATIVE MINIMUM TAX.—For purposes of this part, the term ‘tentative minimum tax’ has the meaning given to such term by section 55.”.

(13) Section 53 is amended—

(A) by striking “adjusted net minimum tax” in subsection (b)(1) and inserting “tax imposed by section 55”,

(B) by striking subsection (d), and

(C) by inserting at the end of subsection (b) the following flush sentence:

“For purposes of paragraph (1), the tax imposed by section 55 for taxable years beginning before January 1, 2008, shall be the adjusted net minimum tax (as defined in section 53(d), as in effect before its repeal).”.

(14)(A) Subsection (b) of section 55 (relating to alternative minimum tax imposed) is amended to read as follows:

“(b) TENTATIVE MINIMUM TAX.—For purposes of this part—
“(1) AMOUNT OF TENTATIVE TAX.—The tentative minimum tax for the taxable year is—

“(A) 20 percent of so much of the alternative minimum taxable income for the taxable year as exceeds the exemption amount, reduced by

“(B) the alternative minimum tax foreign tax credit for the taxable year.

“(2) ALTERNATIVE MINIMUM TAXABLE INCOME.—The term ‘alternative minimum taxable income’ means the taxable income of the taxpayer for the taxable year—

“(A) determined with the adjustments provided in section 56, and

“(B) increased by the amount of the items of tax preference described in section 57.

If a taxpayer is subject to the regular tax, such taxpayer shall be subject to the tax imposed by this section (and, if the regular tax is determined by reference to an amount other than taxable income, such amount shall be treated as the taxable income of such taxpayer for purposes of the preceding sentence).”.
(B) Subsection (c) of section 55 is amended by striking all that follows paragraph (1) and inserting the following:

“(2) CROSS REFERENCE.—For provision providing that portions of the general business credit are not allowable against the tax imposed by this section, see section 38(e).”.

(C) Subsection (d) of section 55 is amended to read as follows:

“(d) EXEMPTION AMOUNT.—For purposes of this section, the term ‘exemption amount’ means $40,000 reduced (but not below zero) by an amount equal to 25 percent of the amount by which the alternative minimum taxable income of the taxpayer exceeds $150,000.”.

(15)(A) Paragraph (6) of section 56(a) is amended to read as follows:

“(6) ADJUSTED BASIS.—The adjusted basis of any property to which paragraph (1) or (5) applies (or with respect to which there are any expenditures to which paragraph (2) applies) shall be determined on the basis of the treatment prescribed in paragraph (1), (2), or (5), whichever applies.”.

(B) Section 56 is amended by striking subsection (b).
(C) Subsection (c) of section 56 is amended by striking so much of the subsection as precedes paragraph (1), by redesignating paragraphs (1), (2), and (3) as paragraphs (8), (9), and (10), respectively, and moving them to the end of subsection (a).

(D) Paragraph (8) of section 56(a), as redesignated by subparagraph (C), is amended by striking “subsection (g)” and inserting “subsection (c)”.

(E) Section 56 is amended by striking subsection (e) and by redesignating subsections (d) and (g) as subsections (b) and (c), respectively.

(16)(A) Section 58 is hereby repealed.

(B) Clause (i) of section 56(b)(2)(A) is amended by striking “and section 58”.

(C) Subsection (h) of section 59 is amended—

(i) by striking “, 465, and 1366(d)” and inserting “and 465”, and

(ii) by striking “56, 57, and 58” and inserting “56 and 57”.

(17)(A) Subparagraph (C) of section 59(a)(1) is amended—

(i) by striking “subparagraph (A)(i) or (B)(i) of section 55(b)(1) (whichever applies)” and inserting “section 55(b)(1)(A)”, and
(ii) by striking “section 1 or 11 (whichever applies)” and inserting “section 11”.

(B) Paragraph (2) of section 59(a) is amended to read as follows:

“(2) PRE-CREDIT TENTATIVE MINIMUM TAX.—
For purposes of this subsection, the term ‘pre-credit tentative minimum tax’ means the amount determined under section 55(b)(1)(A).”.

(C) Section 59 is amended by striking subsection (c).

(D) Section 59 is amended by striking subsection (j).

(18) Paragraph (1) of section 59A(b) and paragraph (7) of section 382(l) are each amended by striking “section 56(d)” and inserting “section 56(b)”.

(19) Paragraph (2) of section 641(c) is amended by striking subparagraph (B) and by redesignating subparagraphs (C) and (D) as subparagraphs (B) and (C), respectively.

(20) Subsections (b) and (c) of section 666 are each amended by striking “(other than the tax imposed by section 55)”.

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(21) Subsections (c)(5) and (d)(3)(B) of section 772 are each amended by striking “56, 57, and 58” and inserting “56 and 57”.

(22) Sections 847 and 848(l) are each amended by striking “section 56(g)” and inserting “section 56(c)”.

(23) Sections 871(b)(1) and 877(b) are each amended by striking “or 55”.

(24) Subsection (a) of section 897 is amended to read as follows:

“(a) GENERAL RULE.—For purposes of this title, gain or loss of a nonresident alien individual or a foreign corporation from the disposition of a United States real property interest shall be taken into account—

“(1) in the case of a nonresident alien individual, under section 871(b)(1), or

“(2) in the case of a foreign corporation, under section 882(a)(1),

as if the taxpayer were engaged in a trade or business within the United States during the taxable year and as if such gain or loss were effectively connected with such trade or business.”.

(25) Section 904 is amended by striking subsection (i).
(26) The first sentence of section 911(f) is amended to read as follows: “For purposes of this chapter, if any amount is excluded from the gross income of a taxpayer under subsection (a) for any taxable year, then, notwithstanding section 1, the tax imposed by such section on the taxpayer for such taxable year shall be equal to the excess (if any) of—

“(1) the tax which would be imposed by such section for the taxable year if the taxpayer’s taxable income were increased by the amount excluded under subsection (a) for the taxable year, over

“(2) the tax which would be imposed by such section for the taxable year if the taxpayer’s taxable income were equal to the amount excluded under subsection (a) for the taxable year.”.

(27) Paragraph (1) of section 962(a) is amended by striking “sections 1 and 55” and inserting “section 1”.

(28) Section 1400C(d) is amended to read as follows:

“(d) CARRYFORWARD OF UNUSED CREDIT.—If the credit allowable under subsection (a) for any taxable year exceeds the limitation imposed by section 26(a) for such taxable year reduced by the sum of the credits allowable
under this subpart (other than this section and section 25D), such excess shall be carried to the next succeeding taxable year and added to the credit allowable under subsection (a) for such succeeding taxable year.”

(29) The last sentence of section 1563(a) is amended by striking “section 55(d)(3)” and inserting “section 55(d)”.

(30) Subparagraph (B) of section 6015(d)(2) is amended by striking “or 55”.

(31) Clause (i) of section 6654(d)(2)(C) is amended by striking “, alternative minimum taxable income,”.

(b) Application of EGTRRA sunset.—

(1) Section 901 of the Economic Growth and Tax Relief Reconciliation Act of 2001 shall not apply to sections 201(d) and 303(c) of such Act.

(2) Section 901 of the Economic Growth and Tax Relief Reconciliation Act of 2001 shall apply to—

(A) the amendments made by section 1023(a) to the same extent and in the same manner as section 901 of such Act applies to the amendments made by section 103 of such Act, and
(B) the amendments made by section 1023(b) to the same extent and in the same manner as section 901 of such Act applies to the amendments made by section 102 of such Act.

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

Subtitle B—Other Reforms

PART 1—PROVISIONS RELATED TO CERTAIN INVESTMENT PARTNERSHIPS

SEC. 1201. 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 al-
lowed 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 INTEREST.—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 part-
ner not providing services would have been allo-
cated with respect to the same amount of in-
vested 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 cap-
ital under subparagraph (A) if the partnership 
sold all of its assets immediately before the dis-
position.

“(C) INVESTED CAPITAL.—For purposes 
of this paragraph, the term ‘invested capital’ 
means, the fair market value at the time of con-
tribution of any money or other property con-
tributed 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 RECHARACTERIZATION 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 es-
tate 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(c)).

“(iii) Such partnership meets the re-
quirements of paragraphs (2), (3), and (4)
(applied without regard to section 710).”.

(e) Imposition of Penalty on Underpay-
ments.—

(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 MISSTATEDMENT PENALTY” in the heading and inserting “CERTAIN INCREASED UNDERPAYMENT PENALTIES”.

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

(A) by redesignating paragraphs (2) and (3) as paragraphs (3) and (4), respectively,
(B) by striking “paragraph (2)” in para-
graph (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 distribu-
tions 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 part-
nership)” 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 ________.

(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 _______, 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.—Except as provided in paragraph (3), section 710(b) of the Internal Revenue Code of 1986 (as added by this section) shall apply to dispositions and distributions after ________.

(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 ________.
SEC. 1202. NONQUALIFIED DEFERRED COMPENSATION FOR INVESTMENT SERVICES.

(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 FOR INVESTMENT SERVICES.

"(a) In General.—Any compensation for investment services 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 which has investment related income 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 which has investment related income 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
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) Investment Services.—The term ‘in-
vestment services’ means all services provided during
any taxable year if a substantial quantity of such
services are services described in section 710(c)(1).

“(2) Investment Related Income.—The
term ‘investment related income’ means any income
attributable (directly or indirectly) to—

“(A) the assets with respect to which the
investment services referred in subsection (a)
were performed, or

“(B) the investment services referred to in
subsection (a).

“(3) 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 condi-
tioned upon the future performance of substantial services by any individual.

“(4) 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.

“(5) 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.

“(6) 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(e)(1)(B) (relating to ascertainability of amounts of compensation).”.

(e) 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 for investment services.”.

(d) EFFECTIVE DATE.—

(1) IN GENERAL.—The amendments made by this section shall apply to taxable years beginning after December 31, 2007.

(2) TREATMENT AS CHANGE IN METHOD OF ACCOUNTING.—For purposes of section 481 of the Internal Revenue Code of 1986—
(A) the amendments made by this section shall be treated as a change in method of accounting which is initiated by the taxpayer and made with the consent of the Secretary of the Treasury, and

(B) the period for taking into account the adjustments under such section by reason of such change shall be 4 years.

SEC. 1203. 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 (c) 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 PARTNER-SHIPS 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. 1204. 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.—The amendment made by this section shall apply to sales and exchanges after the date of the enactment of this Act.

PART 2—SELF-EMPLOYMENT TAX TREATMENT OF CERTAIN INTEREST HOLDERS IN SERVICE PROVIDING ENTITIES

SEC. 1211. CERTAIN SERVICE PROVIDING S CORPORATION SHAREHOLDERS AND PARTNERS SUBJECT TO SELF-EMPLOYMENT TAXES.

(a) IN GENERAL.—Section 1402 is amended by adding at the end the following new subsection:

“(l) SPECIAL RULES FOR SERVICE PROVIDING S CORPORATION SHAREHOLDERS AND PARTNERS.—

“(1) S CORPORATION SHAREHOLDERS.—In the case of any S corporation which is engaged in a
trade or business consisting primarily of the performance of services, any shareholder of such S corporation who provides substantial services with respect to such trade or business shall take into account such shareholder’s pro rata share of all items of income or loss described in section 1366 which are attributable to such trade or business in determining the shareholder’s net earnings from self-employment.

“(2) PARTNERS.—In the case of any partnership which is engaged in a trade or business consisting primarily of the performance of services, subsection (a)(13) shall not apply to any partner who provides substantial services with respect to such trade or business.

“(3) REGULATIONS.—The Secretary shall prescribe such regulations as may be necessary or appropriate to carry out the purposes of this subsection, including regulations which prevent the avoidance of the purposes of this subsection through tiered entities or otherwise.

“(4) CROSS REFERENCE.—For employment tax treatment of wages paid to shareholders of S corporations, see subtitle C.”
(b) CONFORMING AMENDMENT.—Section 211 of the Social Security Act is amended by adding at the end the following new subsection:

“(k) SPECIAL RULES FOR SERVICE PROVIDING S CORPORATION SHAREHOLDERS AND PARTNERS.—

“(1) S CORPORATION SHAREHOLDERS.—In the case of any S corporation which is engaged in a trade or business consisting primarily of the performance of services, any shareholder of such S corporation who provides substantial services with respect to such trade or business shall take into account such shareholder’s pro rata share of all items of income and loss described in section 1366 of the Internal Revenue Code of 1986 which are attributable to such trade or business in determining the shareholder’s net earnings from self-employment.

“(2) PARTNERS.—In the case of any partnership which is engaged in a trade or business consisting primarily of the performance of services, subsection (a)(12) shall not apply to any partner who provides substantial services with respect to such trade or business.”.

(e) EFFECTIVE DATE.—The amendments made by this section shall apply to taxable years beginning after December 31, 2007.
PART 3—BROKER REPORTING OF CUSTOMER’S BASIS IN SECURITIES TRANSACTIONS

SEC. 1221. 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 interest 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 interest 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 re-
spect to the account in which such in-
terest is held, and

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

“(ii) EXCEPTION FOR WASH SALES.—
Except as otherwise provided by the Sec-
retary, 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 se-
curity’ means any specified security acquired on
or after the applicable date if such security—

“(i) was acquired through a trans-
action in the account in which such secu-

rity 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.

“(5) TREATMENT OF S CORPORATIONS.—For purposes of this section, a S corporation (other than a financial institution) shall be treated in the same manner as a partnership.”.

(2) BROKER INFORMATION REQUIRED WITH RESPECT TO PUBLICLY TRADED 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 covered 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) Application limited to options granted on or after applicable date.—Paragraphs (1) and (2) shall not apply to any option on a covered security which is granted or acquired before the applicable date with respect to such covered security.

“(4) Definitions.—For purposes of this subsection, the terms ‘covered security’ and ‘applicable date’ shall have the meaning given such terms 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 that a substantial portion of the assets in the account of a customer gives rise to the requirement to furnish a statement under this subsection, section 6042(c), 6049(c)(2)(A), or 6050N(b), any statement otherwise required to be furnished to
the customer with respect to any item in such account on or before January 31 shall instead be required to be furnished to such customer on or before February 15.”.

(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) IN GENERAL.—Subpart B of part III of subchapter A of chapter 61 is amended by inserting after section 6045 the following new section:

"SEC. 6045A. INFORMATION REQUIRED IN CONNECTION WITH TRANSFERS OF COVERED SECURITIES TO BROKERS.

"(a) FURNISHING OF INFORMATION.—Every applicable person which transfers to a broker (as defined in section 6045(c)(1)) a security which is a covered security (as defined in section 6045(g)(3)) in the hands of such applicable person shall furnish to such broker a written statement in such manner and setting forth such information as the Secretary may by regulations prescribe for purposes of enabling such broker to meet the requirements of section 6045(g).

"(b) APPLICABLE PERSON.—For purposes of subsection (a), the term ‘applicable person’ means—

"(1) any broker (as defined in section 6045(c)(1)), and

"(2) any other person as provided by the Secretary in regulations.

"(c) TIME FOR FURNISHING STATEMENT.—Any statement required by subsection (a) shall be furnished 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 requirement to file a return under subsections (a) and (c) with respect to a specified security, if the person required to make the return under subsections (a) and (c) 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), re-
spectively, and by inserting after clause (iii) the
following new clause:

“(iv) section 6045B(a) (relating to re-
turns 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 (e)(2), is amended by
redesignating subparagraphs (J) through (DD)
as subparagraphs (K) through (EE), respec-
tively, and by inserting after subparagraph (I)
the following new subparagraph:
“(J) subsections (d) 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.

TITLE II—ONE-YEAR EXTENDERS

SEC. 2001. 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. 2002. 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. 2003. 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. 2004. 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. 2005. MORTGAGE INSURANCE PREMIUMS TREATED AS INTEREST.

(a) IN GENERAL.—Subclause (I) of section 163(h)(3)(E)(iv) (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 amounts paid or accrued after December 31, 2007.

**SEC. 2006. 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. 2007. 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. 2008. 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 strik-
(b) **Effective Date.**—The amendment made by this section shall apply to property placed in service after December 31, 2007.

**SEC. 2009. 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. 2010. 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. 2011. 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. 2012. 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. 2013. 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

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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. 2014. 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. 2015. EXTENSION AND MODIFICATION OF CREDIT TO HOLDERS OF QUALIFIED ZONE ACADEMY BONDS.

(a) **In General.**—Subsection (e) of section 1397E (relating to limitation on amount of bonds designated) is amended by striking “1998, 1999, 2000, 2001, 2002,
of calendar years 1998 through 2008”.

(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. 2016. 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.

(e) 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 HOMEOWNER 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. 2017. 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. 2018. 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. 2019. 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. 2020. 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. 2021. 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. 2022. 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. 2023. 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. 2024. 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. 2025. 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. 2026. 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. 2027. 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. 2028. 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. 2029. 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. 2030. 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. 2031. 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. 2032. 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. 2033. 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. 2034. 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 “December 31, 2008”.

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(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. 2035. 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. 2036. 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. 2037. 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—CORPORATE TAX REFORM**

**Subtitle A—Corporate Rate Reduction**

**SEC. 3001. REDUCTION IN TOP CORPORATE MARGINAL RATE.**

(a) **General Rule.**—Paragraph (1) of section 11(b) (relating to amount of tax) is amended—

(1) by inserting “and” at the end of subparagraph (B),

(2) by striking subparagraphs (C) and (D) and inserting the following:

“(C) 30.5 percent of so much of the taxable income as exceeds $75,000.”, and

(3) by striking “$11,750” and all that follows and inserting “$9,125.”.

(b) **Personal Service Corporations.**—Paragraph (2) of section 11(b) is amended by striking “35 percent” and inserting “30.5 percent”.

(e) **Conforming Amendments.**—Paragraphs (1) and (2) of section 1445(e) are each amended by striking “35 percent” and inserting “30.5 percent”.
(d) Effective Date.—The amendments made by this section shall apply to taxable years beginning after December 31, 2008, except that the amendments made by subsection (c) shall take effect on January 1, 2009.

Subtitle B—Repeal of Deduction for Income Attributable to Domestic Production Activities

Sec. 3101. Repeal of Deduction for Income Attributable to Domestic Production Activities.

(a) In General.—Section 199 is repealed.

(b) Conforming Amendments.—

(1) Sections 86(b)(2)(A), 135(c)(4)(A), 137(b)(3)(A), 219(g)(3)(A)(ii), 221(b)(2)(C), 222(b)(2)(C), 246(b)(1), and 469(i)(3)(F) are each amended by striking “199,”.

(2) Clauses (i)(II) and (ii)(II) of section 56(d)(1)(A) are each amended by striking “and the deduction under section 199”.

(3) Clause (i) of section 163(j)(6)(A) is amended by inserting “and” at the end of subclause (II), by striking subclause (III) and by redesignating subclause (IV) as subclause (III).

(4) Subparagraph (C) of section 170(b)(2) is amended by striking clause (iv), by redesignating
clause (v) as clause (iv), and by inserting “and” at the end of clause (iii).

(5) Subsection (d) of section 172 is amended by striking paragraph (7).

(6) Subsection (a) of section 613 is amended by striking “and without the deduction under section 199”.

(7) Paragraph (1) of section 613A(d) is amended by redesignating subparagraphs (C), (D), and (E) as subparagraphs (B), (C), and (D), respectively, and by striking subparagraph (B).

(8) Subsection (a) of section 1402 is amended by inserting “and” at the end of paragraph (15), by striking paragraph (16), and by redesignating paragraph (17) as paragraph (16).

(9) The table of sections for part VI of subchapter B of chapter 1 is amended by striking the item relating to section 199.

(c) EFFECTIVE DATE.—The amendments made by this section shall apply to taxable years beginning after December 31, 2008.
Subtitle C—Provisions Related to Foreign Source Income

SEC. 3201. ALLOCATION OF EXPENSES AND TAXES ON BASIS OF REPATRIATION OF FOREIGN INCOME.

(a) In General.—Part III of subchapter N of chapter 1 is amended by inserting after subpart G the following new subpart:

“Subpart H—Special Rules for Allocation of Foreign-Related Deductions and Foreign Tax Credits

Sec. 975. Deductions allocated to deferred foreign income may not offset United States source income.

Sec. 976. Amount of foreign taxes computed on overall basis.

Sec. 977. Application of subpart.

“SEC. 975. DEDUCTIONS ALLOCATED TO DEFERRED FOREIGN INCOME MAY NOT OFFSET UNITED STATES SOURCE INCOME.

“(a) Current Year Deductions.—For purposes of this chapter, foreign-related deductions for any taxable year—

“(1) shall be taken into account for such taxable year only to the extent that such deductions are allocable to currently-taxed foreign income, and

“(2) to the extent not so allowed, shall be taken into account in subsequent taxable years as provided in subsection (b).
Foreign-related deductions shall be allocated to currently-taxed foreign income in the same proportion which currently-taxed foreign income bears to the sum of currently-taxed foreign income and deferred foreign income.

“(b) DEDUCTIONS RELATED TO REPATRIATED DEFERRED FOREIGN INCOME.—

“(1) IN GENERAL.—If there is repatriated foreign income for a taxable year, the portion of the previously deferred deductions allocated to the repatriated foreign income shall be taken into account for the taxable year as a deduction allocated to income from sources outside the United States. Any such amount shall not be included in foreign-related deductions for purposes of applying subsection (a) to such taxable year.

“(2) PORTION OF PREVIOUSLY DEFERRED DEDUCTIONS.—For purposes of paragraph (1), the portion of the previously deferred deductions allocated to repatriated foreign income is—

“(A) the amount which bears the same proportion to such deductions, as

“(B) the repatriated income bears to the previously deferred foreign income.

“(c) DEFINITIONS AND SPECIAL RULE.—For purposes of this section—
“(1) FOREIGN-RELATED DEDUCTIONS.—The term ‘foreign-related deductions’ means the total amount of deductions and expenses which would be allocated or apportioned to gross income from sources without the United States for the taxable year if both the currently-taxed foreign income and deferred foreign income were taken into account.

“(2) CURRENTLY-TAXED FOREIGN INCOME.—The term ‘currently-taxed foreign income’ means the amount of gross income from sources without the United States for the taxable year (determined without regard to repatriated foreign income for such year).

“(3) DEFERRED FOREIGN INCOME.—The term ‘deferred foreign income’ means the excess of—

“(A) the amount that would be includible in gross income under subpart F of this part for the taxable year if—

“(i) all controlled foreign corporations were treated as one controlled foreign corporation, and

“(ii) all earnings and profits of all controlled foreign corporations were subpart F income (as defined in section 952), over
“(B) the sum of—

“(i) all dividends received during the taxable year from controlled foreign corporations, plus

“(ii) amounts includible in gross income under section 951(a).

“(4) **Previously deferred foreign income.**—The term ‘previously deferred foreign income’ means the aggregate amount of deferred foreign income for all prior taxable years to which this part applies, determined as of the beginning of the taxable year, reduced by the repatriated foreign income for all such prior taxable years.

“(5) **Repatriated foreign income.**—The term ‘repatriated foreign income’ means the amount included in gross income on account of distributions out of previously deferred foreign income.

“(6) **Previously deferred deductions.**—The term ‘previously deferred deductions’ means the aggregate amount of foreign-related deductions not taken into account under subsection (a) for all prior taxable years (determined as of the beginning of the taxable year), reduced by any amounts taken into account under subsection (b) for such prior taxable years.
“(7) Treatment of certain foreign taxes.—

“(A) Paid by controlled foreign corporation.—Section 78 shall not apply for purposes of determining currently-taxed foreign income and deferred foreign income.

“(B) Paid by taxpayer.—For purposes of determining currently-taxed foreign income, gross income from sources without the United States shall be reduced by the aggregate amount of taxes described in the applicable paragraph of section 901(b) which are paid by the taxpayer (without regard to sections 902 and 960) during the taxable year.

“(8) Coordination with section 976.—In determining currently-taxed foreign income and deferred foreign income, the amount of deemed foreign tax credits shall be determined with regard to section 976.

“Sec. 976. Amount of foreign taxes computed on overall basis.

“(a) Current year allowance.—For purposes of this chapter, the amount taken into account as foreign income taxes for any taxable year shall be an amount which
bears the same ratio to the total foreign income taxes for
that taxable year as—

“(1) the currently-taxed foreign income for such
taxable year, bears to

“(2) the sum of the currently-taxed foreign in-
come and deferred foreign income for such year.

The portion of the total foreign income taxes for any tax-
able year not taken into account under the preceding sen-
tence for a taxable year shall only be taken into account
as provided in subsection (b) (and shall not be taken into
account for purposes of applying sections 902 and 960).

“(b) ALLOWANCE RELATED TO REPATRIATED De-
ferred FOREIGN INCOME.—

“(1) IN GENERAL.—If there is repatriated for-
eign income for any taxable year, the portion of the
previously deferred foreign income taxes paid or ac-
crued during such taxable year shall be taken into
account for the taxable year as foreign taxes paid or
accrued. Any such taxes so taken into account shall
not be included in foreign income taxes for purposes
of applying subsection (a) to such taxable year.

“(2) PORTION OF PREVIOUSLY DEFERRED FOR-
EIGN INCOME TAXES.—For purposes of paragraph
(1), the portion of the previously deferred foreign in-
come taxes allocated to repatriated deferred foreign
income is—

“(A) the amount which bears the same
proportion to such taxes, as

“(B) the repatriated deferred income bears
to the previously deferred foreign income.

“(c) Definitions and Special Rule.—For pur-
poses of this section—

“(1) Previously deferred foreign income
taxes.—The term ‘previously deferred foreign in-
come taxes’ means the aggregate amount of total
foreign income taxes not taken into account under
subsection (a) for all prior taxable years (determined
as of the beginning of the taxable year), reduced by
any amounts taken into account under subsection
(b) for such prior taxable years.

“(2) Total foreign income taxes.—The
term ‘total foreign income taxes’ means the sum of
foreign income taxes paid or accrued during the tax-
able year (determined without regard to section
904(c)) plus the increase in foreign income taxes
that would be paid or accrued during the taxable
year under sections 902 and 960 if—
“(A) all controlled foreign corporations were treated as one controlled foreign corporation, and

“(B) all earnings and profits of all controlled foreign corporations were subpart F income (as defined in section 952).

“(3) FOREIGN INCOME TAXES.—The term ‘foreign income taxes’ means any income, war profits, or excess profits taxes paid by the taxpayer to any foreign country or possession of the United States.

“(4) CURRENTLY-TAXED FOREIGN INCOME AND DEFERRED FOREIGN INCOME.—The terms ‘currently-taxed foreign income’ and ‘deferred foreign income’ have the meanings given such terms by section 975(c)).

“SEC. 977. APPLICATION OF SUBPART.

“This subpart—

“(1) shall be applied before subpart A, and

“(2) shall be applied separately with respect to the categories of income specified in section 904(d)(1).”.

(b) CLERICAL AMENDMENT.—The table of subparts for part III of subpart N of chapter 1 is amended by inserting after the item relating to subpart G the following new item:
(c) Effective Date.—The amendments made by this section shall apply to taxable years beginning after December 31, 2007.

SEC. 3202. FOREIGN CURRENCY CONVERSION FOR DETERMINATION OF FOREIGN TAXES AND FOREIGN CORPORATION'S EARNINGS AND PROFITS.

(a) Earnings and Profits and Distributions.—Paragraph (2) of section 986(b) is amended to read as follows:

“(2) in the case of any United States person, the earnings and profits determined under paragraph (1) shall (if necessary) be translated into dollars using the average exchange rate for the taxable year in which earned.”.

(b) Previously Taxed Earnings and Profits.—Paragraph (1) of section 986(c) is amended by striking “movements in exchange rates between the times of deemed and actual distribution” and inserting “the difference between the exchange rate applicable to such earnings and profits under subsection (b)(2) and the exchange rate at the time of the actual distribution”.

(c) Effective Date.—The amendments made by this section shall apply to taxable years beginning after December 31, 2007.
SEC. 3203. REPEAL OF WORLDWIDE ALLOCATION OF INTEREST.

(a) In General.—Section 864 is amended by striking subsection (f) and by redesignating subsection (g) as subsection (f).

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

SEC. 3204. LIMITATION ON TREATY BENEFITS FOR CERTAIN DEDUCTIBLE PAYMENTS.

(a) In General.—Section 894 (relating to income affected by treaty) is amended by adding at the end the following new subsection:

“(d) Limitation on Treaty Benefits for Certain Deductible Payments.—

“(1) In General.—In the case of any deductible related-party payment, any withholding tax imposed under chapter 3 (and any tax imposed under subpart A or B of this part) with respect to such payment may not be reduced under any treaty of the United States unless any such withholding tax would be reduced under a treaty of the United States if such payment were made directly to the foreign parent corporation.

“(2) Deductible Related-Party Payment.—For purposes of this subsection, the term
'deductible related-party payment' means any pay-
ment made, directly or indirectly, by any person to
any other person if the payment is allowable as a de-
duction under this chapter and both persons are
members of the same foreign controlled group of en-
tities.

“(3) FOREIGN CONTROLLED GROUP OF ENTI-
ties.—For purposes of this subsection—

“(A) IN GENERAL.—The term ‘foreign
controlled group of entities’ means a controlled
group of entities the common parent of which
is a foreign corporation.

“(B) CONTROLLED GROUP OF ENTITIES.—
The term ‘controlled group of entities’ means a
controlled group of corporations as defined in
section 1563(a)(1), except that—

“(i) ‘more than 50 percent’ shall be
substituted for ‘at least 80 percent’ each
place it appears therein, and

“(ii) the determination shall be made
without regard to subsections (a)(4) and
(b)(2) of section 1563.

A partnership or any other entity (other than a
corporation) shall be treated as a member of a
controlled group of entities if such entity is con-
trolled (within the meaning of section 954(d)(3)) by members of such group (including any entity treated as a member of such group by reason of this sentence).

“(4) FOREIGN PARENT CORPORATION.—For purposes of this subsection, the term ‘foreign parent corporation’ means, with respect to any deductible related-party payment, the common parent of the foreign controlled group of entities referred to in paragraph (3)(A).

“(5) REGULATIONS.—The Secretary may prescribe such regulations or other guidance as are necessary or appropriate to carry out the purposes of this subsection, including regulations or other guidance which provide for—

“(A) the treatment of two or more persons as members of a foreign controlled group of entities if such persons would be the common parent of such group if treated as one corporation, and

“(B) the treatment of any member of a foreign controlled group of entities as the common parent of such group if such treatment is appropriate taking into account the economic relationships among such entities.”.
(b) **Effective Date.**—The amendment made by this section shall apply to payments made after the date of the enactment of this Act.

**Subtitle D—Modification of Accounting Rules**

**SEC. 3301. REPEAL OF LAST-IN, FIRST-OUT METHOD OF INVENTORY.**

(a) In General.—Subpart D of part II of subchapter E of chapter 1 is amended by striking sections 472 (relating to last-in, first-out inventories), 473 (relating to qualified liquidations of LIFO inventories), and 474 (relating to simplified dollar-value LIFO method for certain small businesses).

(b) Conforming Amendments.—

(1)(A) Section 312(n) is amended by striking paragraph (4) and by redesignating paragraphs (5) through (8) as paragraphs (4) through (7), respectively.

(B) Section 312(n)(7), as redesignated by subparagraph (A), is amended—

(i) by striking “paragraphs (4) and (6)” in subparagraph (A) and inserting “paragraph (5)”, and

(ii) by striking “paragraph (5)” in subparagraph (B) and inserting “paragraph (4)”. 
(C) Section 56(g)(4)(D) is amended by striking clause (iii) and by redesignating clause (iv) as clause (iii).

(2) Section 1363 is amended by striking subsection (d).

(c) EFFECTIVE DATE.—

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

(2) CHANGE IN METHOD OF ACCOUNTING.—In the case of any taxpayer required by the amendments made by this section to change its method of accounting for its first taxable year beginning after the date of the enactment of this Act—

(A) such change shall be treated as initiated by the taxpayer,

(B) such change shall be treated as made with the consent of the Secretary of the Treasury, and

(C) if the net amount of the adjustments required to be taken into account by the taxpayer under section 481 of the Internal Revenue Code of 1986 is positive, such amount shall be taken into account over a period of 8 years beginning with such first taxable year.
SEC. 3302. REPEAL OF LOWER OF COST OR MARKET METHOD OF INVENTORY.

(a) In General.—Section 471 is amended by redesignating subsection (c) as subsection (d) and by inserting after subsection (b) the following new subsection:

"(c) Inventories Taken into Account at Cost.—A method of determining inventories shall not be treated as clearly reflecting income unless such method provides that inventories shall be taken into account at cost."

(b) Effective Date.—

(1) In General.—The amendments made by this section shall apply to taxable years beginning after the date of the enactment of this Act.

(2) Change in Method of Accounting.—In the case of any taxpayer required by the amendments made by this section to change its method of accounting for its first taxable year beginning after the date of the enactment of this Act—

(A) such change shall be treated as initiated by the taxpayer,

(B) such change shall be treated as made with the consent of the Secretary of the Treasury, and

(C) if the net amount of the adjustments required to be taken into account by the tax-
payer under section 481 of the Internal Revenue Code of 1986 is positive, such amount shall be taken into account over a period of 8 years beginning with such first taxable year.

SEC. 3303. SPECIAL RULE FOR SERVICE PROVIDERS ON ACCRUAL METHOD NOT APPLICABLE TO C CORPORATIONS.

(a) In General.—Subparagraph (A) of section 448(d)(5) is amended by inserting “(other than a C corporation)” after “any person”.

(b) Effective Date.—

(1) In General.—The amendments made by this section shall apply to taxable years beginning after the date of the enactment of this Act.

(2) Change in Method of Accounting.—In the case of any taxpayer required by the amendments made by this section to change its method of accounting for its first taxable year beginning after the date of the enactment of this Act—

(A) such change shall be treated as initiated by the taxpayer;

(B) such change shall be treated as made with the consent of the Secretary of the Treasury, and
(C) if the net amount of the adjustments required to be taken into account by the taxpayer under section 481 of the Internal Revenue Code of 1986 is positive, such amount shall be taken into account over a period of 8 years beginning with such first taxable year.

Subtitle E—Modification to Expensing and Depreciation Rules

SEC. 3401. SMALL BUSINESS EXPENSING PROVISIONS MADE PERMANENT.

(a) Increase in Small Business Expensing Made Permanent.—Subsection (b) of section 179 is amended—

(1) by striking “$25,000 ($125,000 in the case of taxable years beginning after 2006 and before 2011)” in paragraph (1) and inserting “$125,000”, and

(2) by striking “$200,000 ($500,000 in the case of taxable years beginning after 2006 and before 2011)” in paragraph (2) and inserting “$500,000”.

(b) Expensing for Computer Software Made Permanent.—Clause (ii) of section 179(d)(1)(A) is amended by striking “and which is placed in service in a taxable year beginning after 2002 and before 2011,”. 
(c) Inflation Adjustment.—Subparagraph (A) of section 179(b)(5) is amended by striking “In the case of any taxable year beginning in a calendar year after 2007 and before 2011, the” and inserting “The”.

(d) Effective Date.—

(1) In general.—Except as provided in paragraph (2), the amendments made by this section shall apply to taxable years beginning after the date of the enactment of this Act.

(2) Computer Software.—The amendment made by subsection (b) shall apply to property placed in service after the date of the enactment of this Act.

SEC. 3402. AMORTIZATION OF GOODWILL AND OTHER INTANGIBLES.

(a) In General.—Subsection (a) of section 197 (relating to general rule) is amended by striking “15-year” and inserting “20-year”.

(b) Certain Interests or Rights Acquired Separately.—Clause (i) of section 197(e)(4)(D) is amended by striking “15 years” and inserting “20 years”.

(c) Effective Date.—The amendments made by this section shall apply to property acquired after the date of the enactment of this Act.
Subtitle F—Codification of Economic Substance Doctrine

SEC. 3501. CODIFICATION OF ECONOMIC SUBSTANCE DOCTRINE.

(a) In General.—Section 7701 is amended by redesignating subsection (p) as subsection (q) and by inserting after subsection (o) the following new subsection:

“(p) CLARIFICATION OF ECONOMIC SUBSTANCE DOCTRINE.—

“(1) APPLICATION OF DOCTRINE.—In the case of any transaction to which the economic substance doctrine is relevant, such transaction shall be treated as having economic substance only if—

“(A) the transaction changes in a meaningful way (apart from Federal income tax effects) the taxpayer’s economic position, and

“(B) the taxpayer has a substantial purpose (apart from Federal income tax effects) for entering into such transaction.

“(2) SPECIAL RULE WHERE TAXPAYER RELIES ON PROFIT POTENTIAL.—

“(A) IN GENERAL.—The potential for profit of a transaction shall be taken into account in determining whether the requirements of subparagraphs (A) and (B) of paragraph (1)
are met with respect to the transaction only if the present value of the reasonably expected pre-tax profit from the transaction is substantial in relation to the present value of the expected net tax benefits that would be allowed if the transaction were respected.

“(B) TREATMENT OF FEES AND FOREIGN TAXES.—Fees and other transaction expenses and foreign taxes shall be taken into account as expenses in determining pre-tax profit under subparagraph (A).

“(3) STATE AND LOCAL TAX BENEFITS.—For purposes of paragraph (1), any State or local income tax effect which is related to a Federal income tax effect shall be treated in the same manner as a Federal income tax effect.

“(4) FINANCIAL ACCOUNTING BENEFITS.—For purposes of paragraph (1)(B), achieving a financial accounting benefit shall not be taken into account as a purpose for entering into a transaction if such transaction results in a Federal income tax benefit.

“(5) DEFINITIONS AND SPECIAL RULES.—For purposes of this subsection—

“(A) ECONOMIC SUBSTANCE DOCTRINE.—The term ‘economic substance doctrine’ means
the common law doctrine under which tax bene-
fits under subtitle A with respect to a trans-
action are not allowable if the transaction does
not have economic substance or lacks a business
purpose.

“(B) Exception for personal trans-
actions of individuals.—In the case of an
individual, paragraph (1) shall apply only to
transactions entered into in connection with a
trade or business or an activity engaged in for
the production of income.

“(C) Other common law doctrines
not affected.—Except as specifically pro-
vided in this subsection, the provisions of this
subsection shall not be construed as altering or
supplanting any other rule of law, and the re-
quirements of this subsection shall be construed
as being in addition to any such other rule of
law.

“(D) Determination of application of
doctrine not affected.—The determination
of whether the economic substance doctrine is
relevant to a transaction shall be made in the
same manner as if this subsection had never
been enacted.
“(6) REGULATIONS.—The Secretary shall pre-
scribe such regulations as may be necessary or ap-
propriate to carry out the purposes of this sub-
section. Such regulations may include exemptions
from the application of this subsection.”.

(b) EFFECTIVE DATE.—The amendments made by
this section shall apply to transactions entered into after
the date of the enactment of this Act.

SEC. 3502. PENALTIES FOR UNDERPAYMENTS.

(a) PENALTY FOR UNDERPAYMENTS ATTRIBUTABLE
TO TRANSACTIONS LACKING ECONOMIC SUBSTANCE.—

(1) IN GENERAL.—Subsection (b) of section
6662, as amended by this Act, is amended by insert-
ing after paragraph (6) the following new para-
graph:

“(7) Any disallowance of claimed tax benefits
by reason of a transaction lacking economic sub-
stance (within the meaning of section 7701(p)) or
failing to meet the requirements of any similar rule
of law.”.

(2) INCREASED PENALTY FOR NONDISCLOSED
TRANSACTIONS.—Section 6662, as amended by this
Act, is amended by adding at the end the following
new subsection:
“(j) Increase in Penalty in Case of Nondisclosed Noneconomic Substance Transactions.—

“(1) In general.—To the extent that a portion of the underpayment to which this section applies is attributable to one or more nondisclosed noneconomic substance transactions, subsection (a) shall be applied with respect to such portion by substituting ‘40 percent’ for ‘20 percent’.

“(2) Nondisclosed Noneconomic Substance Transactions.—For purposes of this subsection, the term ‘nondisclosed noneconomic substance transaction’ means any portion of a transaction described in subsection (b)(7) with respect to which the relevant facts affecting the tax treatment are not adequately disclosed in the return nor in a statement attached to the return.

“(3) Special Rule for Amended Returns.—Except as provided in regulations, in no event shall any amendment or supplement to a return of tax be taken into account for purposes of this subsection if the amendment or supplement is filed after the earlier of the date the taxpayer is first contacted by the Secretary regarding the examination of the return or such other date as is specified by the Secretary.”.
(3) CONFORMING AMENDMENT.—Subparagraph (B) of section 6662A(e)(2), as amended by this Act, is amended by striking “subsection (h) or (i)” and inserting “subsections (h), (i), or (j)”.

(b) REASONABLE CAUSE EXCEPTION NOT APPLICABLE TO NONECONOMIC SUBSTANCE TRANSACTIONS, TAX SHELTERS, AND CERTAIN LARGE CORPORATIONS.—Paragraph (2) of section 6664(c), as amended by this Act, is amended—

(1) by striking “shall not apply to any portion” and inserting “shall not apply—

“(A) to any portion”,

(2) by striking the period at the end and inserting a comma, and

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

“(B) to any portion of an underpayment which is attributable to one or more tax shelters (as defined in section 6662(d)(2)(C)) or transactions described in section 6662(b)(7), and

“(C) to any taxpayer if such taxpayer is a specified large corporation (as defined in section 6662(d)(2)(D)(ii)).”.

(c) SPECIAL UNDERSTATEMENT REDUCTION RULE FOR CERTAIN LARGE CORPORATIONS.—
(1) In General.—Paragraph (2) of section 6662(d) is amended by adding at the end the following new subparagraph:

“(D) Special reduction rule for certain large corporations.—

“(i) In general.—In the case of any specified large corporation—

“(I) subparagraph (B) shall not apply, and

“(II) the amount of the understatement under subparagraph (A) shall be reduced by that portion of the understatement which is attributable to any item with respect to which the taxpayer has a reasonable belief that the tax treatment of such item by the taxpayer is more likely than not the proper tax treatment of such item.

“(ii) Specified large corporation.—

“(I) In general.—For purposes of this subparagraph, the term ‘specified large corporation’ means any corporation with gross receipts in excess
of $100,000,000 for the taxable year involved.

“(II) AGGREGATION RULE.—All persons treated as a single employer under section 52(a) shall be treated as one person for purposes of subclause (I).”.

(2) CONFORMING AMENDMENT.—Subparagraph (C) of section 6662(d)(2) is amended by striking “Subparagraph (B)” and inserting “Subparagraphs (B) and (D)(i)(II)”.

(d) EFFECTIVE DATE.—The amendments made by this section shall apply to taxable years beginning after the date of the enactment of this Act.

Subtitle G—Modifications to Deductions for Dividends Received

SEC. 3601. MODIFICATIONS TO DEDUCTIONS FOR DIVIDENDS RECEIVED.

(a) GENERAL REDUCTION IN PERCENTAGE OF DEDUCTION.—

(1) IN GENERAL.—Sections 243(a)(1), 243(c)(1), 244(a)(3), 244(b)(2), 245(c)(1)(B), 246(b)(3)(B), and 246A(a)(1), before amendment by subsection (c), are each amended by striking “70 percent” and inserting “60 percent”.

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(2) CONFORMING AMENDMENTS.—Paragraph (2) of section 861(a), before amendment by subsection (c), is amended by striking “100/70th” both places it appears and inserting “100/60th”.

(b) REDUCTION IN PERCENTAGE FOR 20-PERCENT OWNED CORPORATIONS.—

(1) IN GENERAL.—Sections 243(c)(1), 245(c)(1)(B), 246(b)(3)(A), 246A(a)(1) is amended by striking “80 percent” and inserting “70 percent”.

(2) CONFORMING AMENDMENT.—Paragraph (2) of section 861(a) is amended by striking “100/80th” and inserting “100/70th”.

(c) REPEAL OF NOL EXCEPTION TO LIMITATION ON AGGREGATE DEDUCTIONS; ESTABLISHMENT OF CARRYFORWARD.—

(1) IN GENERAL.—Paragraph (2) of section 246(b) is amended to read as follows:

“(2) CARRYFORWARD.—The aggregate amount of deductions disallowed under paragraph (1) for any taxable year shall be treated as an increase in the amount allowable as a deduction under section 243(a)(1) for the following taxable year (subject to the application of paragraph (1) to such following taxable year).”.
(2) CONFORMING AMENDMENTS.—

(A) Subsection (d) of section 172 is amended by striking paragraph (5) and by re-designating paragraph (6) as paragraph (5).

(B) Subparagraph (A) of section 172(b)(2) is amended by striking “paragraphs (1), (4), and (5)” and inserting “paragraphs (1) and (4)”.

(C) Paragraph (1) of section 246(b) is amended by striking “Except as provided in paragraph (2), the” and inserting “The”.

(D) Paragraph (3) of section 246(b) is amended by striking “paragraph (1)” and inserting “paragraphs (1) and (2)”.

(E) Subparagraph (B) of section 805(a)(4) is amended by striking “section 1212(a)(1),” and all that follows and inserting “section 1212(a)(1).”.

(d) EFFECTIVE DATE.—The amendments made by this section shall apply to taxable years beginning after December 31, 2008.
Subtitle H—Other Provisions

SEC. 3701. RECOGNITION OF ORDINARY INCOME ON SALE OR EXERCISE OF STOCK OPTION IN S CORPORATION WITH AN ESOP.

(a) In General.—Subpart A of part I of subchapter D of chapter 1 is amended by adding at the end the following new section:

"SEC. 409B. RECOGNITION OF ORDINARY INCOME ON SALE OR EXERCISE OF STOCK OPTION IN S CORPORATION WITH AN ESOP.

“(a) In General.—If an S corporation in which an employee stock ownership plan is a stockholder grants an option with respect to its stock and such option is sold or exercised, there shall be included in the gross income of the holder of such option (determined immediately before such sale or exercise) as ordinary income an amount equal to the income inclusion amount.

“(b) Income Inclusion Amount.—For purposes of this section, the term ‘income inclusion amount’ means, with respect to the holder of any option, the excess (if any) of—

“(1) the sum of the net income amounts with respect to such option for all taxable years of the S corporation ending during the taxpayer’s holding period, over

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“(2) the sum of the net loss amounts with respect to such option for all such taxable years.

“(c) NET INCOME AND LOSS AMOUNTS.—For purposes of this section, with respect to any taxable year of the S corporation—

“(1) NET INCOME AMOUNT.—The term ‘net income amount’ means the excess (if any) of—

“(A) the pass-thru income share for such taxable year, over

“(B) the pass-thru loss share for such taxable year.

“(2) NET LOSS AMOUNT.—The term ‘net loss amount’ means the excess (if any) of the amount described in paragraph (1)(B) over the amount described in paragraph (1)(A).

“(d) PASS-THRU INCOME AND LOSS SHARES.—For purposes of this section, with respect to any taxable year of the S corporation—

“(1) PASS-THRU INCOME SHARE.—The term ‘pass-thru income share’ means the excess (if any) of—

“(A) the aggregate items of income taken into account under section 1366 by the employee stock ownership plan for such taxable year, over
“(B) the aggregate items of income which would have been so taken into account if such option had been exercised upon being granted.

“(2) Pass-thru loss share.—The term ‘pass-thru loss share’ means the excess (if any) of—

“(A) the aggregate items of deduction and loss taken into account under section 1366 by the employee stock ownership plan for such taxable year, over

“(B) the aggregate items of deduction and loss which would have been so taken into account if such option had been exercised upon being granted.

“(e) Interest at underpayment rate.—

“(1) In general.—In the case of any taxpayer who includes any amount in gross income for any taxable year under subsection (a), the tax imposed by this chapter on such taxpayer for such taxable year shall be increased by interest at the underpayment rate determined under section 6621 on the underpayments that would have occurred had the net income amounts with respect to each taxable year taken into account under subsection (e) been includible in the taxpayer’s gross income for each of
taxable year of the taxpayer in or with which the
taxable year so taken into account ends.

“(2) REDUCTION FOR PREVIOUS NET LOSS
AMOUNTS.—For purposes of paragraph (1), the net
income amount for any taxable year shall be reduced
by the excess of—

“(A) the aggregate net loss amounts for
taxable years taken into account under sub-
section (e) with respect to the taxpayer, over

“(B) the amount of such aggregate pre-
viously taken into account under this paragraph
to reduce any net income amount.

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

“(1) OPTION.—The term ‘option’ includes any
synthetic equity described in section 409(p)(6)(C).

“(2) EFFECT OF STARTING OR TERMINATING
AN S CORPORATION ELECTION.—With respect to any
option, a corporation which is an S corporation for
any taxable year which ends while such option is
outstanding shall be treated for purposes of this sec-
tion (other than subsection (d)) as an S corporation
for all taxable years which end while such option is
outstanding.

“(3) ADJUSTMENTS TO BASIS.—
“(A) INCREASE IN BASIS OF ACQUIRED STOCK.—The taxpayer’s basis in any stock acquired pursuant to the exercise of an option to which subsection (a) applies shall be increased by the amount included in gross income by the taxpayer under subsection (a) with respect to such option.

“(B) INCREASE IN BASIS OF OPTION ON SALE.—The taxpayer’s basis in any option shall be increased by the amount included in gross income by the taxpayer under subsection (a) with respect to such option.”.

(b) CONFORMING AMENDMENTS.—

(1) Section 26(b)(2), as amended by this Act, is amended by striking “and” at the end of subparagraph (T), by striking the period at the end of subparagraph (U) and inserting “, and”, and by adding at the end the following new subparagraph:

“(V) subsection (e) of section 409B (relating to interest on income recognized upon exercise of a stock option in an S corporation with an ESOP).”.

(2) Section 1016(a) is amended by striking “and” at the end of paragraph (36), by striking the period at the end of paragraph (37) and inserting “, 
and”, and by adding at the end the following new paragraph:

“(38) to the extent provided in section 409B(f)(3).”.

(3) The table of sections for subpart A of part I of subchapter D of chapter 1 is amended by adding at the end the following new item:

“Sec. 409B. Recognition of ordinary income on sale or exercise of stock option in S corporation with an ESOP.”.

(c) Effective Date.—The amendments made by this section shall apply to options granted after the date of the enactment of this Act.

SEC. 3702. TERMINATION OF SPECIAL RULES FOR DOMESTIC INTERNATIONAL SALES CORPORATIONS.

(a) In General.—Part IV of subchapter N of chapter 1 (relating to domestic international sales corporations) is amended by adding at the end the following new subpart:

“Subpart C—Termination

“Sec. 998. Termination of domestic international sales corporation provisions.

SEC. 998. TERMINATION OF DOMESTIC INTERNATIONAL SALES CORPORATION PROVISIONS.

“(a) Termination of Election.—Any election under section 992(b) in effect for a corporation’s last taxable year beginning in 2007 shall be terminated effective for such corporation’s next succeeding taxable year.
“(b) No New Election.—No election may be made under section 992(b) for any taxable year beginning after December 31, 2007.

“(c) Effect of Termination.—A shareholder of a corporation whose election is terminated by reason of subsection (a) shall be deemed to have received a distribution to which section 995(b)(2) applies. Such distribution (or any actual distribution after termination to the extent paid out of the corporation’s accumulated DISC income) shall not be treated as qualified dividend income (within the meaning of section 1(h)(11)(B)).”.

(b) Conforming Amendment.—The table of contents for part IV of subchapter N of chapter 1 is amended by adding at the end the following new item:

“Subpart C—Termination”.

**SEC. 3703. TREATMENT OF SECURITIES OF A CONTROLLED CORPORATION EXCHANGED FOR ASSETS IN CERTAIN REORGANIZATIONS.**

(a) In General.—Section 361 (relating to non-recognition of gain or loss to corporations; treatment of distributions) is amended by adding at the end the following new subsection:

“(d) Receipt of Securities, etc., in Exchange for Assets in Certain Reorganizations.—If—

“(1) property is transferred to a corporation (hereinafter in this subsection referred to as the
‘controlled corporation’) pursuant to a plan of reorgan-
ization described in section 368(a)(1)(D), and

“(2) pursuant to such plan of reorganization,
stock or securities in the controlled corporation are
distributed in a transaction which qualifies under
section 355,
then any securities and nonqualified preferred stock (as
defined in section 351(g)(2)) of the controlled corporation
shall be treated as other property for purposes of sub-
sections (a) and (b).”.

(b) EFFECTIVE DATE.—The amendment made by
subsection (a) shall apply to distributions after the date
of the enactment of this Act.