

104TH CONGRESS
1ST SESSION

H. R. 1327

To provide tax relief to strengthen the American family and create jobs, to reduce Federal spending and the budget deficit, and for other purposes.

IN THE HOUSE OF REPRESENTATIVES

MARCH 28, 1995

Mr. KASICH (for himself, Mr. ARCHER, and Mr. BLILEY) introduced the following bill; which was referred to the Committee on Ways and Means, and in addition to the Committees on Budget, Commerce, Government Reform and Oversight, and Rules, for a period to be subsequently determined by the Speaker, in each case for consideration of such provisions as fall within the jurisdiction of the committee concerned

A BILL

To provide tax relief to strengthen the American family and create jobs, to reduce Federal spending and the budget deficit, and for other purposes.

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

3 **SECTION 1. SHORT TITLE.**

4 This Act may be cited as the “Tax Fairness and
5 Deficit Reduction Act of 1995”.

1 **TITLE I—DISCRETIONARY**
2 **SAVINGS**

3 **SEC. 1001. SHORT TITLE.**

4 This title may be cited as the “Discretionary Spend-
5 ing Reduction and Control Act of 1995”.

6 **SEC. 1002. DISCRETIONARY SPENDING LIMITS.**

7 (a) LIMITS.—Section 601(a)(2) of the Congressional
8 Budget Act of 1974 is amended by striking subparagraphs
9 (A), (B), (C), (D), and (F), by redesignating subpara-
10 graph (E) as subparagraph (A) and by striking “and” at
11 the end of that subparagraph, and by inserting after sub-
12 paragraph (A) the following new subparagraphs:

13 “(B) with respect to fiscal year 1996, for
14 the discretionary category: \$502,994,000,000 in
15 new budget authority and \$537,946,000,000 in
16 outlays;

17 “(C) with respect to fiscal year 1997, for
18 the discretionary category: \$497,816,000,000 in
19 new budget authority and \$531,793,000,000 in
20 outlays;

21 “(D) with respect to fiscal year 1998, for
22 the discretionary category: \$489,046,000,000 in
23 new budget authority and \$523,703,000,000 in
24 outlays;

1 “(E) with respect to fiscal year 1999, for
2 the discretionary category: \$491,586,000,000 in
3 new budget authority and \$522,063,000,000 in
4 outlays; and

5 “(F) with respect to fiscal year 2000, for
6 the discretionary category: \$492,282,000,000 in
7 new budget authority and \$521,690,000,000 in
8 outlays;”.

9 (b) COMMITTEE ALLOCATIONS AND ENFORCE-
10 MENT.—Section 602 of the Congressional Budget Act of
11 1974 is amended—

12 (1) in subsection (c), by striking “1995” and
13 inserting “2000” and by striking its last sentence;
14 and

15 (2) in subsection (d), by striking “1992 TO
16 1995” in the side heading and inserting “1995 TO
17 2000” and by striking “1992 through 1995” and in-
18 serting “1995 through 2000”.

19 (c) FIVE-YEAR BUDGET RESOLUTIONS.—Section
20 606 of the Congressional Budget Act of 1974 is amend-
21 ed—

22 (1) in subsection (a), by striking “1992, 1993,
23 1994, or 1995” and inserting “1995, 1996, 1997,
24 1998, 1999, or 2000”; and

1 (2) in subsection (d)(1), by striking “1992,
2 1993, 1994, and 1995” and inserting “1995, 1996,
3 1997, 1998, 1999, and 2000”, and by striking “(i)
4 and (ii)”.

5 (d) EFFECTIVE DATE.—Section 607 of the Congres-
6 sional Budget Act of 1974 is amended by striking “1991
7 to 1998” and inserting “1995 to 2000”.

8 (e) SEQUESTRATION REGARDING CRIME TRUST
9 FUND.—(1) Section 251A(b)(1) of the Balanced Budget
10 and Emergency Deficit Control Act of 1985 is amended
11 by striking subparagraphs (B), (C), and (D) and its last
12 two sentences and inserting the following:

13 “(B) For fiscal year 1996,
14 \$1,827,000,000.

15 “(C) For fiscal year 1997, \$3,082,000,000.

16 “(D) For fiscal year 1998,
17 \$3,840,000,000.

18 “(E) For fiscal year 1999,
19 \$4,415,000,000.

20 “(F) For fiscal year 2000,
21 \$4,874,000,000.

22 “The appropriate levels of new budget authority are
23 as follows: for fiscal year 1996, \$3,357,000,000; for
24 fiscal year 1997, \$3,915,000,000; for fiscal year
25 1998, \$4,306,000,000; for fiscal year 1999,

1 \$5,089,000,000; and for fiscal year 2000,
2 \$5,089,000,000.”.

3 (2) The last two sentences of section 310002 of the
4 Violent Crime Control and Law Enforcement Act of 1994
5 (42 U.S.C. 14212) are repealed.

6 **SEC. 1003. GENERAL STATEMENT AND DEFINITIONS.**

7 (a) GENERAL STATEMENT.—Section 250(b) of the
8 Balanced Budget and Emergency Deficit Control Act of
9 1985 is amended by striking the first sentence and insert-
10 ing the following: “This part provides for the enforcement
11 of deficit reduction through discretionary spending limits
12 and pay-as-you-go requirements for fiscal years 1995
13 through 2000.”.

14 (b) DEFINITIONS.—Section 250(c) of the Balanced
15 Budget and Emergency Deficit Control Act of 1985 is
16 amended—

17 (1) by striking paragraph (4) and inserting the
18 following:

19 “(4) The term ‘category’ means all discre-
20 tionary appropriations.”;

21 (2) by striking paragraph (6) and inserting the
22 following:

23 “(6) The term ‘budgetary resources’ means new
24 budget authority, unobligated balances, direct spend-
25 ing authority, and obligation limitations.”;

1 (3) in paragraph (9), by striking “1992” and
2 inserting “1995”;

3 (4) in paragraph (14), by striking “1995” and
4 inserting “2000”; and

5 (5) by striking paragraph (17) and by redesignig-
6 nating paragraphs (18) through (21) as paragraphs
7 (17) through (20), respectively.

8 **SEC. 1004. ENFORCING DISCRETIONARY SPENDING LIMITS.**

9 Section 251 of the Balanced Budget and Emergency
10 Deficit Control Act of 1985 is amended—

11 (1) in the side heading of subsection (a), by
12 striking “1991–1998” and inserting “1995–2000”;

13 (2) in the first sentence of subsection (b)(1), by
14 striking “1992, 1993, 1994, 1995, 1996, 1997 or
15 1998” and inserting “1995, 1996, 1997, 1998,
16 1999, or 2000” and by striking “through 1998” and
17 inserting “through 2000”;

18 (3) in subsection (b)(1), by striking subpara-
19 graphs (B) and (C) and by striking “the following:”
20 and all that follows through “The adjustments” and
21 inserting “the following: the adjustments”;

22 (4) in subsection (b)(2), by striking “1991,
23 1992, 1993, 1994, 1995, 1996, 1997, or 1998” and
24 inserting “1995, 1996, 1997, 1998, 1999, or 2000”

1 and by striking “through 1998” and inserting
2 “through 2000”;

3 (5) by striking subparagraphs (A), (B), and (C)
4 of subsection (b)(2);

5 (6) in subsection (b)(2)(E), by striking clauses
6 (i), (ii), and (iii) and by striking “(iv) if, for fiscal
7 years 1994, 1995, 1996, 1997, and 1998” and in-
8 serting “If, for fiscal years 1995, 1996, 1997, 1998,
9 1999, and 2000”; and

10 (7) in subsection (b)(2)(F), strike everything
11 after “the adjustment in outlays” and insert “for a
12 category for a fiscal year shall not exceed 0.5 per-
13 cent of the adjusted discretionary spending limit on
14 outlays for that fiscal year in fiscal year 1996, 1997,
15 1998, 1999, or 2000.”.

16 **SEC. 1005. ENFORCING PAY-AS-YOU-GO.**

17 Section 252 of the Balanced Budget and Emergency
18 Deficit Control Act of 1985 is amended—

19 (1) in the side heading of subsection (a), by
20 striking “1992–1998” and inserting “1995–2000”;

21 (2) in subsection (d), by striking “1998” each
22 place it appears and inserting “2000”; and

23 (3) in subsection (e), by striking “1991 through
24 1998” and inserting “1995 through 2000” and by

1 striking “through 1995” and inserting “through
2 2000”.

3 **SEC. 1006. REPORTS AND ORDERS.**

4 Section 254 of the Balanced Budget and Emergency
5 Deficit Control Act of 1985 is amended—

6 (1) in subsection (d)(2), by striking “1998”
7 and inserting “2000”; and

8 (2) in subsection (g), by striking “1998” each
9 place it appears and inserting “2000”.

10 **SEC. 1007. TECHNICAL CORRECTION.**

11 Section 258 of the Balanced Budget and Emergency
12 Deficit Control Act of 1985, entitled “Modification of
13 Presidential Order”, is repealed.

14 **SEC. 1008. EFFECTIVE DATE.**

15 (a) EXPIRATION.—Section 275(b) of the Balanced
16 Budget and Emergency Deficit Control Act of 1985 is
17 amended by striking “1995” and inserting “2000”.

18 (b) EXPIRATION.—Section 14002(c)(3) of the Omni-
19 bus Budget Reconciliation Act of 1993 (2 U.S.C. 900
20 note; 2 U.S.C. 665 note) is repealed.

1 **SEC. 1009. SPECIAL RULE ON INTERRELATIONSHIP BE-**
2 **TWEEN CHANGES IN DISCRETIONARY SPEND-**
3 **ING LIMITS AND PAY-AS-YOU-GO REQUIRE-**
4 **MENTS.**

5 (a)(1) Section 252 of the Balanced Budget and
6 Emergency Deficit Control Act of 1985 is amended by
7 adding at the end the following new subsection:

8 “(f) SPECIAL RULE ON INTERRELATIONSHIP BE-
9 TWEEN SECTIONS 251, 251A, and 252.—Whenever the
10 Committee on the Budget of the House of Representatives
11 or the Senate reports legislation that decreases the discre-
12 tionary spending limits for budget authority and outlays
13 for a fiscal year set forth in section 601(a)(2) of the Con-
14 gressional Budget Act of 1974 or in section 251A(b) of
15 the Balanced Budget and Emergency Deficit Control Act
16 of 1985, or both, then, for purposes of subsection (b), an
17 amount equal to that decrease in the discretionary spend-
18 ing limit for outlays shall be treated as direct spending
19 legislation decreasing the deficit for that fiscal year.”.

20 (2) Section 310(a) of the Congressional Budget Act
21 of 1974 is amended by striking “or” at the end of para-
22 graph (3), by redesignating paragraph (4) as paragraph
23 (5) and by striking “and (3)” in such redesignated para-
24 graph (5) and inserting “(3), and (4)”, and by inserting
25 after paragraph (3) the following new paragraph:

1 “(4) carry out section 252(f) of the Balanced
2 Budget and Emergency Deficit Control Act of 1985;
3 or”.

4 (b) For purposes of section 252(f) of the Balanced
5 Budget and Emergency Deficit Control Act of 1985 (as
6 amended by subsection (a)(1))—

7 (1) this Act shall be deemed to be legislation re-
8 ported by the Committee on the Budget of the
9 House of Representatives; and

10 (2)(A) reductions in the discretionary spending
11 limit for outlays set forth in section 601(a)(2) of the
12 Congressional Budget Act of 1974 for fiscal years
13 1999 and 2000 under section 1002 shall be meas-
14 ured as reductions from the discretionary spending
15 limit for outlays for fiscal year 1998 as in effect im-
16 mediately before the enactment of this Act; and

17 (B) reductions in the discretionary spending
18 limit for outlays set forth in section 251A(b) of the
19 Balanced Budget and Emergency Deficit Control
20 Act of 1985 for fiscal years 1999 and 2000 under
21 section 1002 shall be measured as reductions from
22 the level for outlays for fiscal year 1999 and 2000,
23 as the case may be, referred to in the last two sen-
24 tences of section 251A(b)(1) as in effect immediately
25 before the enactment of this Act.

1 (c) In the final sequestration report of the Director
2 of the Office of Management and Budget for fiscal year
3 1996—

4 (1) all adjustments required by section
5 251(b)(2) of the Balanced Budget and Emergency
6 Deficit Control Act of 1985 made after the seques-
7 tration preview report for fiscal year 1996 shall be
8 made to the discretionary spending limits set forth
9 in 601(a)(2) of the Congressional Budget Act of
10 1974 as amended by section 1002; and

11 (2) all statutory changes in the discretionary
12 spending limits set forth in 601(a)(2) of the Con-
13 gressional Budget Act of 1974 made after issuance
14 of the sequestration preview report for fiscal year
15 1996 of the Director of the Office of Management
16 and Budget and before the date of enactment of this
17 Act shall be made to those limits as amended by sec-
18 tion 1002.

1 **TITLE II—EXTENSION OF AU-**
2 **THORITY OF FEDERAL COM-**
3 **MUNICATIONS COMMISSION**
4 **TO USE COMPETITIVE BID-**
5 **DING**

6 **SEC. 2001. EXTENSION OF AUTHORITY.**

7 Section 309(j)(11) of the Communications Act of
8 1934 (47 U.S.C. 309(j)(11)) is amended by striking “Sep-
9 tember 30, 1998” and inserting “September 30, 2000”.

10 **TITLE III—PRIVATIZATION OF**
11 **THE UNITED STATES ENRICH-**
12 **MENT CORPORATION**

13 **SEC. 3001. SHORT TITLE AND REFERENCE.**

14 (a) **SHORT TITLE.**—This title may be cited as the
15 “USEC Privatization Act”.

16 (b) **REFERENCE.**—Except as otherwise expressly pro-
17 vided, whenever in this title an amendment or repeal is
18 expressed in terms of an amendment to, or repeal of, a
19 section or other provision, the reference shall be consid-
20 ered to be made to a section or other provision of the
21 Atomic Energy Act of 1954 (42 U.S.C. 2011 et seq.).

22 **SEC. 3002. PRODUCTION FACILITY.**

23 Paragraph v. of section 11 (42 U.S.C. 2014 v.) is
24 amended by striking “or the construction and operation

1 of a uranium enrichment production facility using Atomic
2 Vapor Laser Isotope Separation technology”.

3 **SEC. 3003. DEFINITIONS.**

4 Section 1201 (42 U.S.C. 2297) is amended—

5 (1) in paragraph (4), by inserting before the pe-
6 riod the following: “and any successor corporation
7 established through privatization of the Corpora-
8 tion”;

9 (2) by redesignating paragraphs (10) through
10 (13) as paragraphs (14) through (17), respectively,
11 and by inserting after paragraph (9) the following
12 new paragraphs:

13 “(10) The term ‘low-level radioactive waste’ has
14 the meaning given such term in section 102(9) of
15 the Low-Level Radioactive Waste Policy Amend-
16 ments Act of 1985 (42 U.S.C. 2021b(9)).

17 “(11) The term ‘mixed waste’ has the meaning
18 given such term in section 1004(41) of the Solid
19 Waste Disposal Act (42 U.S.C. 6903(41)).

20 “(12) The term ‘privatization’ means the trans-
21 fer of ownership of the Corporation to private inves-
22 tors pursuant to chapter 25.

23 “(13) The term ‘privatization date’ means the
24 date on which 100 percent of ownership of the Cor-
25 poration has been transferred to private investors.”;

1 (3) by inserting after paragraph (17) (as redesi-
2 gnated) the following new paragraph:

3 “(18) The term ‘transition date’ means July 1,
4 1993.”; and

5 (4) by redesignating the unredesignated para-
6 graph (14) as paragraph (19).

7 **SEC. 3004. EMPLOYEES OF THE CORPORATION.**

8 (a) PARAGRAPH (2).—Paragraphs (1) and (2) of sec-
9 tion 1305(e) (42 U.S.C. 2297b-4(e)(1)(2)) are amended
10 to read as follows:

11 “(1) IN GENERAL.—It is the purpose of this
12 subsection to ensure that the privatization of the
13 Corporation shall not result in any adverse effects
14 on the pension benefits of employees at facilities that
15 are operated, directly or under contract, in the per-
16 formance of the functions vested in the Corporation.

17 “(2) APPLICABILITY OF EXISTING COLLECTIVE
18 BARGAINING AGREEMENT.—The Corporation shall
19 abide by the terms of the collective bargaining agree-
20 ment in effect on the privatization date at each indi-
21 vidual facility.”.

22 (b) PARAGRAPH (4).—Paragraph (4) of section
23 1305(e) (42 U.S.C. 2297b-4(e)(4)) is amended—

24 (1) by striking “AND DETAILEES” in the head-
25 ing;

1 (2) by striking the first sentence;

2 (3) in the second sentence, by inserting “from
3 other Federal employment” after “transfer to the
4 Corporation”; and

5 (4) by striking the last sentence.

6 **SEC. 3005. MARKETING AND CONTRACTING AUTHORITY.**

7 (a) **MARKETING AUTHORITY.**—Section 1401(a) (42
8 U.S.C. 2297c(a)) is amended effective on the privatization
9 date (as defined in section 1201(13) of the Atomic Energy
10 Act of 1954)—

11 (1) by amending the subsection heading to read
12 “**MARKETING AUTHORITY.**—”; and

13 (2) by striking the first sentence.

14 (b) **TRANSFER OF CONTRACTS.**—Section 1401(b) (42
15 U.S.C. 2297c(b)) is amended—

16 (1) in paragraph (2)(B), by adding at the end
17 the following: “The privatization of the Corporation
18 shall not affect the terms of, or the rights or obliga-
19 tions of the parties to, any such power purchase con-
20 tract.”; and

21 (2) by adding at the end the following:

22 “(3) **EFFECT OF TRANSFER.**—

23 “(A) As a result of the transfer pursuant
24 to paragraph (1), all rights, privileges, and ben-
25 efits under such contracts, agreements, and

1 leases, including the right to amend, modify, ex-
2 tend, revise, or terminate any of such contracts,
3 agreements, or leases were irrevocably assigned
4 to the Corporation for its exclusive benefit.

5 “(B) Notwithstanding the transfer pursu-
6 ant to paragraph (1), the United States shall
7 remain obligated to the parties to the contracts,
8 agreements, and leases transferred pursuant to
9 paragraph (1) for the performance of the obli-
10 gations of the United States thereunder during
11 the term thereof. The Corporation shall reim-
12 burse the United States for any amount paid by
13 the United States in respect of such obligations
14 arising after the privatization date to the extent
15 such amount is a legal and valid obligation of
16 the Corporation then due.

17 “(C) After the privatization date, upon any
18 material amendment, modification, extension,
19 revision, replacement, or termination of any
20 contract, agreement, or lease transferred under
21 paragraph (1), the United States shall be re-
22 leased from further obligation under such con-
23 tract, agreement, or lease, except that such ac-
24 tion shall not release the United States from

1 obligations arising under such contract, agree-
2 ment, or lease prior to such time.”.

3 (c) PRICING.—Section 1402 (42 U.S.C. 2297c–1) is
4 amended to read as follows:

5 **“SEC. 1402. PRICING.**

6 “The Corporation shall establish prices for its prod-
7 ucts, materials, and services provided to customers on a
8 basis that will allow it to attain the normal business objec-
9 tives of a profitmaking corporation.”.

10 (d) LEASING OF GASEOUS DIFFUSION FACILITIES OF
11 DEPARTMENT.—Effective on the privatization date (as de-
12 fined in section 1201(13) of the Atomic Energy Act of
13 1954), section 1403 (42 U.S.C. 2297c–2) is amended by
14 adding at the end the following:

15 “(h) LOW-LEVEL RADIOACTIVE WASTE AND MIXED
16 WASTE.—

17 “(1) RESPONSIBILITY OF THE DEPARTMENT;
18 COSTS.—

19 “(A) With respect to low-level radioactive
20 waste and mixed waste generated by the Cor-
21 poration as a result of the operation of the fa-
22 cilities and related property leased by the Cor-
23 poration pursuant to subsection (a) or as a re-
24 sult of treatment of such wastes at a location
25 other than the facilities and related property

1 leased by the Corporation pursuant to sub-
2 section (a) the Department, at the request of
3 the Corporation, shall—

4 “(i) accept for treatment or disposal
5 of all such wastes for which treatment or
6 disposal technologies and capacities exist,
7 whether within the Department or else-
8 where; and

9 “(ii) accept for storage (or ultimately
10 treatment or disposal) all such wastes for
11 which treatment and disposal technologies
12 or capacities do not exist, pending develop-
13 ment of such technologies or availability of
14 such capacities for such wastes.

15 “(B) All low-level wastes and mixed wastes
16 that the Department accepts for treatment,
17 storage, or disposal pursuant to subparagraph
18 (A) shall, for the purpose of any permits, li-
19 censes, authorizations, agreements, or orders
20 involving the Department and other Federal
21 agencies or State or local governments, be
22 deemed to be generated by the Department and
23 the Department shall handle such wastes in ac-
24 cordance with any such permits, licenses, au-
25 thorizations, agreements, or orders. The De-

1 partment shall obtain any additional permits, li-
2 censes, or authorizations necessary to handle
3 such wastes, shall amend any such agreements
4 or orders as necessary to handle such wastes,
5 and shall handle such wastes in accordance
6 therewith.

7 “(C) The Corporation shall reimburse the
8 Department for the treatment, storage, or dis-
9 posal of low-level radioactive waste or mixed
10 waste pursuant to subparagraph (A) in an
11 amount equal to the Department’s costs but in
12 no event greater than an amount equal to that
13 which would be charged by commercial, State,
14 regional, or interstate compact entities for
15 treatment, storage, or disposal of such waste.

16 “(2) AGREEMENTS WITH OTHER PERSONS.—
17 The Corporation may also enter into agreements for
18 the treatment, storage, or disposal of low-level radio-
19 active waste and mixed waste generated by the Cor-
20 poration as a result of the operation of the facilities
21 and related property leased by the Corporation pur-
22 suant to subsection (a) with any person other than
23 the Department that is authorized by applicable laws
24 and regulations to treat, store, or dispose of such
25 wastes.”.

1 (e) LIABILITIES.—

2 (1) Subsection (a) of section 1406 (42 U.S.C.
3 2297c-5(a)) is amended—

4 (A) by inserting “AND PRIVATIZATION”
5 after “TRANSITION” in the heading; and

6 (B) by adding at the end the following:
7 “As of the privatization date, all liabilities at-
8 tributable to the operation of the Corporation
9 from the transition date to the privatization
10 date shall be direct liabilities of the United
11 States.”.

12 (2) Subsection (b) of section 1406 (42 U.S.C.
13 2297c-5(b)) is amended—

14 (A) by inserting “AND PRIVATIZATION”
15 after “TRANSITION” in the heading; and

16 (B) by adding at the end the following:
17 “As of the privatization date, any judgment en-
18 tered against the Corporation imposing liability
19 arising out of the operation of the Corporation
20 from the transition date to the privatization
21 date shall be considered a judgment against the
22 United States.”.

23 (3) Subsection (d) of section 1406 (42 U.S.C.
24 2297c-5(d)) is amended—

1 (A) by inserting “AND PRIVATIZATION”
2 after “TRANSITION” in the heading; and

3 (B) by striking “the transition date” and
4 inserting “the privatization date (or, in the
5 event the privatization date does not occur, the
6 transition date)”.

7 (f) TRANSFER OF URANIUM.—Title II (42 U.S.C.
8 2297 et seq.) is amended by redesignating section 1408
9 as section 1409 and by inserting after section 1407 the
10 following:

11 **“SEC. 1408. TRANSFER OF URANIUM.**

12 “The Secretary may, before the privatization date,
13 transfer to the Corporation without charge raw uranium,
14 low-enriched uranium, and highly enriched uranium.”.

15 **SEC. 3006. PRIVATIZATION OF THE CORPORATION.**

16 (a) ESTABLISHMENT OF PRIVATE CORPORATION.—
17 Chapter 25 (42 U.S.C. 2297d et seq.) is amended by add-
18 ing at the end the following new section:

19 **“SEC. 1503. ESTABLISHMENT OF PRIVATE CORPORATION.**

20 “(a) ESTABLISHMENT.—

21 “(1) IN GENERAL.—In order to facilitate pri-
22 vatization, the Corporation may provide for the es-
23 tablishment of a private corporation organized under
24 the laws of any of the several States. Such corpora-
25 tion shall have among its purposes the following:

1 “(A) To help maintain a reliable and eco-
2 nomical domestic source of uranium enrichment
3 services.

4 “(B) To undertake any and all activities as
5 provided in its corporate charter.

6 “(2) AUTHORITIES.—The corporation estab-
7 lished pursuant to paragraph (1) shall be authorized
8 to—

9 “(A) enrich uranium, provide for uranium
10 to be enriched by others, or acquire enriched
11 uranium (including low-enriched uranium de-
12 rived from highly enriched uranium);

13 “(B) conduct, or provide for conducting,
14 those research and development activities relat-
15 ed to uranium enrichment and related processes
16 and activities the corporation considers nec-
17 essary or advisable to maintain itself as a com-
18 mercial enterprise operating on a profitable and
19 efficient basis;

20 “(C) enter into transactions regarding ura-
21 nium, enriched uranium, or depleted uranium
22 with—

23 “(i) persons licensed under section 53,
24 63, 103, or 104 in accordance with the li-
25 censes held by those persons;

1 “(ii) persons in accordance with, and
2 within the period of, an agreement for co-
3 operation arranged under section 123; or

4 “(iii) persons otherwise authorized by
5 law to enter into such transactions;

6 “(D) enter into contracts with persons li-
7 censed under section 53, 63, 103, or 104, for
8 as long as the corporation considers necessary
9 or desirable, to provide uranium or uranium en-
10 richment and related services;

11 “(E) enter into contracts to provide ura-
12 nium or uranium enrichment and related serv-
13 ices in accordance with, and within the period
14 of, an agreement for cooperation arranged
15 under section 123 or as otherwise authorized by
16 law; and

17 “(F) take any and all such other actions as
18 are permitted by the law of the jurisdiction of
19 incorporation of the corporation.

20 “(3) TRANSFER OF ASSETS.—For purposes of
21 implementing the privatization, the Corporation may
22 transfer some or all of its assets and obligations to
23 the corporation established pursuant to this section,
24 including—

1 “(A) all of the Corporation’s assets, includ-
2 ing all contracts, agreements, and leases, in-
3 cluding all uranium enrichment contracts and
4 power purchase contracts;

5 “(B) all funds in accounts of the Corpora-
6 tion held by the Treasury or on deposit with
7 any bank or other financial institution;

8 “(C) all of the Corporation’s rights, duties,
9 and obligations, accruing subsequent to the pri-
10 vatization date, under the power purchase con-
11 tracts covered by section 1401(b)(2)(B); and

12 “(D) all of the Corporation’s rights, duties,
13 and obligations, accruing subsequent to the pri-
14 vatization date, under the lease agreement be-
15 tween the Department and the Corporation exe-
16 cuted by the Department and the Corporation
17 pursuant to section 1403.

18 “(4) MERGER OR CONSOLIDATION.—For pur-
19 poses of implementing the privatization, the Cor-
20 poration may merge or consolidate with the corpora-
21 tion established pursuant to subsection (a)(1) if such
22 action is contemplated by the plan for privatization
23 approved by the President under section 1502(b).
24 The Board shall have exclusive authority to approve
25 such merger or consolidation and to take all further

1 actions necessary to consummate such merger or
2 consolidation, and no action by or in respect of
3 shareholders shall be required. The merger or con-
4 solidation shall be effected in accordance with, and
5 have the effects of a merger or consolidation under,
6 the laws of the jurisdiction of incorporation of the
7 surviving corporation, and all rights and benefits
8 provided under this title to the Corporation shall
9 apply to the surviving corporation as if it were the
10 Corporation.

11 “(5) TAX TREATMENT OF PRIVATIZATION.—

12 “(A) TRANSFER OF ASSETS OR MERGER.—

13 No income, gain, or loss shall be recognized by
14 any person by reason of the transfer of the Cor-
15 poration’s assets to, or the Corporation’s merg-
16 er with, the corporation established pursuant to
17 subsection (a)(1) in connection with the privat-
18 ization.

19 “(B) CANCELLATION OF DEBT AND COM-
20 MON STOCK.—No income, gain, or loss shall be
21 recognized by any person by reason of any can-
22 cellation of any obligation or common stock of
23 the Corporation in connection with the privat-
24 ization.

1 “(b) OSHA REQUIREMENTS.—For purposes of the
2 regulation of radiological and nonradiological hazards
3 under the Occupational Safety and Health Act of 1970,
4 the corporation established pursuant to subsection (a)(1)
5 shall be treated in the same manner as other employers
6 licensed by the Nuclear Regulatory Commission. Any
7 interagency agreement entered into between the Nuclear
8 Regulatory Commission and the Occupational Safety and
9 Health Administration governing the scope of their respec-
10 tive regulatory authorities shall apply to the corporation
11 as if the corporation were a Nuclear Regulatory Commis-
12 sion licensee.

13 “(c) LEGAL STATUS OF PRIVATE CORPORATION.—

14 “(1) NOT FEDERAL AGENCY.—The corporation
15 established pursuant to subsection (a)(1) shall not
16 be an agency, instrumentality, or establishment of
17 the United States Government and shall not be a
18 Government corporation or Government-controlled
19 corporation.

20 “(2) NO RECOURSE AGAINST UNITED
21 STATES.—Obligations of the corporation established
22 pursuant to subsection (a)(1) shall not be obliga-
23 tions of, or guaranteed as to principal or interest by,
24 the Corporation or the United States, and the obli-
25 gations shall so plainly state.

1 “(3) NO CLAIMS COURT JURISDICTION.—No ac-
2 tion under section 1491 of title 28, United States
3 Code, shall be allowable against the United States
4 based on the actions of the corporation established
5 pursuant to subsection (a)(1).

6 “(d) BOARD OF DIRECTOR’S ELECTION AFTER PUB-
7 LIC OFFERING.—In the event that the privatization is im-
8 plemented by means of a public offering, an election of
9 the members of the board of directors of the Corporation
10 by the shareholders shall be conducted before the end of
11 the 1-year period beginning the date shares are first of-
12 fered to the public pursuant to such public offering.

13 “(e) ADEQUATE PROCEEDS.—The Secretary of En-
14 ergy shall not allow the privatization of the Corporation
15 unless before the sale date the Secretary determines that
16 the estimated sum of the gross proceeds from the sale of
17 the Corporation will be an adequate amount.”.

18 (b) OWNERSHIP LIMITATIONS.—Chapter 25 (as
19 amended by subsection (a)) is amended by adding at the
20 end the following new section:

21 **“SEC. 1504. OWNERSHIP LIMITATIONS.**

22 “(a) SECURITIES LIMITATION.—In the event that the
23 privatization is implemented by means of a public offering,
24 during a period of 3 years beginning on the privatization
25 date, no person, directly or indirectly, may acquire or hold

1 securities representing more than 10 percent of the total
2 votes of all outstanding voting securities of the Corpora-
3 tion.

4 “(b) APPLICATION.—Subsection (a) shall not apply—

5 “(1) to any employee stock ownership plan of
6 the Corporation,

7 “(2) to underwriting syndicates holding shares
8 for resale, or

9 “(3) in the case of shares beneficially held for
10 others, to commercial banks, broker-dealers, clearing
11 corporations, or other nominees.

12 “(c) No director, officer, or employee of the Corpora-
13 tion may acquire any securities, or any right to acquire
14 securities, of the Corporation—

15 “(1) in the public offering of securities of the
16 Corporation in the implementation of the privatiza-
17 tion,

18 “(2) pursuant to any agreement, arrangement,
19 or understanding entered into before the privatiza-
20 tion date, or

21 “(3) before the election of directors of the Cor-
22 poration under section 1503(d) on any terms more
23 favorable than those offered to the general public.”.

1 (c) EXEMPTION FROM LIABILITY.—Chapter 25 (as
2 amended by subsection (b)) is amended by adding at the
3 end the following new section:

4 **“SEC. 1505. EXEMPTION FROM LIABILITY.**

5 “(a) IN GENERAL.—No director, officer, employee, or
6 agent of the Corporation shall be liable, for money dam-
7 ages or otherwise, to any party if, with respect to the sub-
8 ject matter of the action, suit, or proceeding, such person
9 was fulfilling a duty, in connection with any action taken
10 in connection with the privatization, which such person in
11 good faith reasonably believed to be required by law or
12 vested in such person.

13 “(b) EXCEPTION.—The privatization shall be subject
14 to the Securities Act of 1933 and the Securities Exchange
15 Act of 1934. The exemption set forth in subsection (a)
16 shall not apply to claims arising under such Acts or under
17 the Constitution or laws of any State, territory, or posses-
18 sion of the United States relating to transactions in secu-
19 rities, which claims are in connection with a public offer-
20 ing implementing the privatization.”.

21 (d) RESOLUTION OF CERTAIN ISSUES.—Chapter 25
22 (as amended by subsection (c)) is amended by adding at
23 the end the following new section:

1 **“SEC. 1506. RESOLUTION OF CERTAIN ISSUES.**

2 “(a) CORPORATION ACTIONS.—Notwithstanding any
3 provision of any agreement to which the Corporation is
4 a party, the Corporation shall not be considered to be in
5 breach, default, or violation of any such agreement be-
6 cause of any provision of this chapter or any action the
7 Corporation is required to take under this chapter.

8 “(b) RIGHT TO SUE WITHDRAWN.—The United
9 States hereby withdraws any stated or implied consent for
10 the United States, or any agent or officer of the United
11 States, to be sued by any person for any legal, equitable,
12 or other relief with respect to any claim arising out of,
13 or resulting from, acts or omissions under this chapter.”.

14 (e) APPLICATION OF PRIVATIZATION PROCEEDS.—
15 Chapter 25 (as amended by subsection (d)) is amended
16 by adding at the end the following new section:

17 **“SEC. 1507. APPLICATION OF PRIVATIZATION PROCEEDS.**

18 “The proceeds from the privatization shall be in-
19 cluded in the budget baseline required by the Balanced
20 Budget and Emergency Deficit Control Act of 1985 and
21 shall be counted as an offset to direct spending for pur-
22 poses of section 252 of such Act, notwithstanding section
23 257(e) of such Act.”.

24 (f) CONFORMING AMENDMENT.—The table of con-
25 tents for chapter 25 is amended by inserting after the item
26 for section 1502 the following:

“Sec. 1503. Establishment of Private Corporation.

“Sec. 1504. Ownership Limitations.

“Sec. 1505. Exemption from Liability.

“Sec. 1506. Resolution of Certain Issues.

“Sec. 1507. Application of Privatization Proceeds.”.

1 (g) Section 193 (42 U.S.C. 2243) is amended by add-
2 ing at the end the following:

3 “(f) LIMITATION.—If the privatization of the United
4 States Enrichment Corporation results in the Corporation
5 being—

6 “(1) owned, controlled, or dominated by a for-
7 eign corporation or a foreign government, or

8 “(2) otherwise inimical to the common defense
9 or security of the United States,

10 any license held by the Corporation under sections 53 and
11 63 shall be terminated.”.

12 (h) PERIOD FOR CONGRESSIONAL REVIEW.—Section
13 1502(d) (42 U.S.C. 2297d–1(d)) is amended by striking
14 “less than 60 days after notification of the Congress” and
15 inserting “less than 60 days after the date of the report
16 to Congress by the Comptroller General under subsection
17 (c)”.

18 **SEC. 3007. PERIODIC CERTIFICATION OF COMPLIANCE.**

19 Section 1701(c)(2) (42 U.S.C. 2297f(c)(2)) is
20 amended by striking “ANNUAL APPLICATION FOR CER-
21 TIFICATE OF COMPLIANCE.—The Corporation shall apply
22 at least annually to the Nuclear Regulatory Commission
23 for a certificate of compliance under paragraph (1).” and

1 inserting “PERIODIC APPLICATION FOR CERTIFICATE OF
2 COMPLIANCE.—The Corporation shall apply to the Nu-
3 clear Regulatory Commission for a certificate of compli-
4 ance under paragraph (1) periodically, as determined by
5 the Nuclear Regulatory Commission, but not less than
6 every 5 years.”.

7 **SEC. 3008. LICENSING OF OTHER TECHNOLOGIES.**

8 Subsection (a) of section 1702 (42 U.S.C. 2297f-
9 1(a)) is amended by striking “other than” and inserting
10 “including”.

11 **SEC. 3009. CONFORMING AMENDMENTS.**

12 (a) REPEALS IN ATOMIC ENERGY ACT OF 1954 AS
13 OF THE PRIVATIZATION DATE.—

14 (1) REPEALS.—As of the privatization date (as
15 defined in section 1201(13) of the Atomic Energy
16 Act of 1954), the following sections (as in effect on
17 such privatization date) of the Atomic Energy Act of
18 1954 are repealed:

19 (A) Section 1202.

20 (B) Sections 1301 through 1304.

21 (C) Sections 1306 through 1316.

22 (D) Sections 1404 and 1405.

23 (E) Section 1601.

24 (F) Sections 1603 through 1607.

1 (2) CONFORMING AMENDMENT.—The table of
2 contents of such Act is amended by repealing the
3 items referring to sections repealed by paragraph
4 (1).

5 (b) STATUTORY MODIFICATIONS.—As of such privat-
6 ization date, the following shall take effect:

7 (1) For purposes of title I of the Atomic En-
8 ergy Act of 1954, all references in such Act to the
9 “United States Enrichment Corporation” shall be
10 deemed to be references to the corporation estab-
11 lished pursuant to section 1503 of the Atomic En-
12 ergy Act of 1954 (as added by section 6(a)).

13 (2) Section 1018(1) of the Energy Policy Act of
14 1992 (42 U.S.C. 2296b–7(1)) is amended by strik-
15 ing “the United States” and all that follows through
16 the period and inserting “the corporation referred to
17 in section 1201(4) of the Atomic Energy Act of
18 1954.”.

19 (3) Section 9101(3) of title 31, United States
20 Code, is amended by striking subparagraph (N), as
21 added by section 902(b) of Public Law 102–486.

22 (c) REVISION OF SECTION 1305.—As of such privat-
23 ization date, section 1305 of the Atomic Energy Act of
24 1954 (42 U.S.C 2297b–4) is amended—

1 (1) by repealing subsections (a), (b), (c), and
2 (d), and

3 (2) in subsection (e)—

4 (A) by striking the subsection designation
5 and heading,

6 (B) by redesignating paragraphs (1) and
7 (2) (as added by section 4(a)) as subsections
8 (a) and (b) and by moving the margins 2-ems
9 to the left,

10 (C) by striking paragraph (3), and

11 (D) by redesignating paragraph (4) (as
12 amended by section 4(b)) as subsection (c), and
13 by moving the margins 2-ems to the left.

14 **TITLE IV—RETIREMENT**

15 **SEC. 4001. SHORT TITLE; TABLE OF CONTENTS.**

16 (a) SHORT TITLE.—This title may be cited as the
17 “Congressional and Federal Employee Retirement Equali-
18 zation Act”.

19 (b) TABLE OF CONTENTS.—The table of contents for
20 this title is as follows:

Sec. 4001. Short title; table of contents.

Sec. 4002. Amendment of title 5, United States Code.

Sec. 4003. Individual contributions.

Sec. 4004. Average pay.

Sec. 4005. Accrual rates.

Sec. 4006. Elimination of Members’ option to elect not to participate in FERS.

1 **SEC. 4002. AMENDMENT OF TITLE 5, UNITED STATES CODE.**

2 Except as otherwise expressly provided, whenever in
3 this title an amendment or repeal is expressed in terms
4 of an amendment to, or repeal of, a section or other provi-
5 sion, the reference shall be considered to be made to a
6 section or other provision of title 5, United States Code.

7 **SEC. 4003. INDIVIDUAL CONTRIBUTIONS.**

8 (a) CSRS.—

9 (1) IN GENERAL.—The table under section
10 8334(c) is amended—

11 (A) in the matter relating to an employee
12 by striking

“7 After December 31,
1969.”

13 and inserting the following:

“7 January 1, 1970, to De-
cember 31, 1995.

“8½ January 1, 1996, to De-
cember 31, 1996.

“9 January 1, 1997, to De-
cember 31, 1997.

“9½ After December 31,
1997.”;

14 (B) in the matter relating to a Member or
15 employee for Congressional employee service by
16 striking

“7½ After December 31,
1969.”

17 and inserting the following:

“7½ January 1, 1970, to December 31, 1995.
 “8½ January 1, 1996, to December 31, 1996.
 “9 January 1, 1997, to December 31, 1997.
 “9½ After December 31, 1997.”;

1 (C) in the matter relating to a Member for
 2 Member service by striking

“8 After December 31, 1969.”

3 and inserting the following:

“8 January 1, 1970, to December 31, 1995.
 “8½ January 1, 1996, to December 31, 1996.
 “9 January 1, 1997, to December 31, 1997.
 “9½ After December 31, 1997.”;

4 (D) in the matter relating to a law enforce-
 5 ment officer for law enforcement service and
 6 firefighter for firefighter service by striking

“7½ After December 31, 1974.”

7 and inserting the following:

“7½ January 1, 1975, to December 31, 1995.
 “9 January 1, 1996, to December 31, 1996.
 “9½ January 1, 1997, to December 31, 1997.
 “10 After December 31, 1997.”;

1 (E) in the matter relating to a bankruptcy
 2 judge by striking

“8 After December 31,
 1983.”

3 and inserting the following:

“8 January 1, 1984, to De-
 cember 31, 1995.

“8½ January 1, 1996, to De-
 cember 31, 1996.

“9 January 1, 1997, to De-
 cember 31, 1997.

“9½ After December 31,
 1997.”;

4 (F) in the matter relating to a judge of the
 5 United States Court of Appeals for the Armed
 6 Forces for service as a judge of that court by
 7 striking

“8 On and after the date of
 the enactment of the
 Department of De-
 fense Authorization
 Act, 1984.”

8 and inserting the following:

“8 The date of the enact-
 ment of the Depart-
 ment of Defense Au-
 thorization Act, 1984,
 to December 31,
 1995.

“8½ January 1, 1996, to De-
 cember 31, 1996.

“9 January 1, 1997, to De-
 cember 31, 1997.

“9½ After December 31,
 1997.”;

1 (G) in the matter relating to a United
2 States magistrate by striking

“8 After September 30,
1987.”

3 and inserting the following:

“8 October 1, 1987, to De-
cember 31, 1995.

“8½ January 1, 1996, to De-
cember 31, 1996.

“9 January 1, 1997, to De-
cember 31, 1997.

“9½ After December 31,
1997.”; and

4 (H) in the matter relating to a Claims
5 Court judge by striking

“8 After September 30,
1988.”

6 and inserting the following:

“8 October 1, 1988, to De-
cember 31, 1995.

“8½ January 1, 1996, to De-
cember 31, 1996.

“9 January 1, 1997, to De-
cember 31, 1997.

“9½ After December 31,
1997.”.

7 (2) DEDUCTIONS.—The first sentence of section
8 8334(a)(1) is amended to read as follows: “The em-
9 ploying agency shall deduct and withhold from the
10 basic pay of an employee, Member, Congressional
11 employee, law enforcement officer, firefighter, bank-
12 ruptcy judge, judge of the United States Court of

1 Appeals for the Armed Forces, United States mag-
2 istrate, or Claims Court judge, as the case may be,
3 the percentage of basic pay applicable under sub-
4 section (c).”.

5 (3) GOVERNMENT CONTRIBUTIONS.—

6 (A) IN GENERAL.—Section 8334(a) is
7 amended by adding at the end the following:

8 “(3) The amount to be contributed under the second
9 sentence of paragraph (1) with respect to any service pe-
10 riod occurring during any calendar year after 1995 shall
11 be determined as if the percentage then applicable under
12 subsection (c) were the percentage that was applicable for
13 calendar year 1995 plus 3 percent.”.

14 (B) TECHNICAL AMENDMENT.—The sec-
15 ond sentence of section 8334(a)(1) is amended
16 by striking the period at the end and inserting
17 “, subject to paragraph (3).”.

18 (4) OTHER SERVICE.—

19 (A) MILITARY SERVICE.—Section 8334(j)
20 is amended—

21 (i) in paragraph (1)(A) by inserting
22 “and subject to paragraph (5),” after “Ex-
23 cept as provided in subparagraph (B),”;
24 and

1 (ii) by adding at the end the follow-
2 ing:

3 “(5) Effective with respect to any period of military
4 service after December 31, 1995, the percentage of basic
5 pay under section 204 of title 37 payable under paragraph
6 (1) shall be equal to the same percentage as would be ap-
7 plicable under section 8334(c) for that same period for
8 service as an ‘employee’, subject to paragraph (1)(B).”.

9 (B) VOLUNTEER SERVICE.—Section
10 8334(l) is amended—

11 (i) in paragraph (1) by striking the
12 period at the end and inserting “, subject
13 to paragraph (4).”; and

14 (ii) by adding at the end the follow-
15 ing:

16 “(4) Effective with respect to any period of service
17 after December 31, 1995, the percentage of the readjust-
18 ment allowance or stipend (as the case may be) payable
19 under paragraph (1) shall be equal to the same percentage
20 as would be applicable under section 8334(c) for that same
21 period for service as an ‘employee’.”.

22 (b) FERS.—

23 (1) IN GENERAL.—Section 8422(a) is amended
24 by striking paragraph (2) and inserting the follow-
25 ing:

1 “(2) The percentage to be deducted and withheld
2 from basic pay for any pay period shall be equal to—

3 “(A) the applicable percentage under paragraph
4 (3), minus

5 “(B) the percentage then in effect under section
6 3101(a) of the Internal Revenue Code of 1986 (re-
7 lating to rate of tax for old-age, survivors, and dis-
8 ability insurance).

9 “(3) The applicable percentage under this paragraph,
10 for civilian service after December 31, 1995, shall be as
11 follows:

	Percent- age of basic pay	Service period
“Employee	8½	January 1, 1996, to De- cember 31, 1996.
	“9	January 1, 1997, to De- cember 31, 1997.
	“9½	After December 31, 1997.
“Congressional employee	8½	January 1, 1996, to De- cember 31, 1996.
	“9	January 1, 1997, to De- cember 31, 1997.
	“9½	After December 31, 1997.
“Member	8½	January 1, 1996, to De- cember 31, 1996.
	“9	January 1, 1997, to De- cember 31, 1997.
	“9½	After December 31, 1997.
“Law enforcement officer	9	January 1, 1996, to De- cember 31, 1996.
	“9½	January 1, 1997, to De- cember 31, 1997.
	“10	After December 31, 1997.
“Firefighter	9	January 1, 1996, to De- cember 31, 1996.

	Percent- age of basic pay	Service period
	“9½	January 1, 1997, to De- cember 31, 1997.
	“10	After December 31, 1997.
“Air traffic controller	9	January 1, 1996, to De- cember 31, 1996.
	“9½	January 1, 1997, to De- cember 31, 1997.
	“10	After December 31, 1997.”.

1 (2) OTHER SERVICE.—

2 (A) MILITARY SERVICE.—Section 8422(e)
3 is amended—

4 (i) in paragraph (1)(A) by inserting
5 “and subject to paragraph (6),” after “Ex-
6 cept as provided in subparagraph (B),”;
7 and

8 (ii) by adding at the end the follow-
9 ing:

10 “(6) Effective with respect to any period of military
11 service after December 31, 1995, the percentage of basic
12 pay under section 204 of title 37 payable under paragraph
13 (1) shall be equal to the same percentage as would be ap-
14 plicable under section 8422(a)(3) for that same period for
15 service as an ‘employee’, subject to paragraph (1)(B).”.

16 (B) VOLUNTEER SERVICE.—Section
17 8422(f) is amended—

1 (i) in paragraph (1) by striking the
2 period at the end and inserting “, subject
3 to paragraph (4).”; and

4 (ii) by adding at the end the follow-
5 ing:

6 “(4) Effective with respect to any period of service
7 after December 31, 1995, the percentage of the readjust-
8 ment allowance or stipend (as the case may be) payable
9 under paragraph (1) shall be equal to the same percentage
10 as would be applicable under section 8422(a)(3) for that
11 same period for service as an employee.”.

12 (c) EXEMPTION.—

13 (1) IN GENERAL.—Section 1005(d) of title 39,
14 United States Code, is amended by adding at the
15 end the following:

16 “(3) For purposes of applying chapters 83 and 84
17 of title 5 with respect to any officer or employee of the
18 Postal Service, section 4003 of the Congressional and
19 Federal Employee Retirement Equalization Act shall be
20 treated as if it had not been enacted.”.

21 (2) TECHNICAL AMENDMENT.—The second sen-
22 tence of section 1005(d)(1) of title 39, United States
23 Code, is amended by striking the period and insert-
24 ing “, subject to paragraph (3).”.

1 (d) EFFECTIVE DATE.—This section shall take effect
2 on January 1, 1996.

3 **SEC. 4004. AVERAGE PAY.**

4 (a) CSRS.—

5 (1) IN GENERAL.—Subchapter III of chapter
6 83 is amended by inserting after section 8339 the
7 following:

8 **“§ 8339a. Special rules relating to average pay**

9 “(a) Notwithstanding section 8331(4), for purposes
10 of computing any annuity or survivor annuity under this
11 subchapter, eligibility for which is based on a separation
12 occurring after December 31, 1995, ‘average pay’ shall,
13 if the separation occurs—

14 “(1) during calendar year 1996, have the mean-
15 ing given such term by subsection (b)(1); or

16 “(2) after calendar year 1996, have the mean-
17 ing given such term by subsection (b)(2).

18 “(b) For purposes of this section—

19 “(1) the meaning given the term ‘average pay’
20 by this paragraph shall be the meaning such term
21 would have under section 8331(4) if ‘4 consecutive
22 years’ were substituted for ‘3 consecutive years’ and
23 ‘4 years’ were substituted for ‘3 years’; and

24 “(2) the meaning given the term ‘average pay’
25 by this paragraph shall be the meaning such term

1 would have under section 8331(4) if ‘5 consecutive
2 years’ were substituted for ‘3 consecutive years’ and
3 ‘5 years’ were substituted for ‘3 years’.

4 “(c) Nothing in this section shall be considered to
5 apply with respect to any annuity or survivor annuity eligi-
6 bility for which is based on a separation occurring before
7 January 1, 1996.

8 “(d) The Office of Personnel Management shall pre-
9 scribe such regulations as may be necessary to carry out
10 this section.”.

11 (2) TECHNICAL AMENDMENTS.—

12 (A) Section 8331(4) is amended by strik-
13 ing “effect;” and inserting “effect, subject to
14 section 8339a;”.

15 (B) The table of sections for chapter 83 is
16 amended by inserting after the item relating to
17 section 8339 the following:

“8339a. Special rules relating to average pay.”.

18 (b) FERS.—

19 (1) IN GENERAL.—Chapter 84 is amended by
20 inserting after section 8461 the following:

21 **“§8461a. Special rules relating to average pay**

22 “(a) Notwithstanding section 8401(3), for purposes
23 of computing any annuity or survivor annuity under this
24 chapter, eligibility for which is based on a separation oc-

1 ccurring after December 31, 1995, ‘average pay’ shall, if
2 the separation occurs—

3 “(1) during calendar year 1996, have the mean-
4 ing given such term by subsection (b)(1); or

5 “(2) after calendar year 1996, have the mean-
6 ing given such term by subsection (b)(2).

7 “(b) For purposes of this section—

8 “(1) the meaning given the term ‘average pay’
9 by this paragraph shall be the meaning such term
10 would have under section 8401(3) if ‘4 consecutive
11 years’ were substituted for ‘3 consecutive years’ and
12 ‘4 years’ were substituted for ‘3 years’; and

13 “(2) the meaning given the term ‘average pay’
14 by this paragraph shall be the meaning such term
15 would have under section 8401(3) if ‘5 consecutive
16 years’ were substituted for ‘3 consecutive years’ and
17 ‘5 years’ were substituted for ‘3 years’.

18 “(c) Nothing in this section shall be considered to
19 apply with respect to any annuity or survivor annuity eligi-
20 bility for which is based on a separation occurring before
21 January 1, 1996.

22 “(d) The Office of Personnel Management shall pre-
23 scribe such regulations as may be necessary to carry out
24 this section.”.

25 (2) TECHNICAL AMENDMENTS.—

1 (A) Section 8401(3) is amended by strik-
2 ing “effect;” and inserting “effect, subject to
3 section 8461a;”.

4 (B) The table of sections for chapter 84 is
5 amended by inserting after the item relating to
6 section 8461 the following:

“8461a. Special rules relating to average pay.”.

7 (c) REGULATIONS.—The Office of Personnel Man-
8 agement shall prescribe such regulations as may be nec-
9 essary to carry out the purposes of this section, including
10 regulations to provide that section 302(a)(6) of the Fed-
11 eral Employees’ Retirement System Act of 1986 (5 U.S.C.
12 8331 note) shall be carried out in a manner consistent
13 with the amendments made by this section.

14 **SEC. 4005. ACCRUAL RATES.**

15 (a) CSRS.—

16 (1) MEMBERS.—

17 (A) IN GENERAL.—Section 8339(c) is
18 amended by striking all that follows “with re-
19 spect to—” and inserting the following:

20 “(1) so much of his service as a Member as is
21 or was performed before January 1, 1996;

22 “(2) so much of his military service as—

23 “(A) is creditable for the purpose of this
24 subsection; and

1 “(B) is or was performed before January
2 1, 1996; and

3 “(3) so much of his Congressional employee
4 service as is or was performed before January 1,
5 1996;

6 by multiplying 2½ percent of his average pay by the years
7 of that service.”.

8 (B) TECHNICAL AMENDMENT.—Section
9 8332(d) is amended by striking “section
10 8339(c)(1)” and inserting “section 8339(c)”.

11 (2) CONGRESSIONAL EMPLOYEES.—Section
12 8339(b) is amended—

13 (A) by inserting “so much of” after “is
14 computed with respect to”; and

15 (B) by inserting “as is or was performed
16 before January 1, 1996,” before “by multiply-
17 ing”.

18 (b) FERS.—

19 (1) MEMBERS.—Section 8415(b) is amended by
20 striking “shall” and inserting “shall, to the extent
21 that such service is or was performed before Janu-
22 ary 1, 1996,”.

23 (2) CONGRESSIONAL EMPLOYEES.—Section
24 8415(c) is amended by striking “shall” and inserting

1 “shall, to the extent that such service is or was per-
2 formed before January 1, 1996,”.

3 (3) PROVISIONS RELATING TO THE 1.1 PER-
4 CENT ACCRUAL RATE.—Section 8415(g) is amend-
5 ed—

6 (A) in paragraph (1) by striking “an em-
7 ployee under paragraph (2),” and inserting “an
8 employee or Member under paragraph (2),”;

9 (B) in paragraph (2) by inserting “or
10 Member” after “in the case of an employee”
11 and by striking “Congressional employee,”; and

12 (C) by adding at the end the following:

13 “(3) Notwithstanding any other provision of this sub-
14 section—

15 “(A) this subsection shall not apply in the case
16 of a Member or Congressional employee whose sepa-
17 ration (on which entitlement to annuity is based) oc-
18 curs before January 1, 1996; and

19 “(B) in the case of a Member or Congressional
20 employee to whom this subsection applies, the 1.1
21 percent accrual rate shall apply only with respect to
22 any period of service other than a period with re-
23 spect to which the 1.7 percent accrual rate applies
24 under subsection (b) or (c).”.

1 **SEC. 4006. ELIMINATION OF MEMBERS' OPTION TO ELECT**
 2 **NOT TO PARTICIPATE IN FERS.**

3 (a) IN GENERAL.—Section 8401(20) is amended by
 4 striking “2106,” and all that follows through the semi-
 5 colon and inserting “2106;”.

6 (b) EFFECTIVE DATE; SAVINGS PROVISION.—

7 (1) EFFECTIVE DATE.—Subsection (a) shall
 8 take effect on January 1, 1996.

9 (2) SAVINGS PROVISION.—The amendment
 10 made by subsection (a) shall not affect any election
 11 made before such subsection takes effect.

12 **TITLE V—MEDICARE SAVINGS**
 13 **EXTENSIONS**

14 **SEC. 5001. SHORT TITLE.**

15 This title may be cited as the “Medicare Presidential
 16 Budget Savings Extension Act of 1995”.

17 **Subtitle A—Provisions Relating to**
 18 **Part A of the Medicare Program**

19 **SEC. 5101. MAINTAINING SAVINGS RESULTING FROM TEM-**
 20 **PORARY FREEZE ON PAYMENT INCREASES**
 21 **FOR SKILLED NURSING FACILITY SERVICES.**

22 (a) BASING UPDATES TO PER DIEM COST LIMITS ON
 23 LIMITS FOR FISCAL YEAR 1993.—

24 (1) IN GENERAL.—The last sentence of section
 25 1888(a) of the Social Security Act (42 U.S.C.
 26 1395yy(a)) is amended by adding at the end the fol-

1 lowing: “(except that such updates may not take
2 into account any changes in the routine service costs
3 of skilled nursing facilities occurring during cost re-
4 porting periods which began during fiscal year 1994
5 or fiscal year 1995).”.

6 (2) NO EXCEPTIONS PERMITTED BASED ON
7 AMENDMENT.—The Secretary of Health and Human
8 Services shall not consider the amendment made by
9 paragraph (1) in making any adjustments pursuant
10 to section 1888(c) of the Social Security Act.

11 (b) PAYMENTS DETERMINED ON PROSPECTIVE
12 BASIS.—Any change made by the Secretary of Health and
13 Human Services in the amount of any prospective pay-
14 ment paid to a skilled nursing facility under section
15 1888(d) of the Social Security Act for cost reporting peri-
16 ods beginning on or after October 1, 1995, may not take
17 into account any changes in the costs of services occurring
18 during cost reporting periods which began during fiscal
19 year 1994 or fiscal year 1995.

1 **Subtitle B—Provisions Relating to**
2 **Part B of the Medicare Program**

3 **SEC. 5201. SETTING THE PART B PREMIUM AT 25 PERCENT**
4 **OF PROGRAM EXPENDITURES PERMA-**
5 **NENTLY.**

6 (a) IN GENERAL.—Section 1839(a)(3) of the Social
7 Security Act (42 U.S.C. 1395r(a)(3)) is amended by strik-
8 ing “The monthly premium” and all that follows through
9 “November 1.” and inserting the following: “The monthly
10 premium shall be equal to 50 percent of the monthly actu-
11 arial rate for enrollees age 65 and over, as determined ac-
12 cording to paragraph (1), for that succeeding calendar
13 year.”.

14 (b) CONFORMING AMENDMENTS.—Section 1839 of
15 such Act (42 U.S.C. 1395r) is amended—

16 (1) in subsection (a)(2), by striking “(b) and
17 (e)” and inserting “(b), (c), (e), and (f)”;

18 (2) in the last sentence of subsection (a)(3), by
19 striking “and the derivation of the dollar amounts
20 specified in this paragraph”; and

21 (3) in subsection (e)—

22 (A) by striking “(1)(A) Notwithstanding”
23 and all that follows through “(B)”,

24 (B) by striking paragraph (2), and

1 (C) by redesignating clauses (i) through
2 (v) as paragraphs (1) through (5).

3 **Subtitle C—Provisions Relating to**
4 **Parts A and B of the Medicare**
5 **Program**

6 **SEC. 5301. PERMANENT EXTENSION OF CERTAIN SECOND-**
7 **ARY PAYER PROVISIONS.**

8 (a) DATA MATCH.—

9 (1) Section 1862(b)(5)(C) of the Social Security
10 Act (42 U.S.C. 1395y(b)(5)(C)) is amended by strik-
11 ing clause (iii).

12 (2) Section 6103(l)(12) of the Internal Revenue
13 Code of 1986 is amended by striking subparagraph
14 (F).

15 (b) APPLICATION TO DISABLED INDIVIDUALS IN
16 LARGE GROUP HEALTH PLANS.—

17 (1) IN GENERAL.—Section 1862(b)(1)(B) of
18 the Social Security Act (42 U.S.C. 1395y(b)(1)(B))
19 is amended—

20 (A) in clause (i), by striking “clause (iv)”
21 and inserting “clause (iii)”,

22 (B) by striking clause (iii), and

23 (C) by redesignating clause (iv) as clause
24 (iii).

1 riods which began on or after July 1, 1994, and before
2 July 1, 1996.”.

3 (b) NO EXCEPTIONS PERMITTED BASED ON AMEND-
4 MENT.—The Secretary of Health and Human Services
5 shall not consider the amendment made by subsection (a)
6 in making any exemptions and exceptions pursuant to sec-
7 tion 1861(v)(1)(L)(ii) of the Social Security Act.

8 **TITLE VI—CONTRACT WITH**
9 **AMERICA TAX RELIEF ACT OF**
10 **1995**

11 **SEC. 6001. SHORT TITLE; AMENDMENT OF 1986 CODE.**

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

14 (b) AMENDMENT OF 1986 CODE.—Except as other-
15 wise expressly provided, whenever in this title an amend-
16 ment or repeal is expressed in terms of an amendment
17 to, or repeal of, a section or other provision, the reference
18 shall be considered to be made to a section or other provi-
19 sion of the Internal Revenue Code of 1986.

20 (c) TABLE OF CONTENTS.—

TITLE V—CONTRACT WITH AMERICA TAX RELIEF ACT OF 1995

Sec. 6001. Short title; amendment of 1986 Code.

Subtitle A—American Dream Restoration

Sec. 6101. Family tax credit.

Sec. 6102. Credit to reduce marriage penalty.

Sec. 6103. Establishment of American Dream Savings Accounts.

Sec. 6104. Spousal IRA computed on basis of compensation of both spouses.

Subtitle B—Senior Citizens’ Equity

PART I—REPEAL OF INCREASE IN TAX ON SOCIAL SECURITY BENEFITS

Sec. 6201. Repeal of increase in tax on social security benefits.

PART II—TREATMENT OF LONG-TERM CARE INSURANCE AND SERVICES

- Sec. 6211. Treatment of long-term care insurance.
 Sec. 6212. Qualified long-term care services treated as medical care.
 Sec. 6213. Certain exchanges of life insurance contracts for long-term care insurance contracts not taxable.
 Sec. 6214. Exclusion from gross income for amounts withdrawn from certain retirement plans for long-term care insurance.

PART III—TREATMENT OF ACCELERATED DEATH BENEFITS

- Sec. 6221. Treatment of accelerated death benefits by recipient.
 Sec. 6222. Tax treatment of companies issuing qualified accelerated death benefit riders.

PART IV—INCLUSION IN GROSS INCOME OF EXCESS LONG-TERM CARE BENEFITS

- Sec. 6231. Inclusion in income of excess long-term care benefits.
 Sec. 6232. Reporting requirements.

Subtitle C—Job Creation and Wage Enhancement

PART I—CAPITAL GAINS REFORM

SUBPART A—CAPITAL GAINS REDUCTION FOR TAXPAYERS OTHER THAN CORPORATIONS

- Sec. 6301. Capital gains deduction.
 Sec. 6302. Indexing of certain assets acquired after December 31, 1994, for purposes of determining gain.

SUBPART B—CAPITAL GAINS REDUCTION FOR CORPORATIONS

Sec. 6311. Reduction of alternative capital gain tax for corporations.

SUBPART C—CAPITAL LOSS DEDUCTION ALLOWED WITH RESPECT TO SALE OR EXCHANGE OF PRINCIPAL RESIDENCE

Sec. 6316. Capital loss deduction allowed with respect to sale or exchange of principal residence.

PART II—COST RECOVERY PROVISIONS

- Sec. 6321. Depreciation adjustment for certain property placed in service after December 31, 1994.
 Sec. 6322. Treatment of abandonment of lessor improvements at termination of lease.

PART III—ALTERNATIVE MINIMUM TAX RELIEF

Sec. 6331. Phaseout of application of alternative minimum tax to corporations.

PART IV—TAXPAYER DEBT BUY-DOWN

- Sec. 6341. Designation of amounts for reduction of public debt.
 Sec. 6342. Public debt reduction trust fund.

Sec. 6343. Taxpayer-generated sequestration of Federal spending to reduce the public debt.

PART V—SMALL BUSINESS INCENTIVES

Sec. 6351. Cost-of-living adjustments relating to estate and gift tax provisions.

Sec. 6352. Increase in expense treatment for small businesses.

Sec. 6353. Clarification of treatment of home office use for administrative and management activities.

Sec. 6354. Treatment of storage of product samples.

Subtitle D—Family Reinforcement

Sec. 6401. Credit for adoption expenses.

Sec. 6402. Credit for taxpayers with certain persons requiring custodial care in their households.

Subtitle E—Social Security Earnings Test

Sec. 6501. Adjustments in monthly exempt amount for purposes of the social security earnings test.

Subtitle F—Technical Corrections

Sec. 6601. Coordination with other subtitles.

Sec. 6602. Amendments related to Revenue Reconciliation Act of 1990.

Sec. 6603. Amendments related to Revenue Reconciliation Act of 1993.

Sec. 6604. Miscellaneous provisions.

1 **Subtitle A—American Dream**
2 **Restoration**

3 **SEC. 6101. FAMILY TAX CREDIT.**

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

7 **“SEC. 23. FAMILY TAX CREDIT.**

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

12 “(b) LIMITATION.—The amount of credit which
13 would (but for this subsection) be allowed by subsection

1 (a) shall be reduced (but not below zero) by an amount
2 which bears the same ratio to such amount of credit as—

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

6 “(2) an amount equal to 100 times the dollar
7 amount in effect under subsection (a) for the taxable
8 year.

9 “(c) QUALIFYING CHILD.—For purposes of this
10 section—

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

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

16 “(B) such individual has not attained the
17 age of 18 as of the close of the calendar year
18 in which the taxable year of the taxpayer be-
19 gins, and

20 “(C) such individual bears a relationship to
21 the taxpayer described in section 32(c)(3)(B)
22 (determined without regard to clause (ii) there-
23 of).

24 “(2) EXCEPTION FOR CERTAIN NONCITIZENS.—
25 The term ‘qualifying child’ shall not include any in-

1 dividual who would not be a dependent if the first
2 sentence of section 152(b)(3) were applied without
3 regard to all that follows ‘resident of the United
4 States’.

5 “(d) INFLATION ADJUSTMENTS.—

6 “(1) IN GENERAL.—In the case of a taxable
7 year beginning in a calendar year after 1996, the
8 \$500 and \$200,000 amounts contained in sub-
9 sections (a) and (b) shall each be increased by an
10 amount equal to—

11 “(A) such dollar amount, multiplied by

12 “(B) the cost-of-living adjustment deter-
13 mined under section 1(f)(3) for the calendar
14 year in which the taxable year begins, deter-
15 mined by substituting ‘calendar year 1995’ for
16 ‘calendar year 1992’ in subparagraph (B)
17 thereof.

18 “(2) ROUNDING.—If any amount as adjusted
19 under paragraph (1) is not a multiple of \$50, such
20 amount shall be rounded to the nearest multiple of
21 \$50.

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

1 (b) CONFORMING AMENDMENT.—The table of sec-
2 tions for subpart A of part IV of subchapter A of chapter
3 1 is amended by inserting after the item relating to section
4 22 the following new item:

“Sec. 23. Family tax credit.”

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

8 **SEC. 6102. CREDIT TO REDUCE MARRIAGE PENALTY.**

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

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

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

18 “(b) LIMITATIONS.—

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

22 “(2) CREDIT DISALLOWED FOR INDIVIDUALS
23 CLAIMING SECTION 911, ETC.—No credit shall be al-
24 lowed under this section for any taxable year if ei-

1 ther spouse claims the benefits of section 911, 931,
2 or 933 for such taxable year.

3 “(c) MARRIAGE PENALTY REDUCTION CREDIT.—For
4 purposes of this section—

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

8 “(A) the joint tax amount of the taxpayer,
9 over

10 “(B) the sum of the unmarried tax
11 amounts for each spouse.

12 “(2) UNMARRIED TAX AMOUNT.—For purposes
13 of paragraph (1), the unmarried tax amount, with
14 respect to an individual, is the amount of tax which
15 would be imposed by section 1(c) if such individual’s
16 taxable income were equal to the excess (if any) of—

17 “(A) such individual’s qualified earned in-
18 come for the taxable year, over

19 “(B) the sum of—

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

23 “(ii) the exemption amount (as de-
24 fined in section 151(d)) for such taxable
25 year.

1 “(3) JOINT TAX AMOUNT.—For purposes of
2 paragraph (1), the joint tax amount is the amount
3 of tax which would be imposed by section 1(a) if the
4 taxpayer’s taxable income were equal to the excess
5 (if any) of—

6 “(A) the taxpayer’s qualified earned in-
7 come for the taxable year, over

8 “(B) the sum of—

9 “(i) an amount equal to the basic
10 standard deduction under section
11 63(c)(2)(A) for the taxable year, plus

12 “(ii) an amount equal to twice the ex-
13 emption amount (as so defined) for such
14 taxable year.

15 “(d) QUALIFIED EARNED INCOME.—For purposes of
16 this section—

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

20 “(A) the earned income for the taxable
21 year, over

22 “(B) an amount equal to the sum of the
23 deductions described in paragraphs (1), (2),
24 (6), (7), and (12) of section 62(a) to the extent
25 that such deductions are properly allocable to

1 or chargeable against earned income for such
2 taxable year.

3 The amount of qualified earned income shall be de-
4 termined without regard to any community property
5 laws.

6 “(2) EARNED INCOME.—For purposes of para-
7 graph (1)—

8 “(A) IN GENERAL.—The term ‘earned in-
9 come’ means income which is earned income
10 within the meaning of section 401(c)(2)(C) or
11 911(d)(2) (determined without regard to the
12 phrase ‘not in excess of 30 percent of his share
13 of the net profits of such trade or business’ in
14 subparagraph (B) thereof).

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

17 “(i) not includible in gross income,

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

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

22 “(iv) received as deferred compensa-
23 tion, or

24 “(v) received for services performed
25 by an individual in the employ of his

1 spouse (within the meaning of section
2 3121(b)(3)(B)).

3 “(e) AMOUNT OF CREDIT TO BE DETERMINED
4 UNDER TABLES.—

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

8 “(2) REQUIREMENTS FOR TABLES.—The tables
9 prescribed under paragraph (1) shall reflect the pro-
10 visions of subsection (c) and shall round to the near-
11 est \$25 any amount of credit which is less than the
12 maximum credit under subsection (b)(1).”

13 (b) CLERICAL AMENDMENT.—The table of sections
14 for subpart A of part IV of subchapter A of chapter 1
15 is amended by inserting after the item relating to section
16 23 the following new item:

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

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

20 **SEC. 6103. ESTABLISHMENT OF AMERICAN DREAM SAVINGS**
21 **ACCOUNTS.**

22 (a) IN GENERAL.—Subpart A of part I of subchapter
23 D of chapter 1 (relating to pension, profit-sharing, stock
24 bonus plans, etc.) is amended by inserting after section
25 408 the following new section:

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

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

6 “(b) AMERICAN DREAM SAVINGS ACCOUNT.—For
7 purposes of this title, the term ‘American Dream Savings
8 Account’ or ‘ADS account’ means an individual retirement
9 plan which is designated at the time of the establishment
10 of the plan as an American Dream Savings Account. Such
11 designation shall be made in such manner as the Secretary
12 may prescribe.

13 “(c) CONTRIBUTION RULES.—

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

17 “(2) CONTRIBUTION LIMIT.—

18 “(A) IN GENERAL.—The aggregate
19 amount of contributions (other than rollover
20 contributions) for any taxable year to all ADS
21 accounts maintained for the benefit of an indi-
22 vidual shall not exceed the lesser of—

23 “(i) \$2,000, or

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

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

3 “(i) IN GENERAL.—In the case of an
4 individual to whom this subparagraph ap-
5 plies for the taxable year, the limitation of
6 subparagraph (A)(ii) shall be equal to the
7 sum of—

8 “(I) the compensation includible
9 in such individual’s gross income for
10 the taxable year, plus

11 “(II) the compensation includible
12 in the gross income of such individ-
13 ual’s spouse for the taxable year re-
14 duced by the amount of the limitation
15 under subparagraph (A) applicable to
16 such spouse for such taxable year.

17 “(ii) INDIVIDUALS TO WHOM CLAUSE
18 (i) APPLIES.—Clause (i) shall apply to any
19 individual if—

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

22 “(II) the amount of compensa-
23 tion (if any) includible in such individ-
24 ual’s gross income for the taxable year
25 is less than the compensation includ-

1 ible in the gross income of such indi-
2 vidual's spouse for the taxable year.

3 “(C) ADJUSTMENT FOR INFLATION.—

4 “(i) IN GENERAL.—In the case of a
5 taxable year beginning in a calendar year
6 after 1996, the \$2,000 amount contained
7 in subparagraph (A) shall be increased by
8 an amount equal to—

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

11 “(II) the cost-of-living adjust-
12 ment under section 1(f)(3) for the cal-
13 endar year in which the taxable year
14 begins, determined by substituting
15 ‘calendar year 1995’ for ‘calendar
16 year 1992’ in subparagraph (B) there-
17 of.

18 “(ii) ROUNDING.—If any amount as
19 adjusted under clause (i) is not a multiple
20 of \$50, such amount shall be rounded to
21 the nearest multiple of \$50.

22 “(D) TAX ON EXCESS CONTRIBUTIONS.—

23 Section 4973 shall be applied separately with
24 respect to individual retirement plans which are
25 ADS accounts and individual retirement plans

1 which are not ADS accounts; except that, for
2 purposes of applying such section with respect
3 to individual retirement plans which are ADS
4 accounts, excess contributions shall be consid-
5 ered to be any amounts in excess of the limita-
6 tion under subsection (c)(2)(A).

7 “(3) CONTRIBUTIONS PERMITTED AFTER AGE
8 70¹/₂.—Contributions to an ADS account may be
9 made even after the individual for whom the account
10 is maintained has attained age 70¹/₂.

11 “(4) MANDATORY DISTRIBUTION RULES NOT
12 TO APPLY, ETC.—

13 “(A) IN GENERAL.—Except as provided in
14 subparagraph (B), subsections (a)(6) and (b)(3)
15 of section 408 (relating to required distribu-
16 tions) and section 4974 (relating to excise tax
17 on certain accumulations in qualified retirement
18 plans) shall not apply to any ADS account.

19 “(B) POST-DEATH DISTRIBUTIONS.—Rules
20 similar to the rules of section 401(a)(9) (other
21 than subparagraph (A) thereof) shall apply for
22 purposes of this section.

23 “(5) LIMITATIONS ON ROLLOVER CONTRIBU-
24 TIONS.—No rollover contribution may be made to an
25 ADS account unless—

1 “(A) such contribution is from another
2 ADS account, or

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

6 “(d) DISTRIBUTION RULES.—For purposes of this
7 title—

8 “(1) GENERAL RULES.—

9 “(A) EXCLUSION FROM GROSS INCOME.—
10 No portion of a qualified distribution from an
11 ADS account shall be includible in gross in-
12 come.

13 “(B) EXCEPTION FROM PENALTY TAX.—
14 Section 72(t) shall not apply to—

15 “(i) any qualified distribution from an
16 ADS account, and

17 “(ii) any qualified special purpose dis-
18 tribution (whether or not a qualified dis-
19 tribution) from an ADS account.

20 “(2) QUALIFIED DISTRIBUTION.—For purposes
21 of this subsection—

22 “(A) IN GENERAL.—The term ‘qualified
23 distribution’ means any payment or distribu-
24 tion—

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

3 “(ii) made to a beneficiary (or to the
4 estate of the individual) on or after the
5 death of the individual,

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

9 “(iv) which is a qualified special pur-
10 pose distribution.

11 “(B) DISTRIBUTIONS WITHIN 5 YEARS.—
12 No payment or distribution shall be treated as
13 a qualified distribution if—

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

21 “(ii) in the case of a payment or dis-
22 tribution properly allocable to a rollover
23 contribution (or income allocable thereto),
24 it is made within 5 years after the date on
25 which such rollover contribution was made,

1 as determined under regulations prescribed
2 by the Secretary.

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

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

13 “(A) sections 72(t) and 408(d)(3) shall not
14 apply, and

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

20 “(e) QUALIFIED SPECIAL PURPOSE DISTRIBUTION.—
21

22 “(1) IN GENERAL.—For purposes of this sec-
23 tion, the term ‘qualified special purpose distribution’
24 means any payments or distributions from an ADS

1 account to the individual for whose benefit such ac-
2 count is established—

3 “(A) if such payments or distributions are
4 qualified first-time homebuyer distributions, or

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

7 “(i) the qualified higher education ex-
8 penses of the taxpayer for the taxable year
9 in which received, and

10 “(ii) the qualified medical expenses of
11 the taxpayer for the taxable year in which
12 received.

13 “(2) QUALIFIED FIRST-TIME HOMEBUYER DIS-
14 TRIBUTIONS.—

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

1 “(B) QUALIFIED ACQUISITION COSTS.—
2 For purposes of this paragraph, the term
3 ‘qualified acquisition costs’ means the costs of
4 acquiring, constructing, or reconstructing a res-
5 idence. Such term includes any usual or reason-
6 able settlement, financing, or other closing
7 costs.

8 “(C) FIRST-TIME HOMEBUYER; OTHER
9 DEFINITIONS.—For purposes of this para-
10 graph—

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

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

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

24 “(I) on which a binding contract
25 to acquire the principal residence to

1 which subparagraph (A) applies is en-
2 tered into, or

3 “(II) on which a binding contract
4 to construct or reconstruct such a
5 principal residence is entered into.

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

17 “(i) subsection (d)(3)(B) of such sec-
18 tion shall not be applied to such contribu-
19 tion, and

20 “(ii) such amount shall not be taken
21 into account in determining whether sub-
22 section (d)(3)(A)(i) of such section applies
23 to any other amount.

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

1 “(A) IN GENERAL.—The term ‘qualified
2 higher education expenses’ means tuition, fees,
3 books, supplies, and equipment required for the
4 enrollment or attendance of—

5 “(i) the taxpayer,

6 “(ii) the taxpayer’s spouse, or

7 “(iii) the taxpayer’s child (as defined
8 in section 151(c)(3)) or grandchild,
9 at an eligible educational institution (as defined
10 in section 135(c)(3)).

11 “(B) COORDINATION WITH SAVINGS BOND
12 PROVISIONS.—The amount of qualified higher
13 education expenses for any taxable year shall be
14 reduced by any amount excludable from gross
15 income under section 135.

16 “(4) QUALIFIED MEDICAL EXPENSES.—

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

24 “(B) LONG-TERM CARE INSURANCE PRE-
25 MIUMS TREATED AS MEDICAL EXPENSES.—For

1 purposes of subparagraph (A), section
2 213(d)(1)(C) shall not apply but the term
3 ‘qualified medical expenses’ shall include pre-
4 miums for long-term care insurance (as defined
5 in section 7702B(b)) for coverage of the tax-
6 payer or his spouse.

7 “(f) OTHER DEFINITIONS.—For purposes of this sec-
8 tion—

9 “(1) ROLLOVER CONTRIBUTIONS.—The term
10 ‘rollover contributions’ means contributions de-
11 scribed in sections 402(c), 403(a)(4), 403(b)(8), or
12 408(d)(3).

13 “(2) COMPENSATION.—The term ‘compensa-
14 tion’ has the meaning given such term by section
15 219(f).”

16 (b) TERMINATION OF NONDEDUCTIBLE IRA CON-
17 TRIBUTIONS.—

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

20 “(5) TERMINATION.—This subsection shall not
21 apply to any designated nondeductible contribution
22 for any taxable year beginning after December 31,
23 1995.”

24 (2) Section 219(f) of is amended by striking
25 paragraph (7).

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

5 (d) CLERICAL AMENDMENT.—The table of sections
6 for subpart A of part I of subchapter D of chapter 1 is
7 amended by inserting after the item relating to section
8 408 the following new item:

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

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

12 **SEC. 6104. SPOUSAL IRA COMPUTED ON BASIS OF COM-**
13 **PENSATION OF BOTH SPOUSES.**

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

17 “(c) SPECIAL RULES FOR CERTAIN MARRIED INDI-
18 VIDUALS.—

19 “(1) IN GENERAL.—In the case of an individual
20 to whom this paragraph applies for the taxable year,
21 the limitation of subsection (b)(1) shall be equal to
22 the lesser of—

23 “(A) \$2,000, or

24 “(B) the sum of—

1 “(i) the compensation includible in
2 such individual’s gross income for the tax-
3 able year, plus

4 “(ii) the compensation includible in
5 the gross income of such individual’s
6 spouse for the taxable year reduced by the
7 amount allowable as a deduction under
8 subsection (a) to such spouse for such tax-
9 able year.

10 “(2) INDIVIDUALS TO WHOM PARAGRAPH (1)
11 APPLIES.—Paragraph (1) shall apply to any individ-
12 ual if—

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

15 “(B) the amount of compensation (if any)
16 includible in such individual’s gross income for
17 the taxable year is less than the compensation
18 includible in the gross income of such individ-
19 ual’s spouse for the taxable year.”

20 (b) TECHNICAL AMENDMENT.—Paragraph (2) of
21 section 219(f) (relating to other definitions and special
22 rules) is amended by striking “subsections (b) and (c)”
23 and inserting “subsection (b)”.

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

4 **Subtitle B—Senior Citizens' Equity**

5 **PART I—REPEAL OF INCREASE IN TAX ON** 6 **SOCIAL SECURITY BENEFITS**

7 **SEC. 6201. REPEAL OF INCREASE IN TAX ON SOCIAL SECU-** 8 **RITY BENEFITS.**

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

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

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

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

1 “This paragraph shall not apply to any taxable year
2 beginning after December 31, 1999.”

3 (c) CONFORMING AMENDMENTS.—

4 (1) Paragraph (3) of section 871(a) is amend-
5 ed—

6 (A) by striking “85 percent” in subpara-
7 graph (A) and inserting “50 percent”, and

8 (B) by inserting before the last sentence
9 the following new flush sentence:

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

15 (2)(A) Subparagraph (A) of section 121(e)(1)
16 of the Social Security Amendments of 1983 (Public
17 Law 98–21) is amended—

18 (i) by striking “(A) There” and inserting
19 “There”;

20 (ii) by striking “(i)” immediately following
21 “amounts equivalent to”; and

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

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

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

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

7 (d) EFFECTIVE DATE.—

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

12 (2) SUBSECTION (c)(2).—The amendments
13 made by subsection (c)(2) shall apply to tax liabil-
14 ities for taxable years beginning after December 31,
15 1995.

16 **PART II—TREATMENT OF LONG-TERM CARE**
17 **INSURANCE AND SERVICES**

18 **SEC. 6211. TREATMENT OF LONG-TERM CARE INSURANCE.**

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

22 **“SEC. 7702B. TREATMENT OF LONG-TERM CARE INSUR-**
23 **ANCE.**

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

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

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

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

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

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

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

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

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

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

13 “(C) such contract is guaranteed renew-
14 able,

15 “(D) such contract does not provide for a
16 cash surrender value or other money that can
17 be—

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

20 “(ii) borrowed,
21 other than as provided in subparagraph (E) or
22 paragraph (2)(C), and

23 “(E) all refunds of premiums, and all pol-
24 icyholder dividends or similar amounts, under
25 such contract are to be applied as a reduction

1 in future premiums or to increase future bene-
2 fits.

3 “(2) SPECIAL RULES.—

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

11 “(B) SPECIAL RULES RELATING TO MEDI-
12 CARE.—

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

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

23 “(C) REFUNDS OF PREMIUMS.—Paragraph
24 (1)(E) shall not apply to any refund on the
25 death of the insured, or on a complete surren-

1 der or cancellation of the contract, which can-
2 not exceed the aggregate premiums paid under
3 the contract. Any refund on a complete surren-
4 der or cancellation of the contract shall be in-
5 cludible in gross income to the extent that any
6 deduction or exclusion was allowable with re-
7 spect to the premiums.

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

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

15 “(A) are required by a chronically ill indi-
16 vidual, and

17 “(B) are provided pursuant to a plan of
18 care prescribed by a licensed health care practi-
19 tioner.

20 “(2) CHRONICALLY ILL INDIVIDUAL.—

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

1 “(i) being unable to perform (without
2 substantial assistance from another indi-
3 vidual) at least 2 activities of daily living
4 for a period of at least 90 days due to a
5 loss of functional capacity or to cognitive
6 impairment, or

7 “(ii) having a level of disability simi-
8 lar (as determined by the Secretary in con-
9 sultation with the Secretary of Health and
10 Human Services) to the level of disability
11 described in clause (i).

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

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

21 “(i) Eating.

22 “(ii) Toileting.

23 “(iii) Transferring.

24 “(iv) Bathing.

25 “(v) Dressing.

1 “(vi) Continenence.

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

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

13 “(4) LICENSED HEALTH CARE PRACTI-
14 TIONER.—The term ‘licensed health care practi-
15 tioner’ means any physician (as defined in section
16 1861(r)(1) of the Social Security Act) and any reg-
17 istered professional nurse, licensed social worker, or
18 other individual who meets such requirements as
19 may be prescribed by the Secretary.

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

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

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

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

14 “(B) any such charges the imposition of
15 which reduces the premiums paid for the con-
16 tract (within the meaning of section
17 7702(f)(1)).

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

1 “(4) PORTION DEFINED.—For purposes of this
2 subsection, the term ‘portion’ means only the terms
3 and benefits under a life insurance contract that are
4 in addition to the terms and benefits under the con-
5 tract without regard to the coverage under a long-
6 term care insurance contract.”

7 (b) RESERVE METHOD.—Clause (iii) of section
8 807(d)(3)(A) is amended by inserting “(other than a long-
9 term care insurance contract, as defined in section
10 7702B(b))” after “insurance contract”.

11 (c) LONG-TERM CARE INSURANCE NOT PERMITTED
12 UNDER CAFETERIA PLANS OR FLEXIBLE SPENDING AR-
13 RANGEMENTS.—

14 (1) CAFETERIA PLANS.—Section 125(f) is
15 amended by adding at the end the following new
16 sentence: “Such term shall not include any long-
17 term care insurance contract (as defined in section
18 7702B(b)).”

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

23 “(a) GENERAL RULE.—Except as provided in sub-
24 section (b), gross income of an employee does not include

1 employer-provided coverage under an accident or health
2 plan.

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

10 (g) EFFECTIVE DATE.—

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

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

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

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

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

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

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

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

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

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

9 **SEC. 6212. QUALIFIED LONG-TERM CARE SERVICES TREAT-**
10 **ED AS MEDICAL CARE.**

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

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

18 (b) TECHNICAL AMENDMENTS.—

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

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

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

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

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

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

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

18 “(B) INDEXING.—

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

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

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

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

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

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

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

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

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

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

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

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

17 **SEC. 6213. CERTAIN EXCHANGES OF LIFE INSURANCE CON-**
18 **TRACTS FOR LONG-TERM CARE INSURANCE**
19 **CONTRACTS NOT TAXABLE.**

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

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

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

7 **SEC. 6214. EXCLUSION FROM GROSS INCOME FOR**
8 **AMOUNTS WITHDRAWN FROM CERTAIN RE-**
9 **TIREMENT PLANS FOR LONG-TERM CARE IN-**
10 **SURANCE.**

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

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

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

1 coverage of such individual or the spouse of such individ-
2 ual.

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

6 “(1) an individual retirement plan of such indi-
7 vidual,

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

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

13 (b) CONFORMING AMENDMENTS.—

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

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

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

4 **PART III—TREATMENT OF ACCELERATED DEATH**
5 **BENEFITS**

6 **SEC. 6221. TREATMENT OF ACCELERATED DEATH BENE-**
7 **FITS BY RECIPIENT.**

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

11 “(g) TREATMENT OF CERTAIN ACCELERATED
12 DEATH BENEFITS.—

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

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

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

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

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

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

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

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

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

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

23 “(ii) in the case of an insured who re-
24 sides in a State not requiring the licensing
25 of such persons for such purposes, such

1 person meets the requirements of sections
2 8 and 9 of the Viatical Settlements Model
3 Act of the National Association of Insur-
4 ance Commissioners.

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

7 “(A) TERMINALLY ILL INDIVIDUAL.—The
8 term ‘terminally ill individual’ means an indi-
9 vidual who has been certified by a physician as
10 having an illness or physical condition which
11 can reasonably be expected to result in death in
12 24 months or less after the date of the certifi-
13 cation.

14 “(B) PHYSICIAN.—The term ‘physician’
15 has the meaning given to such term by section
16 1861(r)(1) of the Social Security Act (42
17 U.S.C. 1395x(r)(1)).

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

1 cially interested in any trade or business carried on
2 by the taxpayer.

3 “(5) CROSS REFERENCE.—

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

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

7 **SEC. 6222. TAX TREATMENT OF COMPANIES ISSUING**
8 **QUALIFIED ACCELERATED DEATH BENEFIT**
9 **RIDERS.**

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

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

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

21 “(2) QUALIFIED ACCELERATED DEATH BENE-
22 FIT RIDERS.—For purposes of this subsection, the
23 term ‘qualified accelerated death benefit rider’
24 means any rider on a life insurance contract if the

1 only payments under the rider are payments meeting
2 the requirements of section 101(g).

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

7 (b) EFFECTIVE DATE.—

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

10 (2) ISSUANCE OF RIDER NOT TREATED AS MA-
11 TERIAL CHANGE.—For purposes of applying sections
12 101(f), 7702, and 7702A of the Internal Revenue
13 Code of 1986 to any contract—

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

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

1 **PART IV—INCLUSION IN GROSS INCOME OF**

2 **EXCESS LONG-TERM CARE BENEFITS**

3 **SEC. 6231. INCLUSION IN INCOME OF EXCESS LONG-TERM**
4 **CARE BENEFITS.**

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

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

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

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

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

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

23 “(A) the value of the long-term care bene-
24 fits received by the taxpayer during the taxable
25 year, over

1 “(B) the exclusion amount applicable to
2 such benefits.

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

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

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

12 “(3) EXCLUSION AMOUNT.—

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

24 “(B) OTHER TAXPAYERS.—In the case of
25 long-term care benefits received during the tax-

1 able year by a taxpayer by reason of another in-
2 dividual being a chronically ill individual, the
3 term ‘exclusion amount’ means so much of such
4 other individual’s exclusion amount (for such
5 other individual’s taxable year which begins in
6 the calendar year in which the taxpayer’s tax-
7 able year begins) as is allocated by such other
8 individual to the taxpayer. Such an allocation
9 shall be made at the time and in the manner
10 prescribed by the Secretary; and once made,
11 shall be irrevocable.

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

15 “(e) INFLATION ADJUSTMENT OF \$200 BENEFIT
16 LIMIT.—In the case of a calendar year after 1996, the
17 \$200 amount contained in subsection (c)(3)(A) shall be
18 increased at the same time and in the same manner as
19 amounts are increased pursuant to section 213(d)(11).”

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

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

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

1 **SEC. 6232. REPORTING REQUIREMENTS.**

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

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

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

10 “(1) the aggregate amount of such benefits
11 paid by such person to any individual during any
12 calendar year, and

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

15 “(b) STATEMENTS TO BE FURNISHED TO PERSONS
16 WITH RESPECT TO WHOM INFORMATION IS REQUIRED.—
17 Every person required to make a return under subsection
18 (a) shall furnish to each individual whose name is required
19 to be set forth in such return a written statement show-
20 ing—

21 “(1) the name of the person making the pay-
22 ments, and

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

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

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

8 (b) PENALTIES.—

9 (1) Subparagraph (B) of section 6724(d)(1) is
10 amended by redesignating clauses (ix) through (xiv)
11 as clauses (x) through (xv), respectively, and by in-
12 serting after clause (viii) the following new clause:

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

15 (2) Paragraph (2) of section 6724(d) is amend-
16 ed by redesignating subparagraphs (Q) through (T)
17 as subparagraphs (R) through (U), respectively, and
18 by inserting after subparagraph (P) the following
19 new subparagraph:

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

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

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

1 (d) EFFECTIVE DATE.—The amendments made by
2 this section shall apply to benefits paid after December
3 31, 1995.

4 **Subtitle C—Job Creation and Wage** 5 **Enhancement**

6 **PART I—CAPITAL GAINS REFORM**

7 **Subpart A—Capital Gains Reduction for Taxpayers** 8 **Other Than Corporations**

9 **SEC. 6301. CAPITAL GAINS DEDUCTION.**

10 (a) IN GENERAL.—Part I of subchapter P of chapter
11 1 (relating to treatment of capital gains), as amended by
12 subsection (d)(1), is amended by inserting after section
13 1201 the following new section:

14 **“SEC. 1202. CAPITAL GAINS DEDUCTION.**

15 “(a) GENERAL RULE.—If for any taxable year a tax-
16 payer other than a corporation has a net capital gain, 50
17 percent of such gain shall be a deduction from gross
18 income.

19 “(b) ESTATES AND TRUSTS.—In the case of an es-
20 tate or trust, the deduction shall be computed by excluding
21 the portion (if any) of the gains for the taxable year from
22 sales or exchanges of capital assets which, under sections
23 652 and 662 (relating to inclusions of amounts in gross
24 income of beneficiaries of trusts), is includible by the in-

1 come beneficiaries as gain derived from the sale or ex-
2 change of capital assets.

3 “(c) COORDINATION WITH TREATMENT OF CAPITAL
4 GAIN UNDER LIMITATION ON INVESTMENT INTEREST.—

5 For purposes of this section, the net capital gain for any
6 taxable year shall be reduced (but not below zero) by the
7 amount which the taxpayer takes into account as invest-
8 ment income under section 163(d)(4)(B)(iii).

9 “(d) SPECIAL RULE FOR COLLECTIBLES.—

10 “(1) IN GENERAL.—At the election of the tax-
11 payer, the rate of tax imposed by section 1 on the
12 excess of—

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

17 “(B) the net capital gain for such year,
18 shall not exceed 28 percent.

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

22 “(3) COORDINATION WITH INDEXING.—Any col-
23 lectible specified in such an election shall be treated
24 as not being an indexed asset for purposes of section
25 1022.

1 “(e) TRANSITIONAL RULE.—

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

4 “(A) the amount taken into account as the
5 net capital gain under subsection (a) shall not
6 exceed the net capital gain determined by only
7 taking into account gains and losses properly
8 taken into account for the portion of the tax-
9 able year on or after January 1, 1995, and

10 “(B) if the net capital gain for such year
11 exceeds the amount taken into account under
12 subsection (a), the rate of tax imposed by sec-
13 tion 1 on such excess shall not exceed 28 per-
14 cent.

15 “(2) SPECIAL RULES FOR PASS-THRU ENTI-
16 TIES.—

17 “(A) IN GENERAL.—In applying paragraph
18 (1) with respect to any pass-thru entity, the de-
19 termination of when gains and losses are prop-
20 erly taken into account shall be made at the en-
21 tity level.

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

25 “(i) a regulated investment company,

1 “(ii) a real estate investment trust,

2 “(iii) an S corporation,

3 “(iv) a partnership,

4 “(v) an estate or trust, and

5 “(vi) a common trust fund.”

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

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

12 (c) TREATMENT OF COLLECTIBLES.—

13 (1) IN GENERAL.—Section 1222 is amended by
14 inserting after paragraph (11) the following new
15 paragraph:

16 “(12) SPECIAL RULE FOR COLLECTIBLES.—

17 “(A) IN GENERAL.—Any gain or loss from
18 the sale or exchange of a collectible shall be
19 treated as a short-term capital gain or loss (as
20 the case may be), without regard to the period
21 such asset was held. The preceding sentence
22 shall apply only to the extent the gain or loss
23 is taken into account in computing taxable in-
24 come.

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

11 “(C) COLLECTIBLE.—For purposes of this
12 paragraph, the term ‘collectible’ means any cap-
13 ital asset which is a collectible (as defined in
14 section 408(m) without regard to paragraph (3)
15 thereof).”

16 (2) CHARITABLE DEDUCTION NOT AF-
17 FECTED.—

18 (A) Paragraph (1) of section 170(e) is
19 amended by adding at the end the following
20 new sentence: “For purposes of this paragraph,
21 section 1222 shall be applied without regard to
22 paragraph (12) thereof (relating to special rule
23 for collectibles).”

24 (B) Clause (iv) of section 170(b)(1)(C) is
25 amended by inserting before the period at the

1 end the following: “and section 1222 shall be
2 applied without regard to paragraph (12) there-
3 of (relating to special rule for collectibles)”.

4 (d) TECHNICAL AND CONFORMING CHANGES.—

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

12 (B) At the election of a taxpayer who holds
13 qualified small business stock (as defined in section
14 1202 of such Code, as in effect on the day before
15 the date of the enactment of this Act) as of such
16 date of enactment—

17 (i) the provisions repealed by subparagraph
18 (A) shall continue to apply to any disposition by
19 such taxpayer of such stock held on such date,
20 and

21 (ii) the amendments made by this section
22 and section 6302 shall not apply to such stock;
23 except that losses from the sale or exchange of
24 such stock shall be taken into account as pro-

1 vided in the amendments made by paragraph
2 (13) of this subsection.

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

6 (2) Section 1 is amended by striking subsection
7 (h).

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

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

15 “(2) CAPITAL GAINS AND LOSSES.—

16 “(A) LOSSES OF TAXPAYERS OTHER THAN
17 CORPORATIONS.—In the case of a taxpayer
18 other than a corporation, the amount deductible
19 on account of losses from sales or exchanges of
20 capital assets shall not exceed the amount in-
21 cludible on account of gains from sales or ex-
22 changes of capital assets.

23 “(B) DEDUCTION UNDER SECTION 1202.—
24 The deduction under section 1202 shall not be
25 allowed.”

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

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

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

12 “(4) ADJUSTMENTS.—To the extent that the
13 amount otherwise allowable as a deduction under
14 this subsection consists of gain from the sale or ex-
15 change of capital assets held for more than 1 year,
16 proper adjustment shall be made for any deduction
17 allowable to the estate or trust under section 1202
18 (relating to deduction for excess of capital gains over
19 capital losses). In the case of a trust, the deduction
20 allowed by this subsection shall be subject to section
21 681 (relating to unrelated business income).”

22 (7) Paragraph (3) of section 643(a) is amended
23 by adding at the end thereof the following new sen-
24 tence: “The deduction under section 1202 (relating

1 to deduction of excess of capital gains over capital
2 losses) shall not be taken into account.”

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

8 (9) Paragraph (4) of section 691(c) is amended
9 by striking “sections 1(h), 1201, and 1211” and in-
10 sserting “sections 1201, 1202, and 1211”.

11 (10) The second sentence of section 871(a)(2)
12 is amended by inserting “such gains and losses shall
13 be determined without regard to section 1202 (relat-
14 ing to deduction for capital gains) and” after “ex-
15 cept that”.

16 (11)(A) Paragraph (2) of section 904(b) is
17 amended by striking subparagraph (A), by redesign-
18 ating subparagraph (B) as subparagraph (A), and
19 by inserting after subparagraph (A) (as so redesign-
20 nated) the following new subparagraph:

21 “(B) OTHER TAXPAYERS.—In the case of
22 a taxpayer other than a corporation, taxable in-
23 come from sources outside the United States
24 shall include gain from the sale or exchange of

1 capital assets only to the extent of foreign
2 source capital gain net income.”

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

5 (i) by striking all that precedes clause (i)
6 and inserting the following:

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

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

11 (C) Paragraph (3) of section 904(b) is amended
12 by striking subparagraphs (D) and (E) and inserting
13 the following new subparagraph:

14 “(D) RATE DIFFERENTIAL PORTION.—The
15 rate differential portion of foreign source net
16 capital gain, net capital gain, or the excess of
17 net capital gain from sources within the United
18 States over net capital gain, as the case may
19 be, is the same proportion of such amount as
20 the excess of the highest rate of tax specified in
21 section 11(b) over the alternative rate of tax
22 under section 1201(a) bears to the alternative
23 rate of tax under section 1201(a).”

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

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

3 “(2) the sum of—

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

6 “(B) one-half of the excess of the net long-
7 term capital loss over the net short-term capital
8 gain.”

9 (B) So much of paragraph (2) of section
10 1212(b) as precedes subparagraph (B) thereof is
11 amended to read as follows:

12 “(2) SPECIAL RULES.—

13 “(A) ADJUSTMENTS.—

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

19 “(I) the amount allowed for the
20 taxable year under paragraph (1) or
21 (2) of section 1211(b), or

22 “(II) the adjusted taxable income
23 for such taxable year.

24 “(ii) For purposes of determining the
25 excess referred to in paragraph (1)(B),

1 there shall be treated as short-term capital
2 gain in the taxable year an amount equal
3 to the sum of—

4 “(I) the amount allowed for the
5 taxable year under paragraph (1) or
6 (2) of section 1211(b) or the adjusted
7 taxable income for such taxable year,
8 whichever is the least, plus

9 “(II) the excess of the amount
10 described in subclause (I) over the net
11 short-term capital loss (determined
12 without regard to this subsection) for
13 such year.”

14 (C) Subsection (b) of section 1212 is
15 amended by adding at the end the following
16 new paragraph:

17 “(3) TRANSITIONAL RULE.—In the case of any
18 amount which, under paragraph (1) and section
19 1211(b) (as in effect for taxable years beginning be-
20 fore January 1, 1996), is treated as a capital loss
21 in the first taxable year beginning after December
22 31, 1995, paragraph (1) and section 1211(b) (as so
23 in effect) shall apply (and paragraph (1) and section
24 1211(b) as in effect for taxable years beginning
25 after December 31, 1995, shall not apply) to the ex-

1 tent such amount exceeds the total of any net cap-
2 ital gains (determined without regard to this sub-
3 section) of taxable years beginning after December
4 31, 1995.”

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

9 (15) Subsection (e) of section 1445 is amend-
10 ed—

11 (A) in paragraph (1) by striking “35 per-
12 cent (or, to the extent provided in regulations,
13 28 percent)” and inserting “25 percent (or, to
14 the extent provided in regulations, 19.8 per-
15 cent)”, and

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

18 (16)(A) The second sentence of section
19 7518(g)(6)(A) is amended—

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

22 (ii) by striking “28 percent (34 percent”
23 and inserting “19.8 percent (25 percent”.

1 (B) The second sentence of section
2 607(h)(6)(A) of the Merchant Marine Act, 1936 is
3 amended—

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

7 (ii) by striking “28 percent (34 percent”
8 and inserting “19.8 percent (25 percent”.

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

“Sec. 1202. Capital gains deduction.”

13 (f) EFFECTIVE DATE.—

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

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

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

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

4 **SEC. 6302. INDEXING OF CERTAIN ASSETS ACQUIRED**
5 **AFTER DECEMBER 31, 1994, FOR PURPOSES**
6 **OF DETERMINING GAIN.**

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

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

14 “(a) GENERAL RULE.—

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

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

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

3 “(b) INDEXED ASSET.—

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

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

8 “(B) tangible property,

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

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

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

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

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

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

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

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

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

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

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

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

18 “(B) the applicable inflation adjustment.

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

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

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

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

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

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

10 “(3) GROSS DOMESTIC PRODUCT DEFLATOR.—

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

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

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

25 “(2) SHORT SALES.—

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

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

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

19 “(1) ADJUSTMENTS AT ENTITY LEVEL.—

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

16 “(f) OTHER PASS-THRU ENTITIES.—

17 “(1) PARTNERSHIPS.—

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

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

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

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

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

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

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

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

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

7 “(g) DISPOSITIONS BETWEEN RELATED PERSONS.—

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

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

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

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

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

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

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

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

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

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

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

1 “(3) TREATMENT OF CERTAIN DISTRIBUTIONS.—A distribution with respect to stock in a
2 corporation which is not a dividend shall be treated
3 as a disposition.
4

5 “(4) ACQUISITION DATE WHERE THERE HAS
6 BEEN PRIOR APPLICATION OF SUBSECTION (a)(1)
7 WITH RESPECT TO THE TAXPAYER.—If there has
8 been a prior application of subsection (a)(1) to an
9 asset while such asset was held by the taxpayer, the
10 date of acquisition of such asset by the taxpayer
11 shall be treated as not earlier than the date of the
12 most recent such prior application.

13 “(5) COLLAPSIBLE CORPORATIONS.—The appli-
14 cation of section 341(a) (relating to collapsible cor-
15 porations) shall be determined without regard to this
16 section.

17 “(j) REGULATIONS.—The Secretary shall prescribe
18 such regulations as may be necessary or appropriate to
19 carry out the purposes of this section.”

20 (b) CLERICAL AMENDMENT.—The table of sections
21 for part II of subchapter O of chapter 1 is amended by
22 inserting after the item relating to section 1021 the follow-
23 ing new item:

 “Sec. 1022. Indexing of certain assets acquired after December
 31, 1994, for purposes of determining gain.”

24 (c) EFFECTIVE DATE.—

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

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

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

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

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

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

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

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

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

13 (2) TREATMENT OF GAIN OR LOSS.—

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

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

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

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

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

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

13 (1) for purposes of subsection (c)(1) of this sec-
14 tion and section 1022 of such Code, as having a
15 holding period which begins on January 1, 1995,
16 and

17 (2) for purposes of section 1022(c)(2)(B)(ii) of
18 such Code, as having been acquired on January 1,
19 1995.

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

1 **Subpart B—Capital Gains Reduction for**
2 **Corporations**

3 **SEC. 6311. REDUCTION OF ALTERNATIVE CAPITAL GAIN**
4 **TAX FOR CORPORATIONS.**

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

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

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

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

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

19 “(b) TRANSITIONAL RULE.—

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

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

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

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

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

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

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

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

14 “(c) CROSS REFERENCES.—

“For computation of the alternative tax—

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

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

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

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

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

1 **Subpart C—Capital Loss Deduction Allowed With**
2 **Respect to Sale or Exchange of Principal Residence**
3 **SEC. 6316. CAPITAL LOSS DEDUCTION ALLOWED WITH RE-**
4 **SPECT TO SALE OR EXCHANGE OF PRINCIPAL**
5 **RESIDENCE.**

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

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

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

18 **PART II—COST RECOVERY PROVISIONS**

19 **SEC. 6321. DEPRECIATION ADJUSTMENT FOR CERTAIN**
20 **PROPERTY PLACED IN SERVICE AFTER DE-**
21 **CEMBER 31, 1994.**

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

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

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

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

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

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

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

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

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

1 “(i) dividing—

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

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

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

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

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

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

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

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

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

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

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

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

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

11 (b) MINIMUM TAX TREATMENT.—

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

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

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

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

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

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

3 (c) TECHNICAL AMENDMENTS.—

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

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

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

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

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

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

4 “(B) PROPORTIONATE DISALLOWANCE.—

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

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

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

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

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

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

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

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

22 **SEC. 6322. TREATMENT OF ABANDONMENT OF LESSOR IM-**
23 **PROVEMENTS AT TERMINATION OF LEASE.**

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

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

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

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

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

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

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

1 **PART III—ALTERNATIVE MINIMUM TAX RELIEF**
2 **SEC. 6331. PHASEOUT OF APPLICATION OF ALTERNATIVE**
3 **MINIMUM TAX TO CORPORATIONS.**

4 (a) TERMINATION.—Subsection (a) of section 55 is
5 amended by adding at the end the following new flush
6 sentence:

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

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

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

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

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

22 (4) POLLUTION CONTROL FACILITIES.—Para-
23 graph (5) of section 56(a) is amended by inserting
24 “and before January 1, 1996,” after “December 31,
25 1986,”.

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

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

9 (d) EARLIER TERMINATION OF CERTAIN ADJUST-
10 MENTS FOR CORPORATIONS.—

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

14 (A) by inserting “and before January 1,
15 1996,” after “December 31, 1986,” each place
16 it appears, and

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

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

24 (2) SECTION 833(b) DEDUCTION.—Paragraph
25 (3) of section 56(c) is amended by adding at the end

1 the following new sentence: “This paragraph shall
2 not apply to any taxable year beginning after De-
3 cember 31, 1995.”

4 (3) CERTAIN EARNINGS AND PROFITS ITEMS.—

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

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

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

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

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

22 (5) CERTAIN AMORTIZATION PROVISIONS.—
23 Clause (ii) of section 56(g)(4)(D) is amended by
24 adding at the end the following new sentence: “This

1 clause shall not apply to any expenditure paid or in-
2 curred after December 31, 1995.”

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

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

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

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

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

23 (10) OWNERSHIP CHANGES.—Subparagraph
24 (G) of section 56(g)(4) is amended by adding at the
25 end the following new sentence: “This subparagraph

1 shall not apply to any ownership change after De-
2 cember 31, 1995.”

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

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

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

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

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

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

24 “(D) TERMINATION FOR CORPORATIONS.—

25 In the case of a corporation (other than a cor-

1 poration referred to in section 56(g)(6)), this
2 paragraph shall not apply to interest accruing
3 for periods after December 31, 1995.”

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

8 (g) LOSSES.—

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

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

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

16 (h) FOREIGN TAX CREDIT.—Paragraph (2) of section
17 59(a) is amended by adding at the end the following new
18 subparagraph:

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

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

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

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

4 “(1) the excess (if any) of—

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

9 “(B) the tentative minimum tax for the
 10 taxable year, or

11 “(2) 90 percent of the amount determined
 12 under paragraph (1)(A).”

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

16 **PART IV—TAXPAYER DEBT BUY-DOWN**

17 **SEC. 6341. DESIGNATION OF AMOUNTS FOR REDUCTION OF**
 18 **PUBLIC DEBT.**

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

23 **“PART IX—DESIGNATION FOR REDUCTION OF**
 24 **PUBLIC DEBT**

“Sec. 6097. Designation.

1 **“SEC. 6097. DESIGNATION.**

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

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

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

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

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

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

1 **SEC. 6342. PUBLIC DEBT REDUCTION TRUST FUND.**

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

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

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

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

17 “(c) EXPENDITURES.—Amounts in the Public Debt
18 Reduction Trust Fund shall be used by the Secretary of
19 the Treasury for purposes of paying at maturity, or to
20 redeem or buy before maturity, any obligation of the Fed-
21 eral Government included in the public debt (other than
22 an obligation held by the Federal Old-Age and Survivors
23 Insurance Trust Fund, the Civil Service Retirement and
24 Disability Fund, or the Department of Defense Military
25 Retirement Fund). Any obligation which is paid, re-
26 deemed, or bought with amounts from the Public Debt Re-

1 duction Trust Fund shall be canceled and retired and may
2 not be reissued.”

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

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

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

9 **SEC. 6343. TAXPAYER-GENERATED SEQUESTRATION OF**
10 **FEDERAL SPENDING TO REDUCE THE PUBLIC**
11 **DEBT.**

12 (a) SEQUESTRATION TO REDUCE THE PUBLIC
13 DEBT.—Part C of the Balanced Budget and Emergency
14 Deficit Control Act of 1985 is amended by adding after
15 section 253 the following new section:

16 **“SEC. 253A. SEQUESTRATION TO REDUCE THE PUBLIC**
17 **DEBT.**

18 “(a) SEQUESTRATION.—Notwithstanding sections
19 255 and 256, within 15 days after Congress adjourns to
20 end a session, and on the same day as a sequestration
21 (if any) under sections 251, 252, and 253, but after any
22 sequestration of budget-year budgetary resources required
23 by those sections, there shall be a sequestration equivalent
24 to the estimated aggregate amount designated under sec-
25 tion 6097 of the Internal Revenue Code of 1986 for the

1 calendar year two years before the year in which that ses-
2 sion of Congress started, as estimated by the Department
3 of the Treasury on October 1 in the year after the applica-
4 ble tax year and as modified by the total of (1) any
5 amounts by which net discretionary spending is reduced
6 by legislation below the discretionary spending limits en-
7 acted after the enactment of this section related to the
8 fiscal year subject to the sequestration or, in the absence
9 of such limits, any net reduction below discretionary out-
10 lays for fiscal year 1995 and (2) the net deficit change
11 that has resulted from all direct spending legislation en-
12 acted after the enactment of this section related to the
13 fiscal year subject to the sequestration, as estimated by
14 OMB. Within 5 days after the enactment of any such di-
15 rect spending legislation, OMB shall estimate the change
16 in spending resulting from that legislation for the 5-fiscal-
17 year period beginning with the first fiscal year for which
18 that legislation becomes effective and transmit a report
19 to the House of Representatives and the Senate containing
20 that estimate. Only the estimated deficit reduction in-
21 cluded in the 5-year estimate made at the time the legisla-
22 tion is enacted shall be used for purposes of determining
23 whether there shall be a sequestration under this sub-
24 section. Notwithstanding the preceding two sentences, any
25 estimates of direct spending made by OMB under this

1 subsection for any legislation that first takes effect in fis-
2 cal year 1995, 1996, or 1997 shall include estimates of
3 the direct spending effects through fiscal year 2002 and
4 those estimates shall be used for purposes of determining
5 whether there shall be a sequestration under this sub-
6 section. If the reduction in spending under paragraphs (1)
7 and (2) for a fiscal year is greater than the estimated ag-
8 gregate amount designated under section 6097 of the In-
9 ternal Revenue Code of 1986 respecting that fiscal year,
10 then there shall be no sequestration under this section.

11 “(b) APPLICABILITY.—

12 “(1) IN GENERAL.—Except as provided by
13 paragraph (2), each account of the United States
14 shall be reduced by a dollar amount calculated by
15 multiplying the level of budgetary resources in that
16 account at that time by the uniform percentage nec-
17 essary to carry out subsection (a). All obligational
18 authority reduced under this section shall be done in
19 a manner that makes such reductions permanent.

20 “(2) EXEMPT ACCOUNTS.—(A) No order issued
21 under this part may—

22 “(i) reduce benefits payable to the old-age
23 and survivors insurance program established
24 under title II of the Social Security Act;

1 “(ii) reduce payments for net interest (all
2 of major functional category 900); or

3 “(iii) make any reduction in the following
4 accounts:

5 “Federal Deposit Insurance Corpora-
6 tion, Bank Insurance Fund;

7 “Federal Deposit Insurance Corpora-
8 tion, FSLIC Resolution Fund;

9 “Federal Deposit Insurance Corpora-
10 tion, Savings Association Insurance Fund;

11 “National Credit Union Administra-
12 tion, credit union share insurance fund; or

13 “Resolution Trust Corporation.

14 “(B) The following budget accounts, activities
15 within accounts, or income shall be exempt from se-
16 questration—

17 “(i) all payments to trust funds from ex-
18 cise taxes or other receipts or collections prop-
19 erly creditable to those trust funds;

20 “(ii) offsetting receipts and collections;

21 “(iii) all payments from one Federal direct
22 spending budget account to another Federal
23 budget account; all intragovernmental funds in-
24 cluding those from which funding is derived pri-
25 marily from other Government accounts, except

1 to the extent that such funds are augmented
2 by direct appropriations for the fiscal year for
3 which the order is in effect; and those obliga-
4 tions of discretionary accounts or activities that
5 are financed by intragovernmental payments
6 from another discretionary account or activity;

7 “(iv) expenses to the extent they result
8 from private donations, bequests, or voluntary
9 contributions to the Government;

10 “(v) nonbudgetary activities, including but
11 not limited to—

12 “(I) credit liquidating and financing
13 accounts;

14 “(II) the Pension Benefit Guarantee
15 Corporation Trust Funds;

16 “(III) the Thrift Savings Fund;

17 “(IV) the Federal Reserve System;

18 and

19 “(V) appropriations for the District of
20 Columbia to the extent they are appropria-
21 tions of locally raised funds;

22 “(vi) payments resulting from Government
23 insurance, Government guarantees, or any other
24 form of contingent liability, to the extent those
25 payments result from contractual or other le-

1 gally binding commitments of the Government
2 at the time of any sequestration;

3 “(vii) the following accounts, which largely
4 fulfill requirements of the Constitution or other-
5 wise make payments to which the Government
6 is committed—

7 “Administration of Territories, North-
8 ern Mariana Islands Covenant grants (14-
9 0412-0-1-806);

10 “Bureau of Indian Affairs, miscellane-
11 ous payments to Indians (14-2303-0-1-
12 452);

13 “Bureau of Indian Affairs, miscellane-
14 ous trust funds, tribal trust funds (14-
15 9973-0-7-999);

16 “Claims, defense;

17 “Claims, judgments, and relief act
18 (20-1895-0-1-806);

19 “Compact of Free Association, eco-
20 nomic assistance pursuant to Public Law
21 99-658 (14-0415-0-1-806);

22 “Compensation of the President (11-
23 0001-0-1-802);

1 “Customs Service, miscellaneous per-
2 manent appropriations (20-9992-0-2-
3 852);

4 “Eastern Indian land claims settle-
5 ment fund (14-2202-0-1-806);

6 “Farm Credit System Financial As-
7 sistance Corporation, interest payments
8 (20-1850-0-1-351);

9 “Internal Revenue collections of Puer-
10 to Rico (20-5737-0-2-852);

11 “Panama Canal Commission, operat-
12 ing expenses and capital outlay (95-5190-
13 0-2-403);

14 “Payments of Vietnam and USS
15 Pueblo prisoner-of-war claims (15-0104-
16 0-1-153);

17 “Payments to copyright owners (03-
18 5175-0-2-376);

19 “Payments to the United States terri-
20 tories, fiscal assistance (14-0418-0-1-
21 801);

22 “Salaries of Article III judges;

23 “Soldier’s and Airmen’s Home, pay-
24 ment of claims (84-8930-0-7-705);

1 “Washington Metropolitan Area Tran-
2 sit Authority, interest payments (46-
3 0300-0-1-401).

4 “(viii) the following noncredit special, re-
5 volving, or trust-revolving funds—

6 “Coinage profit fund (20-5811-0-2-
7 803);

8 “Exchange Stabilization Fund (20-
9 4444-0-3-155);

10 “Foreign Military Sales trust fund
11 (11-82232-0-7-155); and

12 “(ix)(I) any amount paid as regular
13 unemployment compensation by a State
14 from its account in the Unemployment
15 Trust Fund (established by section 904(a)
16 of the Social Security Act);

17 “(II) any advance made to a State
18 from the Federal unemployment account
19 (established by section 904(g) of such Act)
20 under title XII of such Act and any ad-
21 vance appropriated to the Federal unem-
22 ployment account pursuant to section 1203
23 of such Act; and

24 “(III) any payment made from the
25 Federal Employees Compensation Account

1 (as established under section 909 of such
2 Act) for the purpose of carrying out chap-
3 ter 85 of title 5, United States Code, and
4 funds appropriated or transferred to or
5 otherwise deposited in such Account.

6 “(3) FEDERAL ADMINISTRATIVE EXPENSES.—

7 “(A) Administrative expenses incurred by
8 the departments and agencies, including inde-
9 pendent agencies, of the Federal Government in
10 connection with any program, project, activity,
11 or account shall be subject to reduction pursu-
12 ant to any sequestration order, without regard
13 to the exemptions under paragraph (2) and re-
14 gardless of whether the program, project, activ-
15 ity, or account is self-supporting and does not
16 receive appropriations.

17 “(B) Payments made by the Federal Gov-
18 ernment to reimburse or match administrative
19 costs incurred by a State or political subdivision
20 under or in connection with any program,
21 project, activity, or account shall not be consid-
22 ered administrative expenses of the Federal
23 Government for purposes of this section, and
24 shall be subject to sequestration to the extent
25 (and only to the extent) that other payments

1 made by the Federal Government under or in
2 connection with that program, project, activity,
3 or account are subject to that reduction or se-
4 questration; except that Federal payments
5 made to a State as reimbursement of adminis-
6 trative costs incurred by that State under or in
7 connection with the unemployment compensa-
8 tion programs specified in paragraph (2)(ix)
9 shall be subject to reduction or sequestration
10 under this part notwithstanding the exemption
11 otherwise granted to such programs under that
12 paragraph.”.

13 (b) REPORTS.—Section 254 of the Balanced Budget
14 and Emergency Deficit Control Act of 1985 is amended—

15 (1) in subsection (a), by inserting after the item
16 relating to the GAO compliance report the following:

17 “October 1 . . . Department of Treasury report to
18 Congress estimating amount of income tax designated
19 pursuant to section 6097 of the Internal Revenue Code
20 of 1986.”;

21 (2) in subsection (d)(1), by inserting “, and se-
22 questration to reduce the public debt,”;

23 (3) in subsection (d), by redesignating para-
24 graph (5) as paragraph (6) and by inserting after
25 paragraph (4) the following new paragraph:

1 “(5) SEQUESTRATION TO REDUCE THE PUBLIC
2 DEBT REPORTS.—The preview reports shall set forth
3 for the budget year estimates for each of the follow-
4 ing:

5 “(A) The aggregate amount designated
6 under section 6097 of the Internal Revenue
7 Code of 1986 for the calendar year two years
8 before the year in which the budget year begins.

9 “(B) The amount of reductions required
10 under section 253A and the deficit remaining
11 after those reductions have been made.

12 “(C) The sequestration percentage nec-
13 essary to achieve the required reduction in ac-
14 counts under section 253A(b).”; and

15 (4) in subsection (g), by redesignating para-
16 graphs (4) and (5) as paragraphs (5) and (6), re-
17 spectively, and by inserting after paragraph (3) the
18 following new paragraph:

19 “(4) SEQUESTRATION TO REDUCE THE PUBLIC
20 DEBT REPORTS.—The final reports shall contain all
21 of the information contained in the public debt tax-
22 ation designation report required on October 1.”.

23 (c) EFFECTIVE DATE.—Notwithstanding section
24 275(b) of the Balanced Budget and Emergency Deficit
25 Control Act of 1985, the expiration date set forth in that

1 section shall not apply to the amendments made by this
2 section. The amendments made by this section shall cease
3 to have any effect after the first fiscal year during which
4 there is no public debt.

5 **PART V—SMALL BUSINESS INCENTIVES**

6 **SEC. 6351. COST-OF-LIVING ADJUSTMENTS RELATING TO**
7 **ESTATE AND GIFT TAX PROVISIONS.**

8 (a) INCREASE IN UNIFIED ESTATE AND GIFT TAX
9 CREDIT.—

10 (1) ESTATE TAX CREDIT.—

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

15 (B) Section 2010 is amended by redesign-
16 ating subsection (c) as subsection (d) and by
17 inserting after subsection (b) the following new
18 subsection:

19 “(c) APPLICABLE CREDIT AMOUNT.—For purposes
20 of this section—

21 “(1) IN GENERAL.—The applicable credit
22 amount is the amount of the tentative tax which
23 would be determined under the rate schedule set
24 forth in section 2001(c) if the amount with respect
25 to which such tentative tax is to be computed were

1 the applicable exclusion amount determined in ac-
 2 cordance with the following table:

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

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

8 “(A) \$750,000, multiplied by

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

14 If any amount as adjusted under the preceding sen-
 15 tence is not a multiple of \$10,000, such amount
 16 shall be rounded to the nearest multiple of
 17 \$10,000.”

18 (C) Paragraph (1) of section 6018(a) is
 19 amended by striking “\$600,000” and inserting
 20 “the applicable exclusion amount in effect
 21 under section 2010(c) (as adjusted under para-
 22 graph (2) thereof) for the calendar year which
 23 includes the date of death”.

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

5 (E) Subparagraph (A) of section
6 2102(c)(3) is amended by striking “\$192,800”
7 and inserting “the applicable credit amount in
8 effect under section 2010(c) for the calendar
9 year which includes the date of death”.

10 (2) UNIFIED GIFT TAX CREDIT.—Paragraph
11 (1) of section 2505(a) is amended by striking
12 “\$192,800” and inserting “the applicable credit
13 amount in effect under section 2010(c) for such cal-
14 endar year”.

15 (3) EFFECTIVE DATE.—The amendments made
16 by this subsection shall apply to the estates of dece-
17 dents dying, and gifts made, after December 31,
18 1995.

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

23 “(3) INFLATION ADJUSTMENT.—In the case of
24 estates of decedents dying in a calendar year after

1 1998, the \$750,000 amount contained in paragraph
2 (2) shall be increased by an amount equal to—

3 “(A) \$750,000, multiplied by

4 “(B) the cost-of-living adjustment deter-
5 mined under section 1(f)(3) for such calendar
6 year by substituting ‘calendar year 1997’ for
7 ‘calendar year 1992’ in subparagraph (B)
8 thereof.

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

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

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

17 “(b) EXCLUSIONS FROM GIFTS.—

18 “(1) IN GENERAL.—”,

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

20 (3) by adding at the end the following new
21 paragraph:

22 “(2) INFLATION ADJUSTMENT.—In the case of
23 gifts made in a calendar year after 1998, the
24 \$10,000 amount contained in paragraph (1) shall be
25 increased by an amount equal to—

1 “(A) \$10,000, multiplied by

2 “(B) the cost-of-living adjustment deter-
3 mined under section 1(f)(3) for such calendar
4 year by substituting ‘calendar year 1997’ for
5 ‘calendar year 1992’ in subparagraph (B)
6 thereof.

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

10 (d) EXEMPTION FROM GENERATION-SKIPPING
11 TAX.—Section 2631 (relating to GST exemption) is
12 amended by adding at the end the following new sub-
13 section:

14 “(c) INFLATION ADJUSTMENT.—In the case of an in-
15 dividual who dies in any calendar year after 1998, the
16 \$1,000,000 amount contained in subsection (a) shall be
17 increased by an amount equal to—

18 “(1) \$1,000,000, multiplied by

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

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

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

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

7 (2) Subsection (j) of section 6601 is amended
8 by redesignating paragraph (3) as paragraph (4)
9 and by inserting after paragraph (2) the following
10 new paragraph:

11 “(3) APPLICABLE LIMITATION AMOUNT.—

12 “(A) IN GENERAL.—For purposes of para-
13 graph (2), the applicable limitation amount is
14 the amount of the tentative tax which would be
15 determined under the rate schedule set forth in
16 section 2001(c) if the amount with respect to
17 which such tentative tax is to be computed were
18 \$1,000,000.

19 “(B) INFLATION ADJUSTMENT.—In the
20 case of estates of decedents dying in a calendar
21 year after 1998, the \$1,000,000 amount con-
22 tained in subparagraph (A) shall be increased
23 by an amount equal to—

24 “(i) \$1,000,000, multiplied by

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

6 If any amount as adjusted under the preceding
 7 sentence is not a multiple of \$10,000, such
 8 amount shall be rounded to the nearest multiple
 9 of \$10,000.”

10 **SEC. 6352. INCREASE IN EXPENSE TREATMENT FOR SMALL**
 11 **BUSINESSES.**

12 (a) GENERAL RULE.—Paragraph (1) of section
 13 179(b) (relating to dollar limitation) is amended to read
 14 as follows:

15 “(1) DOLLAR LIMITATION.—The aggregate cost
 16 which may be taken into account under subsection
 17 (a) for any taxable year shall not exceed the follow-
 18 ing applicable amount:

“If the taxable year begins in:	The applicable amount is:
1996	\$22,500
1997	27,500
1998	32,500
1999 or thereafter	35,000.”

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

1 **SEC. 6353. CLARIFICATION OF TREATMENT OF HOME OF-**
2 **FICE USE FOR ADMINISTRATIVE AND MAN-**
3 **AGEMENT ACTIVITIES.**

4 (a) IN GENERAL.—Paragraph (1) of section 280A(c)
5 is amended by adding at the end the following new sen-
6 tence: “For purposes of subparagraph (A), the term ‘prin-
7 cipal place of business’ includes a place of business which
8 is used by the taxpayer for the administrative or manage-
9 ment activities of any trade or business of the taxpayer
10 if there is no other fixed location of such trade or business
11 where the taxpayer conducts substantial administrative or
12 management activities of such trade or business.”

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

16 **SEC. 6354. TREATMENT OF STORAGE OF PRODUCT SAM-**
17 **PLES.**

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

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

1 **Subtitle D—Family Reinforcement**

2 **SEC. 6401. CREDIT FOR ADOPTION EXPENSES.**

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

6 **“SEC. 25A. ADOPTION EXPENSES.**

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

12 “(b) LIMITATIONS.—

13 “(1) DOLLAR LIMITATION.—The aggregate
14 amount of qualified adoption expenses which may be
15 taken into account under subsection (a) with respect
16 to the adoption of a child shall not exceed \$5,000.

17 “(2) INCOME LIMITATION.—The amount allow-
18 able as a credit under subsection (a) for any taxable
19 year shall be reduced (but not below zero) by an
20 amount which bears the same ratio to the amount
21 so allowable (determined without regard to this
22 paragraph but with regard to paragraph (1)) as—

23 “(A) the amount (if any) by which the tax-
24 payer’s adjusted gross income (determined

1 without regard to sections 911, 931, and 933)
2 exceeds \$60,000, bears to

3 “(B) \$40,000.

4 “(3) DENIAL OF DOUBLE BENEFIT.—

5 “(A) IN GENERAL.—No credit shall be al-
6 lowed under subsection (a) for any expense for
7 which a deduction or credit is allowable under
8 any other provision of this chapter.

9 “(B) GRANTS.—No credit shall be allowed
10 under subsection (a) for any expense to the ex-
11 tent that funds for such expense are received
12 under any Federal, State, or local program.
13 The preceding sentence shall not apply to ex-
14 penses for the adoption of a child with special
15 needs.

16 “(c) DEFINITIONS.—For purposes of this section—

17 “(1) QUALIFIED ADOPTION EXPENSES.—

18 “(A) IN GENERAL.—The term ‘qualified
19 adoption expenses’ means reasonable and nec-
20 essary adoption fees, court costs, attorney fees,
21 and other expenses—

22 “(i) which are directly related to, and
23 the principal purpose of which is for, the
24 legal adoption of an eligible child by the
25 taxpayer, and

1 “(ii) which are not incurred in viola-
2 tion of State or Federal law or in carrying
3 out any surrogate parenting arrangement.

4 “(B) EXPENSES FOR ADOPTION OF
5 SPOUSE’S CHILD NOT ELIGIBLE.—The term
6 ‘qualified adoption expenses’ shall not include
7 any expenses in connection with the adoption by
8 an individual of a child who is the child of such
9 individual’s spouse.

10 “(2) ELIGIBLE CHILD.—The term ‘eligible
11 child’ means any individual—

12 “(A) who has not attained age 18 as of the
13 time of the adoption, or

14 “(B) who is physically or mentally incapa-
15 ble of caring for himself.

16 “(3) CHILD WITH SPECIAL NEEDS.—The term
17 ‘child with special needs’ means any child if—

18 “(A) a State has determined that the child
19 cannot or should not be returned to the home
20 of his parents, and

21 “(B) such State has determined that there
22 exists with respect to the child a specific factor
23 or condition (such as his ethnic background,
24 age, or membership in a minority or sibling
25 group, or the presence of factors such as medi-

1 cal conditions or physical, mental, or emotional
2 handicaps) because of which it is reasonable to
3 conclude that such child cannot be placed with
4 adoptive parents without providing adoption as-
5 sistance.

6 “(d) MARRIED COUPLES MUST FILE JOINT RE-
7 TURNS, ETC.—Rules similar to the rules of paragraphs
8 (2), (3), and (4) of section 21(e) shall apply for purposes
9 of this section.”

10 (b) CONFORMING AMENDMENT.—The table of sec-
11 tions for subpart A of part IV of subchapter A of chapter
12 1 is amended by inserting after the item relating to section
13 25 the following new item:

“Sec. 25A. Adoption expenses.”.

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

17 **SEC. 6402. CREDIT FOR TAXPAYERS WITH CERTAIN PER-**
18 **SONS REQUIRING CUSTODIAL CARE IN THEIR**
19 **HOUSEHOLDS.**

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

1 **“SEC. 25B. CREDIT FOR TAXPAYERS WITH CERTAIN PER-**
2 **SONS REQUIRING CUSTODIAL CARE IN THEIR**
3 **HOUSEHOLDS.**

4 “(a) ALLOWANCE OF CREDIT.—In the case of an in-
5 dividual who maintains a household which includes as a
6 member one or more qualified persons, there shall be al-
7 lowed as a credit against the tax imposed by this chapter
8 for the taxable year an amount equal to \$500 for each
9 such person.

10 “(b) QUALIFIED PERSON.—For purposes of this sec-
11 tion, the term ‘qualified person’ means any individual—

12 “(1) who is a father or mother of the taxpayer,
13 his spouse, or his former spouse or who is an ances-
14 tor of such a father or mother,

15 “(2) who is physically or mentally incapable of
16 caring for himself,

17 “(3) who has as his principal place of abode for
18 more than half of the taxable year the home of the
19 taxpayer, and

20 “(4) whose name and TIN are included on the
21 taxpayer’s return for the taxable year.

22 For purposes of paragraph (1), a stepfather or stepmother
23 shall be treated as a father or mother.

24 “(c) SPECIAL RULES.—For purposes of this section,
25 rules similar to the rules of paragraphs (1), (2), (3), and
26 (4) of section 21(e) shall apply.”

1 (b) CLERICAL AMENDMENT.—The table of sections
2 for subpart A of part IV of subchapter A of chapter 1
3 is amended by inserting after the item relating to section
4 25A the following new item:

“Sec. 25B. Credit for taxpayers with certain persons requiring
custodial care in their households.”

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

8 **Subtitle E—Social Security**

9 **Earnings Test**

10 **SEC. 6501. ADJUSTMENTS IN MONTHLY EXEMPT AMOUNT**

11 **FOR PURPOSES OF THE SOCIAL SECURITY**

12 **EARNINGS TEST.**

13 (a) INCREASE IN MONTHLY EXEMPT AMOUNT FOR
14 INDIVIDUALS WHO HAVE ATTAINED RETIREMENT
15 AGE.—Section 203(f)(8)(D) of the Social Security Act (42
16 U.S.C. 403(f)(8)(D)) is amended to read as follows:

17 “(D)(i) Notwithstanding any other provision of
18 this subsection, the exempt amount which is applica-
19 ble to an individual who has attained retirement age
20 (as defined in section 216(1)) before the close of the
21 taxable year involved shall be—

22 “(I) for the taxable year beginning after
23 1995 and before 1997, \$1,250.00,

1 “(II) for the taxable year beginning after
2 1996 and before 1998, \$1,583.33^{1/3},

3 “(III) for the taxable year beginning after
4 1997 and before 1999, \$1,916.66^{2/3},

5 “(IV) for the taxable year beginning after
6 1998 and before 2000, \$2,250.00, and

7 “(V) for the taxable year beginning after
8 1999 and before 2001, \$2,500.00.

9 “(ii) For purposes of subparagraph (B)(ii)(II),
10 the increase in the exempt amount provided under
11 clause (i)(V) shall be deemed to have resulted from
12 a determination which shall be deemed to have been
13 made under subparagraph (A) in 1999.”.

14 (b) CONFORMING AMENDMENT.—The second sen-
15 tence of section 223(d)(4) of such Act (42 U.S.C.
16 423(d)(4)) is amended by striking “the exempt amount
17 under section 203(f)(8) which is applicable to individuals
18 described in subparagraph (D) thereof” and inserting the
19 following: “an amount equal to the exempt amount which
20 would have been applicable under section 203(f)(8), to in-
21 dividuals described in subparagraph (D) thereof, if section
22 6501 of the Contract With America Tax Relief Act of
23 1995 had not been enacted”.

1 (c) EFFECTIVE DATE.—The amendments made by
2 this section shall apply with respect to taxable years begin-
3 ning after 1995.

4 **Subtitle F—Technical Corrections**

5 **SEC. 6601. COORDINATION WITH OTHER SUBTITLES.**

6 For purposes of applying the amendments made by
7 any subtitle of this title other than this subtitle, the provi-
8 sions of this subtitle shall be treated as having been en-
9 acted immediately before the provisions of such other sub-
10 titles.

11 **SEC. 6602. AMENDMENTS RELATED TO REVENUE REC- 12 **ONCILIATION ACT OF 1990.****

13 (a) AMENDMENTS RELATED TO SUBTITLE A.—

14 (1) Subparagraph (B) of section 59(j)(3) is
15 amended by striking “section 1(i)(3)(B)” and insert-
16 ing “section 1(g)(3)(B)”.

17 (2) Clause (i) of section 151(d)(3)(C) is amend-
18 ed by striking “joint of a return” and inserting
19 “joint return”.

20 (b) AMENDMENTS RELATED TO SUBTITLE B.—

21 (1) Paragraph (1) of section 11212(e) of the
22 Revenue Reconciliation Act of 1990 is amended by
23 striking “Paragraph (1) of section 6724(d)” and in-
24 serting “Subparagraph (B) of section 6724(d)(1)”.

1 (2)(A) Subparagraph (B) of section 4093(c)(2),
2 as in effect before the amendments made by the
3 Revenue Reconciliation Act of 1993, is amended by
4 inserting before the period “unless such fuel is sold
5 for exclusive use by a State or any political subdivi-
6 sion thereof”.

7 (B) Paragraph (4) of section 6427(l), as in ef-
8 fect before the amendments made by the Revenue
9 Reconciliation Act of 1993, is amended by inserting
10 before the period “unless such fuel was used by a
11 State or any political subdivision thereof”.

12 (3) Paragraph (1) of section 6416(b) is amend-
13 ed by striking “chapter 32 or by section 4051” and
14 inserting “chapter 31 or 32”.

15 (4) Section 7012 is amended—

16 (A) by striking “production or importation
17 of gasoline” in paragraph (3) and inserting
18 “taxes on gasoline and diesel fuel”, and

19 (B) by striking paragraph (4) and redesignig-
20 nating paragraphs (5) and (6) as paragraphs
21 (4) and (5), respectively.

22 (5) Subsection (c) of section 5041 is amended
23 by striking paragraph (6) and by inserting the fol-
24 lowing new paragraphs:

25 “(6) CREDIT FOR TRANSFEREE IN BOND.—If—

1 “(A) wine produced by any person would
2 be eligible for any credit under paragraph (1)
3 if removed by such person during the calendar
4 year,

5 “(B) wine produced by such person is re-
6 moved during such calendar year by any other
7 person (hereafter in this paragraph referred to
8 as the ‘transferee’) to whom such wine was
9 transferred in bond and who is liable for the tax
10 imposed by this section with respect to such
11 wine, and

12 “(C) such producer holds title to such wine
13 at the time of its removal and provides to the
14 transferee such information as is necessary to
15 properly determine the transferee’s credit under
16 this paragraph,

17 then, the transferee (and not the producer) shall be
18 allowed the credit under paragraph (1) which would
19 be allowed to the producer if the wine removed by
20 the transferee had been removed by the producer on
21 that date.

22 “(7) REGULATIONS.—The Secretary may pre-
23 scribe such regulations as may be necessary to carry
24 out the purposes of this subsection, including regula-
25 tions—

1 “(A) to prevent the credit provided in this
2 subsection from benefiting any person who pro-
3 duces more than 250,000 wine gallons during a
4 calendar year, and

5 “(B) to assure proper reduction of such
6 credit for persons producing more than 150,000
7 wine gallons of wine during a calendar year.”

8 (6) Paragraph (3) of section 5061(b) is amend-
9 ed to read as follows:

10 “(3) section 5041(f),”.

11 (7) Section 5354 is amended by inserting “(tak-
12 ing into account the appropriate amount of credit
13 with respect to such wine under section 5041(c))”
14 after “any one time”.

15 (c) AMENDMENTS RELATED TO SUBTITLE C.—

16 (1) Paragraph (4) of section 56(g) is amended
17 by redesignating subparagraphs (I) and (J) as sub-
18 paragraphs (H) and (I), respectively.

19 (2) Subparagraph (B) of section 6724(d)(1) is
20 amended—

21 (A) by striking “or” at the end of clause
22 (xii), and

23 (B) by striking the period at the end of
24 clause (xiii) and inserting “, or”.

1 (3) Subsection (g) of section 6302 is amended
2 by inserting “, 22,” after “chapters 21”.

3 (4) The earnings and profits of any insurance
4 company to which section 11305(c)(3) of the Reve-
5 nue Reconciliation Act of 1990 applies shall be de-
6 termined without regard to any deduction allowed
7 under such section; except that, for purposes of ap-
8 plying sections 56 and 902, and subpart F of part
9 III of subchapter N of chapter 1 of the Internal
10 Revenue Code of 1986, such deduction shall be
11 taken into account.

12 (5) Subparagraph (D) of section 6038A(e)(4) is
13 amended—

14 (A) by striking “any transaction to which
15 the summons relates” and inserting “any af-
16 fected taxable year”, and

17 (B) by adding at the end thereof the fol-
18 lowing new sentence: “For purposes of this sub-
19 paragraph, the term ‘affected taxable year’
20 means any taxable year if the determination of
21 the amount of tax imposed for such taxable
22 year is affected by the treatment of the trans-
23 action to which the summons relates.”.

1 (6) Subparagraph (A) of section 6621(c)(2) is
2 amended by adding at the end thereof the following
3 new flush sentence:

4 “The preceding sentence shall be applied with-
5 out regard to any such letter or notice which is
6 withdrawn by the Secretary.”.

7 (7) Clause (i) of section 6621(c)(2)(B) is
8 amended by striking “this subtitle” and inserting
9 “this title”.

10 (d) AMENDMENTS RELATED TO SUBTITLE D.—

11 (1) Notwithstanding section 11402(c) of the
12 Revenue Reconciliation Act of 1990, the amendment
13 made by section 11402(b)(1) of such Act shall apply
14 to taxable years ending after December 31, 1989.

15 (2) Clause (ii) of section 143(m)(4)(C) is
16 amended—

17 (A) by striking “any month of the 10-year
18 period” and inserting “any year of the 4-year
19 period”,

20 (B) by striking “succeeding months” and
21 inserting “succeeding years”, and

22 (C) by striking “over the remainder of
23 such period (or, if lesser, 5 years)” and insert-
24 ing “to zero over the succeeding 5 years”.

25 (e) AMENDMENTS RELATED TO SUBTITLE E.—

1 (1)(A) Clause (ii) of section 56(d)(1)(B) is
2 amended to read as follows:

3 “(ii) appropriate adjustments in the
4 application of section 172(b)(2) shall be
5 made to take into account the limitation of
6 subparagraph (A).”

7 (B) For purposes of applying sections 56(g)(1)
8 and 56(g)(3) of the Internal Revenue Code of 1986
9 with respect to taxable years beginning in 1991 and
10 1992, the reference in such sections to the alter-
11 native tax net operating loss deduction shall be
12 treated as including a reference to the deduction
13 under section 56(h) of such Code as in effect before
14 the amendments made by section 1915 of the En-
15 ergy Policy Act of 1992.

16 (2) Clause (i) of section 613A(c)(3)(A) is
17 amended by striking “the table contained in”.

18 (3) Section 6501 is amended—

19 (A) by striking subsection (m) (relating to
20 deficiency attributable to election under section
21 44B) and by redesignating subsections (n) and
22 (o) as subsections (m) and (n), respectively, and

23 (B) by striking “section 40(f) or 51(j)” in
24 subsection (m) (as redesignated by subpara-

1 graph (A)) and inserting “section 40(f), 43, or
2 51(j)”.

3 (4) Subparagraph (C) of section 38(c)(2) (as in
4 effect on the day before the date of the enactment
5 of the Revenue Reconciliation Act of 1990) is
6 amended by inserting before the period at the end
7 of the first sentence the following: “and without re-
8 gard to the deduction under section 56(h)”.

9 (5) The amendment made by section
10 1913(b)(2)(C)(i) of the Energy Policy Act of 1992
11 shall apply to taxable years beginning after Decem-
12 ber 31, 1990.

13 (f) AMENDMENTS RELATED TO SUBTITLE F.—

14 (1)(A) Section 2701(a)(3) is amended by add-
15 ing at the end thereof the following new subpara-
16 graph:

17 “(C) VALUATION OF QUALIFIED PAYMENTS
18 WHERE NO LIQUIDATION, ETC. RIGHTS.—In the
19 case of an applicable retained interest which is
20 described in subparagraph (B)(i) but not sub-
21 paragraph (B)(ii), the value of the distribution
22 right shall be determined without regard to this
23 section.”

1 (B) Section 2701(a)(3)(B) is amended by in-
2 serting “CERTAIN” before “QUALIFIED” in the head-
3 ing thereof.

4 (C) Sections 2701 (d)(1) and (d)(4) are each
5 amended by striking “subsection (a)(3)(B)” and in-
6 serting “subsection (a)(3) (B) or (C)”.

7 (2) Clause (i) of section 2701(a)(4)(B) is
8 amended by inserting “(or, to the extent provided in
9 regulations, the rights as to either income or cap-
10 ital)” after “income and capital”.

11 (3)(A) Section 2701(b)(2) is amended by add-
12 ing at the end thereof the following new subpara-
13 graph:

14 “(C) APPLICABLE FAMILY MEMBER.—For
15 purposes of this subsection, the term ‘applicable
16 family member’ includes any lineal descendant
17 of any parent of the transferor or the transfer-
18 or’s spouse.”

19 (B) Section 2701(e)(3) is amended—

20 (i) by striking subparagraph (B), and

21 (ii) by striking so much of paragraph (3)
22 as precedes “shall be treated as holding” and
23 inserting:

24 “(3) ATTRIBUTION OF INDIRECT HOLDINGS
25 AND TRANSFERS.—An individual”.

1 (C) Section 2704(c)(3) is amended by striking
2 “section 2701(e)(3)(A)” and inserting “section
3 2701(e)(3)”.

4 (4) Clause (i) of section 2701(c)(1)(B) is
5 amended to read as follows:

6 “(i) a right to distributions with re-
7 spect to any interest which is junior to the
8 rights of the transferred interest.”.

9 (5)(A) Clause (i) of section 2701(c)(3)(C) is
10 amended to read as follows:

11 “(i) IN GENERAL.—Payments under
12 any interest held by a transferor which
13 (without regard to this subparagraph) are
14 qualified payments shall be treated as
15 qualified payments unless the transferor
16 elects not to treat such payments as quali-
17 fied payments. Payments described in the
18 preceding sentence which are held by an
19 applicable family member shall be treated
20 as qualified payments only if such member
21 elects to treat such payments as qualified
22 payments.”

23 (B) The first sentence of section
24 2701(c)(3)(C)(ii) is amended to read as follows: “A
25 transferor or applicable family member holding any

1 distribution right which (without regard to this sub-
2 paragraph) is not a qualified payment may elect to
3 treat such right as a qualified payment, to be paid
4 in the amounts and at the times specified in such
5 election.”.

6 (C) The time for making an election under the
7 second sentence of section 2701(c)(3)(C)(i) of the
8 Internal Revenue Code of 1986 (as amended by sub-
9 paragraph (A)) shall not expire before the due date
10 (including extensions) for filing the transferor’s re-
11 turn of the tax imposed by section 2501 of such
12 Code for the first calendar year ending after the
13 date of enactment.

14 (6) Section 2701(d)(3)(A)(iii) is amended by
15 striking “the period ending on the date of”.

16 (7) Subclause (I) of section 2701(d)(3)(B)(ii) is
17 amended by inserting “or the exclusion under sec-
18 tion 2503(b),” after “section 2523,”.

19 (8) Section 2701(e)(5) is amended—

20 (A) by striking “such contribution to cap-
21 ital or such redemption, recapitalization, or
22 other change” in subparagraph (A) and insert-
23 ing “such transaction”, and

24 (B) by striking “the transfer” in subpara-
25 graph (B) and inserting “such transaction”.

1 (9) Section 2701(d)(4) is amended by adding at
2 the end thereof the following new subparagraph:

3 “(C) TRANSFER TO TRANSFERORS.—In
4 the case of a taxable event described in para-
5 graph (3)(A)(ii) involving a transfer of an ap-
6 plicable retained interest from an applicable
7 family member to a transferor, this subsection
8 shall continue to apply to the transferor during
9 any period the transferor holds such interest.”

10 (10) Section 2701(e)(6) is amended by insert-
11 ing “or to reflect the application of subsection (d)”
12 before the period at the end thereof.

13 (11)(A) Section 2702(a)(3)(A) is amended—

14 (i) by striking “to the extent” and insert-
15 ing “if” in clause (i),

16 (ii) by striking “or” at the end of clause
17 (i),

18 (iii) by striking the period at the end of
19 clause (ii) and inserting “, or”, and

20 (iv) by adding at the end thereof the fol-
21 lowing new clause:

22 “(iii) to the extent that regulations
23 provide that such transfer is not inconsis-
24 tent with the purposes of this section.”

1 (B)(i) Section 2702(a)(3) is amended by strik-
2 ing “incomplete transfer” each place it appears and
3 inserting “incomplete gift”.

4 (ii) The heading for section 2702(a)(3)(B) is
5 amended by striking “INCOMPLETE TRANSFER” and
6 inserting “INCOMPLETE GIFT”.

7 (g) AMENDMENTS RELATED TO SUBTITLE G.—

8 (1)(A) Subsection (a) of section 1248 is
9 amended—

10 (i) by striking “, or if a United States per-
11 son receives a distribution from a foreign cor-
12 poration which, under section 302 or 331, is
13 treated as an exchange of stock” in paragraph
14 (1), and

15 (ii) by adding at the end thereof the follow-
16 ing new sentence: “For purposes of this section,
17 a United States person shall be treated as hav-
18 ing sold or exchanged any stock if, under any
19 provision of this subtitle, such person is treated
20 as realizing gain from the sale or exchange of
21 such stock.”.

22 (B) Paragraph (1) of section 1248(e) is amend-
23 ed by striking “, or receives a distribution from a
24 domestic corporation which, under section 302 or
25 331, is treated as an exchange of stock”.

1 (C) Subparagraph (B) of section 1248(f)(1) is
2 amended by striking “or 361(c)(1)” and inserting
3 “355(c)(1), or 361(c)(1)”.

4 (D) Paragraph (1) of section 1248(i) is amend-
5 ed to read as follows:

6 “(1) IN GENERAL.—If any shareholder of a 10-
7 percent corporate shareholder of a foreign corpora-
8 tion exchanges stock of the 10-percent corporate
9 shareholder for stock of the foreign corporation,
10 such 10-percent corporate shareholder shall recog-
11 nize gain in the same manner as if the stock of the
12 foreign corporation received in such exchange had
13 been—

14 “(A) issued to the 10-percent corporate
15 shareholder, and

16 “(B) then distributed by the 10-percent
17 corporate shareholder to such shareholder in re-
18 demption or liquidation (whichever is appro-
19 priate).

20 The amount of gain recognized by such 10-percent
21 corporate shareholder under the preceding sentence
22 shall not exceed the amount treated as a dividend
23 under this section.”

24 (2) Section 897 is amended by striking sub-
25 section (f).

1 (3) Paragraph (13) of section 4975(d) is
2 amended by striking “section 408(b)” and inserting
3 “section 408(b)(12)”.

4 (4) Clause (iii) of section 56(g)(4)(D) is amend-
5 ed by inserting “, but only with respect to taxable
6 years beginning after December 31, 1989” before
7 the period at the end thereof.

8 (5)(A) Paragraph (11) of section 11701(a) of
9 the Revenue Reconciliation Act of 1990 (and the
10 amendment made by such paragraph) are hereby re-
11 pealed, and section 7108(r)(2) of the Revenue Rec-
12 onciliation Act of 1989 shall be applied as if such
13 paragraph (and amendment) had never been en-
14 acted.

15 (B) Subparagraph (A) shall not apply to any
16 building if the owner of such building establishes to
17 the satisfaction of the Secretary of the Treasury or
18 his delegate that such owner reasonably relied on the
19 amendment made by such paragraph (11).

20 (h) AMENDMENTS RELATED TO SUBTITLE H.—

21 (1)(A) Clause (vi) of section 168(e)(3)(B) is
22 amended by striking “or” at the end of subclause
23 (I), by striking the period at the end of subclause
24 (II) and inserting “, or”, and by adding at the end
25 thereof the following new subclause:

1 “(III) is described in section
2 48(l)(3)(A)(ix) (as in effect on the
3 day before the date of the enactment
4 of the Revenue Reconciliation Act of
5 1990).”

6 (B) Subparagraph (K) of section 168(g)(4) is
7 amended by striking “section 48(a)(3)(A)(iii)” and
8 inserting “section 48(l)(3)(A)(ix) (as in effect on the
9 day before the date of the enactment of the Revenue
10 Reconciliation Act of 1990)”.

11 (2) Clause (ii) of section 172(b)(1)(E) is
12 amended by striking “subsection (m)” and inserting
13 “subsection (h)”.

14 (3) Sections 805(a)(4)(E), 832(b)(5)(C)(ii)(II),
15 and 832(b)(5)(D)(ii)(II) are each amended by strik-
16 ing “243(b)(5)” and inserting “243(b)(2)”.

17 (4) Subparagraph (A) of section 243(b)(3) is
18 amended by inserting “of” after “In the case”.

19 (5) The subsection heading for subsection (a) of
20 section 280F is amended by striking “INVESTMENT
21 TAX CREDIT AND”.

22 (6) Clause (i) of section 1504(c)(2)(B) is
23 amended by inserting “section” before “243(b)(2)”.

1 (7) Paragraph (3) of section 341(f) is amended
2 by striking “351, 361, 371(a), or 374(a)” and in-
3 serting “351, or 361”.

4 (8) Paragraph (2) of section 243(b) is amended
5 to read as follows:

6 “(2) AFFILIATED GROUP.—For purposes of this
7 subsection:

8 “(A) IN GENERAL.—The term ‘affiliated
9 group’ has the meaning given such term by sec-
10 tion 1504(b), except that for such purposes sec-
11 tions 1504(b)(2), 1504(b)(4), and 1504(c) shall
12 not apply.

13 “(B) GROUP MUST BE CONSISTENT IN
14 FOREIGN TAX TREATMENT.—The requirements
15 of paragraph (1)(A) shall not be treated as
16 being met with respect to any dividend received
17 by a corporation if, for any taxable year which
18 includes the day on which such dividend is re-
19 ceived—

20 “(i) 1 or more members of the affili-
21 ated group referred to in paragraph (1)(A)
22 choose to any extent to take the benefits of
23 section 901, and

24 “(ii) 1 or more other members of such
25 group claim to any extent a deduction for

1 taxes otherwise creditable under section
2 901.”

3 (9) The amendment made by section
4 11813(b)(17) of the Revenue Reconciliation Act of
5 1990 shall be applied as if the material stricken by
6 such amendment included the closing parenthesis
7 after “section 48(a)(5)”.

8 (10) Paragraph (1) of section 179(d) is amend-
9 ed—

10 (A) by striking “in a trade or business”
11 and inserting “a trade or business”, and

12 (B) by adding at the end thereof the fol-
13 lowing new sentence: “Such term shall not in-
14 clude any property described in section 50(b)
15 and shall not include air conditioning or heating
16 units and horses.”

17 (11) Subparagraph (E) of section 50(a)(2) is
18 amended by striking “section 48(a)(5)(A)” and in-
19 serting “section 48(a)(5)”.

20 (12) The amendment made by section
21 11801(c)(9)(G)(ii) of the Revenue Reconciliation Act
22 of 1990 shall be applied as if it struck “Section
23 422A(c)(2)” and inserted “Section 422(c)(2)”.

24 (13) Subparagraph (B) of section 424(c)(3) is
25 amended by striking “a qualified stock option, an in-

1 incentive stock option, an option granted under an em-
2 ployee stock purchase plan, or a restricted stock op-
3 tion” and inserting “an incentive stock option or an
4 option granted under an employee stock purchase
5 plan”.

6 (14) Subparagraph (E) of section 1367(a)(2) is
7 amended by striking “section 613A(c)(13)(B)” and
8 inserting “section 613A(c)(11)(B)”.

9 (15) Subparagraph (B) of section 460(e)(6) is
10 amended by striking “section 167(k)” and inserting
11 “section 168(e)(2)(A)(ii)”.

12 (16) Subparagraph (C) of section 172(h)(4) is
13 amended by striking “subsection (b)(1)(M)” and in-
14 serting “subsection (b)(1)(E)”.

15 (17) Section 6503 is amended—

16 (A) by redesignating the subsection relat-
17 ing to extension in case of certain summonses
18 as subsection (j), and

19 (B) by redesignating the subsection relat-
20 ing to cross references as subsection (k).

21 (18) Paragraph (4) of section 1250(e) is hereby
22 repealed.

23 (i) EFFECTIVE DATE.—Except as otherwise expressly
24 provided—

1 (1) the amendments made by this section shall
2 be treated as amendments to the Internal Revenue
3 Code of 1986 as amended by the Revenue Reconcili-
4 ation Act of 1993; and

5 (2) any amendment made by this section shall
6 apply to periods before the date of the enactment of
7 this section in the same manner as if it had been in-
8 cluded in the provision of the Revenue Reconciliation
9 Act of 1990 to which such amendment relates.

10 **SEC. 6603. AMENDMENTS RELATED TO REVENUE REC-**
11 **ONCILIATION ACT OF 1993.**

12 (a) AMENDMENT RELATED TO SECTION 13114.—
13 Paragraph (2) of section 1044(c) is amended to read as
14 follows:

15 “(2) PURCHASE.—The taxpayer shall be consid-
16 ered to have purchased any property if, but for sub-
17 section (d), the unadjusted basis of such property
18 would be its cost within the meaning of section
19 1012.”

20 (b) AMENDMENTS RELATED TO SECTION 13142.—

21 (1) Subparagraph (B) of section 13142(b)(6) of
22 the Revenue Reconciliation Act of 1993 is amended
23 to read as follows:

24 “(B) FULL-TIME STUDENTS, WAIVER AU-
25 THORITY, AND PROHIBITED DISCRIMINATION.—

1 The amendments made by paragraphs (2), (3),
2 and (4) shall take effect on the date of the en-
3 actment of this Act.”

4 (2) Subparagraph (C) of section 13142(b)(6) of
5 such Act is amended by striking “paragraph (2)”
6 and inserting “paragraph (5)”.

7 (c) AMENDMENT RELATED TO SECTION 13161.—

8 (1) IN GENERAL.—Subsection (e) of section
9 4001 (relating to inflation adjustment) is amended
10 to read as follows:

11 “(e) INFLATION ADJUSTMENT.—

12 “(1) IN GENERAL.—The \$30,000 amount in
13 subsection (a) and section 4003(a) shall be increased
14 by an amount equal to—

15 “(A) \$30,000, multiplied by

16 “(B) the cost-of-living adjustment under
17 section 1(f)(3) for the calendar year in which
18 the vehicle is sold, determined by substituting
19 ‘calendar year 1990’ for ‘calendar year 1992’ in
20 subparagraph (B) thereof.

21 “(2) ROUNDING.—If any amount as adjusted
22 under paragraph (1) is not a multiple of \$2,000,
23 such amount shall be rounded to the next lowest
24 multiple of \$2,000.”

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

4 (d) AMENDMENT RELATED TO SECTION 13201.—
5 Clause (ii) of section 135(b)(2)(B) is amended by insert-
6 ing before the period at the end thereof the following: “,
7 determined by substituting ‘calendar year 1989’ for ‘cal-
8 endar year 1992’ in subparagraph (B) thereof”.

9 (e) AMENDMENTS RELATED TO SECTION 13203.—
10 Subsection (a) of section 59 is amended—

11 (1) by striking “the amount determined under
12 section 55(b)(1)(A)” in paragraph (1)(A) and
13 (2)(A)(i) and inserting “the pre-credit tentative min-
14 imum tax”,

15 (2) by striking “specified in section
16 55(b)(1)(A)” in paragraph (1)(C) and inserting
17 “specified in subparagraph (A)(i) or (B)(i) of section
18 55(b)(1) (whichever applies)”,

19 (3) by striking “which would be determined
20 under section 55(b)(1)(A)” in paragraph (2)(A)(ii)
21 and inserting “which would be the pre-credit ten-
22 tative minimum tax”, and

23 (4) by adding at the end thereof the following
24 new paragraph:

1 “(3) PRE-CREDIT TENTATIVE MINIMUM TAX.—
2 For purposes of this subsection, the term ‘pre-credit
3 tentative minimum tax’ means—

4 “(A) in the case of a taxpayer other than
5 a corporation, the amount determined under the
6 first sentence of section 55(b)(1)(A)(i), or

7 “(B) in the case of a corporation, the
8 amount determined under section
9 55(b)(1)(B)(i).”

10 (f) AMENDMENT RELATED TO SECTION 13221.—
11 Sections 1201(a) and 1561(a) are each amended by strik-
12 ing “last sentence” each place it appears and inserting
13 “last 2 sentences”.

14 (g) AMENDMENTS RELATED TO SECTION 13222.—

15 (1) Subparagraph (B) of section 6033(e)(1) is
16 amended by adding at the end thereof the following
17 new clause:

18 “(iii) COORDINATION WITH SECTION
19 527(f).—This subsection shall not apply to
20 any amount on which tax is imposed by
21 reason of section 527(f).”.

22 (2) Clause (i) of section 6033(e)(1)(B) is
23 amended by striking “this subtitle” and inserting
24 “section 501”.

1 (h) AMENDMENT RELATED TO SECTION 13225.—
2 Paragraph (3) of section 6655(g) is amended by striking
3 all that follows “‘3rd month’” in the sentence following
4 subparagraph (C) and inserting “, subsection (e)(2)(A)
5 shall be applied by substituting ‘2 months’ for ‘3 months’
6 in clause (i)(I), the election under clause (i) of subsection
7 (e)(2)(C) may be made separately for each installment,
8 and clause (ii) of subsection (e)(2)(C) shall not apply.”.

9 (i) AMENDMENTS RELATED TO SECTION 13231.—

10 (1) Subparagraph (G) of section 904(d)(3) is
11 amended by striking “section 951(a)(1)(B)” and in-
12 serting “subparagraph (B) or (C) of section
13 951(a)(1)”.

14 (2) Paragraph (1) of section 956A(b) is amend-
15 ed to read as follows:

16 “(1) the amount (not including a deficit) re-
17 ferred to in section 316(a)(1) to the extent such
18 amount was accumulated in prior taxable years be-
19 ginning after September 30, 1993, and”.

20 (3) Subsection (f) of section 956A is amended
21 by inserting before the period at the end thereof:
22 “and regulations coordinating the provisions of sub-
23 sections (c)(3)(A) and (d)”.

1 (4) Subsection (b) of section 958 is amended by
2 striking “956(b)(2)” each place it appears and in-
3 sserting “956(c)(2)”.

4 (5)(A) Subparagraph (A) of section 1297(d)(2)
5 is amended by striking “The adjusted basis of any
6 asset” and inserting “The amount taken into ac-
7 count under section 1296(a)(2) with respect to any
8 asset”.

9 (B) The paragraph heading of paragraph (2) of
10 section 1297(d) is amended to read as follows:

11 “(2) AMOUNT TAKEN INTO ACCOUNT.—”.

12 (6) Subsection (e) of section 1297 is amended
13 by inserting “For purposes of this part—” after the
14 subsection heading.

15 (j) AMENDMENT RELATED TO SECTION 13241.—
16 Subparagraph (B) of section 40(e)(1) is amended to read
17 as follows:

18 “(B) for any period before January 1,
19 2001, during which the rates of tax under sec-
20 tion 4081(a)(2)(A) are 4.3 cents per gallon.”

21 (k) AMENDMENT RELATED TO SECTION 13261.—
22 Clause (iii) of section 13261(g)(2)(A) of the Revenue Rec-
23 onciliation Act of 1993 is amended by striking “by the
24 taxpayer” and inserting “by the taxpayer or a related
25 person”.

1 (l) AMENDMENT RELATED TO SECTION 13301.—
2 Subparagraph (B) of section 1397B(d)(5) is amended by
3 striking “preceding”.

4 (m) CLERICAL AMENDMENTS.—

5 (1) Subsection (d) of section 39 is amended—

6 (A) by striking “45” in the heading of
7 paragraph (5) and inserting “45A”, and

8 (B) by striking “45” in the heading of
9 paragraph (6) and inserting “45B”.

10 (2) Subparagraph (A) of section 108(d)(9) is
11 amended by striking “paragraph (3)(B)” and insert-
12 ing “paragraph (3)(C)”.

13 (3) Subparagraph (C) of section 143(d)(2) is
14 amended by striking the period at the end thereof
15 and inserting a comma.

16 (4) Clause (ii) of section 163(j)(6)(E) is amend-
17 ed by striking “which is a” and inserting “which is”.

18 (5) Subparagraph (A) of section 1017(b)(4) is
19 amended by striking “subsection (b)(2)(D)” and in-
20 serting “subsection (b)(2)(E)”.

21 (6) So much of section 1245(a)(3) as precedes
22 subparagraph (A) thereof is amended to read as
23 follows:

24 “(3) SECTION 1245 PROPERTY.—For purposes
25 of this section, the term ‘section 1245 property’

1 means any property which is or has been property
2 of a character subject to the allowance for deprecia-
3 tion provided in section 167 and is either—”.

4 (7) Paragraph (2) of section 1394(e) is amend-
5 ed—

6 (A) by striking “(i)” and inserting “(A)”,
7 and

8 (B) by striking “(ii)” and inserting “(B)”.

9 (8) Subsection (m) of section 6501 (as redesign-
10 nated by section 6602) is amended by striking “or
11 51(j)” and inserting “45B, or 51(j)”.

12 (9)(A) The section 6714 added by section
13 13242(b)(1) of the Revenue Reconciliation Act of
14 1993 is hereby redesignated as section 6715.

15 (B) The table of sections for part I of sub-
16 chapter B of chapter 68 is amended by striking
17 “6714” in the item added by such section
18 13242(b)(2) of such Act and inserting “6715”.

19 (10) Paragraph (2) of section 9502(b) is
20 amended by inserting “and before” after “1982,”.

21 (11) Subsection (a)(3) of section 13206 of the
22 Revenue Reconciliation Act of 1993 is amended by
23 striking “this section” and inserting “this sub-
24 section”.

1 (12) Paragraph (1) of section 13215(c) of the
2 Revenue Reconciliation Act of 1993 is amended by
3 striking “Public Law 92–21” and inserting “Public
4 Law 98–21”.

5 (13) Paragraph (2) of section 13311(e) of the
6 Revenue Reconciliation Act of 1993 is amended by
7 striking “section 1393(a)(3)” and inserting “section
8 1393(a)(2)”.

9 (14) Subparagraph (B) of section 117(d)(2) is
10 amended by striking “section 132(f)” and inserting
11 “section 132(h)”.

12 (n) EFFECTIVE DATE.—Any amendment made by
13 this section shall take effect as if included in the provision
14 of the Revenue Reconciliation Act of 1993 to which such
15 amendment relates.

16 **SEC. 6604. MISCELLANEOUS PROVISIONS.**

17 (a) APPLICATION OF AMENDMENTS MADE BY TITLE
18 XII OF OMNIBUS BUDGET RECONCILIATION ACT OF
19 1990.—Except as otherwise expressly provided, whenever
20 in title XII of the Omnibus Budget Reconciliation Act of
21 1990 an amendment or repeal is expressed in terms of
22 an amendment to, or repeal of, a section or other provi-
23 sion, the reference shall be considered to be made to a
24 section or other provision of the Internal Revenue Code
25 of 1986.

1 (b) TREATMENT OF CERTAIN AMOUNTS UNDER
2 HEDGE BOND RULES.—

3 (1) Clause (iii) of section 149(g)(3)(B) is
4 amended to read as follows:

5 “(iii) AMOUNTS HELD PENDING REIN-
6 VESTMENT OR REDEMPTION.—Amounts
7 held for not more than 30 days pending re-
8 investment or bond redemption shall be
9 treated as invested in bonds described in
10 clause (i).”

11 (2) The amendment made by paragraph (1)
12 shall take effect as if included in the amendments
13 made by section 7651 of the Omnibus Budget Rec-
14 onciliation Act of 1989.

15 (c) TREATMENT OF CERTAIN DISTRIBUTIONS
16 UNDER SECTION 1445.—

17 (1) IN GENERAL.—Paragraph (3) of section
18 1445(e) is amended by adding at the end thereof
19 the following new sentence: “Rules similar to the
20 rules of the preceding provisions of this paragraph
21 shall apply in the case of any distribution to which
22 section 301 applies and which is not made out of the
23 earnings and profits of such a domestic corpora-
24 tion.”

1 (2) EFFECTIVE DATE.—The amendment made
2 by paragraph (1) shall apply to distributions after
3 the date of the enactment of this Act.

4 (d) TREATMENT OF CERTAIN CREDITS UNDER SEC-
5 TION 469.—

6 (1) IN GENERAL.—Subparagraph (B) of section
7 469(c)(3) is amended by adding at the end thereof
8 the following new sentence: “If the preceding sen-
9 tence applies to the net income from any property
10 for any taxable year, any credits allowable under
11 subpart B (other than section 27(a)) or D of part
12 IV of subchapter A for such taxable year which are
13 attributable to such property shall be treated as
14 credits not from a passive activity to the extent the
15 amount of such credits does not exceed the regular
16 tax liability of the taxpayer for the taxable year
17 which is allocable to such net income.”

18 (2) EFFECTIVE DATE.—The amendment made
19 by paragraph (1) shall apply to taxable years begin-
20 ning after December 31, 1986.

21 (e) TREATMENT OF DISPOSITIONS UNDER PASSIVE
22 LOSS RULES.—

23 (1) IN GENERAL.—Subparagraph (A) of section
24 469(g)(1) is amended to read as follows:

1 “(A) IN GENERAL.—If all gain or loss real-
2 ized on such disposition is recognized, the ex-
3 cess of—

4 “(i) any loss from such activity for
5 such taxable year (determined after the ap-
6 plication of subsection (b)), over

7 “(ii) any net income or gain for such
8 taxable year from all other passive activi-
9 ties (determined after the application of
10 subsection (b)),

11 shall be treated as a loss which is not from a
12 passive activity.”

13 (2) EFFECTIVE DATE.—The amendment made
14 by paragraph (1) shall apply to taxable years begin-
15 ning after December 31, 1986.

16 (f) MISCELLANEOUS AMENDMENTS TO FOREIGN
17 PROVISIONS.—

18 (1) COORDINATION OF UNIFIED ESTATE TAX
19 CREDIT WITH TREATIES.—Subparagraph (A) of sec-
20 tion 2102(c)(3) is amended by adding at the end
21 thereof the following new sentence: “For purposes
22 of the preceding sentence, property shall not be
23 treated as situated in the United States if such
24 property is exempt from the tax imposed by this

1 subchapter under any treaty obligation of the United
2 States.”

3 (2) TREATMENT OF CERTAIN INTEREST PAID
4 TO RELATED PERSON.—

5 (A) IN GENERAL.—Subparagraph (B) of
6 section 163(j)(1) is amended by inserting before
7 the period at the end thereof the following:
8 “(and clause (ii) of paragraph (2)(A) shall not
9 apply for purposes of applying this subsection
10 to the amount so treated)”.

11 (B) EFFECTIVE DATE.—The amendment
12 made by subparagraph (A) shall apply as if in-
13 cluded in the amendments made by section
14 7210(a) of the Revenue Reconciliation Act of
15 1989.

16 (3) TREATMENT OF INTEREST ALLOCABLE TO
17 EFFECTIVELY CONNECTED INCOME.—

18 (A) IN GENERAL.—

19 (i) Subparagraph (B) of section
20 884(f)(1) is amended by striking “to the
21 extent” and all that follows down through
22 “subparagraph (A)” and inserting “to the
23 extent that the allocable interest exceeds
24 the interest described in subparagraph
25 (A)”.

1 (ii) The second sentence of section
2 884(f)(1) is amended by striking “reason-
3 ably expected” and all that follows down
4 through the period at the end thereof and
5 inserting “reasonably expected to be alloca-
6 ble interest.”

7 (iii) Paragraph (2) of section 884(f) is
8 amended to read as follows:

9 “(2) ALLOCABLE INTEREST.—For purposes of
10 this subsection, the term ‘allocable interest’ means
11 any interest which is allocable to income which is ef-
12 fectively connected (or treated as effectively con-
13 nected) with the conduct of a trade or business in
14 the United States.”

15 (B) EFFECTIVE DATE.—The amendments
16 made by subparagraph (A) shall take effect as
17 if included in the amendments made by section
18 1241(a) of the Tax Reform Act of 1986.

19 (4) CLARIFICATION OF SOURCE RULE.—

20 (A) IN GENERAL.—Paragraph (2) of sec-
21 tion 865(b) is amended by striking “863(b)”
22 and inserting “863”.

23 (B) EFFECTIVE DATE.—The amendment
24 made by subparagraph (A) shall take effect as

1 if included in the amendments made by section
2 1211 of the Tax Reform Act of 1986.

3 (5) REPEAL OF OBSOLETE PROVISIONS.—

4 (A) Paragraph (1) of section 6038(a) is
5 amended by striking “, and” at the end of sub-
6 paragraph (E) and inserting a period, and by
7 striking subparagraph (F).

8 (B) Subsection (b) of section 6038A is
9 amended by adding “and” at the end of para-
10 graph (2), by striking “, and” at the end of
11 paragraph (3) and inserting a period, and by
12 striking paragraph (4).

13 (g) TREATMENT OF ASSIGNMENT OF INTEREST IN
14 CERTAIN BOND-FINANCED FACILITIES.—

15 (1) IN GENERAL.—Subparagraph (A) of section
16 1317(3) of the Tax Reform Act of 1986 is amended
17 by adding at the end thereof the following new sen-
18 tence: “A facility shall not fail to be treated as de-
19 scribed in this subparagraph by reason of an assign-
20 ment (or an agreement to an assignment) by the
21 governmental unit on whose behalf the bonds are is-
22 sued of any part of its interest in the property fi-
23 nanced by such bonds to another governmental
24 unit.”

1 (2) EFFECTIVE DATE.—The amendment made
2 by paragraph (1) shall take effect as if included in
3 such section 1317 on the date of the enactment of
4 the Tax Reform Act of 1986.

5 (h) CLARIFICATION OF TREATMENT OF MEDICARE
6 ENTITLEMENT UNDER COBRA PROVISIONS.—

7 (1) IN GENERAL.—

8 (A) Subclause (V) of section
9 4980B(f)(2)(B)(i) is amended to read as
10 follows:

11 “(V) MEDICARE ENTITLEMENT
12 FOLLOWED BY QUALIFYING EVENT.—
13 In the case of a qualifying event de-
14 scribed in paragraph (3)(B) that oc-
15 curs less than 18 months after the
16 date the covered employee became en-
17 titled to benefits under title XVIII of
18 the Social Security Act, the period of
19 coverage for qualified beneficiaries
20 other than the covered employee shall
21 not terminate under this clause before
22 the close of the 36-month period be-
23 ginning on the date the covered em-
24 ployee became so entitled.”

1 (B) Clause (v) of section 602(2)(A) of the
2 Employee Retirement Income Security Act of
3 1974 is amended to read as follows:

4 “(v) MEDICARE ENTITLEMENT FOL-
5 LOWED BY QUALIFYING EVENT.—In the
6 case of a qualifying event described in sec-
7 tion 603(2) that occurs less than 18
8 months after the date the covered em-
9 ployee became entitled to benefits under
10 title XVIII of the Social Security Act, the
11 period of coverage for qualified bene-
12 ficiaries other than the covered employee
13 shall not terminate under this subpara-
14 graph before the close of the 36-month pe-
15 riod beginning on the date the covered em-
16 ployee became so entitled.”

17 (C) Clause (iv) of section 2202(2)(A) of
18 the Public Health Service Act is amended to
19 read as follows:

20 “(iv) MEDICARE ENTITLEMENT FOL-
21 LOWED BY QUALIFYING EVENT.—In the
22 case of a qualifying event described in sec-
23 tion 2203(2) that occurs less than 18
24 months after the date the covered em-
25 ployee became entitled to benefits under

1 title XVIII of the Social Security Act, the
2 period of coverage for qualified bene-
3 ficiaries other than the covered employee
4 shall not terminate under this subpara-
5 graph before the close of the 36-month pe-
6 riod beginning on the date the covered em-
7 ployee became so entitled.”

8 (2) EFFECTIVE DATE.—The amendments made
9 by this subsection shall apply to plan years begin-
10 ning after December 31, 1989.

11 (i) TREATMENT OF CERTAIN REMIC INCLUSIONS.—

12 (1) IN GENERAL.—Subsection (a) of section
13 860E is amended by adding at the end thereof the
14 following new paragraph:

15 “(6) COORDINATION WITH MINIMUM TAX.—For
16 purposes of part VI of subchapter A of this
17 chapter—

18 “(A) the reference in section 55(b)(2) to
19 taxable income shall be treated as a reference
20 to taxable income determined without regard to
21 this subsection,

22 “(B) the alternative minimum taxable in-
23 come of any holder of a residual interest in a
24 REMIC for any taxable year shall in no event

1 be less than the excess inclusion for such tax-
2 able year, and

3 “(C) any excess inclusion shall be dis-
4 regarded for purposes of computing the alter-
5 native tax net operating loss deduction.

6 The preceding sentence shall not apply to any orga-
7 nization to which section 593 applies, except to the
8 extent provided in regulations prescribed by the Sec-
9 retary under paragraph (2).”

10 (2) EFFECTIVE DATE.—The amendment made
11 by paragraph (1) shall take effect as if included in
12 the amendments made by section 671 of the Tax Re-
13 form Act of 1986 unless the taxpayer elects to apply
14 such amendment only to taxable years beginning
15 after the date of the enactment of this Act.

16 (j) EXEMPTION FROM HARBOR MAINTENANCE TAX
17 FOR CERTAIN PASSENGERS.—

18 (1) IN GENERAL.—Subparagraph (D) of section
19 4462(b)(1) (relating to special rule for Alaska, Ha-
20 warii, and possessions) is amended by inserting be-
21 fore the period the following: “, or passengers trans-
22 ported on United States flag vessels operating solely
23 within the State waters of Alaska or Hawaii and ad-
24 jacent international waters”.

1 (2) EFFECTIVE DATE.—The amendment made
2 by paragraph (1) shall take effect as if included in
3 the amendments made by section 1402(a) of the
4 Harbor Maintenance Revenue Act of 1986.

5 (k) AMENDMENTS RELATED TO REVENUE PROVI-
6 SIONS OF ENERGY POLICY ACT OF 1992.—

7 (1) Effective with respect to taxable years be-
8 ginning after December 31, 1990, subclause (II) of
9 section 53(d)(1)(B)(iv) is amended to read as
10 follows:

11 “(II) the adjusted net minimum
12 tax for any taxable year is the amount
13 of the net minimum tax for such year
14 increased in the manner provided in
15 clause (iii).”

16 (2) Subsection (g) of section 179A is redesign-
17 nated as subsection (f).

18 (3) Subparagraph (E) of section 6724(d)(3) is
19 amended by striking “section 6109(f)” and inserting
20 “section 6109(h)”.

21 (4)(A) Subsection (d) of section 30 is amend-
22 ed—

23 (i) by inserting “(determined without re-
24 gard to subsection (b)(3))” before the period at
25 the end of paragraph (1) thereof, and

1 (ii) by adding at the end thereof the follow-
2 ing new paragraph:

3 “(4) ELECTION TO NOT TAKE CREDIT.—No
4 credit shall be allowed under subsection (a) for any
5 vehicle if the taxpayer elects to not have this section
6 apply to such vehicle.”

7 (B) Subsection (m) of section 6501 (as redesignig-
8 nated by section 6602) is amended by striking “sec-
9 tion 40(f)” and inserting “section 30(d)(4), 40(f)”.

10 (5) Subclause (III) of section 501(c)(21)(D)(ii)
11 is amended by striking “section 101(6)” and insert-
12 ing “section 101(7)” and by striking “1752(6)” and
13 inserting “1752(7)”.

14 (6) Paragraph (1) of section 1917(b) of the En-
15 ergy Policy Act of 1992 shall be applied as if “at a
16 rate” appeared instead of “at the rate” in the mate-
17 rial proposed to be stricken.

18 (7) Paragraph (2) of section 1921(b) of the En-
19 ergy Policy Act of 1992 shall be applied as if a
20 comma appeared after “(2)” in the material pro-
21 posed to be stricken.

22 (8) Subsection (a) of section 1937 of the En-
23 ergy Policy Act of 1992 shall be applied as if “Sub-
24 part B” appeared instead of “Subpart C”.

1 (l) TREATMENT OF QUALIFIED FOOTBALL COACHES
2 PLAN.—

3 (1) IN GENERAL.—Section 1022 of title II of
4 the Employee Retirement Income Security Act of
5 1974 is amended by adding at the end thereof the
6 following new subsection:

7 “(l) QUALIFIED FOOTBALL COACHES PLAN.—For
8 purposes of determining the qualified plan status of a
9 qualified football coaches plan, section 3(37)(F) shall be
10 treated as part of this title and a qualified football coaches
11 plan shall be treated as a multiemployer collectively bar-
12 gained plan for purposes of the Internal Revenue Code
13 of 1986.”

14 (2) EFFECTIVE DATE.—The amendment made
15 by paragraph (1) shall apply to years beginning
16 after the date of the enactment of Public Law 100-
17 202.

18 (m) DETERMINATION OF UNRECOVERED INVEST-
19 MENT IN ANNUITY CONTRACT.—

20 (1) IN GENERAL.—Subparagraph (A) of section
21 72(b)(4) is amended by inserting “(determined with-
22 out regard to subsection (c)(2))” after “contract”.

23 (2) EFFECTIVE DATE.—The amendment made
24 by paragraph (1) shall take effect as if included in

1 the amendments made by section 1122(c) of the Tax
2 Reform Act of 1986.

3 (n) MODIFICATIONS TO ELECTION TO INCLUDE
4 CHILD'S INCOME ON PARENT'S RETURN.—

5 (1) ELIGIBILITY FOR ELECTION.—Clause (ii) of
6 section 1(g)(7)(A) (relating to election to include
7 certain unearned income of child on parent's return)
8 is amended to read as follows:

9 “(ii) such gross income is more than
10 the amount described in paragraph
11 (4)(A)(ii)(I) and less than 10 times the
12 amount so described.”.

13 (2) COMPUTATION OF TAX.—Subparagraph (B)
14 of section 1(g)(7) (relating to income included on
15 parent's return) is amended—

16 (A) by striking “\$1,000” in clause (i) and
17 inserting “twice the amount described in para-
18 graph (4)(A)(ii)(I)”, and

19 (B) by amending subclause (II) of clause
20 (ii) to read as follows:

21 “(II) for each such child, 15 per-
22 cent of the lesser of the amount de-
23 scribed in paragraph (4)(A)(ii)(I) or
24 the excess of the gross income of such

1 child over the amount so described,
2 and”.

3 (3) MINIMUM TAX.—Subparagraph (B) of sec-
4 tion 59(j)(1) is amended by striking “\$1,000” and
5 inserting “twice the amount in effect for the taxable
6 year under section 63(c)(5)(A)”.

7 (4) EFFECTIVE DATE.—The amendments made
8 by this subsection shall apply to taxable years begin-
9 ning after December 31, 1994.

10 (o) MISCELLANEOUS CLERICAL AMENDMENTS.—

11 (1) Subclause (II) of section 56(g)(4)(C)(ii) is
12 amended by striking “of the subclause” and insert-
13 ing “of subclause”.

14 (2) Paragraph (2) of section 72(m) is amended
15 by inserting “and” at the end of subparagraph (A),
16 by striking subparagraph (B), and by redesignating
17 subparagraph (C) as subparagraph (B).

18 (3) Paragraph (2) of section 86(b) is amended
19 by striking “adusted” and inserting “adjusted”.

20 (4)(A) The heading for section 112 is amended
21 by striking “**COMBAT PAY**” and inserting “**COM-**
22 **BAT ZONE COMPENSATION**”.

23 (B) The item relating to section 112 in the
24 table of sections for part III of subchapter B of

1 chapter 1 is amended by striking “combat pay” and
2 inserting “combat zone compensation”.

3 (C) Paragraph (1) of section 3401(a) is amend-
4 ed by striking “combat pay” and inserting “combat
5 zone compensation”.

6 (5) Clause (i) of section 172(h)(3)(B) is amend-
7 ed by striking the comma at the end thereof and in-
8 serting a period.

9 (6) Clause (ii) of section 543(a)(2)(B) is
10 amended by striking “section 563(c)” and inserting
11 “section 563(d)”.

12 (7) Paragraph (1) of section 958(a) is amended
13 by striking “sections 955(b)(1) (A) and (B),
14 955(c)(2)(A)(ii), and 960(a)(1)” and inserting “sec-
15 tion 960(a)(1)”.

16 (8) Subsection (g) of section 642 is amended by
17 striking “under 2621(a)(2)” and inserting “under
18 section 2621(a)(2)”.

19 (9) Section 1463 is amended by striking “this
20 subsection” and inserting “this section”.

21 (10) Subsection (k) of section 3306 is amended
22 by inserting a period at the end thereof.

23 (11) The item relating to section 4472 in the
24 table of sections for subchapter B of chapter 36 is
25 amended by striking “and special rules”.

1 (12) Paragraph (2) of section 4978(b) is
2 amended by striking the period at the end of sub-
3 paragraph (A) and inserting a comma, and by strik-
4 ing the period and quotation marks at the end of
5 subparagraph (B) and inserting a comma.

6 (13) Paragraph (3) of section 5134(c) is
7 amended by striking “section 6662(a)” and inserting
8 “section 6665(a)”.

9 (14) Paragraph (2) of section 5206(f) is
10 amended by striking “section 5(e)” and inserting
11 “section 105(e)”.

12 (15) Paragraph (1) of section 6050B(c) is
13 amended by striking “section 85(c)” and inserting
14 “section 85(b)”.

15 (16) Subsection (k) of section 6166 is amended
16 by striking paragraph (6).

17 (17) Subsection (e) of section 6214 is amended
18 to read as follows:

19 “(e) CROSS REFERENCE.—

**“For provision giving Tax Court jurisdiction to
order a refund of an overpayment and to award
sanctions, see section 6512(b)(2).”**

20 (18) The section heading for section 6043 is
21 amended by striking the semicolon and inserting a
22 comma.

23 (19) The item relating to section 6043 in the
24 table of sections for subpart B of part III of sub-

1 chapter A of chapter 61 is amended by striking the
2 semicolon and inserting a comma.

3 (20) The table of sections for part I of sub-
4 chapter A of chapter 68 is amended by striking the
5 item relating to section 6662.

6 (21)(A) Section 7232 is amended—

7 (i) by striking “**LUBRICATING OIL,**” in
8 the heading, and

9 (ii) by striking “lubricating oil,” in the
10 text.

11 (B) The table of sections for part II of sub-
12 chapter A of chapter 75 is amended by striking “lu-
13 bricating oil,” in the item relating to section 7232.

14 (22) Paragraph (1) of section 6701(a) of the
15 Omnibus Budget Reconciliation Act of 1989 is
16 amended by striking “subclause (IV)” and inserting
17 “subclause (V)”.

18 (23) Clause (ii) of section 7304(a)(2)(D) of
19 such Act is amended by striking “subsection (c)(2)”
20 and inserting “subsection (c)”.

21 (24) Paragraph (1) of section 7646(b) of such
22 Act is amended by striking “section 6050H(b)(1)”
23 and inserting “section 6050H(b)(2)”.

24 (25) Paragraph (10) of section 7721(c) of
25 such Act is amended by striking “section

1 6662(b)(2)(C)(ii)” and inserting “section
2 6661(b)(2)(C)(ii)”.

3 (26) Subparagraph (A) of section 7811(i)(3) of
4 such Act is amended by inserting “the first place it
5 appears” before “in clause (i)”.

6 (27) Paragraph (10) of section 7841(d) of
7 such Act is amended by striking “section 381(a)”
8 and inserting “section 381(c)”.

9 (28) Paragraph (2) of section 7861(c) of such
10 Act is amended by inserting “the second place it ap-
11 pears” before “and inserting”.

12 (29) Paragraph (1) of section 460(b) is amend-
13 ed by striking “the look-back method of paragraph
14 (3)” and inserting “the look-back method of para-
15 graph (2)”.

16 (30) Subparagraph (C) of section 50(a)(2) is
17 amended by striking “subsection (c)(4)” and insert-
18 ing “subsection (d)(5)”.

19 (31) Subparagraph (B) of section 172(h)(4) is
20 amended by striking the material following the head-
21 ing and preceding clause (i) and inserting “For pur-
22 poses of subsection (b)(2)—”.

23 (32) Subparagraph (A) of section 355(d)(7) is
24 amended by inserting “section” before “267(b)”.

1 (33) Subparagraph (C) of section 420(e)(1) is
2 amended by striking “mean” and inserting “means”.

3 (34) Paragraph (4) of section 537(b) is amend-
4 ed by striking “section 172(i)” and inserting “sec-
5 tion 172(f)”.

6 (35) Subparagraph (B) of section 613(e)(1) is
7 amended by striking the comma at the end thereof
8 and inserting a period.

9 (36) Paragraph (4) of section 856(a) is amend-
10 ed by striking “section 582(c)(5)” and inserting
11 “section 582(c)(2)”.

12 (37) Sections 904(f)(2)(B)(i) and
13 907(c)(4)(B)(iii) are each amended by inserting “(as
14 in effect on the day before the date of the enactment
15 of the Revenue Reconciliation Act of 1990)” after
16 “section 172(h)”.

17 (38) Subsection (b) of section 936 is amended
18 by striking “subparagraphs (D)(ii)(I)” and inserting
19 “subparagraphs (D)(ii)”.

20 (39) Subsection (c) of section 2104 is amended
21 by striking “subparagraph (A), (C), or (D) of
22 section 861(a)(1)” and inserting “section
23 861(a)(1)(A)”.

24 (40) Subparagraph (A) of section 280A(c)(1) is
25 amended to read as follows:

1 “(A) as the principal place of business for
2 any trade or business of the taxpayer.”.

3 (41) Section 6038 is amended by redesignating
4 the subsection relating to cross references as sub-
5 section (f).

6 (42) Clause (iv) of section 6103(e)(1)(A) is
7 amended by striking all that follows “provisions of”
8 and inserting “section 1(g) or 59(j);”.

9 (43) The subsection (f) of section 6109 of the
10 Internal Revenue Code of 1986 which was added by
11 section 2201(d) of Public Law 101-624 is redesign-
12 nated as subsection (g).

13 (44) Subsection (b) of section 7454 is amended
14 by striking “section 4955(e)(2)” and inserting “sec-
15 tion 4955(f)(2)”.

16 (45) Subsection (d) of section 11231 of the
17 Revenue Reconciliation Act of 1990 shall be applied
18 as if “comma” appeared instead of “period” and as
19 if the paragraph (9) proposed to be added ended
20 with a comma.

21 (46) Paragraph (1) of section 11303(b) of the
22 Revenue Reconciliation Act of 1990 shall be applied
23 as if “paragraph” appeared instead of “subpara-
24 graph” in the material proposed to be stricken.

1 (47) Subsection (f) of section 11701 of the Rev-
2 enue Reconciliation Act of 1990 is amended by in-
3 serting “(relating to definitions)” after “section
4 6038(e)”.

5 (48) Subsection (i) of section 11701 of the Rev-
6 enue Reconciliation Act of 1990 shall be applied as
7 if “subsection” appeared instead of “section” in the
8 material proposed to be stricken.

9 (49) Subparagraph (B) of section 11801(c)(2)
10 of the Revenue Reconciliation Act of 1990 shall be
11 applied as if “section 56(g)” appeared instead of
12 “section 59(g)”.

13 (50) Subparagraph (C) of section 11801(c)(8)
14 of the Revenue Reconciliation Act of 1990 shall be
15 applied as if “reorganizations” appeared instead of
16 “reorganization” in the material proposed to be
17 stricken.

18 (51) Subparagraph (H) of section 11801(c)(9)
19 of the Revenue Reconciliation Act of 1990 shall be
20 applied as if “section 1042(c)(1)(B)” appeared in-
21 stead of “section 1042(c)(2)(B)”.

22 (52) Subparagraph (F) of section 11801(c)(12)
23 of the Revenue Reconciliation Act of 1990 shall be
24 applied as if “and (3)” appeared instead of “and
25 (E)”.

1 (53) Subparagraph (A) of section 11801(c)(22)
2 of the Revenue Reconciliation Act of 1990 shall be
3 applied as if “chapters 21” appeared instead of
4 “chapter 21” in the material proposed to be stricken.
5 en.

6 (54) Paragraph (3) of section 11812(b) of the
7 Revenue Reconciliation Act of 1990 shall be applied
8 by not executing the amendment therein to the
9 heading of section 42(d)(5)(B).

10 (55) Clause (i) of section 11813(b)(9)(A) of the
11 Revenue Reconciliation Act of 1990 shall be applied
12 as if a comma appeared after “(3)(A)(ix)” in the
13 material proposed to be stricken.

14 (56) Subparagraph (F) of section 11813(b)(13)
15 of the Revenue Reconciliation Act of 1990 shall be
16 applied as if “tax” appeared after “investment” in
17 the material proposed to be stricken.

18 (57) Paragraph (19) of section 11813(b) of the
19 Revenue Reconciliation Act of 1990 shall be applied
20 as if “Paragraph (20) of section 1016(a), as redesign-
21 nated by section 11801,” appeared instead of “Para-
22 graph (21) of section 1016(a)”.

23 (58) Paragraph (5) section 8002(a) of the Sur-
24 face Transportation Revenue Act of 1991 shall be

1 applied as if “4481(e)” appeared instead of
2 “4481(c)”.

3 (59) Section 7872 is amended—

4 (A) by striking “foregone” each place it
5 appears in subsections (a) and (e)(2) and in-
6 serting “forgone”, and

7 (B) by striking “FOREGONE” in the head-
8 ing for subsection (e) and the heading for para-
9 graph (2) of subsection (e) and inserting “FOR-
10 GONE”.

11 (60) Paragraph (7) of section 7611(h) is
12 amended by striking “appropriat” and inserting
13 “appropriate”.

14 (61) The heading of paragraph (3) of section
15 419A(c) is amended by striking “SEVERENCE” and
16 inserting “SEVERANCE”.

17 (62) Clause (ii) of section 807(d)(3)(B) is
18 amended by striking “Commissoners’ ” and insert-
19 ing “Commissioners’ ”.

20 (63) Subparagraph (B) of section 1274A(c)(1)
21 is amended by striking “instument” and inserting
22 “instrument”.

23 (64) Subparagraph (B) of section 724(d)(3) by
24 striking “Subparagaph” and inserting “Subpara-
25 graph”.

1 (65) The last sentence of paragraph (2) of sec-
2 tion 42(c) is amended by striking “of 1988”.

3 (66) Paragraph (1) of section 9707(d) is
4 amended by striking “diligence,” and inserting “dili-
5 gence”.

6 (67) Subsection (c) of section 4977 is amended
7 by striking “section 132(i)(2)” and inserting “sec-
8 tion 132(h)”.

9 (68) The last sentence of section 401(a)(20) is
10 amended by striking “section 211” and inserting
11 “section 521”.

12 (69) Subparagraph (A) of section 402(g)(3) is
13 amended by striking “subsection (a)(8)” and insert-
14 ing “subsection (e)(3)”.

15 (70) The last sentence of section 403(b)(10) is
16 amended by striking “an direct” and inserting “a
17 direct”.

18 (71) Subparagraph (A) of section 4973(b)(1) is
19 amended by striking “sections 402(c)” and inserting
20 “section 402(c)”.

21 (72) Paragraph (12) of section 3405(e) is
22 amended by striking “(b)(3)” and inserting
23 “(b)(2)”.

24 (73) Paragraph (41) of section 521(b) of the
25 Unemployment Compensation Amendments of 1992

1 shall be applied as if “section” appeared instead of
2 “sections” in the material proposed to be stricken.

3 (74) Paragraph (27) of section 521(b) of the
4 Unemployment Compensation Amendments of 1992
5 shall be applied as if “Section 691(c)(5)” appeared
6 instead of “Section 691(c)”.

7 (75) Paragraph (5) of section 860F(a) is
8 amended by striking “paragraph (1)” and inserting
9 “paragraph (2)”.

10 (76) Paragraph (1) of section 415(k) is amend-
11 ed by adding “or” at the end of subparagraph (C),
12 by striking subparagraphs (D) and (E), and by re-
13 designating subparagraph (F) as subparagraph (D).

14 (77) Paragraph (2) of section 404(a) is amend-
15 ed by striking “(18),”.

16 (78) Clause (ii) of section 72(p)(4)(A) is
17 amended to read as follows:

18 “(ii) SPECIAL RULE.—The term
19 ‘qualified employer plan’ shall not include
20 any plan which was (or was determined to
21 be) a qualified employer plan or a govern-
22 ment plan.”

23 (79) Sections 461(i)(3)(C) and
24 1274(b)(3)(B)(i) are each amended by striking “sec-

1 tion 6662(d)(2)(C)(ii)” and inserting “section
2 6662(d)(2)(C)(iii)”.

3 (80) Subsection (a) of section 164 is amended
4 by striking the paragraphs relating to the genera-
5 tion-skipping tax and the environmental tax imposed
6 by section 59A and by inserting after paragraph (3)
7 the following new paragraphs:

8 “(4) The GST tax imposed on income distribu-
9 tions.

10 “(5) The environmental tax imposed by section
11 59A.”



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