

104TH CONGRESS  
2D SESSION

# S. 1668

To improve the job and income security and retirement security of the American worker, and for other purposes.

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IN THE SENATE OF THE UNITED STATES

APRIL 15, 1996

Mr. KENNEDY introduced the following bill; which was read twice and referred to the Committee on Finance

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## A BILL

To improve the job and income security and retirement security of the American worker, 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; TABLE OF CONTENTS.**

4 (a) **SHORT TITLE.**—This Act may be cited as the  
5 “American Workers Economic Security Act”.

6 (b) **TABLE OF CONTENTS.**—

Sec. 1. Short title; table of contents.

### TITLE I—JOB AND INCOME SECURITY

#### Subtitle A—Most Favored Companies

Sec. 101. 25-percent reduction in corporate tax on taxable income equaling dividends paid by most favored companies.

Sec. 102. Evaluation of contract offers by most favored companies.

Sec. 103. Preference in direct financial assistance to most favored companies.

Subtitle B—Investment in New Technologies

- Sec. 111. Small business technology transfer program.
- Sec. 112. Permanent extension of research credit.
- Sec. 113. Increase in non-defense research and development spending.

Subtitle C—Minimizing the Adverse Impacts of Mergers and Acquisitions

- Sec. 121. Disallowance of deduction for merger and acquisition expenses.
- Sec. 122. Investigations of certain transactions.
- Sec. 123. Additional consideration of harm to workers or communities.

Subtitle D—Corporate Restructurings

- Sec. 131. Corporate restructurings.

Subtitle E—Expansion of Educational Opportunities for Workers

- Sec. 141. Credit for employee training.
- Sec. 142. Deduction for higher education expenses.

Subtitle F—Elimination of Tax Incentives for Moving Jobs Overseas

- Sec. 151. Source of income from certain sales of inventory property.
- Sec. 152. Transfer pricing rules.
- Sec. 153. Income from runaway plants or from manufacturing operations located in a country which provides a tax holiday included in subpart F income.
- Sec. 154. Repeal of section 911 exclusion of foreign earned income.
- Sec. 155. Revision of tax rules on expatriation.

Subtitle G—Distressed Community Economic Development Bonds

- Sec. 161. Distressed community economic development bonds.

TITLE II—RETIREMENT SECURITY

- Sec. 201. Short title.
- Sec. 202. Findings and purpose.
- Sec. 203. Deduction for contributions to individual pension plans.
- Sec. 204. Establishment of individual pension plans.
- Sec. 205. Employer responsibilities.
- Sec. 206. Establishment and responsibilities of regional pension service centers.
- Sec. 207. Secretarial responsibilities.
- Sec. 208. Preemption of State law.

TITLE III—SEVERABILITY

- Sec. 301. Severability.

1           **TITLE I—JOB AND INCOME**  
2                           **SECURITY**  
3           **Subtitle A—Most Favored**  
4                           **Companies**

5   **SEC. 101. 25-PERCENT REDUCTION IN CORPORATE TAX ON**  
6                           **TAXABLE INCOME EQUALING DIVIDENDS**  
7                           **PAID BY MOST FAVORED COMPANIES.**

8           (a) IN GENERAL.—Section 11(b) of the Internal Rev-  
9   enue Code of 1986 (relating to amount of tax) is amended  
10 by adding at the end the following new paragraph:

11                   “(3) 25-PERCENT REDUCTION IN RATES ON  
12           TAXABLE INCOME EQUALING DIVIDENDS PAID BY  
13           MOST FAVORED COMPANIES.—

14                   “(A) IN GENERAL.—Notwithstanding para-  
15           graph (1) or (2), if a most favored company has  
16           paid dividends for the taxable year, then such  
17           paragraph shall be applied—

18                   “(i) first, to the taxable income of  
19           such company equal to the amount of such  
20           dividends at rates equal to 75 percent of  
21           the otherwise applicable percentages under  
22           such paragraph, and

23                   “(ii) then, to the balance of the tax-  
24           able income of such company at rates de-  
25           termined without regard to this paragraph.

1 “(B) MOST FAVORED COMPANY.—

2 “(i) IN GENERAL.—For purposes of  
3 this title, a corporation is a most favored  
4 company for a taxable year if it is certified  
5 as such by the Secretary of Labor upon re-  
6 quest.

7 “(ii) CRITERIA FOR CERTIFICATION.—  
8 For purposes of clause (i), the Secretary of  
9 Labor shall use the following certification  
10 criteria:

11 “(I) Training and education ben-  
12 efits provided to employees through  
13 any approved training program (as  
14 defined in section 45C(b)(3)).

15 “(II) Health care benefits pro-  
16 vided to employees through insurance  
17 or otherwise.

18 “(III) Pension benefits provided  
19 to employees.

20 “(IV) Child care provided to em-  
21 ployees.

22 “(V) Such other criteria as deter-  
23 mined by the Secretary of Labor.

24 “(iii) CONTROLLED GROUP OF COR-  
25 PORATIONS.—For purposes of this sub-

1 paragraph, all corporations which are  
2 members of the same controlled group of  
3 corporations shall be treated as a single  
4 corporation. For purposes of the preceding  
5 sentence, the term ‘controlled group of cor-  
6 porations’ has the meaning given to such  
7 term by section 1563(a), except that—

8 “(I) ‘more than 50 percent’ shall  
9 be substituted for ‘at least 80 percent’  
10 each place it appears in section  
11 1563(a)(1), and

12 “(II) the determination shall be  
13 made without regard to subsections  
14 (a)(4) and (e)(3)(C) of section  
15 1563.”.

16 (b) EFFECTIVE DATE.—The amendment made by  
17 this section shall apply to taxable years beginning after  
18 December 31, 1996.

19 **SEC. 102. EVALUATION OF CONTRACT OFFERS BY MOST FA-**  
20 **VORED COMPANIES.**

21 (a) PREFERENCES.—

22 (1) IN GENERAL.—The Office of Federal Pro-  
23 curement Policy Act (41 U.S.C. 401 et seq.) is  
24 amended by adding at the end the following:

1 **“SEC. 38. OFFERS BY MOST FAVORED COMPANIES.**

2       “(a) PRICE EVALUATION PREFERENCE.—In any case  
3 in which a contract is to be awarded by the head of an  
4 executive agency on the basis of full and open competition  
5 and in which price is the primary evaluation factor for  
6 selection of the offeror for award of the contract, the price  
7 offered by a most favored company shall be deemed as  
8 being lower than the price offered by another offeror  
9 (other than another most favored company) if the price  
10 offered by the most favored company is not more than 10  
11 percent higher than the price offered by the other offeror.

12       “(b) STATUS AS EVALUATION FACTOR.—In any case  
13 in which price is not the primary evaluation factor for se-  
14 lection of an offeror for award of a contract by the head  
15 of an executive agency, the factors prescribed for the eval-  
16 uation of offers for the contract may include a factor that  
17 provides credit for status as a most favored company.

18       “(c) MOST FAVORED COMPANY DEFINED.—In this  
19 section, the term ‘most favored company’ means an entity  
20 that is certified as a most favored company in accordance  
21 with section 11(b)(3) of the Internal Revenue Code of  
22 1986.”.

23               (2) CLERICAL AMENDMENT.—The table of con-  
24 tents in section 1(b) of such Act is amended by add-  
25 ing at the end the following:

“Sec. 38. Offers by most favored companies.”.

1 (b) EFFECTIVE DATE.—The amendments made by  
 2 subsection (a) shall take effect 180 days after the date  
 3 of the enactment of this Act and shall apply with respect  
 4 to solicitations of contract offers that are issued on or  
 5 after that date.

6 **SEC. 103. PREFERENCE IN DIRECT FINANCIAL ASSISTANCE**  
 7 **TO MOST FAVORED COMPANIES.**

8 It is the sense of the Senate that most favored com-  
 9 panies (as certified under section 11(b)(3) of the Internal  
 10 Revenue Code of 1986) should be given a preference in  
 11 the provision of direct financial assistance, in the form of  
 12 grants, loans, and loan guarantees from the Small Busi-  
 13 ness Administration, the Department of Commerce, the  
 14 Export-Import Bank, the Overseas Private Investment  
 15 Corporation, the United States Trade and Development  
 16 Agency, and other appropriate Federal agencies.

17 **Subtitle B—Investment in New**  
 18 **Technologies**

19 **SEC. 111. SMALL BUSINESS TECHNOLOGY TRANSFER PRO-**  
 20 **GRAM.**

21 Section 9(n)(1)(C) of the Small Business Act (15  
 22 U.S.C. 638(n)(1)(C)) is amended to read as follows:

23 “(C) not less than 0.30 percent of such  
 24 budget in each of fiscal years 1996 through  
 25 2001.”.

1 **SEC. 112. PERMANENT EXTENSION OF RESEARCH CREDIT.**

2 (a) IN GENERAL.—Section 41 of the Internal Reve-  
3 nue Code of 1986 (relating to credit for research activi-  
4 ties) is amended by striking subsection (h).

5 (b) NEW BASE AMOUNT.—

6 (1) IN GENERAL.—Subparagraphs (A) and  
7 (B)(i) of section 41(c)(3) of the Internal Revenue  
8 Code of 1986 (relating to fixed-base percentage) are  
9 each amended by striking “after December 31,  
10 1983, and before January 1, 1989” and inserting  
11 “after December 31, 1990, and before January 1,  
12 1996”.

13 (2) CONFORMING AMENDMENTS.—

14 (A) Section 41(e)(5)(C) of such Code is  
15 amended by striking “1987” and inserting  
16 “1994”, by striking “1983” each place it ap-  
17 pears and inserting “1990”, and by striking  
18 “1984” each place it appears and inserting  
19 “1991”.

20 (B) Section 41(e)(7)(B) of such Code is  
21 amended by striking “1983” and inserting  
22 “1990”.

23 (c) CONFORMING AMENDMENT.—Section 28(b)(1) of  
24 the Internal Revenue Code of 1986 is amended by striking  
25 subparagraph (D).



1 (d) EFFECTIVE DATE.—The amendments made by  
 2 this section shall apply to taxable years ending after June  
 3 30, 1995.

4 **SEC. 113. INCREASE IN NON-DEFENSE RESEARCH AND DE-**  
 5 **VELOPMENT SPENDING.**

6 It is the sense of the Senate that the total level of  
 7 non-defense research and development spending in the  
 8 Federal budget should be increased in equal increments  
 9 over a 5-fiscal year period to 2.77 percent of the gross  
 10 domestic product of the United States.

11 **Subtitle C—Minimizing the Ad-**  
 12 **verse Impacts of Mergers and**  
 13 **Acquisitions**

14 **SEC. 121. DISALLOWANCE OF DEDUCTION FOR MERGER**  
 15 **AND ACQUISITION EXPENSES.**

16 (a) DEDUCTION DISALLOWED.—Part IX of sub-  
 17 chapter B of chapter 1 of subtitle A of the Internal Reve-  
 18 nue Code of 1986 (relating to items not deductible) is  
 19 amended by adding at the end the following new section:

20 **“SEC. 280I. DISALLOWANCE OF DEDUCTION FOR MERGER**  
 21 **AND ACQUISITION EXPENSES.**

22 “(a) IN GENERAL.—No deduction otherwise allow-  
 23 able under this chapter shall be allowed for any amount  
 24 paid or incurred in connection with an applicable acquisi-  
 25 tion.

1       “(b) APPLICABLE ACQUISITION.—For purposes of  
2 this section—

3           “(1) IN GENERAL.—The term ‘applicable acqui-  
4 sition’ means the acquisition by a person of owner-  
5 ship interests in, or assets used in the active conduct  
6 of a trade or business by, an entity if such acquisi-  
7 tion occurs during the 3-year period ending on the  
8 date the person acquires control of the entity or the  
9 person acquires more than one-half of the assets  
10 used in the trade or business.

11           “(2) EXCEPTIONS.—The term ‘applicable acqui-  
12 sition’ shall not include—

13           “(A) except as provided in paragraph (3),  
14 any acquisition by a person from an entity  
15 which it controls (or which controlled it) imme-  
16 diately before the acquisition, or

17           “(B) any acquisition described in clause  
18 (i), (ii), or (iii) of section 382(l)(3)(B).

19           “(3) RELATED TRANSACTIONS.—The term ‘ap-  
20 plicable acquisition’ shall include any acquisition  
21 after the acquisition described in paragraph (1)(A)  
22 if such acquisitions are part of a series of related  
23 transactions.

24           “(c) OTHER DEFINITIONS AND RULES.—For pur-  
25 poses of this section—

1           “(1) CONTROL.—A person shall be treated as  
2 in control of another entity if—

3           “(A) in the case of a corporation, it pos-  
4 sses more than 50 percent of the stock of the  
5 corporation (by vote or value), or

6           “(B) in the case of any other entity, it pos-  
7 sses ownership interests representing more  
8 than 50 percent of the capital or profits interest  
9 in the entity.

10          “(2) CONSTRUCTIVE OWNERSHIP RULES.—

11          “(A) IN GENERAL.—For purposes of para-  
12 graph (1), the following rules shall apply:

13           “(i) in the case of a corporation, the  
14 rules of section 267(c);

15           “(ii) in the case of a partnership, the  
16 rules of section 707(b); and

17           “(iii) in the case of any other entity,  
18 rules prescribed by the Secretary based on  
19 the principles of the rules described in  
20 clauses (i) and (ii).

21          “(B) OPTIONS.—Except as provided in  
22 regulations, a person shall be treated as pos-  
23 ssesing stock or assets if the person has an op-  
24 tion to acquire the stock or assets.

1           “(3) RELATED PARTIES.—All persons treated  
2           as the employer under subsection (a) or (b) of sec-  
3           tion 52 shall be treated as 1 person for purposes of  
4           this section.”.

5           (b) CLERICAL AMENDMENT.—The table of sections  
6           for such part IX is amended by adding after the item re-  
7           lating to section 280H the following new item:

                  “Sec. 280I. Disallowance of deduction for merger and acquisition  
                  expenses.”.

8           (c) EFFECTIVE DATE.—The amendments made by  
9           this section shall apply to amounts paid or incurred after  
10          December 31, 1996, for taxable years ending after such  
11          date.

12       **SEC. 122. INVESTIGATIONS OF CERTAIN TRANSACTIONS.**

13          Section 7A of the Clayton Act (15 U.S.C. 18a) is  
14          amended by adding at the end the following new sub-  
15          section:

16          “(k)(1) A person acquiring any voting securities or  
17          assets of any other person with respect to any trans-  
18          action—

19                  “(A) for which the filing of a notification is re-  
20                  quired under this section, and

21                  “(B) which would result in a reduction in the  
22                  overall number of employees or the shutdown of a  
23                  plant or other facility,

1 shall submit a plan to be certified by the Secretary of  
2 Labor as meeting the requirements of paragraph (2).

3 “(2) A plan meets the requirements of this paragraph  
4 if it includes—

5 “(A) a description of the number of plants or  
6 other facilities that would be closed or substantially  
7 downsized;

8 “(B) an estimate of the number of employees  
9 that would be involuntary terminated, including a  
10 description of the employee groups that would be af-  
11 fected; and

12 “(C) a description of the assistance that would  
13 be provided to such employees following their termi-  
14 nation, including skills upgrading, education, contin-  
15 ued health care, and pension benefits.”.

16 **SEC. 123. ADDITIONAL CONSIDERATION OF HARM TO**  
17 **WORKERS OR COMMUNITIES.**

18 In determining an appropriate remedy for a violation  
19 of section 7 of the Clayton Act (15 U.S.C. 18), including  
20 the timing and nature of any required divestiture, a court  
21 shall consider the interests of workers and local commu-  
22 nities.

## **Subtitle D—Corporate Restructurings**

### **3 SEC. 131. CORPORATE RESTRUCTURINGS.**

4 (a) IN GENERAL.—Each issuer of securities shall,  
5 prior to undertaking any restructuring that includes the  
6 involuntary termination of a significant number of the em-  
7 ployees of the issuer, submit a detailed plan to the Com-  
8 mission and to the Secretary of Labor that meets the re-  
9 quirements of subsection (b).

10 (b) CONTENTS OF PLANS.—Each plan required to be  
11 submitted under subsection (a) shall specify—

12 (1) the number of employees to be involuntarily  
13 terminated, as part of the restructuring;

14 (2) the amount of termination benefits accrued  
15 and treated as deductible expenses of the issuer  
16 under the Internal Revenue Code of 1986;

17 (3) a description of—

18 (A) the employee groups to be terminated;

19 (B) the employee groups that will be unaf-  
20 fected by the restructuring; and

21 (C) the reasons for such differentiation;

22 (4) the plans for and costs of skills training,  
23 education, and health and retirement benefits to be  
24 provided to employees of the issuer to be involuntar-  
25 ily terminated as part of the restructuring; and

1 (5) such other information relating to the re-  
2 structuring as the Commission considers relevant.

3 (c) DEFINITIONS.—For purposes of this section—

4 (1) the term “Commission” means the Securi-  
5 ties and Exchange Commission;

6 (2) the term “issuer” has the same meaning as  
7 in section 3 of the Securities Exchange Act of 1934;  
8 and

9 (3) the term “restructuring” has the meaning  
10 given to such term by rule or regulation of the Com-  
11 mission.

12 **Subtitle E—Expansion of Edu-**  
13 **catinal Opportunities for**  
14 **Workers**

15 **SEC. 141. CREDIT FOR EMPLOYEE TRAINING.**

16 (a) IN GENERAL.—Subpart D of part IV of sub-  
17 chapter A of chapter 1 of the Internal Revenue Code of  
18 1986 (relating to business related credits) is amended by  
19 adding at the end the following new section:

20 **“SEC. 45C. EMPLOYEE TRAINING CREDIT.**

21 “(a) IN GENERAL.—For purposes of section 38, the  
22 amount of the employee training credit determined under  
23 this section for any taxable year shall be an amount equal  
24 to 50 percent of the qualified training expenses of the tax-  
25 payer for such taxable year.

1       “(b) QUALIFIED TRAINING EXPENSES.—For pur-  
2 poses of this section—

3           “(1) IN GENERAL.—The term ‘qualified train-  
4 ing expenses’ means the aggregate amount of ex-  
5 penses paid or incurred by the taxpayer during the  
6 taxable year in connection with the training of em-  
7 ployees under any approved training program.

8           “(2) ONLY FIRST \$2,500 OF QUALIFIED TRAIN-  
9 ING EXPENSES TAKEN INTO ACCOUNT.—The amount  
10 of the qualified training expenses which may be  
11 taken into account with respect to any employee  
12 shall not exceed \$2,500.

13           “(3) APPROVED TRAINING PROGRAMS.—The  
14 term ‘approved training program’ means—

15           “(A) any apprenticeship program reg-  
16 istered with or approved by any Federal or  
17 State agency or department,

18           “(B) any employer-designed or employer-  
19 sponsored program which meets such minimum  
20 requirements with respect to supervised on-the-  
21 job experience and classroom instruction as the  
22 Secretary of Labor shall prescribe by regula-  
23 tions,

24           “(C) any cooperative education (within the  
25 meaning given to such term by section 521(8)



1 of the Carl D. Perkins Vocational Education  
2 Act),

3 “(D) any training program designated by  
4 the Secretary of Labor which is carried out  
5 under the supervision of an institution of higher  
6 education (within the meaning given to such  
7 term by section 1201(a) of the Higher Edu-  
8 cation Act of 1965), or

9 “(E) any other program for improving job  
10 skills directly related to employment which the  
11 Secretary of Labor may approve under regula-  
12 tions prescribed by such Secretary.

13 “(c) SPECIAL RULES.—For purposes of this sec-  
14 tion—

15 “(1) AGGREGATION OF QUALIFIED TRAINING  
16 EXPENSES.—

17 “(A) CONTROLLED GROUP OF CORPORA-  
18 TIONS.—

19 “(i) IN GENERAL.—In determining  
20 the amount of the credit under this sec-  
21 tion—

22 “(I) all members of the same  
23 controlled group of corporations shall  
24 be treated as a single taxpayer, and

1           “(II) the credit (if any) allowable  
2           by this section to each such member  
3           shall be its proportionate share of the  
4           qualified training expenses giving rise  
5           to the credit.

6           “(ii) CONTROLLED GROUP OF COR-  
7           PORATIONS DEFINED.—The term ‘con-  
8           trolled group of corporations’ has the same  
9           meaning given to such term by section  
10          1563(a), except that—

11           “(I) ‘more than 50 percent’ shall  
12           be substituted for ‘at least 80 percent’  
13           each place it appears in section  
14           1563(a)(1), and

15           “(II) the determination shall be  
16           made without regard to subsections  
17           (a)(4) and (e)(3)(C) of section 1563.

18           “(B) COMMON CONTROL.—Under regula-  
19           tions prescribed by the Secretary, in determin-  
20           ing the amount of the credit under this sec-  
21           tion—

22           “(i) all trades or businesses (whether  
23           or not incorporated) which are under com-  
24           mon control shall be treated as a single  
25           taxpayer, and

1           “(ii) the credit (if any) allowable by  
2           this section to each such trade or business  
3           shall be its proportionate share of the  
4           qualified training expenses giving rise to  
5           the credit.

6           The regulations prescribed under this subpara-  
7           graph shall be based on principles similar to the  
8           principles which apply in the case of subpara-  
9           graph (A).

10          “(2) ALLOCATIONS.—

11                 “(A) PASS-THRU IN THE CASE OF ES-  
12                 TATES AND TRUSTS.—Under regulations pre-  
13                 scribed by the Secretary, rules similar to the  
14                 rules of subsection (d) of section 52 shall apply.

15                 “(B) ALLOCATION IN THE CASE OF PART-  
16                 NERSHIPS.—In the case of partnerships, the  
17                 credit shall be allocated among partners under  
18                 regulations prescribed by the Secretary.

19          “(d) ADDITIONAL BENEFIT.—The credit allowable  
20          under this section with respect to qualified training ex-  
21          penses of the taxpayer shall be in addition to any deduc-  
22          tion or credit allowed the taxpayer under any other provi-  
23          sion of this chapter with respect to such expenses.”.

24          (b) EMPLOYEE TRAINING CREDIT TREATED AS  
25          OTHER BUSINESS CREDITS.—Section 38(b) of the Inter-

1 nal Revenue Code of 1986 (defining current year business  
 2 credit) is amended by striking out “plus” at the end of  
 3 paragraph (10), by striking out the period at the end of  
 4 paragraph (11) and inserting in lieu thereof “, plus”, and  
 5 by adding at the end thereof the following new paragraph:

6 “(12) the employee training credit determined  
 7 under section 45C(a).”.

8 (c) CLERICAL AMENDMENT.—The table of sections  
 9 for subpart A of part IV of subchapter A of chapter 1  
 10 of the Internal Revenue Code of 1986 is amended by add-  
 11 ing at the end the following new item:

“Sec. 45C. Employee training credit.”.

12 (d) EFFECTIVE DATE.—The amendments made by  
 13 this section shall apply to taxable years beginning after  
 14 December 31, 1996.

15 **SEC. 142. DEDUCTION FOR HIGHER EDUCATION EXPENSES.**

16 (a) DEDUCTION ALLOWED.— Part VII of subchapter  
 17 B of chapter 1 of the Internal Revenue Code of 1986 (re-  
 18 lating to additional itemized deductions for individuals) is  
 19 amended by redesignating section 220 as section 221 and  
 20 by inserting after section 219 the following new section:

21 **“SEC. 220. HIGHER EDUCATION TUITION AND FEES; INTER-  
 22 EST ON STUDENT LOANS.**

23 “(a) ALLOWANCE OF DEDUCTION.—In the case of an  
 24 individual, there shall be allowed as a deduction an  
 25 amount equal to the sum of—

1           “(1) the qualified higher education expenses,  
2 plus  
3           “(2) interest on qualified higher education  
4 loans,  
5 paid by the taxpayer during the taxable year.

6           “(b) QUALIFIED HIGHER EDUCATION EXPENSES.—  
7 For purposes of this section—

8           “(1) QUALIFIED HIGHER EDUCATION EX-  
9 PENSES.—

10           “(A) IN GENERAL.—The term ‘qualified  
11 higher education expenses’ means tuition and  
12 fees charged by an educational institution and  
13 required for the enrollment or attendance of—

14                   “(i) the taxpayer,

15                   “(ii) the taxpayer’s spouse, or

16                   “(iii) any dependent of the taxpayer  
17 with respect to whom the taxpayer is al-  
18 lowed a deduction under section 151,  
19 as an eligible student at an institution of higher  
20 education.

21           “(B) EXCEPTION FOR EDUCATION INVOLV-  
22 ING SPORTS, ETC.—Such term does not include  
23 expenses with respect to any course or other  
24 education involving sports, games, or hobbies,  
25 unless such expenses—

1 “(i) are part of a degree program, or

2 “(ii) are deductible under this chapter

3 without regard to this section.

4 “(C) EXCEPTION FOR NONACADEMIC

5 FEES.—Such term does not include any student

6 activity fees, athletic fees, insurance expenses,

7 or other expenses unrelated to a student’s aca-

8 demic course of instruction.

9 “(D) ELIGIBLE STUDENT.—For purposes

10 of subparagraph (A), the term ‘eligible student’

11 means a student who—

12 “(i) meets the requirements of section

13 484(a)(1) of the Higher Education Act of

14 1965 (20 U.S.C. 1091(a)(1)), as in effect

15 on the date of the enactment of this sec-

16 tion, and

17 “(ii)(I) is carrying at least one-half

18 the normal full-time work load for the

19 course of study the student is pursuing, as

20 determined by the institution of higher

21 education, or

22 “(II) is enrolled in a course which en-

23 ables the student to improve the student’s

24 job skills or to acquire new job skills.

1           “(E) IDENTIFICATION REQUIREMENT.—No  
2           deduction shall be allowed under subsection (a)  
3           to a taxpayer with respect to an eligible student  
4           unless the taxpayer includes the name, age, and  
5           taxpayer identification number of such eligible  
6           student on the return of tax for the taxable  
7           year.

8           “(2) DOLLAR LIMITATION.—The amount taken  
9           into account under paragraph (1) for any taxable  
10          year shall not exceed \$10,000.

11          “(3) LIMITATION BASED ON MODIFIED AD-  
12          JUSTED GROSS INCOME.—

13               “(A) IN GENERAL.—The amount which  
14               would be taken into account under paragraph  
15               (1) (after application of paragraph (2)) shall be  
16               reduced (but not below zero) by the amount de-  
17               termined under subparagraph (B).

18               “(B) AMOUNT OF REDUCTION.—The  
19               amount determined under this subparagraph  
20               equals the amount which bears the same ratio  
21               to the deduction (determined without regard to  
22               this paragraph) as—

23                       “(i) the excess of—

1                   “(I) the taxpayer’s modified ad-  
2                   justed gross income for such taxable  
3                   year, over

4                   “(II) \$60,000, bears to  
5                   “(ii) \$15,000.

6                   “(C) MODIFIED ADJUSTED GROSS IN-  
7                   COME.—The term ‘modified adjusted gross in-  
8                   come’ means the adjusted gross income of the  
9                   taxpayer for the taxable year determined—

10                   “(i) without regard to this section and  
11                   sections 911, 931, and 933, and

12                   “(ii) after the application of sections  
13                   86, 135, 219 and 469.

14                   For purposes of sections 86, 135, 219, and  
15                   469, adjusted gross income shall be determined  
16                   without regard to the deduction allowed under  
17                   this section.

18                   “(4) INSTITUTION OF HIGHER EDUCATION.—  
19                   The term ‘institution of higher education’ means an  
20                   institution which—

21                   “(A) is described in section 481 of the  
22                   Higher Education Act of 1965 (20 U.S.C.  
23                   1088), as in effect on the date of the enactment  
24                   of this section, and



1           “(B) is eligible to participate in programs  
2           under title IV of such Act.

3           “(c) QUALIFIED HIGHER EDUCATION LOAN.—For  
4 purposes of this section—

5           “(1) IN GENERAL.—The term ‘qualified higher  
6 education loan’ means a loan to a student which is—

7           “(A) made, insured, or guaranteed by the  
8 Federal Government,

9           “(B) made by a State or a political sub-  
10 division of a State,

11           “(C) made from the proceeds of a qualified  
12 student loan bond under section 144(b), or

13           “(D) made by an institution of higher edu-  
14 cation (as defined in section 1201(a) of the  
15 Higher Education Act of 1965 (20 U.S.C.  
16 1141(a))).

17           “(2) LIMITATION.—

18           “(A) IN GENERAL.—The amount of inter-  
19 est on a qualified higher education loan which  
20 is taken into account under subsection (a)(2)  
21 shall be reduced by the amount which bears the  
22 same ratio to such amount of interest as—

23           “(i) the proceeds from such loan used  
24 for qualified higher education expenses,  
25 bears to

1                   “(ii) the total proceeds from such  
2                   loan.

3                   “(B) QUALIFIED HIGHER EDUCATION EX-  
4                   PENSES.—For purposes of subparagraph (A),  
5                   the term ‘qualified higher education expenses’  
6                   has the meaning given such term by subsection  
7                   (b), except that—

8                   “(i) such term shall include reason-  
9                   able living expenses while away from home,  
10                  and

11                  “(ii) the limitations of paragraphs (2)  
12                  and (3) of subsection (b) shall not apply.

13                  “(d) SPECIAL RULES.—

14                  “(1) NO DOUBLE BENEFIT.—

15                  “(A) IN GENERAL.—No deduction shall be  
16                  allowed under subsection (a) for qualified high-  
17                  er education expenses or interest on qualified  
18                  higher education loans with respect to which a  
19                  deduction is allowable to the taxpayer under  
20                  any other provision of this chapter unless the  
21                  taxpayer irrevocably waives his right to the de-  
22                  duction of such expenses under such other pro-  
23                  vision.

24                  “(B) DEPENDENTS.—No deduction shall  
25                  be allowed under subsection (a) to any individ-

1 ual with respect to whom a deduction under  
2 section 151 is allowable to another taxpayer for  
3 a taxable year beginning in the calendar year in  
4 which such individual's taxable year begins.

5 “(C) SAVINGS BOND EXCLUSION.—A de-  
6 duction shall be allowed under subsection (a)  
7 for qualified higher education expenses only to  
8 the extent the amount of such expenses exceeds  
9 the amount excludable under section 135 for  
10 the taxable year.

11 “(2) LIMITATION ON TAXABLE YEAR OF DE-  
12 DUCTION.—

13 “(A) IN GENERAL.—A deduction shall be  
14 allowed under subsection (a) for any taxable  
15 year only to the extent the qualified higher edu-  
16 cation expenses are in connection with enroll-  
17 ment at an institution of higher education dur-  
18 ing the taxable year.

19 “(B) CERTAIN PREPAYMENTS ALLOWED.—  
20 Subparagraph (A) shall not apply to qualified  
21 higher education expenses paid during a taxable  
22 year if such expenses are in connection with an  
23 academic term beginning during such taxable  
24 year or during the 1st 3 months of the next  
25 taxable year.

1           “(3) ADJUSTMENT FOR CERTAIN SCHOLAR-  
2 SHIPS AND VETERANS BENEFITS.—The amount of  
3 qualified higher education expenses otherwise taken  
4 into account under subsection (a) with respect to the  
5 education of an individual shall be reduced (before  
6 the application of subsection (b)) by the sum of the  
7 amounts received with respect to such individual for  
8 the taxable year as—

9           “(A) a qualified scholarship which under  
10 section 117 is not includable in gross income,

11           “(B) an educational assistance allowance  
12 under chapter 30, 31, 32, 34, or 35 of title 38,  
13 United States Code, or

14           “(C) a payment (other than a gift, be-  
15 quest, devise, or inheritance within the meaning  
16 of section 102(a)) for educational expenses, or  
17 attributable to enrollment at an eligible edu-  
18 cational institution, which is exempt from in-  
19 come taxation by any law of the United States.

20           “(4) NO DEDUCTION FOR MARRIED INDIVID-  
21 UALS FILING SEPARATE RETURNS.—If the taxpayer  
22 is a married individual (within the meaning of sec-  
23 tion 7703), this section shall apply only if the tax-  
24 payer and the taxpayer’s spouse file a joint return  
25 for the taxable year.

1           “(5) NONRESIDENT ALIENS.—If the taxpayer is  
 2           a nonresident alien individual for any portion of the  
 3           taxable year, this section shall apply only if such in-  
 4           dividual is treated as a resident alien of the United  
 5           States for purposes of this chapter by reason of an  
 6           election under subsection (g) or (h) of section 6013.

7           “(6) REGULATIONS.—The Secretary may pre-  
 8           scribe such regulations as may be necessary or ap-  
 9           propriate to carry out this section, including regula-  
 10          tions requiring recordkeeping and information re-  
 11          porting.”.

12          (b) DEDUCTION ALLOWED IN COMPUTING AD-  
 13 JUSTED GROSS INCOME.—Section 62(a) of the Internal  
 14 Revenue Code of 1986 (defining adjusted gross income)  
 15 is amended by inserting after paragraph (15) the following  
 16 new paragraph:

17           “(16) HIGHER EDUCATION TUITION AND  
 18          FEES.—The deduction allowed by section 220.”.

19          (c) CONFORMING AMENDMENT.—The table of sec-  
 20 tions for part VII of subchapter B of chapter 1 of the  
 21 Internal Revenue Code of 1986 is amended by striking the  
 22 item relating to section 220 and inserting:

“Sec. 220. Higher education tuition and fees.  
 “Sec. 221. Cross reference.”.

1 (d) EFFECTIVE DATE.—The amendments made by  
2 this section shall apply to payments made after December  
3 31, 1996.

4 **Subtitle F—Elimination of Tax In-**  
5 **centives for Moving Jobs Over-**  
6 **seas**

7 **SEC. 151. SOURCE OF INCOME FROM CERTAIN SALES OF IN-**  
8 **VENTORY PROPERTY.**

9 (a) GENERAL RULE.—Subsection (b) of section 865  
10 of the Internal Revenue Code of 1986 (relating to excep-  
11 tion for inventory property) is amended to read as follows:

12 “(b) EXCEPTION FOR INVENTORY PROPERTY.—

13 “(1) IN GENERAL.—Except as otherwise pro-  
14 vided in this subsection, income derived from the  
15 sale of inventory property shall be sourced under the  
16 rules of sections 861(a)(6), 862(a)(6), and 863 and  
17 this section shall not apply.

18 “(2) TREATMENT OF CERTAIN SALES TO RE-  
19 LATED PERSONS.—

20 “(A) IN GENERAL.—If any inventory prop-  
21 erty produced (in whole or in part) by the tax-  
22 payer is sold by the taxpayer (directly or indi-  
23 rectly) to a related person—

24 “(i) the portion determined under  
25 subparagraph (B) of the income from such

1 sale shall be sourced in the United States  
2 or outside the United States depending on  
3 where the production activities occur, and

4 “(ii) the remaining portion of such in-  
5 come shall be sourced under the rules of  
6 sections 861(a)(6), 862(a)(6), and 863.

7 “(B) AMOUNT APPORTIONED TO PRODUC-  
8 TION ACTIVITIES.—For purposes of subpara-  
9 graph (A), the portion determined under this  
10 subparagraph is so much of the income from  
11 the sale as does not exceed the greater of—

12 “(i) the portion of such income appor-  
13 tioned to production activities under sec-  
14 tion 863(b), or

15 “(ii) the portion of the combined in-  
16 come of the taxpayer and related person  
17 attributable to such property which would  
18 have been apportioned to production activi-  
19 ties under section 863(b) if such taxpayer  
20 and related person were one taxpayer.

21 “(C) RELATED PERSON.—For purposes of  
22 this paragraph, the term ‘related person’ means  
23 any person related (within the meaning of sec-  
24 tion 482) to the taxpayer.

1           “(3) CERTAIN SALES FOR USE IN UNITED  
2 STATES.—If—

3           “(A) a United States resident sells (di-  
4 rectly or indirectly) inventory property to an-  
5 other United States resident for use, consump-  
6 tion, or disposition in the United States, and

7           “(B) such sale is not attributable to an of-  
8 fice or other fixed place of business maintained  
9 by such United States resident outside the  
10 United States,

11 any income of such United States resident (or any  
12 related person) from such sale shall be sourced in  
13 the United States.”.

14 (b) EFFECTIVE DATE.—The amendment made by  
15 this section shall apply to sales after December 31, 1996.

16 **SEC. 152. TRANSFER PRICING RULES.**

17 (a) AUTHORITY OF SECRETARY WHEN LEGAL LIM-  
18 ITS ON TRANSFER BY TAXPAYER.—Section 482 of the In-  
19 ternal Revenue Code of 1986 (relating to allocation of in-  
20 come and deductions among taxpayers) is amended by  
21 adding at the end the following: “The authority of the Sec-  
22 retary under this section shall not be limited by any re-  
23 striction (by any law or agreement) on the ability of such  
24 interests, organizations, trades, or businesses to transfer  
25 or receive money or other property.”.



1 (b) EFFECTIVE DATE.—The amendment made by  
 2 this section shall apply to taxable years beginning after  
 3 December 31, 1996.

4 **SEC. 153. INCOME FROM RUNAWAY PLANTS OR FROM MAN-**  
 5 **UFACTURING OPERATIONS LOCATED IN A**  
 6 **COUNTRY WHICH PROVIDES A TAX HOLIDAY**  
 7 **INCLUDED IN SUBPART F INCOME.**

8 (a) FOREIGN BASE COMPANY MANUFACTURING RE-  
 9 LATED INCOME ADDED TO CURRENTLY TAXED  
 10 AMOUNTS.—Subsection (a) of section 954 of the Internal  
 11 Revenue Code of 1986 (defining foreign base company in-  
 12 come) is amended by striking “and” at the end of para-  
 13 graph (4), by striking the period at the end of paragraph  
 14 (5) and inserting “, and”, and by adding at the end there-  
 15 of the following new paragraph:

16 “(6) the foreign base company manufacturing  
 17 related income for the taxable year (determined  
 18 under subsection (h) and reduced as provided in  
 19 subsection (b)(5)).”.

20 (b) DEFINITION OF FOREIGN BASE COMPANY MANU-  
 21 FACTURING RELATED INCOME.—Section 954 of the Inter-  
 22 nal Revenue Code of 1986 is amended by adding at the  
 23 end the following new subsection:

24 “(h) FOREIGN BASE COMPANY MANUFACTURING  
 25 RELATED INCOME.—

1           “(1) IN GENERAL.—For purposes of this sec-  
2           tion, the term ‘foreign base company manufacturing  
3           related income’ means income (whether in the form  
4           of profits, commissions, fees, or otherwise) derived in  
5           connection with the manufacture for or sale to any  
6           person of personal property by the controlled foreign  
7           corporation where the property sold was manufac-  
8           tured by the controlled foreign corporation in any  
9           country other than the United States if such prop-  
10          erty or any component of such property was manu-  
11          factured—

12                       “(A) in a tax holiday plant, or

13                       “(B) in a runaway plant.

14           “(2) OTHER DEFINITIONS; SPECIAL RULES.—

15          For purposes of this subsection—

16                       “(A) TAX HOLIDAY PLANT DEFINED.—The  
17          term ‘tax holiday plant’ means any facility—

18                               “(i) operated by the controlled foreign  
19                               corporation in connection with the manu-  
20                               facture of personal property, and

21                               “(ii) with respect to which any eco-  
22                               nomic benefit under any tax law of the  
23                               country in which such facility is located ac-  
24                               crued—

25                                       “(I) to such corporation,

1                   “(II) for the purpose of providing  
2                   an incentive to such corporation to es-  
3                   tablish, maintain, or expand such fa-  
4                   cility, and

5                   “(III) for the taxable year of  
6                   such corporation during which the  
7                   personal property referred to in para-  
8                   graph (1) was manufactured.

9                   “(B) RUNAWAY PLANT DEFINED.—The  
10                  term ‘runaway plant’ means any facility—

11                  “(i) for the manufacture of personal  
12                  property of which not less than 10 percent  
13                  is used, consumed, or otherwise disposed of  
14                  in the United States, and

15                  “(ii) which is established or main-  
16                  tained by the controlled foreign corporation  
17                  in a country in which the effective tax rate  
18                  imposed by such country on the corpora-  
19                  tion is less than 90 percent of the effective  
20                  tax rate which would be imposed on such  
21                  corporation under this title.

22                  “(C) ECONOMIC BENEFIT UNDER ANY TAX  
23                  LAW DEFINED.—The term ‘economic benefit  
24                  under any tax law’ includes—

1           “(i) any exclusion or deduction of any  
2 amount from gross income derived in con-  
3 nection with—

4                   “(I) the operation of any manu-  
5 facturing facility, or

6                   “(II) the manufacture or sale of  
7 any personal property,  
8 which would otherwise be subject to tax  
9 under the law of such country;

10           “(ii) any reduction in the rate of any  
11 tax which would otherwise be imposed  
12 under the laws of such country with re-  
13 spect to any facility or property referred to  
14 in clause (i) (including any ad valorem tax  
15 or excise tax with respect to such prop-  
16 erty);

17           “(iii) any credit against any tax which  
18 would otherwise be assessed against any  
19 such facility or property or any income de-  
20 rived in connection with the operation of  
21 any such facility or the manufacture or  
22 sale of any such property; and

23           “(iv) any abatement of any amount of  
24 tax otherwise due and any other reduction

1           in the actual amount of tax paid to such  
2           country.

3           “(D) MANUFACTURE DEFINED.—The term  
4           ‘manufacture’ or ‘manufacturing’ includes any  
5           production, processing, assembling, or finishing  
6           of any personal property or any component of  
7           property not yet assembled and any packaging,  
8           handling, or other activity incidental to the  
9           shipment or delivery of such property to any  
10          buyer.

11          “(E) CORPORATION INCLUDES ANY RELAT-  
12          ED PERSON.—The term ‘controlled foreign cor-  
13          poration’ includes any related person with re-  
14          spect to such corporation.

15          “(F) SPECIAL RULE FOR DETERMINING  
16          WHICH TAXABLE YEAR AN ECONOMIC BENEFIT  
17          WAS OBTAINED.—An economic benefit under  
18          any tax law shall be treated as having accrued  
19          in the taxable year of the controlled foreign cor-  
20          poration in which such corporation actually ob-  
21          tained the benefit, notwithstanding the fact that  
22          such benefit may have been allowable for any  
23          preceding or succeeding taxable year and was  
24          carried forward or back, for any reason, to the  
25          taxable year.

1           “(3) LIMITATION ON APPLICATION OF PARA-  
2           GRAPH (1) IN CERTAIN CASES.—For purposes of this  
3           section—

4           “(A) IN GENERAL.—The term ‘foreign  
5           base company manufacturing related income’  
6           shall not include any income of a controlled for-  
7           eign corporation from the manufacture or sale  
8           of personal property if—

9           “(i) such corporation is not a corpora-  
10          tion significantly engaged in manufactur-  
11          ing,

12          “(ii) the investment in the expansion  
13          of an existing facility which gave rise to a  
14          tax holiday for such facility was not a sub-  
15          stantial investment, or

16          “(iii) the personal property was used,  
17          consumed, or otherwise disposed of in the  
18          country in which such property was manu-  
19          factured.

20          “(B) CORPORATION SIGNIFICANTLY EN-  
21          GAGED IN MANUFACTURING DEFINED.—

22          “(i) GENERAL RULE.—A corporation  
23          shall be deemed to be significantly engaged  
24          in manufacturing if the value of real prop-  
25          erty and other capital assets owned or con-

1 trolled by the corporation and dedicated to  
2 manufacturing operations is more than 10  
3 percent of the total value of all real prop-  
4 erty and other capital assets owned or con-  
5 trolled by such corporation.

6 “(ii) SPECIAL RULE FOR ASSESSING  
7 PROPERTY VALUE.—The value of any  
8 property owned by the corporation is the  
9 basis of such corporation in such property.  
10 The basis of the corporation in any prop-  
11 erty which was acquired other than by pur-  
12 chase shall be the fair market value of  
13 such property at the time of such acquisi-  
14 tion. Any property controlled but not  
15 owned by such corporation under any lease  
16 (or any other instrument which gives such  
17 corporation any right of use or occupancy  
18 with respect to such property) shall be  
19 treated as property acquired other than by  
20 purchase in the manner provided in the  
21 preceding sentence.

22 “(C) SUBSTANTIAL INVESTMENT DE-  
23 FINED.—The term ‘substantial investment’  
24 means any amount which—

1           “(i) was added to the capital account  
2           for an existing facility during the 3-year  
3           period ending on the last day of any tax-  
4           able year with respect to which such facil-  
5           ity is a tax holiday plant, and

6           “(ii) caused the sum of all amounts  
7           added to such account during such period  
8           to exceed 20 percent of the total value of  
9           such facility (determined in the manner  
10          provided in subparagraph (B)(ii)) on the  
11          first day of such period.”.

12          (c) TECHNICAL AND CONFORMING AMENDMENTS.—

13           (1) The last sentence of subsection (b)(4) of  
14          such section 954 is amended by striking out “sub-  
15          section (a)(5).” and by inserting in lieu thereof  
16          “subsection (a)(5) or foreign base company manu-  
17          facturing related income described in subsection  
18          (a)(6).”

19           (2) Subsection (b)(5) of such section 954 is  
20          amended by striking out “and the foreign base com-  
21          pany oil related income” and by inserting in lieu  
22          thereof “the foreign base company oil related in-  
23          come, and the foreign base company manufacturing  
24          related income”.



1           (3) Subsection (b) of such section 954 is  
2           amended by inserting at the end thereof the follow-  
3           ing new paragraph:

4           “(9) FOREIGN BASE COMPANY MANUFACTURING  
5           RELATED INCOME NOT TREATED AS ANOTHER KIND  
6           OF BASE COMPANY INCOME.—Income of a corpora-  
7           tion which is foreign base company manufacturing  
8           related income shall not be treated as foreign base  
9           company income of such corporation under any  
10          paragraph of subsection (a) other than paragraph  
11          (6).”.

12          (d) EFFECTIVE DATES.—

13           (1) IN GENERAL.—The amendments made by  
14           this section shall apply to taxable years of foreign  
15           corporations beginning after December 31, 1988,  
16           and to taxable years of United States shareholders  
17           in which, or with which, such taxable years of for-  
18           eign corporations end.

19           (2) INVESTMENTS BEFORE THE DATE OF EN-  
20           ACTMENT NOT TAKEN INTO ACCOUNT.—No facility  
21           of a foreign controlled corporation shall be treated  
22           as a tax holiday plant (within the meaning of section  
23           954(h)(2)(A) of the Internal Revenue Code of 1986,  
24           as amended by this section) or as a runaway plant  
25           (within the meaning of section 954(h)(2)(B) of such

1 Code, as amended by this section) on the basis of  
 2 any amount paid or incurred with respect to such fa-  
 3 cility and added to the capital account for such facil-  
 4 ity before the date of the enactment of this Act.

5 **SEC. 154. REPEAL OF SECTION 911 EXCLUSION OF FOREIGN**  
 6 **EARNED INCOME.**

7 Subsection (a) of section 911 of the Internal Revenue  
 8 Code of 1986 (relating to citizens or residents of the Unit-  
 9 ed States living abroad) is amended by striking “under  
 10 this subtitle” and all that follows through “individual.”  
 11 and inserting “under this subtitle—

12 “(1) for any taxable year beginning before Jan-  
 13 uary 1, 1997, the foreign earned income of such in-  
 14 dividual, and

15 “(2) for any taxable year, the housing cost  
 16 amount of such individual.”.

17 **SEC. 155. REVISION OF TAX RULES ON EXPATRIATION.**

18 (a) IN GENERAL.—Subpart A of part II of sub-  
 19 chapter N of chapter 1 of the Internal Revenue Code of  
 20 1986 is amended by inserting after section 877 the follow-  
 21 ing new section:

22 **“SEC. 877A. TAX RESPONSIBILITIES OF EXPATRIATION.**

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

1           “(1) MARK TO MARKET.—Except as provided in  
2 subsection (f)(2), all property held by an expatriate  
3 immediately before the expatriation date shall be  
4 treated as sold at such time for its fair market  
5 value.

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

8           “(A) notwithstanding any other provision  
9 of this title, any gain arising from such sale  
10 shall be taken into account for the taxable year  
11 of the sale unless such gain is excluded from  
12 gross income under part III of subchapter B,  
13 and

14           “(B) any loss arising from such sale shall  
15 be taken into account for the taxable year of  
16 the sale to the extent otherwise provided by this  
17 title, except that section 1091 shall not apply  
18 (and section 1092 shall apply) to any such loss.

19           “(3) ELECTION TO CONTINUE TO BE TAXED AS  
20 UNITED STATES CITIZEN.—

21           “(A) IN GENERAL.—If an expatriate elects  
22 the application of this paragraph with respect  
23 to any property—

1           “(i) this section (other than this para-  
2           graph) shall not apply to such property,  
3           but

4           “(ii) such property shall be subject to  
5           tax under this title in the same manner as  
6           if the individual were a United States citi-  
7           zen.

8           “(B) LIMITATION ON AMOUNT OF ESTATE,  
9           GIFT, AND GENERATION-SKIPPING TRANSFER  
10          TAXES.—The aggregate amount of taxes im-  
11          posed under subtitle B with respect to any  
12          transfer of property by reason of an election  
13          under subparagraph (A) shall not exceed the  
14          amount of income tax which would be due if the  
15          property were sold for its fair market value im-  
16          mediately before the time of the transfer or  
17          death (taking into account the rules of sub-  
18          section (a)(2)).

19          “(C) REQUIREMENTS.—Subparagraph (A)  
20          shall not apply to an individual unless the indi-  
21          vidual—

22                 “(i) provides security for payment of  
23                 tax in such form and manner, and in such  
24                 amount, as the Secretary may require,

1                   “(ii) consents to the waiver of any  
2                   right of the individual under any treaty of  
3                   the United States which would preclude as-  
4                   sessment or collection of any tax which  
5                   may be imposed by reason of this para-  
6                   graph, and

7                   “(iii) complies with such other re-  
8                   quirements as the Secretary may prescribe.

9                   “(D) ELECTION.—An election under sub-  
10                  paragraph (A) shall apply only to the property  
11                  described in the election and, once made, shall  
12                  be irrevocable.

13                  “(b) EXCLUSION FOR CERTAIN GAIN.—The amount  
14                  which would (but for this subsection) be includible in the  
15                  gross income of any individual by reason of subsection (a)  
16                  shall be reduced (but not below zero) by \$600,000.

17                  “(c) PROPERTY TREATED AS HELD.—For purposes  
18                  of this section, except as otherwise provided by the Sec-  
19                  retary, an individual shall be treated as holding—

20                         “(1) all property which would be includible in  
21                         his gross estate under chapter 11 if such individual  
22                         were a citizen or resident of the United States (with-  
23                         in the meaning of chapter 11) who died at the time  
24                         the property is treated as sold,

1           “(2) any other interest in a trust which the in-  
2           dividual is treated as holding under the rules of sub-  
3           section (f)(1), and

4           “(3) any other interest in property specified by  
5           the Secretary as necessary or appropriate to carry  
6           out the purposes of this section.

7           “(d) EXCEPTIONS.—The following property shall not  
8           be treated as sold for purposes of this section:

9           “(1) UNITED STATES REAL PROPERTY INTER-  
10          ESTS.—Any United States real property interest (as  
11          defined in section 897(c)(1)), other than stock of a  
12          United States real property holding corporation  
13          which does not, on the expatriation date, meet the  
14          requirements of section 897(c)(2).

15          “(2) INTEREST IN CERTAIN RETIREMENT  
16          PLANS.—

17                 “(A) IN GENERAL.—Any interest in a  
18                 qualified retirement plan (as defined in section  
19                 4974(c)), other than any interest attributable to  
20                 contributions which are in excess of any limita-  
21                 tion or which violate any condition for tax-fa-  
22                 vored treatment.

23                 “(B) FOREIGN PENSION PLANS.—

24                         “(i) IN GENERAL.—Under regulations  
25                         prescribed by the Secretary, interests in

1 foreign pension plans or similar retirement  
2 arrangements or programs.

3 “(ii) LIMITATION.—The value of prop-  
4 erty which is treated as not sold by reason  
5 of this subparagraph shall not exceed  
6 \$500,000.

7 “(e) DEFINITIONS.—For purposes of this section—

8 “(1) EXPATRIATE.—The term ‘expatriate’  
9 means—

10 “(A) any United States citizen who relin-  
11 quishes his citizenship, or

12 “(B) any long-term resident of the United  
13 States who—

14 “(i) ceases to be a lawful permanent  
15 resident of the United States (within the  
16 meaning of section 7701(b)(6)), or

17 “(ii) commences to be treated as a  
18 resident of a foreign country under the  
19 provisions of a tax treaty between the  
20 United States and the foreign country and  
21 who does not waive the benefits of such  
22 treaty applicable to residents of the foreign  
23 country.

24 An individual shall not be treated as an expatriate  
25 for purposes of this section by reason of the individ-

1 ual relinquishing United States citizenship before at-  
2 taining the age of 18½ if the individual has been a  
3 resident of the United States (as defined in section  
4 7701(b)(1)(A)(ii)) for less than 5 taxable years be-  
5 fore the date of relinquishment.

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

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

10 “(B) in the case of a long-term resident of  
11 the United States, the date of the event de-  
12 scribed in clause (i) or (ii) of paragraph (1)(B).

13 “(3) RELINQUISHMENT OF CITIZENSHIP.—A  
14 citizen shall be treated as relinquishing his United  
15 States citizenship on the earliest of—

16 “(A) the date the individual renounces his  
17 United States nationality before a diplomatic or  
18 consular officer of the United States pursuant  
19 to paragraph (5) of section 349(a) of the Immi-  
20 gration and Nationality Act (8 U.S.C.  
21 1481(a)(5)),

22 “(B) the date the individual furnishes to  
23 the United States Department of State a signed  
24 statement of voluntary relinquishment of Unit-  
25 ed States nationality confirming the perform-



1           ance of an act of expatriation specified in para-  
2           graph (1), (2), (3), or (4) of section 349(a) of  
3           the Immigration and Nationality Act (8 U.S.C.  
4           1481(a)(1)–(4)),

5           “(C) the date the United States Depart-  
6           ment of State issues to the individual a certifi-  
7           cate of loss of nationality, or

8           “(D) the date a court of the United States  
9           cancels a naturalized citizen’s certificate of nat-  
10          uralization.

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

16          “(4) LONG-TERM RESIDENT.—

17          “(A) IN GENERAL.—The term ‘long-term  
18          resident’ means any individual (other than a  
19          citizen of the United States) who is a lawful  
20          permanent resident of the United States in at  
21          least 8 taxable years during the period of 15  
22          taxable years ending with the taxable year dur-  
23          ing which the sale under subsection (a)(1) is  
24          treated as occurring. For purposes of the pre-  
25          ceding sentence, an individual shall not be

1 treated as a lawful permanent resident for any  
2 taxable year if such individual is treated as a  
3 resident of a foreign country for the taxable  
4 year under the provisions of a tax treaty be-  
5 tween the United States and the foreign coun-  
6 try and does not waive the benefits of such  
7 treaty applicable to residents of the foreign  
8 country.

9 “(B) SPECIAL RULE.—For purposes of  
10 subparagraph (A), there shall not be taken into  
11 account—

12 “(i) any taxable year during which  
13 any prior sale is treated under subsection  
14 (a)(1) as occurring, or

15 “(ii) any taxable year prior to the tax-  
16 able year referred to in clause (i).

17 “(f) SPECIAL RULES APPLICABLE TO BENE-  
18 FICIARIES’ INTERESTS IN TRUST.—

19 “(1) DETERMINATION OF BENEFICIARIES’ IN-  
20 TEREST IN TRUST.—For purposes of this section—

21 “(A) GENERAL RULE.—A beneficiary’s in-  
22 terest in a trust shall be based upon all relevant  
23 facts and circumstances, including the terms of  
24 the trust instrument and any letter of wishes or  
25 similar document, historical patterns of trust

1 distributions, and the existence of and functions  
2 performed by a trust protector or any similar  
3 advisor.

4 “(B) SPECIAL RULE.—The remaining in-  
5 terests in the trust not determined under sub-  
6 paragraph (A) to be held by any beneficiary  
7 shall be allocated first to the grantor, if a bene-  
8 ficiary, and then to other beneficiaries under  
9 rules prescribed by the Secretary similar to the  
10 rules of intestate succession.

11 “(C) CONSTRUCTIVE OWNERSHIP.—If a  
12 beneficiary of a trust is a corporation, partner-  
13 ship, trust, or estate, the shareholders, part-  
14 ners, or beneficiaries shall be deemed to be the  
15 trust beneficiaries for purposes of this section.

16 “(D) TAXPAYER RETURN POSITION.—A  
17 taxpayer shall clearly indicate on its income tax  
18 return—

19 “(i) the methodology used to deter-  
20 mine that taxpayer’s trust interest under  
21 this section, and

22 “(ii) if the taxpayer knows (or has  
23 reason to know) that any other beneficiary  
24 of such trust is using a different methodol-

1           ogy to determine such beneficiary's trust  
2           interest under this section.

3           “(2) DEEMED SALE IN CASE OF TRUST INTER-  
4           EST.—If an individual who is an expatriate is treat-  
5           ed under paragraph (1) as holding an interest in a  
6           trust for purposes of this section—

7           “(A) the individual shall not be treated as  
8           having sold such interest,

9           “(B) such interest shall be treated as a  
10          separate share in the trust, and

11          “(C)(i) such separate share shall be treat-  
12          ed as a separate trust consisting of the assets  
13          allocable to such share,

14          “(ii) the separate trust shall be treated as  
15          having sold its assets immediately before the ex-  
16          patriation date for their fair market value and  
17          as having distributed all of its assets to the in-  
18          dividual as of such time, and

19          “(iii) the individual shall be treated as hav-  
20          ing recontributed the assets to the separate  
21          trust.

22          Subsection (a)(2) shall apply to any income, gain, or  
23          loss of the individual arising from a distribution de-  
24          scribed in subparagraph (C)(ii).

1       “(g) TERMINATION OF DEFERRALS, ETC.—On the  
2 date any property held by an individual is treated as sold  
3 under subsection (a), notwithstanding any other provision  
4 of this title—

5           “(1) any period during which recognition of in-  
6 come or gain is deferred shall terminate, and

7           “(2) any extension of time for payment of tax  
8 shall cease to apply and the unpaid portion of such  
9 tax shall be due and payable at the time and in the  
10 manner prescribed by the Secretary.

11       “(h) RULES RELATING TO PAYMENT OF TAX.—

12           “(1) IMPOSITION OF TENTATIVE TAX.—

13           “(A) IN GENERAL.—If an individual is re-  
14 quired to include any amount in gross income  
15 under subsection (a) for any taxable year, there  
16 is hereby imposed, immediately before the expa-  
17 triation date, a tax in an amount equal to the  
18 amount of tax which would be imposed if the  
19 taxable year were a short taxable year ending  
20 on the expatriation date.

21           “(B) DUE DATE.—The due date for any  
22 tax imposed by subparagraph (A) shall be the  
23 90th day after the expatriation date.

24           “(C) TREATMENT OF TAX.—Any tax paid  
25 under subparagraph (A) shall be treated as a

1 payment of the tax imposed by this chapter for  
2 the taxable year to which subsection (a) applies.

3 “(2) DEFERRAL OF TAX.—The payment of any  
4 tax attributable to amounts included in gross income  
5 under subsection (a) may be deferred to the same  
6 extent, and in the same manner, as any tax imposed  
7 by chapter 11, except that the Secretary may extend  
8 the period for extension of time for paying tax under  
9 section 6161 to such number of years as the Sec-  
10 retary determines appropriate.

11 “(3) RULES RELATING TO SECURITY INTER-  
12 ESTS.—

13 “(A) ADEQUACY OF SECURITY INTER-  
14 ESTS.—In determining the adequacy of any se-  
15 curity to be provided under this section, the  
16 Secretary may take into account the principles  
17 of section 2056A.

18 “(B) SPECIAL RULE FOR TRUST.—If a  
19 taxpayer is required by this section to provide  
20 security in connection with any tax imposed by  
21 reason of this section with respect to the hold-  
22 ing of an interest in a trust and any trustee of  
23 such trust is an individual citizen of the United  
24 States or a domestic corporation, such trustee  
25 shall be required to provide such security upon

1 notification by the taxpayer of such require-  
2 ment.

3 “(i) COORDINATION WITH ESTATE AND GIFT  
4 TAXES.—If subsection (a) applies to property held by an  
5 individual for any taxable year and—

6 “(1) such property is includible in the gross es-  
7 tate of such individual solely by reason of section  
8 2107, or

9 “(2) section 2501 applies to a transfer of such  
10 property by such individual solely by reason of sec-  
11 tion 2501(a)(3),

12 then there shall be allowed as a credit against the addi-  
13 tional tax imposed by section 2101 or 2501, whichever is  
14 applicable, solely by reason of section 2107 or 2501(a)(3)  
15 an amount equal to the increase in the tax imposed by  
16 this chapter for such taxable year by reason of this sec-  
17 tion.

18 “(j) REGULATIONS.—The Secretary shall prescribe  
19 such regulations as may be necessary or appropriate to  
20 carry out the purposes of this section, including regula-  
21 tions to prevent double taxation by ensuring that—

22 “(1) appropriate adjustments are made to basis  
23 to reflect gain recognized by reason of subsection (a)  
24 and the exclusion provided by subsection (b),

1           “(2) no interest in property is treated as held  
2 for purposes of this section by more than one tax-  
3 payer, and

4           “(3) any gain by reason of a deemed sale under  
5 subsection (a) of an interest in a corporation, part-  
6 nership, trust, or estate is reduced to reflect that  
7 portion of such gain which is attributable to an in-  
8 terest in a trust which a shareholder, partner, or  
9 beneficiary is treated as holding directly under sub-  
10 section (f)(1)(C).

11          “(k) CROSS REFERENCE.—

**“For income tax treatment of individuals who terminate United States citizenship, see section 7701(a)(47).”**

12          (b) DEFINITION OF TERMINATION OF UNITED  
13 STATES CITIZENSHIP.—Section 7701(a) of the Internal  
14 Revenue Code of 1986 is amended by adding at the end  
15 the following new paragraph:

16           “(47) TERMINATION OF UNITED STATES CITI-  
17 ZENSHIP.—An individual shall not cease to be treat-  
18 ed as a United States citizen before the date on  
19 which the individual’s citizenship is treated as relin-  
20 quished under section 877A(e)(3).”

21          (c) CONFORMING AMENDMENTS.—

22           (1) Section 877 of the Internal Revenue Code  
23 of 1986 is amended by adding at the end the follow-  
24 ing new subsection:



1       “(f) APPLICATION.—This section shall not apply to  
2 any individual who relinquishes (within the meaning of  
3 section 877A(e)(3)) United States citizenship on or after  
4 February 6, 1995.”

5           (2) Section 2107(c) of such Code is amended by  
6 adding at the end the following new paragraph:

7           “(3) CROSS REFERENCE.—For credit against  
8 the tax imposed by subsection (a) for expatriation  
9 tax, see section 877A(i).”

10          (3) Section 2501(a)(3) of such Code is amended  
11 by adding at the end the following new flush sen-  
12 tence:

13          “For credit against the tax imposed under this sec-  
14 tion by reason of this paragraph, see section  
15 877A(i).”

16          (4) Section 6851 of such Code is amended by  
17 striking subsection (d) and by redesignating sub-  
18 section (e) as subsection (d).

19          (5) Paragraph (10) of section 7701(b) of such  
20 Code is amended by adding at the end the following  
21 new sentence: “This paragraph shall not apply to  
22 any long-term resident of the United States who is  
23 an expatriate (as defined in section 877A(e)(1)).”

24          (d) CLERICAL AMENDMENT.—The table of sections  
25 for subpart A of part II of subchapter N of chapter 1

1 of the Internal Revenue Code of 1986 is amended by in-  
 2 serting after the item relating to section 877 the following  
 3 new item:

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

4 (e) EFFECTIVE DATE.—

5 (1) IN GENERAL.—The amendments made by  
 6 this section shall apply to expatriates (within the  
 7 meaning of section 877A(e) of the Internal Revenue  
 8 Code of 1986, as added by this section) whose expa-  
 9 triation date (as so defined) occurs on or after Feb-  
 10 ruary 6, 1995.

11 (2) DUE DATE FOR TENTATIVE TAX.—The due  
 12 date under section 877A(h)(1)(B) of such Code shall  
 13 in no event occur before the 90th day after the date  
 14 of the enactment of this Act.

15 **Subtitle G—Distressed Community**  
 16 **Economic Development Bonds**

17 **SEC. 161. DISTRESSED COMMUNITY ECONOMIC DEVELOP-**  
 18 **MENT BONDS.**

19 (a) IN GENERAL.—Paragraph (1) of section 141(e)  
 20 of the Internal Revenue Code of 1986 (defining qualified  
 21 bond) is amended by striking “or” at the end of subpara-  
 22 graph (F), by striking the period at the end of subpara-  
 23 graph (G) and inserting “, or”, and by adding at the end  
 24 the following new subparagraph:

1           “(H) a distressed community economic de-  
2           velopment bond.”

3           (b) DISTRESSED COMMUNITY ECONOMIC DEVELOP-  
4           MENT BOND DEFINED.—

5           (1) IN GENERAL.—Section 144 of the Internal  
6           Revenue Code of 1986 is amended by adding at the  
7           end the following new subsection:

8           “(d) DISTRESSED COMMUNITY ECONOMIC DEVELOP-  
9           MENT BOND.—For purposes of this subpart—

10           “(1) IN GENERAL.—The term ‘distressed com-  
11           munity economic development bond’ means any bond  
12           issued as part of an issue 95 percent or more of the  
13           net proceeds of which are to be used for distressed  
14           community economic development purposes.

15           “(2) DISTRESSED COMMUNITY ECONOMIC DE-  
16           VELOPMENT PURPOSES.—For purposes of this sub-  
17           section, the net proceeds of any issue shall be treat-  
18           ed as used for distressed community economic devel-  
19           opment purposes to the extent such proceeds are  
20           used—

21           “(A) to provide qualified economic develop-  
22           ment facilities or land which is functionally re-  
23           lated and subordinate to such facilities, or

24           “(B) to provide working capital required in  
25           connection with the establishment of a qualified

1 business in a distressed community or the ex-  
2 pansion of such a business in such a commu-  
3 nity.

4 “(3) QUALIFIED ECONOMIC DEVELOPMENT FA-  
5 CILITIES.—For purposes of this subsection, the term  
6 ‘qualified economic development facilities’ means any  
7 property to which section 168 applies (or would  
8 apply but for section 179) if—

9 “(A) such property was acquired by pur-  
10 chase (as defined in section 179(d)(2)) after the  
11 date on which the designation of the distressed  
12 community took effect,

13 “(B) the original use of which in the dis-  
14 tressed community commences with the person  
15 to whom the financing is provided under the  
16 issue, and

17 “(C) substantially all the use of which is in  
18 a distressed community and in the active con-  
19 duct of a qualified business.

20 For purposes of the preceding sentence, rules similar  
21 to the rules of subsections (a)(2) and (b) of section  
22 1397C shall apply.

23 “(4) QUALIFIED BUSINESS.—For purposes of  
24 this subsection—

1           “(A) IN GENERAL.—Except as otherwise  
2 provided in this paragraph, the term ‘qualified  
3 business’ means any trade or business.

4           “(B) RENTAL OF REAL PROPERTY.—The  
5 rental of any building or structure located in a  
6 distressed community shall be treated as a  
7 qualified business if and only if—

8                   “(i) the property is not residential  
9 rental property (as defined in section  
10 168(e)(2), and

11                   “(ii) at least 50 percent of the gross  
12 rental income from the building or struc-  
13 ture is from other qualified businesses in  
14 such community.

15           “(C) RENTAL OF TANGIBLE PERSONAL  
16 PROPERTY.—The rental of tangible personal  
17 property shall be treated as a qualified business  
18 if and only if substantially all of the rental of  
19 such property is by qualified businesses in the  
20 distressed community or by individual residents  
21 of the distressed community.

22           “(D) TREATMENT OF BUSINESS HOLDING  
23 INTANGIBLES.—The term ‘qualified business’  
24 shall not include any trade or business consist-

1           ing predominantly of the development or hold-  
2           ing of intangibles for sale or license.

3           “(E) CERTAIN BUSINESSES EXCLUDED.—

4           The term ‘qualified business’ shall not include  
5           any trade or business consisting of—

6                   “(i) the operation of any facility de-  
7                   scribed in subsection (c)(6)(B), or

8                   “(ii) operating a trade or business the  
9                   principal activity of which is farming  
10                  (within the meaning of subparagraph (A)  
11                  or (B) of section 2032A(e)(5)), but only if,  
12                  as of the close of the preceding taxable  
13                  year, the sum of the following exceeds  
14                  \$500,000—

15                   “(I) the aggregate unadjusted  
16                   bases (or, if greater, the fair market  
17                   value) of the assets owned by the tax-  
18                   payer and used in such trade or busi-  
19                   ness, and

20                   “(II) the aggregate value of the  
21                   assets leased by the taxpayer and  
22                   used in such trade or business.

23           For purposes of subclause (II), rules simi-  
24           lar to the rules of section 1397(b) shall  
25           apply.

1           “(5) DISTRESSED COMMUNITY.—For purposes  
2 of this subsection, the term ‘distressed community’  
3 means, with respect to periods in any calendar year,  
4 any area—

5           “(A) which is the area over which a gen-  
6 eral purpose local governmental unit has juris-  
7 diction and which is designated for purposes of  
8 this subsection by the governing body of such  
9 unit, and

10           “(B) which (as of the beginning of such  
11 year) meets the requirements of clause (i), (ii),  
12 or (iii) of this subparagraph:

13           “(i) CHRONIC ECONOMIC DISTRESS.—  
14 An area meets the requirements of this  
15 clause if—

16           “(I) the area has experienced  
17 population loss (as determined by the  
18 1990 or subsequent census data) of  
19 not less than 5 percent, or

20           “(II) the area has experienced an  
21 average unemployment rate over the  
22 last 5 years (as determined by the  
23 Bureau of Labor Statistics) of not  
24 less than 8 percent.

1           “(ii) SLOW JOB GROWTH.—An area  
2 meets the requirements of this clause if,  
3 over the last 5 years—

4           “(I) the area has experienced job  
5 growth in the retail and manufactur-  
6 ing sectors of less than 3 percent, or

7           “(II) if data are available only  
8 for the manufacturing sector, the  
9 community has experienced no job  
10 growth in such sector, or if data are  
11 available only for the retail sector, the  
12 area has experienced job growth in  
13 such sector of less than 8.5 percent.

14           “(iii) MAJOR BASE CLOSING.—An  
15 area meets the requirements of this clause  
16 if—

17           “(I) there has been a military  
18 base closing within its boundaries or  
19 adjacent thereto within the last 2  
20 years which has resulted, or will re-  
21 sult, in the loss of not less than 500  
22 jobs, or

23           “(II) there has been an official  
24 notification of a military base closing  
25 within its boundaries or adjacent



1                   thereto within the next 6 months,  
2                   which will result in the loss of not less  
3                   than 500 jobs.

4                   “(6) PROHIBITION OF ASSISTANCE FOR BUSI-  
5                   NESS RELOCATIONS.—

6                   “(A) IN GENERAL.—This subsection shall  
7                   not apply to any bonds issued as part of an  
8                   issue if any of the proceeds of such an issue are  
9                   used to assist any establishment in relocating  
10                  from an area outside the distressed community  
11                  to the distressed community.

12                  “(B) EXCEPTION.—The limitation estab-  
13                  lished in subparagraph (A) shall not be con-  
14                  strued to prohibit assistance for the expansion  
15                  of an existing business entity through the estab-  
16                  lishment of a new branch affiliate, or subsidiary  
17                  if—

18                         “(i) the establishment of the new  
19                         branch, affiliate, or subsidiary will not re-  
20                         sult in a decrease in employment in the  
21                         area of original location or in any other  
22                         area where the existing business entity  
23                         conducts business operations, and

24                         “(ii) there is no reason to believe that  
25                         the new branch, affiliate, or subsidiary is

1           being established with the intention of clos-  
 2           ing down the operations of the existing  
 3           business entity in the area of its original  
 4           location or in any other area where the ex-  
 5           isting business entity conducts business op-  
 6           erations.”.

7           (2) CLERICAL AMENDMENTS.—

8           (A) The section heading for section 144 of  
 9           such Code is amended by striking “**QUALIFIED**  
 10           **REDEVELOPMENT BOND.**” and inserting  
 11           “**ETC.**”.

12           (B) The table of sections for subpart A of  
 13           part IV of subchapter B of chapter 1 of such  
 14           Code is amended by striking “qualified redev-  
 15           opment bond.” in the item relating to section  
 16           144 and inserting “etc.”.

17           (c) CERTAIN RULES NOT TO APPLY.—

18           (1) Subsection (h) of section 147 of the Inter-  
 19           nal Revenue Code of 1986 (relating to certain rules  
 20           which do not apply) is amended by adding at the  
 21           end thereof the following new paragraph:

22           “(3) BONDS FOR DISTRESSED COMMUNITY ECO-  
 23           NOMIC DEVELOPMENT FACILITIES.—Subsection  
 24           (c)(1)(A) shall be applied by substituting ‘50 per-  
 25           cent’ for ‘25 percent’ and subsection (d) shall not

1 apply to any bond issued as part of an issue de-  
2 scribed in section 144(d)(1).”.

3 (2) The subsection heading for subsection (h) of  
4 section 147 of such Code is amended to read as fol-  
5 lows:

6 “(h) SPECIAL RULES FOR CERTAIN BONDS.—”.

7 (d) VOLUME CAP ONLY CHARGED WITH 50 PER-  
8 CENT OF DISTRESSED COMMUNITY ECONOMIC DEVELOP-  
9 MENT BONDS.—Subsection (g) of section 146 of the Inter-  
10 nal Revenue Code of 1986 (relating to an exception for  
11 certain bonds from volume cap) is amended by striking  
12 “and” at the end of paragraph (3), by striking the period  
13 at the end of paragraph (4) and inserting “, and”, and  
14 by inserting after paragraph (4) the following new para-  
15 graph:

16 “(5) 50 percent of any bond issued as part of  
17 an issue described in section 144(d)(1) (relating to  
18 distressed community economic development facili-  
19 ties).”.

20 (e) PENALTIES FOR LOANS MADE TO BUSINESSES  
21 THAT CEASE TO BE DISTRESSED COMMUNITY ECONOMIC  
22 DEVELOPMENT BUSINESSES, ETC.—Subsection (b) of  
23 section 150 of the Internal Revenue Code of 1986 (relat-  
24 ing to change in use) is amended by adding at the end  
25 the following new paragraph:

1           “(7) DISTRESSED COMMUNITY ECONOMIC DE-  
2 VELOPMENT BONDS.—In the case of any qualified  
3 economic development facility with respect to which  
4 financing was provided by an issue described in sec-  
5 tion 144(d)(1):

6           “(A) NO DEDUCTION ALLOWED.—No de-  
7 duction shall be allowed under this chapter for  
8 interest on such financing which accrues during  
9 the period beginning on the first day of the cal-  
10 endar year which includes the date on which—

11           “(i) the trade or business to which the  
12 financing was provided ceases to be a  
13 qualified business, or

14           “(ii) substantially all of the use of  
15 such facility with respect to which the fi-  
16 nancing was provided ceases to be in a dis-  
17 tressed community.

18           For purposes of this subparagraph, the term  
19 ‘distressed community’ means any area which  
20 qualifies as a distressed community under sec-  
21 tion 144(d)(5) as of the time the financing was  
22 provided without regard to any subsequent rev-  
23 ocation or termination.

24           “(B) PENALTY IMPOSED ON DISTRESSED  
25 COMMUNITY ECONOMIC DEVELOPMENT BUSI-

1           NESS.—If at any time while such financing is  
2           outstanding—

3                   “(i) such facility ceases to be in use in  
4                   a qualified business, or

5                   “(ii) substantially all of the use of  
6                   such facility ceases to be in a distressed  
7                   community (as so defined),

8           there is hereby imposed on such business to  
9           which such financing was provided a penalty  
10          equal to 1.25 percent of the portion of such fi-  
11          nancing which is outstanding immediately be-  
12          fore such cessation. Such penalty shall be as-  
13          sessed and collected by the Secretary.

14                   “(C) EXCEPTION FOR BANKRUPTCY.—  
15                   Subparagraphs (A) and (B) shall not apply to  
16                   any cessation resulting from bankruptcy.”.

17          (f) BANK INTEREST DEDUCTION.—

18                   (1) IN GENERAL.—Clause (ii) of section  
19                   265(b)(3)(B) of the Internal Revenue Code of 1986  
20                   (relating to exception for certain tax-exempt obliga-  
21                   tions) is amended—

22                           (A) by striking “or” at the end of  
23                           subclause (I),

24                           (B) by redesignating subclause (II) as  
25                           subclause (III), and

1 (C) by inserting after subclause (I) the fol-  
 2 lowing new subclause:

3 “(II) any bond issued as part of  
 4 an issue described in section  
 5 144(d)(1), or”.

6 (2) CONFORMING AGREEMENT.—Subclause (I)  
 7 of section 265(b)(3)(B)(i) of such Code (defining  
 8 qualified tax-exempt obligation) is amended by in-  
 9 serting “or is an obligation issued as part of an  
 10 issue described in section 144(d)(1)” after “issuer”.

11 (g) EFFECTIVE DATE.—The amendments made by  
 12 this section shall apply to bonds issued after the date of  
 13 the enactment of this Act.

14 **TITLE II—RETIREMENT**  
 15 **SECURITY**

16 **SEC. 201. SHORT TITLE.**

17 This title may be cited as the “Workers Pension Act  
 18 of 1996”.

19 **SEC. 202. FINDINGS AND PURPOSE.**

20 (a) STATEMENT OF FINDINGS.—The Senate finds  
 21 that—

22 (1) most workers, over one-half of the Nation’s  
 23 workforce, do not have a private pension plan;

1           (2) most of these workers do not have pensions  
2 because their employers do not offer pension plans  
3 or limit pension coverage only to certain workers;

4           (3) workers without employer-sponsored pen-  
5 sions are most likely to be individuals who work for  
6 small- or medium-size firms, who work in service in-  
7 dustries, who are women, or are individuals who are  
8 in and out of the labor force during their careers;

9           (4) workers who have employer-sponsored pen-  
10 sion plans receive large Federal tax benefits;

11           (5) in 1995, the Federal tax subsidies for em-  
12 ployer-sponsored pension plans equaled  
13 \$52,000,000,000;

14           (6) workers who do not have employer-spon-  
15 sored pensions are not eligible for these tax benefits;

16           (7) simplified employer plans and other efforts  
17 to encourage employers to offer more pensions have  
18 not resulted in coverage for most of those who have  
19 lacked employer-sponsored pensions;

20           (8) economic growth can be improved by a  
21 higher national savings rate and better labor mobil-  
22 ity;

23           (9) improved pension arrangements can raise  
24 national savings, and pension portability can in-

1       crease workers' willingness to move to jobs offered  
2       by newer and smaller companies;

3               (10) the vulnerability of future retirees to po-  
4       tential social security and medicare cutbacks would  
5       be reduced, and their standards of living improved,  
6       if they had greater personal retirement savings;

7               (11) workers can have good pensions through  
8       arrangements that do not require each employer to  
9       set up and manage its own pension benefits pro-  
10      gram; and

11              (12) the Teachers Insurance Annuity Associa-  
12      tion, for example, is a nationwide pension system—

13                   (A) which covers workers with many dif-  
14      ferent employers,

15                   (B) which provides individual workers with  
16      their own pension accounts, and

17                   (C) which allows workers to keep these  
18      same accounts when they change jobs between  
19      participating institutions.

20      (b) STATEMENT OF PURPOSE.—It is the purpose of  
21      this Act—

22              (1) to insure that workers who do not have an  
23      employer-sponsored pension plan are able to estab-  
24      lish individual pension plans;



1           (2) to provide the same tax advantages for  
2 these individual pension plans as for employer-spon-  
3 sored pension plans;

4           (3) to insure that individual pension plans will  
5 have the same quality of investments as employer-  
6 sponsored pensions, and to require those who man-  
7 age individual pensions plans to meet the same fidu-  
8 ciary responsibility standards as those who manage  
9 employer-sponsored pension plans;

10          (4) to provide workers with comparative infor-  
11 mation on individual pension plan options so that  
12 they are able to select qualified pension managers  
13 and investments that best meet their needs;

14          (5) to guarantee that individual pension plan  
15 contributions will be immediately and fully vested,  
16 and that such pension plans will be fully portable if  
17 a worker changes jobs; and

18          (6) to insure that the individual pension plan  
19 contribution system will work as easily and conven-  
20 iently as possible for workers and their employers.

21 **SEC. 203. DEDUCTION FOR CONTRIBUTIONS TO INDIVID-**  
22 **UAL PENSION PLANS.**

23          (a) IN GENERAL.—Part VII of subchapter B of chap-  
24 ter 1 of the Internal Revenue Code of 1986 (relating to  
25 additional itemized deductions for individuals), as amend-

1 ed by section 142, is amended by redesignating section  
2 221 as section 222 and by inserting after section 220 the  
3 following new section:

4 **“SEC. 221. CONTRIBUTIONS TO INDIVIDUAL PENSION**  
5 **PLANS.**

6 “(a) DEDUCTION ALLOWED.—In the case of an eligi-  
7 ble individual, there shall be allowed as a deduction the  
8 amounts paid during the taxable year—

9 “(1) through a qualified payroll deduction plan  
10 by such individual, and

11 “(2) as optional contributions by the employer  
12 of such individual,

13 to an individual pension plan for the benefit of such indi-  
14 vidual.

15 “(b) LIMITATION.—The amount allowable as a de-  
16 duction under subsection (a) with respect to any individual  
17 for the taxable year shall not exceed the excess (if any)  
18 of—

19 “(1) the maximum dollar limit allowed for a  
20 section 401(k) salary reduction plan for such taxable  
21 year, over

22 “(2) any contributions made by or on behalf of  
23 the individual to any plan described in section  
24 219(g)(5).

1       “(c) DEFINITIONS AND SPECIAL RULES.—For pur-  
2 poses of this section—

3           “(1) ELIGIBLE INDIVIDUAL.—The term ‘eligible  
4 individual’ means, with respect to any taxable year  
5 any individual—

6           “(A) who has earned income reportable as  
7 wages on a W-2 form, and

8           “(B) who elects for such year to partici-  
9 pate in a qualified payroll deduction plan of the  
10 individual’s employer.

11          “(2) INDIVIDUAL PENSION PLAN.—The term  
12 ‘individual pension plan’ has the meaning given such  
13 term by section 408A.

14          “(3) QUALIFIED PAYROLL DEDUCTION PLAN.—  
15 The term ‘qualified payroll deduction plan’ means a  
16 written plan of an employer if—

17           “(A) the plan applies only with respect to  
18 wages of eligible individuals,

19           “(B) under such plan, contributions will be  
20 deducted from the employee’s wages and paid  
21 to the individual pension plan specified by the  
22 individual in an amount specified by such indi-  
23 vidual,

24           “(C) under such plan, the employer is re-  
25 quired to pay the amount so deducted with re-

1           spect to the specified individual pension plan  
 2           pursuant to section 205(a)(5) of the Workers  
 3           Pension Act of 1996,

4           “(D) the employer receives no compensa-  
 5           tion for the cost of administering the payroll  
 6           deduction plan, and

7           “(E) the employer does not make any en-  
 8           dorsement with respect to any individual pen-  
 9           sion plan.

10          “(4) PERIOD FOR ELECTION.—An election may  
 11          be made under paragraph (1)(B) in January of each  
 12          year, or if necessary, upon the filing of a W-4 form.”

13          (b) DEDUCTION ALLOWED AGAINST GROSS IN-  
 14          COME.—Subsection (a) of section 62 of the Internal Reve-  
 15          nue Code of 1986 (defining adjusted gross income), as  
 16          amended by section 142, is amended by inserting after  
 17          paragraph (16) the following new paragraph:

18                 “(17) INDIVIDUAL PENSION PLANS.—The de-  
 19                 duction allowed by section 221.”

20          (c) CLERICAL AMENDMENT.—The table of sections  
 21          for part VII of subchapter B of chapter 1 of the Internal  
 22          Revenue Code of 1986, as amended by section 142, is  
 23          amended by striking the last item and inserting the follow-  
 24          ing new items:

                  “Sec. 221. Contributions to individual pension plans.

                  “Sec. 222. Cross reference.”

1 (d) EFFECTIVE DATE.—The amendments made by  
2 this section shall apply to taxable years beginning after  
3 December 31, 1996.

4 **SEC. 204. ESTABLISHMENT OF INDIVIDUAL PENSION**  
5 **PLANS.**

6 (a) IN GENERAL.—Subpart A of part I of subchapter  
7 D of chapter 1 of the Internal Revenue Code of 1986 (re-  
8 lating to pension, profit-sharing, stock bonus plans, etc.)  
9 is amended by inserting after section 408 the following  
10 new section:

11 **“SEC. 408A. INDIVIDUAL PENSION PLANS.**

12 “(a) GENERAL RULE.—Except as provided in this  
13 chapter, an individual pension plan shall be treated for  
14 purposes of this title in the same manner as an individual  
15 retirement plan.

16 “(b) INDIVIDUAL PENSION PLAN.—For purposes of  
17 this title—

18 “(1) IN GENERAL.—The term ‘individual pen-  
19 sion plan’ means an individual retirement plan which  
20 is a standard individual pension plan or a supple-  
21 mentary social security account made available by a  
22 qualified pension agency and which is designated at  
23 the time of establishment of the plan as an individ-  
24 ual pension plan.

25 “(2) QUALIFIED PENSION AGENCY.—

1           “(A) IN GENERAL.—The term ‘qualified  
2 pension agency’ means an organization which—

3           “(i) meets the requirements of sub-  
4 paragraph (B), and

5           “(ii) is certified by the Secretary as  
6 meeting such requirements on an on-going  
7 basis.

8           “(B) REQUIREMENTS.—The requirements  
9 of this subparagraph are as follows:

10           “(i) A qualified pension agency must  
11 be a bank (as defined in section 408(n), in-  
12 surance company, mutual fund company,  
13 labor union, Taft-Hartley plan, multiple  
14 employer welfare arrangement, or other or-  
15 ganization which is responsible for em-  
16 ployer-sponsored pension funds.

17           “(ii) A qualified pension agency has  
18 the same fiduciary and trustee responsibil-  
19 ities for individual pension plans as are re-  
20 quired of trustees for employee benefit  
21 plans under sections 402 through 406 of  
22 the Employee Retirement Income Security  
23 Act of 1974.

24           “(iii) A qualified pension agency  
25 must—

1           “(I) offer individual pension  
2 plans that meet the requirements of  
3 this section;

4           “(II) establish and maintain such  
5 plans pursuant to a written document  
6 which shall provide for one or more  
7 named fiduciaries who jointly or sev-  
8 erally shall have authority to control  
9 and manage the operation and admin-  
10 istration of the plan;

11           “(III) provide information to the  
12 Secretary on its performance with re-  
13 spect to financial security, invest-  
14 ments and investment performance,  
15 administrative expenses, customer  
16 service, contributions and disburse-  
17 ments, annual audits, and other infor-  
18 mation requested by the Secretary to  
19 insure compliance with standards,  
20 sound financial and business prac-  
21 tices, and to assess comparative per-  
22 formance;

23           “(IV) provide annual reports to  
24 participants in individual pension  
25 plans which provide participants with

1 information on their account status  
2 and activity during the prior year,  
3 compare the agency's performance,  
4 using information provided by the  
5 Secretary, to those of other qualified  
6 pension agencies, and other invest-  
7 ment indicators, and use uniform for-  
8 mats as specified by the Secretary;

9 “(V) provide for qualified trans-  
10 fers or for disbursement of funds to  
11 participants, on their written request;

12 “(VI) participate in arrange-  
13 ments, approved by the Secretary, for  
14 the transfer of payroll deductions and  
15 optional contributions from employers  
16 to individual pension plans at no  
17 charge to the employers; and

18 “(VII) disclose such administra-  
19 tive charges as it may impose on par-  
20 ticipants.

21 “(iv) A qualified pension agency shall  
22 meet such other requirements and per-  
23 formance standards as the Secretary deter-  
24 mines are in the best interests of the inves-  
25 tors in individual pension plans.



1           “(C) DE MINIMIS RULE.—A qualified pen-  
2           sion agency may require that a qualified trans-  
3           fer among individual pension plans be at least  
4           \$500, and may decline to accept payroll con-  
5           tributions which, on an annualized basis, are  
6           less than \$200.

7           “(3) STANDARD INDIVIDUAL PENSION PLAN.—  
8           The term ‘standard individual pension plan’ means  
9           an individual pension plan which has been certified  
10          by the Secretary as meeting the requirements of this  
11          section.

12          “(4) SUPPLEMENTARY SOCIAL SECURITY AC-  
13          COUNT.—The term ‘supplementary social security  
14          account’ means an individual pension plan which has  
15          been certified by the Commissioner of Social Secu-  
16          rity as meeting the requirements of this section and  
17          section 234 of the Social Security Act.

18          “(c) SPECIAL RULES.—

19                 “(1) DEDUCTION ALLOWED.—A deduction shall  
20                 be allowed under section 221 for a contribution to  
21                 an individual pension plan.

22                 “(2) CONTRIBUTION LIMIT.—The aggregate  
23                 amount of contributions for any taxable year to all  
24                 individual pension plans maintained for the benefit  
25                 of an individual shall not exceed the maximum

1 amount allowable as a deduction under section 221  
2 with respect to such individual for such taxable year.

3 “(3) SPECIAL RULES FOR QUALIFIED TRANS-  
4 FERS.—

5 “(A) IN GENERAL.—No rollover contribu-  
6 tion may be made to an individual pension plan  
7 unless it is a qualified transfer.

8 “(B) LIMIT NOT TO APPLY.—The limita-  
9 tion under paragraph (2) shall not apply to a  
10 qualified transfer to an individual pension plan.

11 “(C) SPECIAL RULE RELATING TO CER-  
12 TAIN TRANSFERS.—Notwithstanding any other  
13 provision of law, in the case of a qualified  
14 transfer to an individual pension plan from an  
15 individual retirement plan which is not an indi-  
16 vidual pension plan—

17 “(i) there shall be included in gross  
18 income any amount which, but for the  
19 qualified transfer, would be includible in  
20 gross income, but

21 “(ii) section 72(t) shall not apply to  
22 such amount.

23 “(D) QUALIFIED TRANSFER.—For pur-  
24 poses of this section, the term ‘qualified trans-  
25 fer’ means a transfer to an individual pension

1 plan from another such plan or from an individ-  
 2 ual retirement plan but only if such transfer  
 3 meets the requirements of section 408(d)(3).

4 “(4) LIMITATION ON IRA CONTRIBUTIONS.—  
 5 For purposes of section 219(g) only, an individual  
 6 pension plan shall be considered a plan described in  
 7 paragraph (5) thereof.

8 “(5) CROSS REFERENCES.—

“For tax treatment of plans and distributions from  
 plans, see section 408.

“For additional tax for early withdrawal, see sec-  
 tion 72(t).

“For tax on excess contributions, see section 4973.

“For tax on prohibited transactions, see section  
 4975.

“For failure to provide reports, see section 6693.”

9 (b) PENALTY-FREE DISTRIBUTIONS FROM INDIVID-  
 10 UAL PENSION PLANS TO PAY EDUCATIONAL EXPENSES  
 11 OR FOR THE UNEMPLOYED.—

12 (1) EDUCATIONAL EXPENSES.—

13 (A) IN GENERAL.—Paragraph (2) of sec-  
 14 tion 72(t) of the Internal Revenue Code of  
 15 1986 (relating to exceptions to 10-percent addi-  
 16 tional tax on early distributions from qualified  
 17 retirement plans) is amended by adding at the  
 18 end the following new subparagraph:

19 “(D) DISTRIBUTIONS FROM CERTAIN  
 20 PLANS FOR EDUCATIONAL EXPENSES.—Dis-  
 21 tributions to an individual from an individual

1 pension plan to the extent such distributions do  
2 not exceed the qualified higher education ex-  
3 penses (as defined in paragraph (6)) of the tax-  
4 payer for the taxable year.”

5 (B) DEFINITION.—Section 72(t) of such  
6 Code is amended by adding at the end the fol-  
7 lowing new paragraph:

8 “(6) QUALIFIED HIGHER EDUCATION EX-  
9 PENSES.—For purposes of paragraph (2)(D)—

10 “(A) IN GENERAL.—The term ‘qualified  
11 higher education expenses’ means tuition and  
12 fees required for the enrollment or attendance  
13 of—

14 “(i) the taxpayer,

15 “(ii) the taxpayer’s spouse,

16 “(iii) a dependent of the taxpayer  
17 with respect to whom the taxpayer is al-  
18 lowed a deduction under section 151, or

19 “(iv) the taxpayer’s child (as defined  
20 in section 151(c)(3)) or grandchild,

21 as an eligible student at an institution of higher  
22 education (as defined in section 220(b)(4)).

23 “(B) COORDINATION WITH SAVINGS BOND  
24 PROVISIONS.—The amount of qualified higher  
25 education expenses for any taxable year shall be

1 reduced by any amount excludable from gross  
2 income under section 135.”

3 (2) DISTRIBUTIONS FOR CERTAIN UNEMPLOYED  
4 INDIVIDUALS.—Paragraph (2) of section 72(t), as  
5 amended by paragraph (1) of this subsection, is  
6 amended by adding at the end the following new  
7 subparagraph:

8 “(E) DISTRIBUTIONS TO UNEMPLOYED IN-  
9 DIVIDUALS.—A distribution from an individual  
10 pension plan to an individual after separation  
11 from employment, if—

12 “(i) such individual has received un-  
13 employment compensation for 12 consecu-  
14 tive weeks under any Federal or State un-  
15 employment compensation law by reason of  
16 such separation, and

17 “(ii) such distributions are made dur-  
18 ing any taxable year during which such un-  
19 employment compensation is paid or the  
20 succeeding taxable year.”

21 (c) EXCESS CONTRIBUTIONS.—Section 4973(b) of  
22 the Internal Revenue Code of 1986 is amended by adding  
23 at the end the following new sentence: “In the case of an  
24 individual pension plan, paragraphs (1)(B) and (2)(C)

1 shall be applied by substituting ‘section 221’ for ‘section  
2 219’.”

3 (d) SUPPLEMENTARY SOCIAL SECURITY AC-  
4 COUNTS.—Title II of the Social Security Act (42 U.S.C.  
5 401 et seq.) is amended by adding at the end the following  
6 new section:

7 “SUPPLEMENTARY SOCIAL SECURITY ACCOUNTS

8 “SEC. 234. (a) IN GENERAL.—Any employee may  
9 designate to an employer a supplementary social security  
10 account as the employee’s individual pension plan under  
11 section 408A of the Internal Revenue Code of 1986. Any  
12 such designation shall be made in such form and manner  
13 as may be prescribed in regulations of the Commissioner  
14 of Social Security.

15 “(b) RESPONSIBILITIES OF COMMISSIONER.—The  
16 Commissioner of Social Security shall—

17 “(1) invest contributions to a supplementary so-  
18 cial security account in United States Treasury se-  
19 curities;

20 “(2) separately account for the amount of such  
21 contributions and investment earnings and not com-  
22 mingle such amount with the Trust Funds under  
23 this Act; and

24 “(3) provide, by regulation, for several with-  
25 drawal options for such contributions and earnings,  
26 including—

1           “(A) lump sum distributions;

2           “(B) increased payments of benefits under  
3 this title; and

4           “(C) use as premium payments of supple-  
5 mentary medical insurance or other supple-  
6 mental health or long term care benefits.”

7       (e) CONFORMING AMENDMENT.—The table of sec-  
8 tions for subpart A of part I of subchapter D of chapter  
9 1 of the Internal Revenue Code of 1986 is amended by  
10 inserting after the item relating to section 408 the follow-  
11 ing new item:

“Sec. 408A. Individual pension plans.”

12       (f) EFFECTIVE DATE.—The amendments made by  
13 this section shall apply to taxable years beginning after  
14 December 31, 1996.

15 **SEC. 205. EMPLOYER RESPONSIBILITIES.**

16       (a) IN GENERAL.—Employers of individuals eligible  
17 to contribute to an individual pension plan (as defined in  
18 section 408A(b)(1) of the Internal Revenue Code of 1986)  
19 shall—

20           (1) notify all such individuals, in writing, at the  
21 time of hiring, of their right to make payroll deduc-  
22 tions for an individual pension plan;

23           (2) notify all such individuals employed on the  
24 date of the enactment of this Act of such right, as  
25 provided in regulations of the Secretary of the

1 Treasury, at the first general enrollment period fol-  
2 lowing such date;

3 (3) include in the notification—

4 (A) such information as provided by the  
5 Secretary of the Treasury on available qualified  
6 pension agencies (as defined in section  
7 408A(b)(2) of such Code), investment options,  
8 and agency performance data,

9 (B) how an individual may obtain detailed  
10 information from qualified pension agencies,  
11 and

12 (C) how an individual may establish an in-  
13 dividual pension plan;

14 (4) deduct the amounts requested by such an  
15 eligible individual up to the maximum contribution  
16 amount per pay period permitted;

17 (5) remit such amounts to a regional pension  
18 service center or to an individual's plan, at the em-  
19 ployer's discretion, on a timely basis, as determined  
20 by the Secretary of the Treasury;

21 (6) notify each employee participating in an in-  
22 dividual pension plan on each wage statement of the  
23 contributions deducted from the employee's salary;  
24 and



1           (7) notify employees on their W-2 forms of the  
2           total amount of individual pension plan contributions  
3           made during a calendar year.

4   An employer may refuse to deduct individual pension plan  
5   contributions that, on an annual basis, would be less than  
6   \$200.

7           (b) CONFORMING AMENDMENT.—Subsection (a) of  
8   section 6051 of the Internal Revenue Code of 1986 (relat-  
9   ing to receipts for employees) is amended by striking  
10 “and” at the end of paragraph (9), striking the period  
11 at the end of paragraph (10) and inserting “, and”, and  
12 by inserting after paragraph (10) the following new para-  
13 graph:

14           “(11) the total amount of payroll deductions  
15           and optional employer contributions to the employ-  
16           ee’s individual pension plan under section 408A.”

17           (c) APPLICATION OF ERISA AND OTHER REQUIRE-  
18   MENTS.—In forwarding an employee’s payroll deduction  
19   to the employee’s individual pension plan, an employer is  
20   not offering a plan under title I of the Employee Retire-  
21   ment Income Security Act of 1974. This title does not re-  
22   quire employers, with respect to individual pension plans,  
23   to maintain a written pension plan, accept fiduciary re-  
24   sponsibility for their employees’ investments, or meet non-  
25   discrimination tests for employer pension benefits.

1 **SEC. 206. ESTABLISHMENT AND RESPONSIBILITIES OF RE-**  
2 **GIONAL PENSION SERVICE CENTERS.**

3 (a) ESTABLISHMENT.—The Secretary of the Treas-  
4 ury shall designate and enter into an agreement with an  
5 organization to serve as a regional pension service center  
6 for each area of the United States.

7 (b) RESPONSIBILITIES.—Under an agreement de-  
8 scribed in subsection (a), the responsibilities of a regional  
9 pension service center shall be—

10 (1) to receive payroll deductions for individual  
11 pension plans (as defined in section 408A(b)(1) of  
12 the Internal Revenue Code of 1986) from employers  
13 who are required to make such deductions at no  
14 charge to such employers;

15 (2) to forward such deductions to the proper  
16 qualified pension agency (as defined in section  
17 408A(b)(2) of such Code) for deposit to the individ-  
18 ual pension plan of the employee making the con-  
19 tribution;

20 (3) to assist employees, employers, and quali-  
21 fied pension agencies through the provision of infor-  
22 mation and other activities that will facilitate imple-  
23 mentation of the provisions of this title and section  
24 408A of such Code;

25 (4) to arrange to receive employer payments in  
26 ways which serve employers well, including using the

1 same procedures and schedule by which employers  
2 deposit payroll taxes under the Internal Revenue  
3 Code of 1986; and

4 (5) to disclose such administrative charges as  
5 such center may impose on qualified pension agen-  
6 cies.

7 **SEC. 207. SECRETARIAL RESPONSIBILITIES.**

8 (a) IN GENERAL.—The Secretary of the Treasury  
9 shall have primary responsibility for the administration of  
10 this title and for implementing the amendments made to  
11 the Internal Revenue Code of 1986.

12 (b) NOTIFICATION OF AVAILABILITY OF PLANS.—

13 (1) IN GENERAL.—The Secretary of the Treas-  
14 ury, in a joint effort with the Secretary of Labor,  
15 shall insure that—

16 (A) all eligible employees are notified of  
17 their rights to participate in individual pension  
18 plans (as defined in section 408A(b)(1) of the  
19 Internal Revenue Code of 1986) and their re-  
20 sponsibilities;

21 (B) all employers are notified of their re-  
22 sponsibilities with respect to individual pension  
23 plans; and

24 (C) accurate and complete information  
25 about qualified pension agencies (as defined in

1 section 408A(b)(2) of such Code), individual  
2 pension plan options, and administrative proce-  
3 dures are made available to eligible employees  
4 and employers on a timely basis for them to ex-  
5 ercise their rights and carry out their respon-  
6 sibilities.

7 (2) USE OF QUALIFIED PENSION AGENCIES.—

8 If the Secretary of the Treasury determines that a  
9 private market is not working well, in some in-  
10 stances, to insure that individual pension plan op-  
11 tions are available to all eligible employees, or that  
12 available qualified pension agencies are not perform-  
13 ing well, the Secretary may, at the Secretary's dis-  
14 cretion, contract on a competitive basis with one or  
15 more qualified pension agencies to facilitate their  
16 entry and competition for improved service in such  
17 markets.

18 (c) STANDARDS FOR INDIVIDUAL PENSION PLANS  
19 AND QUALIFIED PENSION AGENCIES.—

20 (1) STANDARD INDIVIDUAL PENSION PLAN.—

21 The Secretary of the treasury shall specify at least  
22 3 standard individual pension plans that must be  
23 made available by all qualified pension agencies of-  
24 fering such plans to an industry or occupational

1 group, or on a regional basis. In determining such  
2 model plans, the Secretary shall consider—

3 (A) the characteristics of the most widely  
4 adopted private sector pension plans;

5 (B) surveys of potential participants in in-  
6 dividual pension plans concerning their pref-  
7 erences in plan characteristics; and

8 (C) the preferences of industry, occupa-  
9 tional associations, and other groups concerning  
10 such characteristics.

11 (2) CONSULTATION.—In carrying out the re-  
12 sponsibilities to set standards for qualified pension  
13 agencies and for individual pension plans, the Sec-  
14 retary of the Treasury—

15 (A) shall consult with—

16 (i) investors in individual pension  
17 plans,

18 (ii) the Securities and Exchange Com-  
19 mission and the Department of Labor, and

20 (iii) experts in financial matters and  
21 retirement planning; and

22 (B) may establish a formal advisory com-  
23 mittee to assist in this process.

24 (d) ADMINISTRATIVE ARRANGEMENTS AND PER-  
25 FORMANCE STANDARDS.—

1           (1) IN GENERAL.—The Secretary of the Treas-  
2           ury shall insure an efficient, well-functioning system  
3           for individual pension plans.

4           (2) NATIONAL STANDARDS.—Among the areas  
5           in which the Secretary shall set national standards,  
6           as needed, are—

7                   (A) procedures to be followed by employ-  
8                   ers, regional pension service centers, and quali-  
9                   fied pension agencies;

10                   (B) account coding for individual pension  
11                   plans that will facilitate accurate and timely  
12                   record-keeping and financial transaction and  
13                   electronic funds transfers;

14                   (C) limits on reasonable charges that may  
15                   be imposed by qualifying pension agencies,  
16                   offerers of individual pension plans, and others  
17                   for their services; and

18                   (D) such other requirements for employers,  
19                   employees, qualified pension agencies, and indi-  
20                   vidual pension plans that will facilitate a well-  
21                   functioning system in the best interests of par-  
22                   ticipants in individual pension plans.

23           (3) CONSULTATION.—In carrying out these  
24           functions, the Secretary—

1           (A) shall consult with employers required  
2           to make payroll deductions for individual pen-  
3           sion plans, financial service companies that per-  
4           form payroll and accounting functions for such  
5           employers, financial institutions, qualified pen-  
6           sion agencies, offerers of individual pension  
7           plans, participants in such plans, the Federal  
8           Reserve Board, and experts in such administra-  
9           tive issues; and

10           (B) may establish one or more advisory  
11           committees to assist in these efforts.

12           (e) INVESTIGATORY AND OVERSIGHT RESPONSIBIL-  
13           ITIES.—The Secretary of the Treasury is authorized to  
14           undertake audits, studies, and investigations as necessary  
15           to assess the performance of the individual pension plan  
16           system and provide for its improved administration.

17           (f) AUTHORIZATION OF APPROPRIATIONS.—There  
18           are authorized to be appropriated not more than  
19           \$15,000,000 to the Treasury Department for startup and  
20           initial implementation expenses, including assistance for  
21           the startup expenses of regional pension service centers,  
22           and not more than \$10,000,000 annually beginning with  
23           fiscal year 1998 for the on-going administration of its re-  
24           sponsibilities under this section.

1 (g) LICENSING FEES.—The Secretary of the Treas-  
2 ury shall establish annual licensing fees for qualified pen-  
3 sion agencies—

4 (1) based on the amount of individual pension  
5 plan balances held by an agency and the Secretary’s  
6 workload for qualified pension agencies with differ-  
7 ing characteristics;

8 (2) designed to cover the Federal appropriation  
9 for the on-going administration under this section;  
10 and

11 (3) deposited into the general fund of the  
12 Treasury.

13 **SEC. 208. PREEMPTION OF STATE LAW.**

14 (a) IN GENERAL.—The provisions of, and amend-  
15 ments made by, this title shall preempt State laws that  
16 conflict with the provisions and requirements with respect  
17 to individual pension plans, regional pension service cen-  
18 ters, and qualified pension agencies.

19 (b) WAIVER AUTHORIZED.—Upon written applica-  
20 tion from a State, the Secretary of the Treasury is author-  
21 ized to waive such preemption to the extent the Secretary  
22 determines that a State’s requirements will better serve  
23 contributors to individual pension plans. The Secretary  
24 will notify affected parties if it is considering such a waiver



1 and provide them with an opportunity to comment on the  
2 proposed waiver.

3 **TITLE III—SEVERABILITY**

4 **SEC. 301. SEVERABILITY.**

5 If any provision of this Act or the application thereof  
6 is held invalid, the remainder of this Act shall not be af-  
7 fected by the invalidation.

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