

107TH CONGRESS
2^D SESSION

H. R. 5166

To simplify the Internal Revenue Code of 1986.

IN THE HOUSE OF REPRESENTATIVES

JULY 18, 2002

Mr. PORTMAN (for himself, Mr. ARMEY, Mr. CRANE, Mr. HOUGHTON, Mr. CAMP, Ms. DUNN of Washington, Mr. ENGLISH, Mr. WATKINS of Oklahoma, Mr. WELLER, Mr. LEWIS of Kentucky, and Mr. FOLEY) introduced the following bill; which was referred to the Committee on Ways and Means

A BILL

To simplify the Internal Revenue Code of 1986.

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; ETC.**

4 (a) SHORT TITLE.—This Act may be cited as the
5 “Tax Simplification Act of 2002”.

6 (b) REFERENCES TO INTERNAL REVENUE CODE OF
7 1986.—Except as otherwise expressly provided, whenever
8 in this Act an amendment or repeal is expressed in terms
9 of an amendment to, or repeal of, a section or other provi-
10 sion, the reference shall be considered to be made to a

1 section or other provision of the Internal Revenue Code
 2 of 1986.

3 (c) TABLE OF CONTENTS.—

Sec. 1. Short title; etc.

TITLE I—ALTERNATIVE MINIMUM TAX

Sec. 101. Repeal of alternative minimum tax.

TITLE II—FAMILY-RELATED PROVISIONS

SUBTITLE A—QUALIFYING CHILD AND FAMILY STATUS

- Sec. 201. Uniform definition of child, etc.
- Sec. 202. Modifications of definition of head of household.
- Sec. 203. Modifications of dependent care credit.
- Sec. 204. Modifications of child tax credit.
- Sec. 205. Modifications of earned income credit.
- Sec. 206. Modifications of deduction for personal exemption for dependents.
- Sec. 207. Modification of determination of marital status.
- Sec. 208. Technical and conforming amendments.
- Sec. 209. Effective date.

SUBTITLE B—OTHER FAMILY-RELATED PROVISIONS

- Sec. 211. Acceleration of repeal of phaseout of personal exemptions.
- Sec. 212. Acceleration of repeal of phaseout of overall limitation on itemized deductions.
- Sec. 213. Repeal of certain phaseout provisions.
- Sec. 214. Simplification of capital gains tax.
- Sec. 215. Exemption of certain interest and dividend income from tax.
- Sec. 216. Simplification of deduction for points on home mortgage.
- Sec. 217. Increase in exclusion for group-term life insurance purchased for employees.

TITLE III—EDUCATION-RELATED PROVISIONS

- Sec. 301. Uniform definition of qualifying higher education expenses.
- Sec. 302. Combining Hope and Lifetime Learning credits.
- Sec. 303. Clarification of interaction of various education tax incentive provisions.

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- Sec. 403. Simplification of active business test for certain corporate reorganizations.
- Sec. 404. Study on simplification of attribution rules.
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- Sec. 406. Modernization of references to general and limited partners.
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- Sec. 408. Repeal of personal holding company tax.

- Sec. 409. Timing rules for guaranteed payments.
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TITLE V—ESTIMATED TAX

- Sec. 501. Failure to pay estimated tax penalty by individuals converted to interest charge on accumulated unpaid balance.
 Sec. 502. Conforming and clerical amendments.

TITLE VI—REPEAL OF DEADWOOD PROVISIONS

- Sec. 601. Repeal of deadwood provisions.

1 **TITLE I—ALTERNATIVE** 2 **MINIMUM TAX**

3 **SEC. 101. REPEAL OF ALTERNATIVE MINIMUM TAX.**

4 (a) **IN GENERAL.**—Part VI of subchapter A of chap-
 5 ter 1 (relating to alternative minimum tax) is hereby re-
 6 pealed.

7 (b) **EXPEDITED USE OF CREDIT FOR PRIOR YEAR**
 8 **MINIMUM TAX LIABILITY OF CORPORATIONS.**—Sub-
 9 section (c) of section 53 of such Code is amended to read
 10 as follows:

11 “(c) **LIMITATIONS.**—

12 “(1) **IN GENERAL.**—Except as provided in para-
 13 graph (2), the credit allowable under subsection (a)
 14 for any taxable year shall not exceed the excess (if
 15 any) of—

16 “(A) the regular tax liability of the tax-
 17 payer for such taxable year reduced by the sum

1 of the credits allowable under subparts A, B, D,
2 E, and F of this part.

3 “(2) CORPORATIONS.—In the case of a corpora-
4 tion, the credit allowable under subsection (a) for
5 any taxable year shall not exceed the lesser of—

6 “(A) 20 percent of the minimum tax credit
7 (determined as of January 1, 2003), and

8 “(B) 90 percent of the regular tax liability
9 of the taxpayer for such taxable year reduced
10 by the sum of the credits allowable under sub-
11 parts B, D, E, and F of this part.

12 This paragraph shall not apply to taxable years be-
13 ginning after the December 31, 2007.”.

14 (c) CONFORMING AMENDMENTS.—

15 (1) Subparagraph (B) of section 1(g)(7) (relat-
16 ing to election to claim certain unearned income of
17 child on parent’s return) is amended—

18 (A) by inserting “and” at the end of clause

19 (i),

20 (B) by striking “and” at the end of clause

21 (ii) and inserting a period, and

22 (C) by striking clause (iii).

23 (2) Subsection (d) of section 2 (relating to
24 taxes imposed on nonresident aliens) is amended by

1 striking “sections 1 and 55” and inserting “section
2 1”.

3 (3) Subsection (a) of section 5 (relating to cross
4 references relating to tax on individuals) is amended
5 by striking paragraph (4).

6 (4) Subsection (d) of section 11 (relating to
7 taxes imposed on foreign corporations) is amended
8 by striking “the taxes imposed by subsection (a) and
9 section 55” and inserting “the tax imposed by sub-
10 section (a)”.

11 (5) Section 12 (relating to cross references re-
12 lating to tax on corporations) is amended by striking
13 paragraph (7).

14 (6) Subparagraph (A) of section 23(b) (relating
15 to limitation based on amount of tax) is amended to
16 read as follows:

17 “(A) the regular tax liability (as defined in
18 section 26(b)), over”.

19 (7) Subparagraph (A) of section 24(b)(3) (re-
20 lating to limitation based on amount of tax) is
21 amended to read as follows:

22 “(A) the regular tax liability (as defined in
23 section 26(b)), over”.

1 (8) Paragraph (1) of section 25B(g) (relating
2 to limitation based on amount of tax) is amended to
3 read as follows:

4 “(1) the regular tax liability (as defined in sec-
5 tion 26(b)), over”.

6 (9) Section 26 (relating to limitation based on
7 tax liability; definition of tax liability) is amended—

8 (A) by amending subsection (a) to read as
9 follows:

10 “(a) LIMITATION BASED ON AMOUNT OF TAX.—The
11 aggregate amount of credits allowed by this subpart for
12 the taxable year shall not exceed the taxpayer’s regular
13 tax liability for the taxable year.”,

14 (B) in subsection (b)(2), by striking sub-
15 paragraph (A) and by redesignating subpara-
16 graphs (B) through (N) as subparagraphs (A)
17 through (M), respectively, and

18 (C) by striking subsection (c).

19 (10) Paragraph (6) of section 29(b) (relating to
20 credit for producing fuel from a nonconventional
21 source) is amended striking “the excess” and all
22 that follows and inserting “the regular tax for the
23 taxable year reduced by the sum of the credits allow-
24 able under subpart A and section 27.”

1 (11) Paragraph (3) of section 30(b) (relating to
2 credit for qualified electric vehicles) is amended by
3 striking “the excess” and all that follows and insert-
4 ing “the regular tax for the taxable year reduced by
5 the sum of the credits allowable under subpart A
6 and sections 27 and 29.”

7 (12) Subsection (c) of section 38 (relating to
8 general business credit) is amended—

9 (A) by striking paragraphs (1) and (2) and
10 inserting the following new paragraph:

11 “(1) IN GENERAL.—The credit allowed under
12 subsection (a) for any taxable year shall not exceed
13 25 percent of so much of the taxpayer’s net regular
14 tax liability as exceeds \$25,000. For purposes of the
15 preceding sentence, the term ‘net regular tax liabil-
16 ity’ means the regular tax liability reduced by the
17 sum of the credits allowable under subparts A and
18 B of this part.”, and

19 (B) by redesignating paragraph (3) as
20 paragraph (2).

21 (13) Paragraph (4) of section 45A(d) (relating
22 to Indian employment credit) is amended by striking
23 “for purposes” and all that follows and inserting
24 “for purposes of determining the amount of any
25 credit allowable under this chapter.”

1 (14) Subparagraph (B) of section 45D(g)(4)
2 (relating to new markets tax credit) is amended by
3 striking “or for purposes of section 55”.

4 (15) Subparagraph (B) of section 45F(d)(4)
5 (relating to no credits against tax) is amended by
6 striking “or for purposes of section 55”.

7 (16) Subsection (d) of section 53 (relating to
8 credit for prior year minimum tax liability) is
9 amended by adding at the end the following:
10 “For purposes of this subsection, references to sections
11 55, 56, and 59 shall be treated as references to such sec-
12 tions as in effect on the day before the date of the enact-
13 ment of the Tax Simplification Act of 2002.”.

14 (17) Subsection (b) of section 59A (relating to
15 environmental tax) is amended by adding at the end
16 the following:
17 “For purposes of this subsection, references to sections
18 55 and 56 shall be treated as references to such sections
19 as in effect on the day before the date of the enactment
20 of the Tax Simplification Act of 2002.”.

21 (18)(A) Paragraph (2) of section 148(b) (relat-
22 ing to higher yield investments) is amended by add-
23 ing at the end the following new flush sentence:
24 “Such term shall not include any tax-exempt bond.”

1 (B) Paragraph (3) of section 148(b) is hereby
2 repealed.

3 (19) Subparagraph (B) of section 149(g)(3)
4 (relating to hedge bonds) is amended—

5 (A) in the heading, by striking “BONDS
6 NOT SUBJECT TO MINIMUM TAX.—” and insert-
7 ing “BONDS.—”, and

8 (B) by striking all that follows “invested in
9 bonds” and inserting “the interest on which is
10 not includible in gross income under section
11 103.”

12 (20) Subsection (j) of section 168 (relating to
13 accelerated cost recovery system) is amended by
14 striking paragraph (3).

15 (21) Paragraph (2) of section 168(k) (relating
16 to deduction allowed in computing minimum tax) is
17 amended by striking subparagraph (F).

18 (22) Section 173 (relating to circulation ex-
19 penditures) is amended by striking “(a) GENERAL
20 RULE.—” and by striking subsection (b).

21 (23) Subsection (f) of section 174 (relating to
22 research and experimental expenditures) is amended
23 to read as follows:

1 “(f) CROSS REFERENCE.—

“For adjustments to basis of property for amounts allowed as deductions as deferred expenses under subsection (b), see section 1016(a)(14).”

2 (24) Subsection (c) of section 263 (relating to
3 capital expenditures) is amended by striking “59(e)
4 or”.

5 (25) Subsection (c) of section 263A (relating to
6 capitalization and inclusion in inventory costs of cer-
7 tain expenses) is amended by striking paragraph (6).

8 (26) Section 382(l) (relating to limitation on
9 net operating loss carryforwards and certain built-in
10 losses following ownership change) is amended by
11 striking paragraph (7) and by redesignating para-
12 graph (8) as paragraph (7).

13 (27) Section 443 (relating to returns for a pe-
14 riod of less than 12 months adjustment in com-
15 puting minimum tax and tax preferences) is amend-
16 ed by striking subsection (d) and by redesignating
17 subsection (e) as subsection (d).

18 (28) Section 616 (relating to development ex-
19 penditures) is amended by striking subsection (e).

20 (29) Section 617 (relating to deduction and re-
21 capture of certain mining exploration expenditures)
22 is amended by striking subsection (i).

23 (30) Subsection (c) of section 641 (relating to
24 imposition of tax) is amended—

1 (A) in paragraph (2) by striking subpara-
2 graph (B) and redesignating subparagraphs (C)
3 and (D) as subparagraphs (B) and (C), respec-
4 tively, and

5 (B) in paragraph (3), by striking “para-
6 graph (2)(C)” and inserting “paragraph
7 (2)(B)”.

8 (31) Subsections (b) and (c) of section 666 (re-
9 lating to accumulation distribution allocated to pre-
10 ceeding years) are each amended by striking “(other
11 than the tax imposed by section 55)”.

12 (32)(A) Subsection (a) of section 772 (relating
13 to simplified flow-through) is amended by striking
14 paragraph (5) and redesignating paragraphs (6),
15 (7), (8), (9), (10), and (11) as paragraphs (5), (6),
16 (7), (8), (9), and (10), respectively.

17 (B) Subsection (c) of section 772 is amended—

18 (i) in paragraph (2), by striking “para-
19 graphs (3)(A) and (5)(A)” and inserting “para-
20 graph (3)(A)”,

21 (ii) by striking paragraph (5), and

22 (iii) by redesignating paragraph (6) as
23 paragraph (5), and in that paragraph by strik-
24 ing “paragraph (6) of subsection (a)” and in-
25 serting “paragraph (5) of subsection (a)”.

1 (C) Subsection (d) of section 772 is amended—

2 (i) by striking paragraph (3) and redesignig-
3 nating paragraphs (4), (5), and (6) as para-
4 graphs (3), (4), and (5), respectively, and

5 (ii) in subparagraph (A) of paragraph (3),
6 as so redesignated, by striking “subsection
7 (a)(11)” and inserting “subsection (a)(10)”.

8 (33) Paragraph (2) of section 815(c) (relating
9 to distributions to shareholders from pre-1984 pol-
10 icyholders surplus account) is amended by striking
11 the last sentence.

12 (34) Section 847 (relating to special estimated
13 tax payments) is amended—

14 (A) in paragraph (9), by striking the last
15 sentence;

16 (B) in paragraph (10), by inserting “and”
17 at the end of subparagraph (A) and by striking
18 subparagraph (B) and redesignating subpara-
19 graph (C) as subparagraph (B).

20 (35) Section 848 (relating to capitalization of
21 certain policy acquisition expenses) is amended by
22 striking subsection (i) and by redesignating sub-
23 section (j) as subsection (i).

24 (36) Subsection (a) of section 860E (relating to
25 treatment of income in excess of daily accruals on

1 residual interests) is amended by striking paragraph
2 (4).

3 (37) Section 860J (relating to non-FASIT
4 losses not to offset certain FASIT inclusions) is
5 amended by striking subsection (c) and redesignig-
6 nating subsection (d) as subsection (c).

7 (38) Paragraph (1) of section 871(b) (relating
8 to tax on nonresident alien individuals) is amended
9 by striking “or 55”.

10 (39) Subsection (b) of section 877 (relating to
11 expatriation to avoid tax) is amended by striking “or
12 55”.

13 (40) Paragraph (1) of section 882(a) (relating
14 to tax on income of foreign corporations connected
15 with United States business) is amended by striking
16 “55.”.

17 (41) Subsection (a) of section 897 (relating to
18 disposition of investment in United States real prop-
19 erty) is amended to read as follows:

20 “(a) TREATMENT AS EFFECTIVELY CONNECTED
21 WITH UNITED STATES TRADE OR BUSINESS.—For pur-
22 poses of this title, gain or loss of a nonresident alien indi-
23 vidual or a foreign corporation from the disposition of a
24 United States real property interest shall be taken into
25 account—

1 “(1) in the case of a nonresident alien indi-
2 vidual, under section 871(b)(1), or

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

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

9 (42) Subsection (k) of section 904 (relating to
10 limitation on credit) is amended to read as follows:

11 “(k) CROSS REFERENCE.—

**“For increase of limitation under subsection (a)
 for taxes paid with respect to amounts received
 which were included in the gross income of the tax-
 payer for a prior taxable year as a United States
 shareholder with respect to a controlled foreign cor-
 poration, see section 960(b).”**

12 (43) Paragraph (1) of section 962(a) (relating
13 to election by individuals to be subject to tax at cor-
14 porate rates) is amended—

15 (A) by striking “sections 1 and 55” and
16 inserting “section 1”, and

17 (B) by striking “sections 11 and 55” and
18 inserting “section 11”.

19 (44) Paragraph (20) of section 1016(a) (relat-
20 ing to adjustments to basis) is amended by inserting
21 “, as in effect on the day before the date of the en-

1 actment of the Tax Simplification Act of 2002”
2 after “preferences”).

3 (45) Paragraph (4) of section 1260(b) (relating
4 to gains from constructive ownership transactions) is
5 amended by striking “for purposes” and all that fol-
6 lows and inserting “for purposes of determining the
7 amount of any credit allowable under this chapter.”

8 (46) Paragraph (1) of section 1397E(c) (relat-
9 ing to credit to holders of qualified zone academy
10 bonds) is amended by striking “plus the tax imposed
11 by section 55”.

12 (47) Subsection (f) of section 1400I (relating to
13 commercial revitalization deduction) is amended by
14 striking paragraph (4).

15 (48) Section 1400L is amended—

16 (A) in subsection (b)(2) (defining qualified
17 New York Liberty Zone property) by striking
18 subparagraph (E), and

19 (B) in subsection (d)(5) (relating to special
20 rules for tax-exempt bond financing) by striking
21 subparagraph (E).

22 (49) Subsection (a) of section 1561 (relating to
23 limitations on certain multiple tax benefits in the
24 case of certain controlled corporations) is amended
25 by striking the last sentence.

1 (50) Subparagraph (B) of section 6015(d)(2)
2 (relating to relief from joint and several liability on
3 joint return) is amended by striking “or 55”.

4 (51) Subparagraph (A) of section 6425(c)(1)
5 (defining income tax liability) is amended—

6 (A) by inserting “plus” at the end of
7 clause (i), and

8 (B) by striking clause (ii) and redesignig-
9 nating clause (iii) as clause (ii).

10 (52) Section 6654(d)(2) (relating to failure by
11 individual to pay estimated income tax) is
12 amended—

13 (A) in clause (i) of subparagraph (B), by
14 striking “, alternative minimum taxable in-
15 come,” and

16 (B) in clause (i) of subparagraph (C), by
17 striking “, alternative minimum taxable in-
18 come,”.

19 (53) Subparagraph (A) of section 6655(g)(1)
20 (relating to failure by corporation to pay estimated
21 income tax) is amended—

22 (A) by striking clause (ii), and

23 (B) by redesignating clauses (iii) and (iv)
24 as clauses (ii) and (iii), respectively.

1 (54) Subparagraph (C) of section 6662(e)(3)
 2 (relating to imposition of accuracy-related penalty)
 3 is amended by inserting “, as in effect on the day
 4 before the date of the enactment of the Tax Sim-
 5 plification Act of 2002” after “55(c)”.

6 (d) CLERICAL AMENDMENT.—The table of parts for
 7 subchapter A of chapter 1 is amended by striking the item
 8 relating to part VI.

9 (e) EFFECTIVE DATE.—The amendments made by
 10 this section shall take effect in taxable years beginning
 11 after December 31, 2002.

12 **TITLE II—FAMILY-RELATED** 13 **PROVISIONS**

14 **Subtitle A—Qualifying Child and** 15 **Family Status**

16 **SEC. 201. UNIFORM DEFINITION OF CHILD, ETC.**

17 Section 152 (defining dependent) is amended to read
 18 as follows:

19 **“SEC. 152. DEPENDENT DEFINED.**

20 “(a) IN GENERAL.—For purposes of this subtitle, the
 21 term ‘dependent’ means—

22 “(1) a qualifying child, or

23 “(2) a qualifying relative.

24 “(b) EXCEPTIONS.—For purposes of this section—

1 “(1) DEPENDENTS INELIGIBLE.—If an indi-
2 vidual is a dependent of a taxpayer for any taxable
3 year of such taxpayer beginning in a calendar year,
4 such individual shall be treated as having no depend-
5 ents for any taxable year of such individual begin-
6 ning in such calendar year.

7 “(2) MARRIED DEPENDENTS.—An individual
8 shall not be treated as a dependent of a taxpayer
9 under subsection (a) if such individual has made a
10 joint return with the individual’s spouse under sec-
11 tion 6013 for the taxable year beginning in the cal-
12 endar year in which the taxable year of the taxpayer
13 begins.

14 “(3) CITIZENS OR NATIONALS OF OTHER COUN-
15 TRIES.—

16 “(A) IN GENERAL.—The term ‘dependent’
17 does not include an individual who is not a cit-
18 izen or national of the United States unless
19 such individual is a resident of the United
20 States or a country contiguous to the United
21 States.

22 “(B) EXCEPTION FOR ADOPTED CHILD.—
23 Subparagraph (A) shall not exclude any legally
24 adopted child of a taxpayer from the definition
25 of ‘dependent’ if—

1 “(i) for the taxable year of the tax-
2 payer, the child’s principal place of abode
3 is the home of the taxpayer, and

4 “(ii) the taxpayer is a citizen or na-
5 tional of the United States.

6 “(c) QUALIFYING CHILD.—For purposes of this
7 section—

8 “(1) IN GENERAL.—The term ‘qualifying child’
9 means, with respect to any taxpayer for any taxable
10 year, an individual—

11 “(A) who bears a relationship to the tax-
12 payer described in paragraph (2),

13 “(B) who has the same principal place of
14 abode as the taxpayer for more than one-half of
15 such taxable year, and

16 “(C) who meets the age requirements of
17 paragraph (3).

18 “(2) RELATIONSHIP TEST.—

19 “(A) IN GENERAL.—For purposes of para-
20 graph (1)(A), an individual bears a relationship
21 to the taxpayer described in this paragraph if
22 such individual is—

23 “(i) a son, daughter, stepson, or step-
24 daughter of the taxpayer or a descendant
25 of any such relative,

1 “(ii) a brother, sister, stepbrother, or
2 stepsister of the taxpayer or a descendant
3 of any such relative, whom the taxpayer
4 cares for as the taxpayer’s own child, or

5 “(iii) an eligible foster child of the
6 taxpayer.

7 “(B) ADOPTED CHILD.—For purposes of
8 subparagraph (A), a child who is legally adopt-
9 ed, or who is placed with the taxpayer by an
10 authorized placement agency for adoption by
11 the taxpayer, shall be treated as a child by
12 blood.

13 “(C) ELIGIBLE FOSTER CHILD.—For pur-
14 poses of subparagraph (A), the term ‘eligible
15 foster child’ means an individual—

16 “(i) who is placed with the taxpayer
17 by an authorized placement agency or by
18 judgment, decree, or other order of any
19 court of competent jurisdiction, and

20 “(ii) whom the taxpayer cares for as
21 the taxpayer’s own child.

22 “(3) AGE REQUIREMENTS.—For purposes of
23 paragraph (1)(C), an individual meets the require-
24 ments of this paragraph if such individual—

1 “(A) has not attained the age of 19 as of
2 the close of the calendar year in which the tax-
3 able year of the taxpayer begins, or

4 “(B) is a student who has not attained the
5 age of 24 as of the close of such calendar year.

6 “(4) SPECIAL RULE RELATING TO 2 OR MORE
7 CLAIMING QUALIFYING CHILD.—

8 “(A) IN GENERAL.—Except as provided in
9 subsection (e), if an individual may be claimed,
10 and is claimed, as a qualifying child by 2 or
11 more taxpayers (but for this paragraph) for a
12 taxable year beginning in the same calendar
13 year, such individual shall be treated as the
14 qualifying child of the taxpayer who is—

15 “(i) a parent of the individual, or

16 “(ii) if clause (i) does not apply, the
17 taxpayer with the highest adjusted gross
18 income for such taxable year.

19 “(B) MORE THAN 1 PARENT CLAIMING
20 QUALIFYING CHILD.—If the parents claiming
21 the credit with respect to any qualifying child
22 do not file a joint return together, such child
23 shall be treated as the qualifying child of—

1 “(i) the parent with whom the child
2 resided for the longest period of time dur-
3 ing the taxable year, or

4 “(ii) if the child resides with both par-
5 ents for the same amount of time during
6 such taxable year, the parent with the
7 highest adjusted gross income.

8 “(d) QUALIFYING RELATIVE.—For purposes of this
9 section—

10 “(1) IN GENERAL.—The term ‘qualifying rel-
11 ative’ means, with respect to any taxpayer for any
12 taxable year, an individual—

13 “(A) who bears a relationship to the tax-
14 payer described in paragraph (2),

15 “(B) whose gross income for the calendar
16 year in which such taxable year begins is less
17 than the exemption amount (as defined in sec-
18 tion 151(d)),

19 “(C) with respect to whom the taxpayer
20 provides over half of the individual’s support for
21 the calendar year in which such taxable year
22 begins, and

23 “(D) who is not a qualifying child of such
24 taxpayer or any other taxpayer for any taxable

1 year beginning in the calendar year in which
2 such taxable year begins.

3 “(2) RELATIONSHIP.—For purposes of para-
4 graph (1)(A), an individual bears a relationship to
5 the taxpayer described in this paragraph if the indi-
6 vidual is any of the following with respect to the tax-
7 payer:

8 “(A) A child or a descendant of a child.

9 “(B) A brother, sister, stepbrother, or
10 stepsister.

11 “(C) The father or mother, or an ancestor
12 of either.

13 “(D) A stepfather or stepmother.

14 “(E) A son or daughter of a brother or sis-
15 ter of the taxpayer.

16 “(F) A brother or sister of the father or
17 mother of the taxpayer.

18 “(G) A son-in-law, daughter-in-law, father-
19 in-law, mother-in-law, brother-in-law, or sister-
20 in-law.

21 “(H) An individual (other than an indi-
22 vidual who at any time during the taxable year
23 was the spouse, determined without regard to
24 section 7703, of the taxpayer) who, for the tax-
25 able year of the taxpayer, has as such individ-

1 ual’s principal place of abode the home of the
2 taxpayer and is a member of the taxpayer’s
3 family.

4 “(3) SPECIAL RULE RELATING TO MULTIPLE
5 SUPPORT AGREEMENTS.—For purposes of paragraph
6 (1)(C), over half of the support of an individual for
7 a calendar year shall be treated as received from the
8 taxpayer if—

9 “(A) no one person contributed over half
10 of such support,

11 “(B) over half of such support was re-
12 ceived from 2 or more persons each of whom,
13 but for the fact that any such person alone did
14 not contribute over half of such support, would
15 have been entitled to claim such individual as a
16 dependent for a taxable year beginning in such
17 calendar year,

18 “(C) the taxpayer contributed over 10 per-
19 cent of such support, and

20 “(D) each person described in subpara-
21 graph (B) (other than the taxpayer) who con-
22 tributed over 10 percent of such support files a
23 written declaration (in such manner and form
24 as the Secretary may by regulations prescribe)
25 that such person will not claim such individual

1 as a dependent for any taxable year beginning
2 in such calendar year.

3 “(4) SPECIAL RULE RELATING TO INCOME OF
4 HANDICAPPED DEPENDENTS.—

5 “(A) IN GENERAL.—For purposes of para-
6 graph (1)(B), the gross income of an individual
7 who is permanently and totally disabled (as de-
8 fined in section 22(e)(3)) at any time during
9 the taxable year shall not include income attrib-
10 utable to services performed by the individual
11 at a sheltered workshop if—

12 “(i) the availability of medical care at
13 such workshop is the principal reason for
14 the individual’s presence there, and

15 “(ii) the income arises solely from ac-
16 tivities at such workshop which are inci-
17 dent to such medical care.

18 “(B) SHELTERED WORKSHOP DEFINED.—
19 For purposes of subparagraph (A), the term
20 ‘sheltered workshop’ means a school—

21 “(i) which provides special instruction
22 or training designed to alleviate the dis-
23 ability of the individual, and

24 “(ii) which is operated by an organi-
25 zation described in section 501(c)(3) and

1 exempt from tax under section 501(a), or
2 by a State, a possession of the United
3 States, any political subdivision of any of
4 the foregoing, the United States, or the
5 District of Columbia.

6 “(5) SPECIAL RULE RELATING TO TREATMENT
7 OF GOVERNMENT BENEFITS IN DETERMINING SUP-
8 PORT.—For purposes of paragraph (1)(C), any
9 means-tested benefits obtained under programs de-
10 scribed in section 6103(l)(7) or substantially similar
11 government programs shall not be taken into ac-
12 count for purposes of determining whether over half
13 of the support of an individual for a calendar year
14 was provided by the taxpayer.

15 “(e) SPECIAL RULE FOR CERTAIN PRE-2003 IN-
16 STRUMENTS.—

17 “(1) IN GENERAL.—Notwithstanding subsection
18 (c)(4) or (d)(1)(C), a child who has parents who—

19 “(A) are divorced or legally separated
20 under a decree of divorce or separate mainte-
21 nance,

22 “(B) are separated under a written separa-
23 tion agreement, or

24 “(C) live apart at all times during the last
25 6 months of the calendar year, shall be treated

1 as being the qualifying child or qualifying rel-
2 ative of the noncustodial parent for a calendar
3 year if the requirements described in paragraph
4 (2) are met.

5 “(2) REQUIREMENTS.—For purposes of para-
6 graph (1), the requirements described in this para-
7 graph are met if—

8 “(A) a qualified pre-2003 instrument be-
9 tween the parents applicable to the taxable year
10 beginning in such calendar year provides that—

11 “(i) the noncustodial parent shall be
12 entitled to any deduction allowable under
13 section 151 for such child, or

14 “(ii) the custodial parent will sign a
15 written declaration that such parent will
16 not claim such child as a dependent for
17 such taxable year, and

18 “(B) in the case of an agreement executed
19 before January 1, 1985, the noncustodial par-
20 ent provides at least \$600 for the support of
21 such child during such calendar year.

22 “(3) QUALIFIED PRE-2003 INSTRUMENT.—For
23 purposes of this subsection, the term ‘qualified pre-
24 2003 instrument’ means any decree of divorce or
25 separate maintenance or written agreement—

1 “(A) which is executed before January 1,
2 2003,

3 “(B) which on such date contains either of
4 the provisions described in paragraph (2)(A),
5 and

6 “(C) which is not modified on or after such
7 date in a modification which expressly provides
8 that this subsection shall not apply to such de-
9 cree or agreement.

10 “(4) CUSTODIAL PARENT AND NONCUSTODIAL
11 PARENT.—For purposes of this subsection—

12 “(A) CUSTODIAL PARENT.—The term ‘cus-
13 todial parent’ means the parent with whom a
14 child shared the same principal place of abode
15 for the greater portion of the calendar year.

16 “(B) NONCUSTODIAL PARENT.—The term
17 ‘noncustodial parent’ means the parent who is
18 not the custodial parent.

19 “(5) SPECIAL RULES FOR SUPPORT.—For pur-
20 poses of this subsection—

21 “(A) payments to a spouse which are in-
22 cludible in the gross income of such spouse
23 under section 71 or 682 shall not be treated as
24 a payment by the payor spouse for the support
25 of any dependent,

1 “(B) amounts expended for the support of
2 a child or children shall be treated as received
3 from the noncustodial parent to the extent that
4 such parent provided amounts for such support,
5 and

6 “(C) in the case of the remarriage of a
7 parent, support of a child received from the
8 parent’s spouse shall be treated as received
9 from the parent.

10 “(f) OTHER DEFINITIONS AND RULES.—For pur-
11 poses of this section—

12 “(1) CHILD DEFINED.—The term ‘child’ means
13 an individual who (within the meaning of this sec-
14 tion) is a son, daughter, stepson, or stepdaughter of
15 the taxpayer.

16 “(2) STUDENT DEFINED.—The term ‘student’
17 means an individual who during each of 5 calendar
18 months during the calendar year in which the tax-
19 able year of the taxpayer begins—

20 “(A) is a full-time student at an edu-
21 cational organization described in section
22 170(b)(1)(A)(ii), or

23 “(B) is pursuing a full-time course of insti-
24 tutional on-farm training under the supervision
25 of an accredited agent of an educational organi-

1 zation described in section 170(b)(1)(A)(ii) or
2 of a State or political subdivision of a State.

3 “(3) PLACE OF ABODE.—An individual shall
4 not be treated as having the same principal place of
5 abode of the taxpayer if at any time during the tax-
6 able year of the taxpayer the relationship between
7 the individual and the taxpayer is in violation of
8 local law.

9 “(5) TREATMENT OF MISSING CHILDREN.—

10 “(A) IN GENERAL.—Solely for the pur-
11 poses referred to in subparagraph (B), a child
12 of the taxpayer—

13 “(i) who is presumed by law enforce-
14 ment authorities to have been kidnapped
15 by someone who is not a member of the
16 family of such child or the taxpayer, and

17 “(ii) who had, for the taxable year in
18 which the kidnapping occurred, the same
19 principal place of abode as the taxpayer for
20 more than one-half of the portion of such
21 year before the date of the kidnapping,

22 shall be treated as meeting the requirement of
23 subsection (c)(1)(B) with respect to a taxpayer
24 for all taxable years ending during the period
25 that the individual is kidnapped.

1 “(B) PURPOSES.—Subparagraph (A) shall
2 apply solely for purposes of determining—

3 “(i) the deduction under section
4 151(c),

5 “(ii) the credit under section 24 (re-
6 lating to child tax credit),

7 “(iii) whether an individual is a sur-
8 viving spouse or a head of a household (as
9 such terms are defined in section 2), and

10 “(iv) the earned income credit under
11 section 32.

12 “(C) COMPARABLE TREATMENT OF CER-
13 TAIN QUALIFYING RELATIVES.—For purposes
14 of this section, a child of the taxpayer—

15 “(i) who is presumed by law enforce-
16 ment authorities to have been kidnapped
17 by someone who is not a member of the
18 family of such child or the taxpayer, and

19 “(ii) who was (without regard to this
20 paragraph) a qualifying relative of the tax-
21 payer for the portion of the taxable year
22 before the date of the kidnapping,

23 shall be treated as a qualifying relative of the
24 taxpayer for all taxable years ending during the
25 period that the child is kidnapped.

1 “(D) TERMINATION OF TREATMENT.—
 2 Subparagraphs (A) and (C) shall cease to apply
 3 as of the first taxable year of the taxpayer be-
 4 ginning after the calendar year in which there
 5 is a determination that the child is dead (or, if
 6 earlier, in which the child would have attained
 7 age 18).

8 “(6) CROSS REFERENCES.—

**“For provision treating child as dependent of both
 parents for purposes of certain provisions, see sec-
 tions 105(b), 132(h)(2)(B), and 213(d)(5).”**

9 **SEC. 202. MODIFICATIONS OF DEFINITION OF HEAD OF**
 10 **HOUSEHOLD.**

11 (a) HEAD OF HOUSEHOLD.—Section 2(b)(1)(A)(i) is
 12 amended to read as follows:

13 “(i) a qualifying child of the indi-
 14 vidual (as defined in section 152(e)), but
 15 not if such child is married at the close of
 16 the taxpayer’s taxable year and such child
 17 has made a joint return with the child’s
 18 spouse under section 6013 for the taxable
 19 year beginning in the calendar year in
 20 which the taxable year of the taxpayer be-
 21 gins, or”.

22 (b) SPECIAL RULE RELATING TO TREATMENT OF
 23 GOVERNMENT BENEFITS IN DETERMINING COST OF
 24 MAINTAINING HOUSEHOLD.—Paragraph (1) of section

1 2(b) is amended by adding after the flush sentence at the
2 end the following: “For purposes of the preceding sen-
3 tence, any means-tested benefits obtained under programs
4 described in section 6103(l)(7) or substantially similar
5 government programs shall not be taken into account for
6 purposes of determining whether over half of the cost of
7 maintaining the household is furnished by the individual.”.

8 (c) CONFORMING AMENDMENT.—Clauses (i) and (ii)
9 of section 2(b)(3)(B) are amended to read as follows:

10 “(i) subparagraph (H) of section
11 152(d)(2), or

12 “(ii) paragraph (3) of section
13 152(d).”.

14 **SEC. 203. MODIFICATIONS OF DEPENDENT CARE CREDIT.**

15 (a) IN GENERAL.—Section 21(a)(1) is amended by
16 striking “(as defined in subsection (b)(1))” and inserting
17 “(as defined in subparagraph (B) or (C) of subsection
18 (b)(1)) or who has one or more qualifying individuals (as
19 defined in subsection (b)(1)(A))”.

20 (b) QUALIFYING INDIVIDUAL.—Section 21(b)(1)(A)
21 is amended to read as follows:

22 “(A) a qualifying child of the taxpayer (as
23 defined in section 152(c)) who has not attained
24 age 13,”.

1 (c) SPECIAL RULE RELATING TO TREATMENT OF
2 GOVERNMENT BENEFITS IN DETERMINING COST OF
3 MAINTAINING HOUSEHOLD.—Section 21(c)(1) is amend-
4 ed by adding at the end the following: “Any means-tested
5 benefits obtained under programs described in section
6 6103(l)(7) or substantially similar government programs
7 shall not be taken into account for purposes of deter-
8 mining whether over half of the cost of maintaining the
9 household is furnished by the individual.”.

10 **SEC. 204. MODIFICATIONS OF CHILD TAX CREDIT.**

11 (a) IN GENERAL.—Section 24(c)(1) is amended to
12 read as follows:

13 “(1) IN GENERAL.—The term ‘qualifying child’
14 means a qualifying child of the taxpayer (as defined
15 in section 152(c)) who has not attained age 17.”.

16 (b) CONFORMING AMENDMENT.—Section 24(c)(2) is
17 amended by striking “first sentence of section 152(b)(3)”
18 and inserting “subparagraph (A) of section 152(b)(3)”.

19 **SEC. 205. MODIFICATIONS OF EARNED INCOME CREDIT.**

20 (a) QUALIFYING CHILD.—

21 (1) IN GENERAL.—Paragraph (3) of section
22 32(c) is amended to read as follows:

23 “(3) QUALIFYING CHILD.—

1 “(A) IN GENERAL.—The term ‘qualifying
2 child’ means a qualifying child of the taxpayer
3 (as defined in section 152(c)).

4 “(B) MARRIED INDIVIDUAL.—The term
5 ‘qualifying child’ shall not include an individual
6 who is married as of the close of the taxpayer’s
7 taxable year unless the taxpayer is entitled to
8 a deduction under section 151 for such taxable
9 year with respect to such individual (or would
10 be so entitled but for subsection (d)(3) or (e) of
11 section 152).

12 “(C) PLACE OF ABODE.—For purposes of
13 subparagraph (A), the requirements of section
14 152(c)(1)(B) shall be met only if the principal
15 place of abode is in the United States.

16 “(D) IDENTIFICATION REQUIREMENTS.—

17 “(i) IN GENERAL.—A qualifying child
18 shall not be taken into account under sub-
19 section (b) unless the taxpayer includes the
20 name, age, and TIN of the qualifying child
21 on the return of tax for the taxable year.

22 “(ii) OTHER METHODS.—The Sec-
23 retary may prescribe other methods for
24 providing the information described in
25 clause (i).”.

1 (2) CONFORMING AMENDMENTS.—

2 (A) Section 32(c)(1) is amended by strik-
3 ing subparagraph (C) and by redesignating sub-
4 paragraphs (D), (E), (F), and (G) as subpara-
5 graphs (C), (D), (E), and (F), respectively.

6 (B) Section 32(c)(4) is amended by strik-
7 ing “(3)(E)” and inserting “(3)(C)”.

8 (C) Section 32(m) is amended by striking
9 “subsections (c)(1)(F)” and inserting “sub-
10 sections (c)(1)(E)”.

11 (b) MODIFICATION OF JOINT RETURN REQUIRE-
12 MENT.—Subsection (d) of section 32 is amended to read
13 as follows:

14 “(d) MARRIED INDIVIDUALS.—

15 “(1) IN GENERAL.—If the taxpayer is married
16 at the close of the taxable year, the credit shall be
17 allowed under subsection (a) only if the taxpayer
18 and his spouse file a joint return for the taxable
19 year.

20 “(2) MARITAL STATUS.—For purposes of para-
21 graph (1), an individual legally separated from his
22 spouse under a decree of divorce or of separate
23 maintenance shall not be considered as married.

24 “(3) CERTAIN MARRIED INDIVIDUALS LIVING
25 APART.—For purposes of paragraph (1), if—

1 “(A) an individual—

2 “(i) is married and files a separate re-
3 turn, and

4 “(ii) has a qualifying child who is a
5 son, daughter, stepson, or stepdaughter of
6 such individual, and

7 “(B) during the last 6 months of such tax-
8 able year, such individual and such individual’s
9 spouse do not have the same principal place of
10 abode,

11 such individual shall not be considered as married.”.

12 **SEC. 206. MODIFICATIONS OF DEDUCTION FOR PERSONAL**
13 **EXEMPTION FOR DEPENDENTS.**

14 Section 151(c) (relating to additional exemption for
15 dependents) is amended to read as follows:

16 “(c) **ADDITIONAL EXEMPTION FOR DEPENDENTS.—**
17 An exemption of the exemption amount for each individual
18 who is a dependent (as defined in section 152) of the tax-
19 payer for the taxable year.”

20 **SEC. 207. MODIFICATION OF DETERMINATION OF MARITAL**
21 **STATUS.**

22 Section 7703 (relating to determination of marital
23 status) is amended by adding at the end the following new
24 subsection:

1 “(c) SPECIAL RULE RELATING TO TREATMENT OF
2 GOVERNMENT BENEFITS IN DETERMINING COST OF
3 MAINTAINING HOUSEHOLD.—For purposes of subsection
4 (b)(2), any means-tested benefits obtained under pro-
5 grams described in section 6103(l)(7) or substantially
6 similar government programs shall not be taken into ac-
7 count for purposes of determining whether over half of the
8 cost of maintaining the household is furnished by the indi-
9 vidual.”.

10 **SEC. 208. TECHNICAL AND CONFORMING AMENDMENTS.**

11 (1) Section 21(e)(5)(A) is amended by striking
12 “paragraph (2) or (4) of”.

13 (2) Section 21(e)(6)(B) is amended by striking
14 “section 151(c)(3)” and inserting “section
15 152(f)(1)”.

16 (3) Section 25B(c)(2)(B) is amended by strik-
17 ing “151(c)(4)” and inserting “152(f)(2)”.

18 (4)(A) Subparagraphs (A) and (B) of section
19 51(i)(1) are each amended by striking “paragraphs
20 (1) through (8) of section 152(a)” both places it ap-
21 pears and inserting “subparagraphs (A) through (G)
22 of section 152(d)(2)”.

23 (B) Section 51(i)(1)(C) is amended by striking
24 “152(a)(9)” and inserting “152(d)(2)(H)”.

1 (5) Section 72(t)(7)(A)(iii) is amended by strik-
2 ing “151(c)(3)” and inserting “152(f)(1)”.

3 (6) Section 129(e)(2) is amended by striking
4 “151(c)(3)” and inserting “152(f)(1)”.

5 (7) The first sentence of section 132(h)(2)(B)
6 is amended by striking “151(c)(3)” and inserting
7 “152(f)(1)”.

8 (8) Section 153 is amended by striking para-
9 graph (1) and by redesignating paragraphs (2), (3),
10 and (4) as paragraphs (1), (2), and (3), respectively.

11 (9) Section 170(g)(3) is amended by striking
12 “paragraphs (1) through (8) of section 152(a)” and
13 inserting “subparagraphs (A) through (G) of section
14 152(d)(2)”.

15 (10) The second sentence of section 213(d)(11)
16 is amended by striking “paragraphs (1) through (8)
17 of section 152(a)” and inserting “subparagraphs (A)
18 through (G) of section 152(d)(2)”.

19 (11) Section 529(e)(2)(B) is amended by strik-
20 ing “paragraphs (1) through (8) of section 152(a)”
21 and inserting “subparagraphs (A) through (G) of
22 section 152(d)(2)”.

23 (12) Section 2032A(c)(7)(D) is amended by
24 striking “section 151(c)(4)” and inserting “section
25 152(f)(2)”.

1 (13) Section 7701(a)(17) is amended by strik-
 2 ing “152(b)(4), 682,” and inserting “682”.

3 (14) Section 7702B(f)(2)(C)(iii) is amended by
 4 striking “paragraphs (1) through (8) of section
 5 152(a)” and inserting “subparagraphs (A) through
 6 (G) of section 152(d)(2)”.

7 (15) Section 7703(b)(1) is amended—

8 (A) by striking “151(c)(3)” and inserting
 9 “152(f)(1)”, and

10 (B) by striking “paragraph (2) or (4) of”.

11 **SEC. 209. EFFECTIVE DATE.**

12 The amendments made by this subtitle shall apply to
 13 taxable years beginning after December 31, 2002.

14 **Subtitle B—Other Family-Related**
 15 **Provisions**

16 **SEC. 211. ACCELERATION OF REPEAL OF PHASEOUT OF**
 17 **PERSONAL EXEMPTIONS.**

18 (a) IN GENERAL.—Subsection (d) of section 151 (re-
 19 lating to phaseout of exemption amount) is amended by
 20 striking paragraph (3) and redesignating paragraph (4)
 21 as paragraph (3).

22 (b) CONFORMING AMENDMENTS.—

23 (1) Paragraph (3) of section 151(d), as amend-
 24 ed by subsection (a), is amended to read as follows:

1 “(3) INFLATION ADJUSTMENT.—In the case of
2 any taxable year beginning in a calendar year after
3 1989, the dollar amount contained in paragraph (1)
4 shall be increased by an amount equal to—

5 “(A) such dollar amount, multiplied by

6 “(B) the cost-of-living adjustment deter-
7 mined under section 1(f)(3) for the calendar
8 year in which the taxable year begins, by sub-
9 stituting ‘calendar year 1988’ for ‘calendar year
10 1992’ in subparagraph (B) thereof.”.

11 (2) Section 1(f)(6) is amended—

12 (A) in subparagraph (A) by striking
13 “151(d)(4)” and inserting “151(d)(3)”, and

14 (B) in subparagraph (B), both as in effect
15 on the date of the enactment of this Act and as
16 amended by the Economic Growth and Tax Re-
17 lief Reconciliation Act of 2001, by striking
18 “151(d)(4)(A)” and inserting “151(d)(3)”.

19 (c) EFFECTIVE DATE.—The amendments made by
20 subsection (a) shall apply to taxable years beginning after
21 December 31, 2002.

1 **SEC. 212. ACCELERATION OF REPEAL OF PHASEOUT OF**
2 **OVERALL LIMITATION ON ITEMIZED DEDUC-**
3 **TIONS.**

4 (a) IN GENERAL.—Section 68 (relating to overall
5 limitation on itemized deductions) is hereby repealed and
6 the table of sections for part I of subchapter B of chapter
7 1 is amended by striking the item relating to section 68.

8 (b) CONFORMING AMENDMENTS.—

9 (1) Section 1(f)(6)(A) is amended by striking “,
10 section 68(b)(2)”.

11 (2) Section 773(a)(3)(B) is amended by strik-
12 ing clause (i) and redesignating clauses (ii), (iii),
13 and (iv) as clauses (i), (ii), and (iii), respectively.

14 (c) EFFECTIVE DATE.—The amendments by this sec-
15 tion shall apply to taxable years beginning after December
16 31, 2002.

17 **SEC. 213. REPEAL OF CERTAIN PHASEOUT PROVISIONS.**

18 (a) CHILD TAX CREDIT.—Subsection (b) of section
19 24 (relating to limitations) is amended—

20 (1) by striking paragraphs (1) and (2),

21 (2) by striking ““(3) LIMITATION BASED ON
22 AMOUNT OF TAX.—” and moving the text 2 ems to
23 the left, and

24 (3) by redesignating subparagraphs (A) and
25 (B) as paragraphs (1) and (2), respectively.

1 (b) HOUSEHOLD AND DEPENDENT CARE SERVICES
2 NECESSARY FOR GAINFUL EMPLOYMENT.—Subsection
3 (a) of section 21 (relating to allowance of credit) is
4 amended—

5 (1) in paragraph (1) by striking “applicable
6 percentage” and inserting “35 percent”,

7 (2) by striking paragraph (2), and

8 (3) by striking “(1) IN GENERAL.—” and mov-
9 ing the text 2 ems to the left.

10 (c) RETIREMENT SAVINGS.—

11 (1) IN GENERAL.—Section 219 (relating to re-
12 tirement savings) is amended by striking subsection
13 (g).

14 (2) CONFORMING AMENDMENTS.—

15 (A) Sections 132(m)(3) and
16 408(p)(2)(D)(ii) are each amended by inserting
17 “(as in effect on the day before the enactment
18 of this parenthetical)” after “section 219(g)(5)”
19 each place it appears.

20 (B) Section 408(d)(5)(B) is amended by
21 striking the last sentence.

22 (C) Section 408(o)(2)(B)(i) is amended by
23 striking “(determined without regard to section
24 219(g))” both places it appears.

1 (D) Section 408A(c)(2)(A) is amended by
2 striking “or (g)”.

3 (E) Section 408A(c) is amended by strik-
4 ing paragraph (3) and redesignating para-
5 graphs (4), (5), (6), and (7) as paragraphs (3),
6 (4), (5), and (6), respectively.

7 (F) Section 4973(b)(2) is amended by
8 striking the last sentence.

9 (d) HOPE AND LIFETIME LEARNING CREDITS.—Sec-
10 tion 25A (relating to hope and lifetime learning credits)
11 is amended by striking subsection (d).

12 (e) INTEREST ON EDUCATION LOANS.—Section
13 221(b) (relating to maximum deduction) is amended—

14 (1) by striking paragraph (2),

15 (2) by striking “(1) IN GENERAL.—Except as
16 provided in paragraph (2), the” and inserting
17 “The”, and

18 (3) moving the text 2 ems to the left.

19 (f) INCOME FROM UNITED STATES SAVINGS BONDS
20 USED TO PAY HIGHER EDUCATION TUITION AND
21 FEES.—Subsection (c) of section 135 is amended to read
22 as follows:

23 “(b) LIMITATION.—

24 “(1) IN GENERAL.—If—

1 “(A) the aggregate proceeds of qualified
2 United States savings bonds redeemed by the
3 taxpayer during the taxable year exceed

4 “(B) the qualified higher education ex-
5 penses paid by the taxpayer during such taxable
6 year,

7 the amount excludable from gross income under sub-
8 section (a) shall not exceed the applicable fraction of
9 the amount excludable from gross income under sub-
10 section (a) without regard to this subsection.

11 “(2) APPLICABLE FRACTION.—For purposes of
12 paragraph (1), the term ‘applicable fraction’ means
13 the fraction the numerator of which is the amount
14 described in paragraph (1)(B) and the denominator
15 of which is the amount described in paragraph
16 (1)(A).”.

17 (g) ADOPTION CREDIT.—Subsection (b) of section 23
18 (relating to limitations) is amended by striking paragraph
19 (2) and redesignating paragraphs (3) and (4) as para-
20 graphs (2) and (3).

21 (h) ADOPTION ASSISTANCE PROGRAMS.—

22 (1) IN GENERAL.—Subsection (b) of section
23 137 is amended—

24 (A) by striking paragraphs (2) and (3),

25 (B) in paragraph (1)—

1 (i) by striking “(1) DOLLAR LIMITA-
2 TIONS.—”, and

3 (ii) moving the text 2 ems to the left.

4 (2) CONFORMING AMENDMENT.—Section 23(h)
5 is amended by striking “section 137(b)(1)” and in-
6 serting “section 137(b)”.

7 (i) QUALIFIED TUITION AND RELATED EXPENSES.—
8 Subsection (b) of section 222 is amended to read as fol-
9 lows:

10 “(b) DOLLAR LIMITATIONS.—

11 “(1) IN GENERAL.—The amount allowed as a
12 deduction under subsection (a) with respect to the
13 taxpayer for any taxable year shall not exceed the
14 applicable dollar limit.

15 “(2) APPLICABLE DOLLAR LIMIT.—For pur-
16 poses of paragraph (1), the applicable dollar limit
17 shall be determined in accordance with the following
18 table:

“Taxable years beginning in calendar year:	The applicable dollar limit is:
2003	\$3,000.
2004 and 2005	\$4,000.”.

19 (j) EFFECTIVE DATE.—The amendments made by
20 this section shall apply to taxable years beginning after
21 December 31, 2002.

1 **SEC. 214. SIMPLIFICATION OF CAPITAL GAINS TAX.**

2 (a) IN GENERAL.—Part I of subchapter P of chapter
3 1 (relating to treatment of capital gains) is amended by
4 adding at the end the following new section:

5 **“SEC. 1203. CAPITAL GAINS DEDUCTION.**

6 “If for any taxable year a taxpayer other than a cor-
7 poration has a net capital gain, 50 percent of such gain
8 shall be a deduction from gross income.”.

9 (b) DEDUCTION ALLOWABLE WHETHER OR NOT
10 TAXPAYER ITEMIZES OTHER DEDUCTIONS.—

11 (1) Subsection (b) of section 63 is amended by
12 striking “and” at the end of paragraph (1), by strik-
13 ing the period at the end of paragraph (2) and in-
14 serting “, and”, and by adding at the end the fol-
15 lowing new paragraph:

16 “(3) the deduction allowed by section 1203.”.

17 (2) Subsection (d) of section 63 is amended by
18 striking “and” at the end of paragraph (1), by strik-
19 ing the period at the end of paragraph (2) and in-
20 serting “, and”, and by adding at the end the fol-
21 lowing new paragraph:

22 “(3) the deduction allowed by section 1203.”.

23 (c) TECHNICAL AND CONFORMING AMENDMENTS.—

24 (1) Section 1 is amended by striking subsection
25 (h).

1 (2) Subparagraph (E) of section 163(d)(4) is
2 amended to read as follows:

3 “(E) COORDINATION WITH CAPITAL GAINS
4 DEDUCTION.—The net capital gain taken into
5 account under section 1203 for any taxable
6 year shall be reduced (but not below zero) by
7 the amount which the taxpayer takes into ac-
8 count as investment income under subpara-
9 graph (B)(iii) for such year.”.

10 (3) Paragraph (1) of section 170(e) is amended
11 by striking “the amount of gain” in the material fol-
12 lowing subparagraph (B)(ii) and inserting “50 per-
13 cent (100 percent in the case of a corporation) of
14 the amount of gain”.

15 (4) Subparagraph (B) of section 172(d)(2) is
16 amended to read as follows:

17 “(B) the exclusion under section 1202 and
18 the deduction under section 1203 shall not be
19 allowed.”.

20 (5) The last sentence of section 453A(c)(3) is
21 amended by striking all that follows “long-term cap-
22 ital gain,” and inserting “the maximum rate on net
23 capital gain under section 1201 or the deduction
24 under section 1203 (whichever is appropriate) shall
25 be taken into account.”.

1 (6)(A) Section 641(c)(2)(A) is amended by
2 striking “Except as provided in section 1(h), the”
3 and inserting “The”.

4 (B) Section 641(c)(2)(C) is amended by insert-
5 ing after clause (iii) the following new clause:

6 “(iv) The deduction under section
7 1203.”.

8 (7) Paragraph (4) of section 642(c) is amended
9 to read as follows:

10 “(4) ADJUSTMENTS.—To the extent that the
11 amount otherwise allowable as a deduction under
12 this subsection consists of gain from the sale or ex-
13 change of capital assets held for more than 1 year,
14 proper adjustment shall be made for any exclusion
15 allowable under section 1202 and any deduction al-
16 lowable under section 1203 to the estate or trust. In
17 the case of a trust, the deduction allowed by this
18 subsection shall be subject to section 681 (relating
19 to unrelated business income).”.

20 (8) Section 642 is amended by adding at the
21 end the following new subsection:

22 “(j) CAPITAL GAINS DEDUCTION.—The deduction
23 under section 1203 to an estate or trust shall be computed
24 by excluding the portion (if any) of the gains for the tax-
25 able year which is includible by the income beneficiaries

1 under sections 652 and 662 (relating to inclusions of
2 amounts in gross income of beneficiaries of trusts) as gain
3 derived from the sale or exchange of capital assets.”.

4 (9) The last sentence of section 643(a)(3) is
5 amended to read as follows: “The exclusion under
6 section 1202 and the deduction under section 1203
7 shall not be taken into account.”.

8 (10) Subparagraph (C) of section 643(a)(6) is
9 amended by inserting “(i)” before “there shall” and
10 by inserting before the period “, and (ii) the deduc-
11 tion under section 1203 (relating to capital gains de-
12 duction) shall not be taken into account”.

13 (11) Paragraph (4) of section 691(c) is amend-
14 ed by striking “1(h),” and by inserting “1203,”
15 after “1202,”.

16 (12) The second sentence of paragraph (2) of
17 section 871(a) is amended by striking “section
18 1202” and inserting “sections 1202 and 1203”.

19 (13)(A) Paragraph (2) of section 904(b) is
20 amended by striking subparagraphs (A) and (C)”,
21 by redesignating subparagraph (B) as subparagraph
22 (A), and by inserting after subparagraph (A) (as so
23 redesignated) the following new subparagraph:

24 “(B) OTHER TAXPAYERS.—In the case of
25 a taxpayer other than a corporation, taxable in-

1 come from sources outside the United States
2 shall include gain from the sale or exchange of
3 capital assets only to the extent of foreign
4 source capital gain net income.”.

5 (B) Subparagraph (A) of section 904(b)(2), as
6 so redesignated, is amended—

7 (i) by striking all that precedes clause (i)
8 and inserting the following:

9 “(A) CORPORATIONS.—In the case of a
10 corporation—”, and

11 (ii) by striking in clause (i) “in lieu of ap-
12 plying subparagraph (A),”.

13 (C) Paragraph (3) of section 904(b) is amended
14 by striking subparagraphs (D) and (E) and inserting
15 the following new subparagraph:

16 “(D) RATE DIFFERENTIAL PORTION.—The
17 rate differential portion of foreign source net
18 capital gain, net capital gain, or the excess of
19 net capital gain from sources within the United
20 States over net capital gain, as the case may
21 be, is the same proportion of such amount as
22 the excess of the highest rate of tax specified in
23 section 11(b) over the alternative rate of tax
24 under section 1201(a) bears to the highest rate
25 of tax specified in section 11(b).”.

1 (14) Paragraph (1) of section 1402(i) is amend-
2 ed by inserting “, and the deduction provided by sec-
3 tion 1203 shall not apply” before the period at the
4 end thereof.

5 (15) Paragraph (1) of section 1445(e) is
6 amended by striking “20 percent” and inserting
7 “one-half of the maximum rate of tax in effect under
8 section 1”.

9 (16)(A) The second sentence of section
10 7518(g)(6)(A) is amended—

11 (i) by striking “during a taxable year to
12 which section 1(h) or 1201(a) applies”, and

13 (ii) by striking “20 percent” and inserting
14 “one-half of the maximum rate of tax in effect
15 under section 1”.

16 (B) The second sentence of section
17 607(h)(6)(A) of the Merchant Marine Act,
18 1936, is amended—

19 (i) by striking “during a taxable year
20 to which section 1(h) or 1201(a) of such
21 Code applies”, and

22 (ii) by striking “20 percent” and in-
23 serting “one-half of the maximum rate of
24 tax in effect under section 1 of such
25 Code”.

1 (d) CLERICAL AMENDMENT.—The table of sections
2 for part I of subchapter P of chapter 1 is amended by
3 adding at the end the following new item:

“Sec. 1203. Capital gains deduction.”.

4 (e) EFFECTIVE DATES.—

5 (1) IN GENERAL.—Except as otherwise pro-
6 vided in this subsection, the amendments made by
7 this section shall apply to taxable years beginning
8 after December 31, 2002.

9 (2) WITHHOLDING.—The amendments made by
10 subsection (d)(15) shall apply only to amounts paid
11 after December 31, 2002.

12 (3) REPEAL OF ELECTION.—Section 311 of the
13 Taxpayer Relief Act of 1997 is amended by striking
14 subsection (e).

15 (4) COORDINATION WITH PRIOR TRANSITION
16 RULE.—Any amount treated as long-term capital
17 gain by reason of paragraph (3) of section 1122(h)
18 of the Tax Reform Act of 1986 shall not be taken
19 into account for purposes of applying section 1203
20 of the Internal Revenue Code of 1986 (as added by
21 this section).

22 **SEC. 215. EXEMPTION OF CERTAIN INTEREST AND DIVI-**
23 **DEND INCOME FROM TAX.**

24 (a) IN GENERAL.—Part III of subchapter B of chap-
25 ter 1 (relating to amounts specifically excluded from gross

1 income) is amended by inserting after section 115 the fol-
2 lowing new section:

3 **“SEC. 116. PARTIAL EXCLUSION OF DIVIDENDS AND INTER-**
4 **EST RECEIVED BY INDIVIDUALS.**

5 “(a) EXCLUSION FROM GROSS INCOME.—Gross in-
6 come does not include dividends and interest otherwise in-
7 cludible in gross income which are received during the tax-
8 able year by an individual.

9 “(b) LIMITATIONS.—

10 “(1) MAXIMUM AMOUNT.—The aggregate
11 amount excluded under subsection (a) for any tax-
12 able year shall not exceed \$250 (\$500 in the case of
13 a joint return).

14 “(2) CERTAIN DIVIDENDS EXCLUDED.—Sub-
15 section (a) shall not apply to any dividend from a
16 corporation which for the taxable year of the cor-
17 poration in which the distribution is made is a cor-
18 poration exempt from tax under section 521 (relat-
19 ing to farmers’ cooperative associations).

20 “(c) SPECIAL RULES.—For purposes of this
21 section—

22 “(1) EXCLUSION NOT TO APPLY TO CAPITAL
23 GAIN DIVIDENDS FROM REGULATED INVESTMENT

1 COMPANIES AND REAL ESTATE INVESTMENT
2 TRUSTS.—

“For treatment of capital gain dividends, see sections 854(a) and 857(c).”

3 “(2) CERTAIN NONRESIDENT ALIENS INELI-
4 GIBLE FOR EXCLUSION.—In the case of a non-
5 resident alien individual, subsection (a) shall apply
6 only in determining the taxes imposed for the tax-
7 able year pursuant to sections 871(b)(1) and 877(b).

8 “(3) DIVIDENDS FROM EMPLOYEE STOCK OWN-
9 ERSHIP PLANS.—Subsection (a) shall not apply to
10 any dividend described in section 404(k).”.

11 (b) CONFORMING AMENDMENTS.—

12 (1) Subparagraph (C) of section 32(c)(5) is
13 amended by striking “or” at the end of clause (i),
14 by striking the period at the end of clause (ii) and
15 inserting “; or”, and by inserting after clause (ii)
16 the following new clause:

17 “(iii) interest and dividends received
18 during the taxable year which are excluded
19 from gross income under section 116.”.

20 (2) Subparagraph (A) of section 32(i)(2) is
21 amended by inserting “(determined without regard
22 to section 116)” before the comma.

23 (3) Subparagraph (B) of section 86(b)(2) is
24 amended to read as follows:

1 “(B) increased by the sum of—

2 “(i) the amount of interest received or
3 accrued by the taxpayer during the taxable
4 year which is exempt from tax, and

5 “(ii) the amount of interest and divi-
6 dends received during the taxable year
7 which are excluded from gross income
8 under section 116.”.

9 (4) Subsection (d) of section 135 is amended by
10 redesignating paragraph (4) as paragraph (5) and
11 by inserting after paragraph (3) the following new
12 paragraph:

13 “(4) COORDINATION WITH SECTION 116.—This
14 section shall be applied before section 116.”.

15 (5) Paragraph (2) of section 265(a) is amended
16 by inserting before the period “, or to purchase or
17 carry obligations or shares, or to make deposits, to
18 the extent the interest thereon is excludable from
19 gross income under section 116”.

20 (6) Subsection (c) of section 584 is amended by
21 adding at the end the following new flush sentence:
22 “The proportionate share of each participant in the
23 amount of dividends or interest received by the common
24 trust fund and to which section 116 applies shall be con-

1 sidered for purposes of such section as having been re-
2 ceived by such participant.”.

3 (7) Subsection (a) of section 643 is amended by
4 redesignating paragraph (7) as paragraph (8) and
5 by inserting after paragraph (6) the following new
6 paragraph:

7 “(7) DIVIDENDS OR INTEREST.—There shall be
8 included the amount of any dividends or interest ex-
9 cluded from gross income pursuant to section 116.”.

10 (8) Section 854(a) is amended by inserting
11 “section 116 (relating to partial exclusion of divi-
12 dends and interest received by individuals) and”
13 after “For purposes of”.

14 (9) Section 857(c) is amended to read as fol-
15 lows:

16 “(c) RESTRICTIONS APPLICABLE TO DIVIDENDS RE-
17 CEIVED FROM REAL ESTATE INVESTMENT TRUSTS.—

18 “(1) TREATMENT FOR SECTION 116.—For pur-
19 poses of section 116 (relating to partial exclusion of
20 dividends and interest received by individuals), a
21 capital gain dividend (as defined in subsection
22 (b)(3)(C)) received from a real estate investment
23 trust which meets the requirements of this part shall
24 not be considered as a dividend.

1 “(2) TREATMENT FOR SECTION 243.—For pur-
 2 poses of section 243 (relating to deductions for divi-
 3 dends received by corporations), a dividend received
 4 from a real estate investment trust which meets the
 5 requirements of this part shall not be considered as
 6 a dividend.”.

7 (10) The table of sections for part III of sub-
 8 chapter B of chapter 1 is amended by inserting after
 9 the item relating to section 115 the following new
 10 item:

“Sec. 116. Partial exclusion of dividends and interest received by
 individuals.”.

11 (c) EFFECTIVE DATE.—The amendments made by
 12 this section shall apply to taxable years beginning after
 13 December 31, 2002.

14 **SEC. 216. SIMPLIFICATION OF DEDUCTION FOR POINTS ON**
 15 **HOME MORTGAGE.**

16 (a) IN GENERAL.—Paragraph (2) of section 461(g)
 17 (relating to prepaid interest) is amended by adding at the
 18 end the following new sentence: “This subsection also shall
 19 not apply to points paid in respect of indebtedness secured
 20 by such residence resulting from the refinancing of indebt-
 21 edness meeting the requirements of the preceding sentence
 22 (or this sentence), but only to the extent the amount of
 23 the indebtedness resulting from such refinancing does not
 24 exceed the amount of the refinanced indebtedness.”.

1 (b) EFFECTIVE DATE.—The amendment made by
 2 this section shall apply to taxable years beginning after
 3 December 31, 2002.

4 **SEC. 217. INCREASE IN EXCLUSION FOR GROUP-TERM LIFE**
 5 **INSURANCE PURCHASED FOR EMPLOYEES.**

6 (a) IN GENERAL.—Paragraph (1) of section 79(a) is
 7 amended by striking “\$50,000” and inserting
 8 “\$100,000”.

9 (b) EFFECTIVE DATE.—The amendment made by
 10 subsection (a) shall apply to years beginning after Decem-
 11 ber 31, 2002.

12 **TITLE III—EDUCATION-RELATED**
 13 **PROVISIONS**

14 **SEC. 301. UNIFORM DEFINITION OF QUALIFYING HIGHER**
 15 **EDUCATION EXPENSES.**

16 (a) IN GENERAL.—Paragraph (3) of section 529(e)
 17 (relating to other definitions and special rules) is amended
 18 to read as follows:

19 “(3) QUALIFIED HIGHER EDUCATION EX-
 20 PENSES.—

21 “(A) IN GENERAL.—The term ‘qualified
 22 higher education expenses’ means—

23 “(i) tuition, fees, books, supplies, and
 24 equipment required for the enrollment or

1 attendance of a designated beneficiary at
2 an eligible educational institution; and

3 “(ii) expenses for special needs serv-
4 ices in the case of a special needs bene-
5 ficiary which are incurred in connection
6 with such enrollment or attendance.

7 “(B) ROOM AND BOARD INCLUDED FOR
8 STUDENTS WHO ARE AT LEAST HALF-TIME.—

9 “(i) IN GENERAL.—In the case of an
10 individual who is an eligible student (as de-
11 fined in section 25A(b)(3)) for any aca-
12 demic period, such term shall also include
13 reasonable costs for such period (as deter-
14 mined under the qualified tuition program)
15 incurred by the designated beneficiary for
16 room and board while attending such insti-
17 tution. For purposes of subsection (b)(7),
18 a designated beneficiary shall be treated as
19 meeting the requirements of this clause.

20 “(ii) LIMITATION.—The amount treat-
21 ed as qualified higher education expenses
22 by reason of clause (i) shall not exceed—

23 “(I) the allowance (applicable to
24 the student) for room and board in-
25 cluded in the cost of attendance (as

1 defined in section 472 of the Higher
2 Education Act of 1965 (20 U.S.C.
3 1087*ll*), as in effect on the date of the
4 enactment of the Economic Growth
5 and Tax Relief Reconciliation Act of
6 2001) as determined by the eligible
7 educational institution for such pe-
8 riod, or

9 “(II) if greater, the actual invoice
10 amount the student residing in hous-
11 ing owned or operated by the eligible
12 educational institution is charged by
13 such institution for room and board
14 costs for such period.

15 “(C) EXCEPTIONS.—

16 “(i) EXCEPTION FOR EDUCATION IN-
17 VOLVING SPORTS, ETC.—Such term does
18 not include expenses with respect to any
19 course or other education involving sports,
20 games, or hobbies, unless such course or
21 other education is part of the individual’s
22 degree program.

23 “(ii) EXCEPTION FOR NONACADEMIC
24 FEES.—Such term does not include stu-
25 dent activity fees, athletic fees, insurance

1 expenses, or other expenses unrelated to an
2 individual's academic course of instruc-
3 tion.”.

4 (b) CONFORMING AMENDMENTS.—

5 (1) Section 25A and 6050S are each amended
6 by striking “qualified tuition and related expenses”
7 each place it appears and inserting “qualified higher
8 education expenses”.

9 (2) Section 25A(f)(1) is amended to read as fol-
10 lows:

11 “(1) QUALIFIED HIGHER EDUCATION EX-
12 PENSES.—The term ‘qualified higher education ex-
13 penses’ means the qualified higher education ex-
14 penses (as defined by section 529(e)(3) without re-
15 gard to subparagraph (B) thereof) required for the
16 enrollment or attendance of—

17 “(A) the taxpayer,

18 “(B) the taxpayer's spouse, or

19 “(C) any dependent of the taxpayer with
20 respect to whom the taxpayer is allowed a de-
21 duction under section 151,

22 at an eligible educational institution for courses of
23 instruction of such individual at such institution.”.

24 (3) Section 135(c)(2) is amended—

1 (A) by striking “tuition and fees” and in-
2 serting “the qualified higher education expenses
3 (as defined by section 529(e)(3) without regard
4 to subparagraph (B) thereof)”, and

5 (B) by striking subparagraph (B) and re-
6 designating subparagraph (C) as subparagraph
7 (B).

8 (4) Section 221(d)(2) is amended by striking
9 “the cost of attendance (as defined in section 472 of
10 the Higher Education Act of 1965, 20 U.S.C.
11 1087*ll*, as in effect on the day before the date of the
12 enactment of this Act)” and inserting “the qualified
13 higher education expenses (as defined by section
14 529(e)(3) without regard to subparagraph (B) there-
15 of) incurred for attendance”.

16 (5)(A) Section 222 is amended by striking
17 “qualified tuition and related expenses” each place
18 it appears and inserting “qualified higher education
19 expenses”.

20 (B) Section 222(d)(1) is amended to read as
21 follows:

22 “(1) QUALIFIED HIGHER EDUCATION EX-
23 PENSES.—The term ‘qualified higher education ex-
24 penses’ has the meaning given such term by section
25 529(e)(3) (without regard to subparagraph (B)

1 thereof). Such expenses shall be reduced in the same
2 manner as under section 25A(g)(2).”.

3 (C) Section 222(d) is amended by redesignating
4 paragraph (6) as paragraph (7) and by inserting
5 after paragraph (5) the following new paragraph:

6 “(6) ROOM AND BOARD INCLUDED FOR STU-
7 DENTS WHO ARE FULL-TIME.—No amount shall be
8 taken into account under this section for an expense
9 described in section 529(e)(3)(B) (relating to room
10 and board included for students who are at least
11 half-time) unless such individual is an eligible stu-
12 dent (as defined in section 25A(b)(3)), determined
13 by substituting ‘the normal full-time work load’ in
14 lieu of ‘ $\frac{1}{2}$ the normal full-time work load’ in sub-
15 paragraph (B) thereof.”.

16 (D) The heading for section 222 is amended by
17 striking “**TUITION AND RELATED**” and
18 inserting “**HIGHER EDUCATION**”.

19 (E) The table of sections for part VII of sub-
20 chapter B of chapter 1 is amended by amending the
21 item relating to section 222 to read as follows:

 “Sec. 222. Qualified higher education expenses.”.

22 (6)(A) Section 6724(d) is amended—

23 (i) in paragraph (1)(B)(x) by striking
24 “qualified tuition and related expenses” and in-

1 serting “qualified higher education expenses”,
2 and

3 (ii) in paragraph (2)(Z) by striking “quali-
4 fied tuition and related expenses” and inserting
5 “qualified higher education expenses”.

6 (c) EFFECTIVE DATE.—The amendments made by
7 this section shall apply to amounts paid in taxable years
8 beginning after December 31, 2002, for education fur-
9 nished in periods beginning after such date.

10 **SEC. 302. COMBINING HOPE AND LIFETIME LEARNING**
11 **CREDITS.**

12 (a) IN GENERAL.—So much of section 25A (relating
13 to Hope and Lifetime Learning Credits) as precedes sub-
14 section (d) is amended to read as follows:

15 **“SEC. 25A. EDUCATION CREDIT.**

16 “(a) ALLOWANCE OF CREDIT.—In the case of an in-
17 dividual, there shall be allowed as a credit against the tax
18 imposed by this chapter for the taxable year the amount
19 equal to 20 percent of so much of the qualified expenses
20 paid by the taxpayer during the taxable year (for edu-
21 cation furnished during any academic period beginning in
22 such taxable year) as does not exceed \$10,000.

23 “(b) QUALIFIED EXPENSES.—For purposes of sub-
24 section (a), the term ‘qualified expenses’ means the sum
25 of—

1 “(1) qualified higher education expenses, and
2 “(2) the expenses described in subsection (d)(1)
3 with respect to any course of instruction at an eligi-
4 ble educational institution to acquire or improve job
5 skills of the individual.”.

6 (b) CONFORMING AMENDMENTS TO CREDIT.—

7 (1) Section 25A, as amended by subsection (a)
8 and sections 207(d) and 301, is further amended—

9 (A) by striking subsection (h), and

10 (B) by redesignating subsections (e), (f),
11 (g), and (i) as subsections (c), (d), (e), and (f),
12 respectively.

13 (2) Subsection (e)(2), as so redesignated, is
14 amended by striking “(before the application of sub-
15 sections (b), (c), and (d))”.

16 (c) OTHER CONFORMING AND CLERICAL AMEND-
17 MENTS.—

18 (1) The following provisions are each amended
19 by striking “section 25A(g)(2)” and inserting “sec-
20 tion 25A(e)(2)”:

21 (A) Section 72(t)(7)(B).

22 (B) 221(d)(2)(B).

23 (C) 222(d)(1) (as amended by section
24 301(b)(6) of this Act).

25 (D) 529(c)(3)(B)(v)(I).

1 (E) 530(b)(2)(A).

2 (F) 530(d)(2)(C)(i)(I).

3 (G) 530(d)(4)(B)(iii).

4 (2) Section 221(d) is amended—

5 (A) in paragraph (2) by striking “section
6 25A(f)(2)” and inserting “section 25A(d)(2)”,
7 and

8 (B) by amending paragraph (3) to read as
9 follows:

10 “(3) ELIGIBLE STUDENT.—The term ‘eligible
11 student’ means, with respect to any academic period,
12 a student who—

13 “(A) meets the requirements of section
14 484(a)(1) of the Higher Education Act of 1965
15 (20 U.S.C. 1091(a)(1)), as in effect on the date
16 of the enactment of this section, and

17 “(B) is carrying at least $\frac{1}{2}$ the normal
18 full-time work load for the course of study the
19 student is pursuing.”.

20 (3) Section 529(e)(3)(B)(i) is amended by strik-
21 ing “section 25A(b)(3)” and inserting “section
22 221(d)(3)”.

23 (4) The heading of section 529(e)(3)(B)(v) is
24 amended to read as follows: “COORDINATION WITH
25 EDUCATION CREDIT.—”.

1 (5) The heading of section 530(d)(2)(C) is
2 amended to read as follows: “COORDINATION WITH
3 EDUCATION CREDIT AND QUALIFIED TUITION PRO-
4 GRAMS.—”.

5 (6) Section 6050S(e) is amended by striking
6 “subsection (g)(2)” and inserting “subsection
7 (e)(2)”.

8 (7) Section 6213(g)(2)(J) is amended by strik-
9 ing “section 25A(g)(1)” and inserting “section
10 25A(e)(1)”.

11 (8) The item relating to section 25A in the
12 table of sections for subpart A of part IV of sub-
13 chapter A of chapter 1 is amended to read as fol-
14 lows:

“Sec. 25A. Education Credit.”.

15 (d) EFFECTIVE DATE.—The amendments made by
16 this section shall apply to taxable years beginning after
17 December 31, 2002.

18 **SEC. 303. CLARIFICATION OF INTERACTION OF VARIOUS**
19 **EDUCATION TAX INCENTIVE PROVISIONS.**

20 (a) REPEAL OF EXCISE TAX ON EXCESS CONTRIBU-
21 TIONS TO EDUCATION SAVINGS ACCOUNTS.—Section
22 4973 is amended—

23 (1) in subsection (a) by inserting “or” at the
24 end of paragraph (2), by striking “or” at the end of
25 paragraph (3), and by striking paragraph (4), and

1 (2) by striking subsection (e) and redesignating
2 subsection (f) as subsection (e).

3 (b) COORDINATION OF EDUCATION INCENTIVES.—

4 Section 222(c)(2) is amended to read as follows:

5 “(2) COORDINATION WITH EDUCATION EXCLU-
6 SIONS.—The total amount of qualified higher edu-
7 cation expenses shall be reduced by the amount of
8 such expenses taken into account in determining any
9 amount excluded under section 135, 529(c)(1), or
10 530(d)(2). For purposes of the preceding sentence,
11 the amount taken into account in determining the
12 amount excluded under section 529(c)(1) shall not
13 include that portion of the distribution which rep-
14 resents a return of any contributions to the plan.”.

15 (c) EFFECTIVE DATE.—The amendments made by
16 this section shall apply to taxable years beginning after
17 December 31, 2002.

18 **TITLE IV—BUSINESS**
19 **PROVISIONS**

20 **SEC. 401. CASH METHOD OF ACCOUNTING.**

21 (a) PERSONAL SERVICE CORPORATIONS.—

22 (1) IN GENERAL.—Subsection (b) of section
23 448 (relating to exception to general rule on limita-
24 tion on use of cash method of accounting) is
25 amended—

1 (A) by striking paragraph (2), and

2 (B) by redesignating paragraph (3) as
3 paragraph (2).

4 (2) CONFORMING AMENDMENTS.—

5 (A) Section 448(d) is amended by striking
6 paragraph (2) and redesignating paragraphs
7 (3) through (8) as paragraphs (2) through (7),
8 respectively.

9 (B) Section 11(b)(2) is amended by insert-
10 ing “(as in effect on the day before the date of
11 the enactment of this parenthetical)” after
12 “section 448(d)(2)”.

13 (b) INCREASE IN GROSS RECEIPTS TEST AMOUNT;
14 TESTING PERIOD LIMITED TO 3 YEARS.—

15 (1) IN GENERAL.—Paragraph (2) of section
16 448(b) (relating to entities with gross receipts of not
17 more than \$5,000,000), as redesignated by sub-
18 section (a), is amended—

19 (A) by striking “\$5,000,000” in the head-
20 ing and inserting “\$10,000,000”,

21 (B) by striking “\$5,000,000” in the text,
22 and

23 (C) by striking “, for all prior taxable
24 years beginning after December 31, 1985,”.

1 (2) GROSS RECEIPTS TEST DEFINED.—Sub-
2 section (c) of section 448 (relating to \$5,000,000
3 gross receipts test) is amended—

4 (A) by striking “\$5,000,000” in the head-
5 ing and the first place it appears in paragraph
6 (1), and

7 (B) by striking “\$5,000,000” the second
8 place it appears in paragraph (1) and inserting
9 “\$10,000,000”.

10 (c) EFFECTIVE DATES.—

11 (1) PERSONAL SERVICE CORPORATIONS.—The
12 amendments made by subsection (a) shall apply to
13 taxable years beginning after December 31, 2002.

14 (2) GROSS RECEIPTS TEST.—The amendments
15 made by subsection (b) shall apply to determinations
16 of whether the requirement of section 448(b)(2) of
17 the Internal Revenue Code of 1986 (as amended by
18 this section) is met for any taxable year beginning
19 after December 31, 2002.

20 **SEC. 402. REPEAL OF COLLAPSIBLE CORPORATIONS.**

21 (a) IN GENERAL.—Subpart C of part II of sub-
22 chapter C of chapter 1 (relating to collapsible corpora-
23 tions) is hereby repealed.

1 (b) CLERICAL AMENDMENT.—The table of subparts
2 for part II of subchapter C of chapter 1 is amended by
3 striking the item relating to subpart C.

4 (c) EFFECTIVE DATE.—The amendments made by
5 this section shall apply to sales, exchanges, and distribu-
6 tions made after the date of the enactment of this Act.

7 **SEC. 403. SIMPLIFICATION OF ACTIVE BUSINESS TEST FOR**
8 **CERTAIN CORPORATE REORGANIZATIONS.**

9 (a) IN GENERAL.—Section 355(b) (defining active
10 conduct of a trade or business) is amended by adding at
11 the end the following new paragraph:

12 “(3) SPECIAL RULES RELATING TO ACTIVE
13 BUSINESS REQUIREMENT.—

14 “(A) IN GENERAL.—For purposes of deter-
15 mining whether a corporation meets the re-
16 quirement of paragraph (2)(A), all members of
17 such corporation’s separate affiliated group
18 shall be treated as one corporation. For pur-
19 poses of the preceding sentence, a corporation’s
20 separate affiliated group is the affiliated group
21 which would be determined under section
22 1504(a) if such corporation were the common
23 parent and section 1504(b) did not apply.

24 “(B) CONTROL.—For purposes of para-
25 graph (2)(D), all distributee corporations which

1 are members of the same affiliated group (as
2 defined in section 1504(a) without regard to
3 section 1504(b)) shall be treated as one dis-
4 tributee corporation.”.

5 (b) CONFORMING AMENDMENTS.—

6 (1) Subparagraph (A) of section 355(b)(2) is
7 amended to read as follows:

8 “(A) it is engaged in the active conduct of
9 a trade or business,”.

10 (2) Section 355(b)(2) is amended by striking
11 the last sentence.

12 (c) EFFECTIVE DATE.—

13 (1) IN GENERAL.—The amendments made by
14 this section shall apply to distributions after the
15 date of the enactment of this Act.

16 (2) TRANSITION RULE.—The amendments
17 made by this section shall not apply to any distribu-
18 tion pursuant to a transaction which is—

19 (A) made pursuant to an agreement which
20 was binding on such date and at all times
21 thereafter,

22 (B) described in a ruling request submitted
23 to the Internal Revenue Service on or before
24 such date, or

1 (C) described on or before such date in a
2 public announcement or in a filing with the Se-
3 curities and Exchange Commission.

4 (3) ELECTION TO HAVE AMENDMENTS
5 APPLY.—Paragraph (2) shall not apply if the dis-
6 tributing corporation elects not to have such para-
7 graph apply to distributions of such corporation.
8 Any such election, once made, shall be irrevocable.

9 **SEC. 404. STUDY ON SIMPLIFICATION OF ATTRIBUTION**
10 **RULES.**

11 The Secretary of the Treasury shall conduct a study
12 of the different provisions in the Internal Revenue Code
13 of 1986 relating to the attribution rules with respect to
14 the ownership of stock. Such study shall address the ad-
15 vantages and disadvantages of adopting uniform attribu-
16 tion rules and the extent to which such uniform rules
17 would better serve taxpayers, practitioners, and the Inter-
18 nal Revenue Service. Not later than 180 days after the
19 date of the enactment of this Act, the Secretary shall sub-
20 mit such study, together with any recommendation the
21 Secretary considers appropriate, to the Committee on
22 Ways and Means of the House of Representatives and the
23 Committee on Finance of the Senate.

1 **SEC. 405. ALLOCATION OF BASIS ON TRANSFERS OF INTAN-**
2 **GIBLES IN CERTAIN NONRECOGNITION**
3 **TRANSACTIONS.**

4 (a) TRANSFERS TO CORPORATIONS.—Section 351
5 (relating to transfer to corporation controlled by trans-
6 feror) is amended by redesignating subsection (h) as sub-
7 section (i) and by inserting after subsection (g) the fol-
8 lowing new subsection:

9 “(h) TREATMENT OF TRANSFERS OF INTANGIBLE
10 PROPERTY.—

11 “(1) TRANSFERS OF LESS THAN ALL SUBSTAN-
12 TIAL RIGHTS.

13 “(A) IN GENERAL.—A transfer of an inter-
14 est in intangible property (as defined in section
15 936(h)(3)(B)) shall be treated under this sec-
16 tion as a transfer of property even if the trans-
17 fer is of less than all of the substantial rights
18 of the transferor in the property.

19 “(B) ALLOCATION OF BASIS.—In the case
20 of a transfer of less than all of the substantial
21 rights of the transferor in the intangible prop-
22 erty, the transferor’s basis immediately before
23 the transfer shall be allocated among the rights
24 retained by the transferor and the rights trans-
25 ferred on the basis of their respective fair mar-
26 ket values.

1 “(2) NONRECOGNITION NOT TO APPLY TO IN-
 2 TANGIBLE PROPERTY DEVELOPED FOR TRANS-
 3 FEREE.—This section shall not apply to a transfer
 4 of intangible property developed by the transferor or
 5 any related person if such development was pursuant
 6 to an arrangement with the transferee.”.

7 (b) TRANSFERS TO PARTNERSHIPS.—Subsection (d)
 8 of section 721 is amended to read as follows:

9 “(d) TRANSFERS OF INTANGIBLE PROPERTY.—

10 “(1) IN GENERAL.—Rules similar to the rules
 11 of section 351(h) shall apply for purposes of this
 12 section.

13 “(2) TRANSFERS TO FOREIGN PARTNER-
 14 SHIPS.—For regulatory authority to treat intangi-
 15 bles transferred to a partnership as sold, see section
 16 367(d)(3).”.

17 (c) EFFECTIVE DATE.—The amendments made by
 18 this section shall apply to transfers on or after the date
 19 of the enactment of this Act.

20 **SEC. 406. STUDY ON MODERNIZATION OF REFERENCES TO**
 21 **GENERAL AND LIMITED PARTNERS.**

22 (a) IN GENERAL.—The Secretary of the Treasury
 23 shall conduct a study on modernizing the use of the terms
 24 “general partners” and “limited partners” in the Internal
 25 Revenue Code of 1986 in light of the increased use of lim-

1 ited liability companies and other business entities classi-
2 fied as partnerships for Federal tax purposes. Such study
3 shall address whether the distinction between general and
4 limited partners should be determined based on liability
5 for debts of the partnership or on the right to participate
6 in management of the partnership.

7 (b) SUBMISSION OF STUDY TO CONGRESS.—Not
8 later than one year after the date of the enactment of this
9 Act, the Secretary shall submit the study conducted under
10 subsection (a), together with any recommendation the Sec-
11 retary considers appropriate, to the Committee on Ways
12 and Means of the House of Representatives and the Com-
13 mittee on Finance of the Senate.

14 **SEC. 407. REPEAL OF ABILITY TO ELECT LARGE PARTNER-**
15 **SHIP REPORTING RULES.**

16 (a) IN GENERAL.—Paragraph (2) of section 775(a)
17 (relating to election) is amended by adding at the end the
18 following: “No election under this subsection shall be
19 made after December 31, 2003.”.

20 (b) EFFECTIVE DATE.—The amendment made by
21 this section shall apply to partnership taxable years begin-
22 ning after December 31, 2002.

1 **SEC. 408. REPEAL OF PERSONAL HOLDING COMPANY TAX.**

2 (a) IN GENERAL.—Part II of subchapter G of chap-
3 ter 1 (relating to personal holding companies) is hereby
4 repealed.

5 (b) CONFORMING AMENDMENTS.—

6 (1) Section 12(2) is amended to read as follows:

7 “(2) For accumulated earnings tax, see part I
8 of subchapter G (sec. 531 and following).”.

9 (2) Section 26(b)(2) is amended by striking
10 subparagraph (G) and by redesignating the suc-
11 ceeding subparagraphs accordingly.

12 (3) Section 30A(c) is amended by striking para-
13 graph (3) and by redesignating paragraph (4) as
14 paragraph (3).

15 (4) Section 41(e)(7)(E) is amended by adding
16 “and” at the end of clause (i), by striking clause
17 (ii), and by redesignating clause (iii) as clause (ii).

18 (5) Section 56(b)(2) is amended by striking
19 subparagraph (C) and by redesignating subpara-
20 graph (D) as subparagraph (C).

21 (6) Section 170(e)(4)(D) is amended by adding
22 “and” at the end of clause (i), by striking clause
23 (ii), and by redesignating clause (iii) as clause (ii).

24 (7) Section 111(d) is amended to read as fol-
25 lows:

1 “(d) SPECIAL RULES FOR ACCUMULATED EARNINGS
2 TAX.—In applying subsection (a) for the purpose of deter-
3 mining the accumulated earnings tax under section 531—

4 “(1) any excluded amount under subsection (a)
5 allowed for purposes of this subtitle (other than sec-
6 tion 531) shall be allowed whether or not such
7 amount resulted in a reduction of the tax under sec-
8 tion 531 for the prior taxable year, and

9 “(2) where any excluded amount under sub-
10 section (a) was not allowed as a deduction for the
11 prior taxable year for purposes of this subtitle other
12 than section 531 but was allowable for the same tax-
13 able year under section 531, then such excluded
14 amount shall be allowable if it did not result in a re-
15 duction of the tax under section 531.”.

16 (8)(A) Section 316(b) is amended by striking
17 paragraph (2) and by redesignating paragraph (3)
18 as paragraph (2).

19 (B) Section 331(b) is amended by striking
20 “(other than a distribution referred to in paragraph
21 (2)(B) of section 316(b))”.

22 (9) Section 341(d) is amended—

23 (A) by striking “section 544(a)” and in-
24 serting “section 465(f)”, and

1 (B) by inserting before the period at the
2 end of the next to the last sentence “and such
3 paragraph (2) shall be applied by inserting ‘by
4 or for his partner’ after ‘his family’ ”.

5 (10) Section 381(c) is amended by striking
6 paragraphs (14) and (17).

7 (11) Section 443(e) is amended by striking
8 paragraph (2) and by redesignating paragraphs (3),
9 (4), and (5) as paragraphs (2), (3), and (4), respec-
10 tively.

11 (12) Section 447(g)(4)(A) is amended by strik-
12 ing “other than—” and all that follows and insert-
13 ing “other than an S corporation.”

14 (13)(A) Section 465(a)(1)(B) is amended to
15 read as follows:

16 “(B) a C corporation which is closely
17 held,”.

18 (B) Section 465(a)(3) is amended to read as
19 follows:

20 “(3) CLOSELY HELD DETERMINATION.—For
21 purposes of paragraph (1), a corporation is closely
22 held if, at any time during the last half of the tax-
23 able year, more than 50 percent in value of its out-
24 standing stock is owned, directly or indirectly, by or
25 for not more than 5 individuals. For purposes of this

1 paragraph, an organization described in section
2 401(a), 501(c)(17), or 509(a) or a portion of a trust
3 permanently set aside or to be used exclusively for
4 the purposes described in section 642(c) shall be
5 considered an individual.”

6 (C) Section 465 is amended by adding at the
7 end the following new subsection:

8 “(f) CONSTRUCTIVE OWNERSHIP RULES.—For pur-
9 poses of subsection (a)(3)—

10 “(1) STOCK NOT OWNED BY INDIVIDUAL.—
11 Stock owned, directly or indirectly, by or for a cor-
12 poration, partnership, estate, or trust shall be con-
13 sidered as being owned proportionately by its share-
14 holders, partners, or beneficiaries.

15 “(2) FAMILY OWNERSHIP.—An individual shall
16 be considered as owning the stock owned, directly or
17 indirectly, by or for his family. For purposes of this
18 paragraph, the family of an individual includes only
19 his brothers and sisters (whether by the whole or
20 half blood), spouse, ancestors, and lineal descend-
21 ants.

22 “(3) OPTIONS.—If any person has an option to
23 acquire stock, such stock shall be considered as
24 owned by such person. For purposes of this para-
25 graph, an option to acquire such an option, and each

1 one of a series of such options, shall be considered
2 as an option to acquire such stock.

3 “(4) APPLICATION OF FAMILY AND OPTION
4 RULES.—Paragraphs (2) and (3) shall be applied if,
5 but only if, the effect is to make the corporation
6 closely held under subsection (a)(3).

7 “(5) CONSTRUCTIVE OWNERSHIP AS ACTUAL
8 OWNERSHIP.—Stock constructively owned by a per-
9 son by reason of the application of paragraph (1) or
10 (3), shall, for purposes of applying paragraph (1) or
11 (2), be treated as actually owned by such person;
12 but stock constructively owned by an individual by
13 reason of the application of paragraph (2) shall not
14 be treated as owned by him for purposes of again
15 applying such paragraph in order to make another
16 the constructive owner of such stock.

17 “(6) OPTION RULE IN LIEU OF FAMILY
18 RULE.—If stock may be considered as owned by an
19 individual under either paragraph (2) or (3) it shall
20 be considered as owned by him under paragraph (3).

21 “(7) CONVERTIBLE SECURITIES.—Outstanding
22 securities convertible into stock (whether or not con-
23 vertible during the taxable year) shall be considered
24 as outstanding stock if the effect of the inclusion of
25 all such securities is to make the corporation closely

1 held under subsection (a)(3). The requirement under
2 the preceding sentence that all convertible securities
3 must be included if any are to be included shall be
4 subject to the exception that, where some of the out-
5 standing securities are convertible only after a later
6 date than in the case of others, the class having the
7 earlier conversion date may be included although the
8 others are not included, but no convertible securities
9 shall be included unless all outstanding securities
10 having a prior conversion date are also included.”

11 (D) Section 465(c)(7)(B) is amended by strik-
12 ing clause (i) and by redesignating clauses (ii) and
13 (iii) as clauses (i) and (ii), respectively.

14 (E) Section 465(c)(7)(G) is amended to read as
15 follows:

16 “(G) LOSS OF 1 MEMBER OF AFFILIATED
17 GROUP MAY NOT OFFSET INCOME OF PERSONAL
18 SERVICE CORPORATION.—Nothing in this para-
19 graph shall permit any loss of a member of an
20 affiliated group to be used as an offset against
21 the income of any other member of such group
22 which is a personal service corporation (as de-
23 fined in section 269A(b) but determined by sub-
24 stituting ‘5 percent’ for ‘10 percent’ in section
25 269A(b)(2)).”

1 (14) Sections 508(d), 4947, and 4948(c)(4) are
2 each amended by striking “545(b)(2),” each place it
3 appears.

4 (15) Section 532(b) is amended by striking
5 paragraph (1) and by redesignating paragraphs (2),
6 (3), and (4) as paragraphs (1), (2), and (3), respec-
7 tively.

8 (16) Sections 535(b)(1) and 556(b)(1) are each
9 amended by striking “section 541” and inserting
10 “section 541 (as in effect before its repeal)”.

11 (17)(A) Section 553(a)(1) is amended by strik-
12 ing “section 543(d)” and inserting “subsection (c)”.

13 (B) Section 553 is amended by adding at the
14 end the following new subsection:

15 “(c) ACTIVE BUSINESS COMPUTER SOFTWARE ROY-
16 ALTIES.—

17 “(1) IN GENERAL.—For purposes of subsection
18 (a), the term ‘active business computer software roy-
19 alties’ means any royalties—

20 “(A) received by any corporation during
21 the taxable year in connection with the licensing
22 of computer software, and

23 “(B) with respect to which the require-
24 ments of paragraphs (2), (3), (4), and (5) are
25 met.

1 “(2) ROYALTIES MUST BE RECEIVED BY COR-
2 PORATION ACTIVELY ENGAGED IN COMPUTER SOFT-
3 WARE BUSINESS.—The requirements of this para-
4 graph are met if the royalties described in paragraph
5 (1)—

6 “(A) are received by a corporation engaged
7 in the active conduct of the trade or business
8 of developing, manufacturing, or producing
9 computer software, and

10 “(B) are attributable to computer software
11 which—

12 “(i) is developed, manufactured, or
13 produced by such corporation (or its prede-
14 cessor) in connection with the trade or
15 business described in subparagraph (A), or

16 “(ii) is directly related to such trade
17 or business.

18 “(3) ROYALTIES MUST CONSTITUTE AT LEAST
19 50 PERCENT OF INCOME.—The requirements of this
20 paragraph are met if the royalties described in para-
21 graph (1) constitute at least 50 percent of the ordi-
22 nary gross income of the corporation for the taxable
23 year.

1 “(4) DEDUCTIONS UNDER SECTIONS 162 AND
2 174 RELATING TO ROYALTIES MUST EQUAL OR EX-
3 CEED 25 PERCENT OF ORDINARY GROSS INCOME.—

4 “(A) IN GENERAL.—The requirements of
5 this paragraph are met if—

6 “(i) the sum of the deductions allow-
7 able to the corporation under sections 162,
8 174, and 195 for the taxable year which
9 are properly allocable to the trade or busi-
10 ness described in paragraph (2) equals or
11 exceeds 25 percent of the ordinary gross
12 income of such corporation for such tax-
13 able year, or

14 “(ii) the average of such deductions
15 for the 5-taxable year period ending with
16 such taxable year equals or exceeds 25 per-
17 cent of the average ordinary gross income
18 of such corporation for such period.

19 If a corporation has not been in existence dur-
20 ing the 5-taxable year period described in clause
21 (ii), then the period of existence of such cor-
22 poration shall be substituted for such 5-taxable
23 year period.

24 “(B) DEDUCTIONS ALLOWABLE UNDER
25 SECTION 162.—For purposes of subparagraph

1 (A), a deduction shall not be treated as allow-
2 able under section 162 if it is specifically allow-
3 able under another section.

4 “(C) LIMITATION ON ALLOWABLE DEDUC-
5 TIONS.—For purposes of subparagraph (A), no
6 deduction shall be taken into account with re-
7 spect to compensation for personal services ren-
8 dered by the 5 individual shareholders holding
9 the largest percentage (by value) of the out-
10 standing stock of the corporation. For purposes
11 of the preceding sentence individuals holding
12 less than 5 percent (by value) of the stock of
13 such corporation shall not be taken into ac-
14 count.”

15 (18) Section 561(a) is amended by striking
16 paragraph (3), by inserting “and” at the end of
17 paragraph (1), and by striking “, and” at the end
18 of paragraph (2) and inserting a period.

19 (19) Section 562(b) is amended to read as fol-
20 lows:

21 “(b) DISTRIBUTIONS IN LIQUIDATION.—Except in
22 the case of a foreign personal holding company described
23 in section 552—

24 “(1) in the case of amounts distributed in liq-
25 uidation, the part of such distribution which is prop-

1 erly chargeable to earnings and profits accumulated
2 after February 28, 1913, shall be treated as a divi-
3 dend for purposes of computing the dividends paid
4 deduction, and

5 “(2) in the case of a complete liquidation occur-
6 ring within 24 months after the adoption of a plan
7 of liquidation, any distribution within such period
8 pursuant to such plan shall, to the extent of the
9 earnings and profits (computed without regard to
10 capital losses) of the corporation for the taxable year
11 in which such distribution is made, be treated as a
12 dividend for purposes of computing the dividends
13 paid deduction.

14 For purposes of paragraph (1), a liquidation includes a
15 redemption of stock to which section 302 applies. Except
16 to the extent provided in regulations, the preceding sen-
17 tence shall not apply in the case of any mere holding or
18 investment company which is not a regulated investment
19 company.”

20 (20) Section 563 is amended by striking sub-
21 section (b).

22 (21) Section 564 is hereby repealed.

23 (22) Section 631(c) is amended by striking “or
24 section 545(b)(5)”.

1 (23) Section 852(b)(1) is amended by striking
2 “which is a personal holding company (as defined in
3 section 542) or”.

4 (24)(A) Section 856(h)(1) is amended to read
5 as follows:

6 “(1) IN GENERAL.—For purposes of subsection
7 (a)(6), a corporation, trust, or association is closely
8 held if the stock ownership requirement of section
9 465(a)(3) is met.”

10 (B) Section 856(h)(3)(A)(i) is amended by
11 striking “section 542(a)(2)” and inserting “section
12 465(a)(3)”.

13 (C) Paragraph (3) of section 856(h) is amended
14 by striking subparagraph (B) and by redesignating
15 subparagraphs (C) and (D) as subparagraphs (B)
16 and (C), respectively.

17 (D) Subparagraph (C) of section 856(h)(3), as
18 redesignating by the preceding subparagraph, is
19 amended by striking “subparagraph (C)” and insert-
20 ing “subparagraph (B)”.

21 (25) The last sentence of section 882(e)(2) is
22 amended to read as follows:

23 “The preceding sentence shall not be construed to
24 deny the credit provided by section 33 for tax with-

1 held at source or the credit provided by section 34
2 for certain uses of gasoline.”.

3 (26) Section 936(a)(3) is amended by striking
4 subparagraph (C), by inserting “or” at the end of
5 subparagraph (B), and by redesignating subpara-
6 graph (D) as subparagraph (C).

7 (27) Section 992(d) is amended by striking
8 paragraph (2) and by redesignating succeeding para-
9 graphs accordingly.

10 (28) Section 992(e) is amended by striking
11 “and section 541 (relating to personal holding com-
12 pany tax)”.

13 (29) Section 1202(e)(8) is amended by striking
14 “section 543(d)(1)” and inserting “section
15 553(c)(1)”.

16 (30) Section 1362(d)(3)(C)(iii) is amended by
17 adding at the end the following new sentence: “Ref-
18 erences to section 542 in the preceding sentence
19 shall be treated as references to such section as in
20 effect on the day before its repeal.”

21 (31) Section 1504(c)(2)(B) is amended by add-
22 ing “and” at the end of clause (i), by striking clause
23 (ii), and by redesignating clause (iii) as clause (ii).

24 (32) Section 2057(e)(2)(C) is amended by add-
25 ing at the end the following new sentence: “Ref-

1 erences to sections 542 and 543 in the preceding
2 sentence shall be treated as references to such sec-
3 tions as in effect on the day before their repeal.”

4 (33) Sections 6422 is amended by striking
5 paragraph (3) and by redesignating paragraphs (4)
6 through (12) and paragraphs (3) through (11), re-
7 spectively.

8 (34) Section 6501 is amended by striking sub-
9 section (f).

10 (35) Section 6503(k) is amended by striking
11 paragraph (1) and by redesignating paragraphs (2)
12 through (5) as paragraphs (1) through (4), respec-
13 tively.

14 (36) Section 6515 is amended by striking para-
15 graph (1) and by redesignating paragraphs (2)
16 through (6) as paragraphs (1) through (5), respec-
17 tively.

18 (37) Subsections (d)(1)(B) and (e)(2) of section
19 6662 are each amended by striking “or a personal
20 holding company (as defined in section 542)”.

21 (38) Section 6683 is hereby repealed.

22 (c) CLERICAL AMENDMENTS.—

23 (1) The table of parts for subchapter G of
24 chapter 1 is amended by striking the item relating
25 to part II.

1 (2) The table of sections for part IV of such
2 subchapter G is amended by striking the item relat-
3 ing to section 564.

4 (3) The table of sections for part I of sub-
5 chapter B of chapter 68 is amended by striking the
6 item relating to section 6683.

7 (d) EFFECTIVE DATE.—The amendments made by
8 this Act shall apply to taxable years beginning after De-
9 cember 31, 2001.

10 **SEC. 409. TIMING RULES FOR GUARANTEED PAYMENTS.**

11 (a) IN GENERAL.—Subsection (e) of section 267 (re-
12 lating to special rules for pass-thru entities) is amended
13 by striking paragraph (4) and redesignating paragraphs
14 (5) and (6) as paragraphs (4) and (5), respectively.

15 (b) EFFECTIVE DATE.—The amendments made by
16 subsection (a) shall apply to amounts paid or incurred in
17 taxable years beginning after December 31, 2002.

18 **SEC. 410. SECRETARIAL AUTHORITY TO PRESCRIBE CLASS**

19 **LIFE FOR PROPERTY.**

20 (a) IN GENERAL.—Paragraph (1) of section 168(i)
21 (defining class life) is amended to read as follows:

22 “(1) CLASS LIFE.—

23 “(A) IN GENERAL.—Except as provided in
24 this section, the term ‘class life’ means the class
25 life (if any) which would be applicable with re-

1 spect to any property as of January 1, 1986,
2 under subsection (m) of section 167 (deter-
3 mined without regard to paragraph (4) and as
4 if the taxpayer had made an election under
5 such subsection). The Secretary, through an of-
6 fice established in the Treasury, shall monitor
7 and analyze actual experience with respect to
8 all depreciable assets. The reference in this
9 paragraph to subsection (m) of section 167
10 shall be treated as a reference to such sub-
11 section as in effect on the day before the date
12 of the enactment of the Revenue Reconciliation
13 Act of 1990.

14 “(B) SECRETARIAL AUTHORITY.—The Sec-
15 retary, except in the case of residential rental
16 property or nonresidential real property—

17 “(i) may prescribe a new class life for
18 any property,

19 “(ii) in the case of assigned property,
20 may modify any assigned item, or

21 “(iii) may prescribe a class life for
22 any property which does not have a class
23 life within the meaning of subparagraph
24 (A).

1 Any class life or assigned item prescribed or
2 modified under the preceding sentence shall
3 reasonably reflect the anticipated useful life,
4 and the anticipated decline in value over time,
5 of the property to the industry or other group.

6 “(C) EFFECT OF MODIFICATION.—Any
7 class life or assigned item with respect to any
8 property prescribed or modified under subpara-
9 graph (B) shall be used in classifying such
10 property under subsection (e) and in applying
11 subsection (g).

12 “(D) ASSIGNED PROPERTY AND ITEM.—
13 For purposes of this subparagraph—

14 “(i) ASSIGNED PROPERTY.—The term
15 ‘assigned property’ means property for
16 which a class life, classification, or recov-
17 ery period is assigned under subsection
18 (e)(3) or subparagraph (B), (C), or (D) of
19 subsection (g)(3).

20 “(ii) ASSIGNED ITEMS.—The term
21 ‘assigned item’ means the class life, classi-
22 fication, or recovery period assigned under
23 subsection (e)(3) or subparagraph (B),
24 (C), or (D) of subsection (g)(3).

1 “(iii) SPECIAL RULE FOR RAILROAD
2 GRADING OR TUNNEL BORES.—In the case
3 of any property which is a railroad grading
4 or tunnel bore—

5 “(I) such property shall be treat-
6 ed as an assigned property,

7 “(II) the recovery period applica-
8 ble to such property shall be treated
9 as an assigned item, and

10 “(III) clause (ii) of subparagraph
11 (D) shall not apply.

12 “(E) SPECIAL RULE FOR EFFECTIVE DATE
13 AND APPLICATION OF CLASS LIFE AND AS-
14 SIGNED ITEMS.—A class life or assigned item
15 prescribed or modified under subparagraph
16 (B)—

17 “(i) shall take effect on the date pre-
18 scribed by the Secretary, except that such
19 date shall not be before the date which is
20 6 months after the date on which the Sec-
21 retary submits such class life or assigned
22 item to the Congress.

23 “(ii) shall apply only for periods, as
24 determined by the Secretary, after such
25 date, except that the Secretary may allow

1 taxpayers to elect to apply a class life
2 which is shortened under this paragraph to
3 periods before such date. ”.

4 (b) EFFECTIVE DATE.—The amendment made by
5 subsection (a) shall apply to property placed in service
6 after the date of the enactment of this Act.

7 **SEC. 411. REPEAL OF OCCUPATIONAL TAXES RELATING TO**
8 **DISTILLED SPIRITS, WINE, AND BEER.**

9 (a) REPEAL OF OCCUPATIONAL TAXES.—

10 (1) IN GENERAL.—The following provisions of
11 part II of subchapter A of chapter 51 (relating to
12 occupational taxes) are hereby repealed:

13 (A) Subpart A (relating to proprietors of
14 distilled spirits plants, bonded wine cellars,
15 etc.).

16 (B) Subpart B (relating to brewer).

17 (C) Subpart D (relating to wholesale deal-
18 ers) (other than sections 5114 and 5116).

19 (D) Subpart E (relating to retail dealers)
20 (other than section 5124).

21 (E) Subpart G (relating to general provi-
22 sions) (other than sections 5142, 5143, 5145,
23 and 5146).

1 (2) NONBEVERAGE DOMESTIC DRAWBACK.—
2 Section 5131 is amended by striking “, on payment
3 of a special tax per annum,”.

4 (3) INDUSTRIAL USE OF DISTILLED SPIRITS.—
5 Section 5276 is hereby repealed.

6 (b) CONFORMING AMENDMENTS.—

7 (1)(A) The heading for part II of subchapter A
8 of chapter 51 and the table of subparts for such
9 part are amended to read as follows:

10 **“PART II—MISCELLANEOUS PROVISIONS**

 “Subpart A. Manufacturers of stills.

 “Subpart B. Nonbeverage domestic drawback claimants.

 “Subpart C. Recordkeeping by dealers.

 “Subpart D. Other provisions.”

11 (B) The table of parts for such subchapter A
12 is amended by striking the item relating to part II
13 and inserting the following new item:

 “Part II. Miscellaneous provisions.”

14 (2) Subpart C of part II of such subchapter
15 (relating to manufacturers of stills) is redesignated
16 as subpart A.

17 (3)(A) Subpart F of such part II (relating to
18 nonbeverage domestic drawback claimants) is reded-
19 ignated as subpart B and sections 5131 through
20 5134 are redesignated as sections 5111 through
21 5114, respectively.

1 (B) The table of sections for such subpart B,
2 as so redesignated, is amended—

3 (i) by redesignating the items relating to
4 sections 5131 through 5134 as relating to sec-
5 tions 5111 through 5114, respectively, and

6 (ii) by striking “and rate of tax” in the
7 item relating to section 5111, as so redesign-
8 ated.

9 (C) Section 5111, as redesignated by subpara-
10 graph (A), is amended—

11 (i) by striking “**AND RATE OF TAX**” in
12 the section heading,

13 (ii) by striking the subsection heading for
14 subsection (a), and

15 (iii) by striking subsection (b).

16 (4) Part II of subchapter A of chapter 51 is
17 amended by adding after subpart B, as redesignated
18 by paragraph (3), the following new subpart:

19 **“Subpart C—Recordkeeping by Dealers**

“Sec. 5121. Recordkeeping by wholesale dealers.

“Sec. 5122. Recordkeeping by retail dealers.

“Sec. 5123. Preservation and inspection of records, and entry of
premises for inspection.”

20 (5)(A) Section 5114 (relating to records) is
21 moved to subpart C of such part II and inserted
22 after the table of sections for such subpart.

23 (B) Section 5114 is amended—

1 (i) by striking the section heading and in-
2 serting the following new heading:

3 **“SEC. 5121. RECORDKEEPING BY WHOLESALE DEALERS.”,**

4 and

5 (ii) by redesignating subsection (c) as sub-
6 section (d) and by inserting after subsection (b)
7 the following new subsection:

8 “(c) WHOLESALE DEALERS.—For purposes of this
9 part—

10 “(1) WHOLESALE DEALER IN LIQUORS.—The
11 term ‘wholesale dealer in liquors’ means any dealer
12 (other than a wholesale dealer in beer) who sells, or
13 offers for sale, distilled spirits, wines, or beer, to an-
14 other dealer.

15 “(2) WHOLESALE DEALER IN BEER.—The term
16 ‘wholesale dealer in beer’ means any dealer who
17 sells, or offers for sale, beer, but not distilled spirits
18 or wines, to another dealer.

19 “(3) DEALER.—The term ‘dealer’ means any
20 person who sells, or offers for sale, any distilled spir-
21 its, wines, or beer.

22 “(4) PRESUMPTION IN CASE OF SALE OF 20
23 WINE GALLONS OR MORE.—The sale, or offer for
24 sale, of distilled spirits, wines, or beer, in quantities
25 of 20 wine gallons or more to the same person at

1 the same time, shall be presumptive evidence that
2 the person making such sale, or offer for sale, is en-
3 gaged in or carrying on the business of a wholesale
4 dealer in liquors or a wholesale dealer in beer, as the
5 case may be. Such presumption may be overcome by
6 evidence satisfactorily showing that such sale, or
7 offer for sale, was made to a person other than a
8 dealer.”

9 (C) Paragraph (3) of section 5121(d), as so re-
10 designated, is amended by striking “section 5146”
11 and inserting “section 5123”.

12 (6)(A) Section 5124 (relating to records) is
13 moved to subpart C of part II of subchapter A of
14 chapter 51 and inserted after section 5121.

15 (B) Section 5124 is amended—

16 (i) by striking the section heading and in-
17 serting the following new heading:

18 **“SEC. 5122. RECORDKEEPING BY RETAIL DEALERS.”,**

19 (ii) by striking “section 5146” in sub-
20 section (c) and inserting “section 5123”, and

21 (iii) by redesignating subsection (c) as sub-
22 section (d) and inserting after subsection (b)
23 the following new subsection:

24 “(c) RETAIL DEALERS.—For purposes of this
25 section—

1 “(1) RETAIL DEALER IN LIQUORS.—The term
2 ‘retail dealer in liquors’ means any dealer (other
3 than a retail dealer in beer) who sells, or offers for
4 sale, distilled spirits, wines, or beer, to any person
5 other than a dealer.

6 “(2) RETAIL DEALER IN BEER.—The term ‘re-
7 tail dealer in beer’ means any dealer who sells, or of-
8 fers for sale, beer, but not distilled spirits or wines,
9 to any person other than a dealer.

10 “(3) DEALER.—The term ‘dealer’ has the
11 meaning given such term by section 5121(c)(3).”

12 (7) Section 5146 of the Internal Revenue Code
13 of 1986 is moved to subpart C of part II of sub-
14 chapter A of chapter 51 of such Code, inserted after
15 section 5122, and redesignated as section 5123.

16 (8) Part II of subchapter A of chapter 51 is
17 amended by inserting after subpart C the following
18 new subpart:

19 **“Subpart D—Other Provisions**

 “Sec. 5131. Packaging distilled spirits for industrial uses.

 “Sec. 5132. Prohibited purchases by dealers.”

20 (9) Section 5116 of such Code is moved to sub-
21 part D of part II of subchapter A of chapter 51 of
22 such Code, inserted after the table of sections, redesi-
23 gnated as section 5131, and amended by inserting

1 “(as defined in section 5121(c))” after “dealer” in
2 subsection (a).

3 (10) Subpart D of part II of subchapter A of
4 chapter 51 is amended by adding at the end thereof
5 the following new section:

6 **“SEC. 5132. PROHIBITED PURCHASES BY DEALERS.**

7 “(a) IN GENERAL.—Except as provided in regula-
8 tions prescribed by the Secretary, it shall be unlawful for
9 a dealer to purchase distilled spirits from any person other
10 than a wholesale dealer in liquors who is required to keep
11 the records prescribed by section 5121.

12 “(b) PENALTY AND FORFEITURE.—

**“For penalty and forfeiture provisions applicable
to violations of subsection (a), see sections 5687 and
7302.”**

13 (11) Subsection (b) of section 5002 is
14 amended—

15 (A) by striking “section 5112(a)” and in-
16 serting “section 5121(c)(3)”,

17 (B) by striking “section 5112” and insert-
18 ing “section 5121(c)”,

19 (C) by striking “section 5122” and insert-
20 ing “section 5122(c)”.

21 (12) Subparagraph (A) of section 5010(c)(2) is
22 amended by striking “section 5134” and inserting
23 “section 5114”.

1 (13) Subsection (d) of section 5052 is amended
2 to read as follows:

3 “(d) BREWER.—For purposes of this chapter, the
4 term ‘brewer’ means any person who brews beer or pro-
5 duces beer for sale. Such term shall not include any person
6 who produces only beer exempt from tax under section
7 5053(e).”

8 (14) The text of section 5182 is amended to
9 read as follows:

10 “For provisions requiring recordkeeping by
11 wholesale liquor dealers, see section 5112, and by re-
12 tail liquor dealers, see section 5122.”

13 (15) Subsection (b) of section 5402 is amended
14 by striking “section 5092” and inserting “section
15 5052(d)”.

16 (16) Section 5671 is amended by striking “or
17 5091”.

18 (17)(A) Part V of subchapter J of chapter 51
19 is hereby repealed.

20 (B) The table of parts for such subchapter J is
21 amended by striking the item relating to part V.

22 (18)(A) Sections 5142, 5143, and 5145 of such
23 Code are moved to subchapter D of chapter 52 of
24 such Code, inserted after section 5731, redesignated
25 as sections 5732, 5733, and 5734, respectively, and

1 amended by striking “this part” each place it ap-
2 pears and inserting “this subchapter”.

3 (B) Section 5732, as redesignated by subpara-
4 graph (A), is amended by striking “(except the tax
5 imposed by section 5131)” each place it appears.

6 (C) Subsection (c) of section 5733, as redesignig-
7 nated by subparagraph (A), is amended by striking
8 paragraph (2) and by redesignating paragraph (3)
9 as paragraph (2).

10 (D) The table of sections for subchapter D of
11 chapter 52 is amended by adding at the end thereof
12 the following:

“Sec. 5732. Payment of tax.

“Sec. 5733. Provisions relating to liability for occupational taxes.

“Sec. 5734. Application of State laws.”

13 (E) Section 5731 is amended by striking sub-
14 section (e) and by redesignating subsection (d) as
15 subsection (e).

16 (19) Subsection (c) of section 6071 is amended
17 by striking “section 5142” and inserting “section
18 5732”.

19 (20) Paragraph (1) of section 7652(g) is
20 amended—

21 (A) by striking “subpart F” and inserting
22 “subpart B”, and

23 (B) by striking “section 5131(a)” and in-
24 serting “section 5111(a)”.

1 (c) EFFECTIVE DATE.—The amendments made by
2 this section shall take effect on July 1 of the year following
3 the year in which this Act is enacted, but shall not apply
4 to taxes imposed for periods before such date.

5 **SEC. 412. CONSOLIDATION OF LIFE INSURANCE COMPA-**
6 **NIES WITH OTHER COMPANIES PERMITTED.**

7 (a) IN GENERAL.—Section 1504(b) (defining includ-
8 ible corporation) is amended by striking paragraph (2)
9 and by redesignating paragraphs (3) through (8) as para-
10 graphs (2) through (7), respectively.

11 (b) CONFORMING AMENDMENTS.—

12 (1) Section 1503 is amended by striking sub-
13 section (c) (relating to special rule for application of
14 certain losses against income of insurance companies
15 taxed under section 801) and by redesignating sub-
16 sections (d), (e), and (f) as subsections (b), (c), and
17 (d), respectively.

18 (2) Section 1504 is amended by striking sub-
19 section (c) and by redesignating subsections (d), (e),
20 and (f) as subsections (c), (d), and (e), respectively.

21 (c) EFFECTIVE DATE.—The amendments made by
22 this section shall apply to taxable years beginning after
23 December 31, 2002.

24 (d) ELECTION FOR PRE-2004 YEARS OF GROUPS
25 WITH INSURANCE COMPANIES.—For taxable years begin-

1 ning after December 31, 2002, and before January 1,
2 2004, the common parent of an affiliated group (deter-
3 mined without regard to section 1504(b)(2) of such Code
4 as in effect on the day before the date of the enactment
5 of this Act) which includes 1 or more domestic insurance
6 companies subject to tax under section 801 of such Code
7 may elect to treat all such insurance companies as cor-
8 porations which are not includible corporations within the
9 meaning of subsection (b) of section 1504 of such Code,
10 if, as of the date of the enactment of this section—

11 (1) such affiliated group included 1 or more in-
12 insurance companies subject to tax under section 801
13 of such Code, and

14 (2) no additional election was in effect under
15 section 1504(c)(2) of such Code (as in effect on the
16 day before the date of the enactment of this Act).

17 (e) NO CARRYBACK BEFORE JANUARY 1, 2002.—To
18 the extent that a consolidated net operating loss is allowed
19 or increased by reason of the amendments made by this
20 section, such loss may not be carried back to a taxable
21 year beginning before January 1, 2001.

22 (f) NONTERMINATION OF GROUP.—No affiliated
23 group shall terminate solely as a result of the amendments
24 made by this section.

1 (g) SUBSIDIARY STOCK BASIS ADJUSTMENTS.—A
2 parent corporation's basis in the stock of a subsidiary cor-
3 poration shall be adjusted to reflect the preconsolidation
4 income, gain, deduction and loss incurred during a period
5 when such corporations were members of an affiliated
6 group (determined without regard to section 1504(b)(2)
7 of such Code as in effect on the day before the date of
8 enactment of this Act) but were not included in a consoli-
9 dated return of such group by operation of section
10 1504(c)(2)(A) of such Code (as in effect on the day before
11 the date of the enactment of this Act).

12 (h) WAIVER OF 5-YEAR WAITING PERIOD.—Under
13 regulations prescribed by the Secretary of the Treasury
14 or his delegate, an automatic waiver from the 5-year wait-
15 ing period for reconsolidation provided in section
16 1504(a)(3) of such Code shall be granted to any corpora-
17 tion which was previously an includible corporation but
18 was subsequently deemed a nonincludible corporation as
19 a result of becoming a subsidiary of a corporation which
20 was not an includible corporation solely by operation of
21 section 1504(c)(2) of such Code (as in effect on the day
22 before the date of enactment of this Act).

1 **TITLE V—ESTIMATED TAX**

2 **SEC. 501. FAILURE TO PAY ESTIMATED TAX PENALTY BY IN-**
 3 **DIVIDUALS CONVERTED TO INTEREST**
 4 **CHARGE ON ACCUMULATED UNPAID BAL-**
 5 **ANCE.**

6 (a) PENALTY MOVED TO INTEREST CHAPTER OF
 7 CODE.—The Internal Revenue Code of 1986 is amended
 8 by redesignating section 6654 as section 6641 and by
 9 moving section 6641 (as so redesignated) from part I of
 10 subchapter A of chapter 68 to the end of subchapter E
 11 of chapter 67 (as added by subsection (e)(1) of this sec-
 12 tion).

13 (b) PENALTY CONVERTED TO INTEREST CHARGE.—
 14 The heading and subsections (a) and (b) of section 6641
 15 (as so redesignated) are amended to read as follows:

16 **“SEC. 6641. INTEREST ON FAILURE BY INDIVIDUAL TO PAY**
 17 **ESTIMATED INCOME TAX.**

18 “(a) IN GENERAL.—Interest shall be paid on any un-
 19 derpayment of estimated tax by an individual for a taxable
 20 year for each day of such underpayment. The amount of
 21 such interest for any day shall be the product of the un-
 22 derpayment rate established under subsection (b)(2) mul-
 23 tiplied by the amount of the underpayment.

24 “(b) AMOUNT OF UNDERPAYMENT; INTEREST
 25 RATE.—For purposes of subsection (a)—

1 “(1) AMOUNT.—The amount of the under-
2 payment on any day shall be the excess of—

3 “(A) the sum of the required installments
4 for the taxable year the due dates for which are
5 on or before such day, over

6 “(B) the sum of the amounts (if any) of
7 estimated tax payments made on or before such
8 day on such required installments.

9 “(2) DETERMINATION OF INTEREST RATE.—

10 “(A) IN GENERAL.—The underpayment
11 rate with respect to any day in an installment
12 underpayment period shall be the under-
13 payment rate established under section 6621
14 for the first day of the calendar quarter in
15 which such installment underpayment period
16 begins.

17 “(B) INSTALLMENT UNDERPAYMENT PE-
18 RIOD.—For purposes of subparagraph (A), the
19 term ‘installment underpayment period’ means
20 the period beginning on the day after the due
21 date for a required installment and ending on
22 the due date for the subsequent required in-
23 stallment (or in the case of the 4th required in-
24 stallment, the 15th day of the 4th month fol-
25 lowing the close of a taxable year).

1 “(C) DAILY RATE.—The rate determined
2 under subparagraph (A) shall be applied on a
3 daily basis and shall be based on the assump-
4 tion of 365 days in a calendar year.

5 “(3) TERMINATION OF ESTIMATED TAX INTER-
6 EST.—No day after the end of the installment un-
7 derpayment period for the 4th required installment
8 specified in paragraph (2)(B) for a taxable year
9 shall be treated as a day of underpayment with re-
10 spect to such taxable year.”

11 (c) INCREASE IN SAFE HARBOR WHERE TAX IS
12 SMALL.—

13 (1) IN GENERAL.—Clause (i) of section
14 6641(d)(1)(B) (as so redesignated) is amended to
15 read as follows:

16 “(i) the lesser of—

17 “(I) 90 percent of the tax shown
18 on the return for the taxable year (or,
19 if no return is filed, 90 percent of the
20 tax for such year), or

21 “(II) the tax shown on the return
22 for the taxable year (or, if no return
23 is filed, the tax for such year) reduced
24 (but not below zero) by \$2,000, or”.

1 (2) REPEAL OF ALTERNATE SAFE HARBOR.—
2 Subparagraph (C) of section 6641(d)(1) (as so re-
3 designated) is hereby repealed.

4 (3) CONFORMING AMENDMENT.—

5 (A) Subsection (e) of section 6641 (as so
6 redesignated) is amended by striking paragraph
7 (1) and redesignating paragraphs (2) and (3)
8 as paragraphs (1) and (2), respectively.

9 (B) Subparagraph (C) of section
10 6641(i)(1) (as so redesignated) is amended by
11 striking “and without regard to subparagraph
12 (C) of subsection (d)(1)”.

13 **SEC. 502. CONFORMING AND CLERICAL AMENDMENTS.**

14 (a) CONFORMING AMENDMENTS RELATING TO SEC-
15 TION 6641.—

16 (1) Paragraphs (1) and (2) of subsection (e)
17 (as redesignated by subsection (c)(2)) and sub-
18 section (h) of section 6641 (as so designated) are
19 each amended by striking “addition to tax” each
20 place it occurs and inserting “interest”.

21 (2) Section 167(g)(5)(D) is amended by strik-
22 ing “6654” and inserting “6641”.

23 (3) Section 460(b)(1) is amended by striking
24 “6654” and inserting “6641”.

25 (4) Section 3510(b) is amended—

1 (A) by striking “section 6654” in para-
2 graph (1) and inserting “section 6641”;

3 (B) by amending paragraph (2)(B) to read
4 as follows:

5 “(B) no interest would be required to be
6 paid (but for this section) under 6641 for such
7 taxable year by reason of the \$2,000 amount
8 specified in section 6641(d)(1)(B)(i)(II).”;

9 (C) by striking “section 6654(d)(2)” in
10 paragraph (3) and inserting “section
11 6641(d)(2)”; and

12 (D) by striking paragraph (4).

13 (5) Section 6201(b)(1) is amended—

14 (A) by striking “estimated income tax”
15 and inserting “interest”, and

16 (B) by striking “6654” and inserting
17 “6641”.

18 (6) Section 6601(h) is amended by striking
19 “6654” and inserting “6641”.

20 (7) Section 6621(b)(2)(B) is amended by strik-
21 ing “addition to tax under section 6654” and insert-
22 ing “interest required to be paid under section
23 6641”.

24 (8) Section 6622(b) is amended—

1 (A) by striking “PENALTY FOR” in the
2 heading; and

3 (B) by striking “addition to tax under sec-
4 tion 6654 or 6655” and inserting “interest re-
5 quired to be paid under section 6641 or addi-
6 tion to tax under section 6655”.

7 (9) Section 6658(a) is amended—

8 (A) by striking “6654, or 6655” and in-
9 serting “or 6655, and no interest shall be re-
10 quired to be paid under section 6641,”; and

11 (B) by inserting “or paying interest” after
12 “the tax” in paragraph (2)(B)(ii).

13 (10) Section 6665(b) is amended—

14 (A) in the matter preceding paragraph (1)
15 by striking “, 6654,”; and

16 (B) in paragraph (2) by striking “6654
17 or”.

18 (11) Section 7203 is amended by striking “sec-
19 tion 6654 or 6655” and inserting “section 6655 or
20 interest required to be paid under section 6641”.

21 (b) CLERICAL AMENDMENTS.—

22 (1) Chapter 67 is amended by inserting after
23 subchapter D the following:

1 **“Subchapter E—Interest on Failure to Pay**
 2 **Estimated Income Tax**

“Sec. 6641. Interest on failure by individual to pay estimated income tax.”.

3 (2) The table of subchapters for chapter 67 is
 4 amended by adding at the end the following new
 5 items:

“Subchapter D. Notice requirements.
 “Subchapter E. Interest on failure to pay estimated income tax.”.

6 (3) The table of sections for part I of sub-
 7 chapter A of chapter 68 is amended by striking the
 8 item relating to section 6654.

9 (c) EFFECTIVE DATE.—The amendments made by
 10 this section shall apply to installment payments for taxable
 11 years beginning after December 31, 2002.

12 **TITLE VI—REPEAL OF**
 13 **DEADWOOD PROVISIONS**

14 **SEC. 601. REPEAL OF DEADWOOD PROVISIONS.**

15 (a) IN GENERAL.—

16 (1) ADJUSTMENTS IN TAX TABLES SO THAT IN-
 17 FLATION WILL NOT RESULT IN TAX INCREASES.—

18 Paragraph (7) of section 1(f) is amended to read as
 19 follows:

20 “(7) SPECIAL RULE FOR CERTAIN BRACKETS.—

21 In prescribing tables under paragraph (1) which
 22 apply to taxable years beginning in a calendar year
 23 after 1994, the cost-of-living adjustment used in

1 making adjustments to the dollar amounts at which
2 the 36 percent bracket begins or at which the 39.6
3 rate bracket begins shall be determined under para-
4 graph (3) by substituting ‘1993’ for ‘1992’.”.

5 (2) CREDIT FOR PRODUCING FUEL FROM NON-
6 CONVENTIONAL SOURCE.—Section 29 is amended by
7 striking subsection (e) and redesignating subsection
8 (f) as subsection (e).

9 (3) EARNED INCOME CREDIT.—Paragraph (1)
10 of section 32(b) is amended—

11 (A) by striking subparagraphs (B) and
12 (C), and

13 (B) in subparagraph (A) by striking “(A)
14 IN GENERAL.—In the case of taxable years be-
15 ginning after 1995” and moving the table 2
16 ems to the left.

17 (4) GENERAL BUSINESS CREDITS.—Subsection
18 (d) of section 38 is amended by striking paragraph
19 (3).

20 (5) CARRYBACK AND CARRYFORWARD OF UN-
21 USED CREDITS.—Subsection (d) of section 39 is
22 amended by striking paragraphs (1) through (8) and
23 be redesignating paragraphs (9) and (10) as para-
24 graphs (1) and (2), respectively.

1 (6) ANNUITIES; CERTAIN PROCEEDS OF EN-
2 DOWMENT AND LIFE INSURANCE CONTRACTS.—Sec-
3 tion 72 is amended—

4 (A) in subsection (c)(4) by striking “; ex-
5 cept that if such date was before January 1,
6 1954, then the annuity starting date is January
7 1, 1954”, and

8 (B) in subsection (g)(3) by striking “Janu-
9 ary 1, 1954, or” and “, whichever is later”.

10 (7) ACCIDENT AND HEALTH PLANS.—Section
11 105(f) is amended by striking “or (d)”.

12 (8) FLEXIBLE SPENDING ARRANGEMENTS.—
13 Section 106(c)(1) is amended by striking “Effective
14 on and after January 1, 1997, gross” and inserting
15 “Gross”.

16 (9) CERTAIN COMBAT ZONE COMPENSATION OF
17 MEMBERS OF THE ARMED FORCES.—Subsection (c)
18 of section 112 is amended—

19 (A) by striking “(after June 24, 1950)” in
20 paragraph (2), and

21 (B) striking “such zone;” and all that fol-
22 lows in paragraph (3) and inserting “such
23 zone.”.

24 (10) PRINCIPAL RESIDENCE.—Section
25 121(b)(3) is amended—

1 (A) by striking subparagraph (B); and

2 (B) in subparagraph (A) by striking “(A)
3 IN GENERAL.—” and moving the text 2 ems to
4 the left.

5 (11) CERTAIN REDUCED UNIFORMED SERVICES
6 RETIREMENT PAY.—Section 122(b)(1) is amended
7 by striking “after December 31, 1965,”.

8 (12) GREAT PLAINS CONSERVATION PRO-
9 GRAM.—Section 126(a) is amended by striking para-
10 graph (6) and redesignating paragraphs (7), (8),
11 (9), and (10) as paragraphs (6), (7), (8), and (9),
12 respectively.

13 (13) TREBLE DAMAGE PAYMENTS UNDER THE
14 ANTITRUST LAW.—Section 162(g) is amended by
15 striking the last sentence.

16 (14) STATE LEGISLATORS’ TRAVEL EXPENSES
17 AWAY FROM HOME.—Paragraph (4) of section
18 162(h) is amended by striking “For taxable years
19 beginning after December 31, 1980, this” and in-
20 serting “This”.

21 (15) INTEREST.—Section 163 is amended by
22 striking paragraph (6) of subsection (d) and para-
23 graph (5) (relating to phase-in of limitation) of sub-
24 section (h).

1 (16) CHARITABLE, ETC., CONTRIBUTIONS AND
2 GIFTS.—Section 170 is amended by striking sub-
3 section (k).

4 (17) AMORTIZABLE BOND PREMIUM.—Subpara-
5 graph (B) of section 171(b)(1) is amended to read
6 as follows:

7 “(B)(i) in the case of a bond described in
8 subsection (a)(2), with reference to the amount
9 payable on maturity or earlier call date, and

10 “(ii) in the case of a bond described in
11 subsection (a)(1), with reference to the amount
12 payable on maturity (or if it results in a smaller
13 amortizable bond premium attributable to the
14 period of earlier call date, with reference to the
15 amount payable on earlier call date), and”.

16 (18) NET OPERATING LOSS CARRYBACKS AND
17 CARRYOVERS.—

18 (A) Section 172 is amended—

19 (i) by striking subparagraph (D) of
20 subsection (b)(1) and redesignating sub-
21 paragraphs (E), (F), and (G) as subpara-
22 graphs (D), (E), and (F), respectively,

23 (ii) by striking subsection (g), and

24 (iii) by striking subparagraph (F) of
25 subsection (h)(2).

1 (B) Section 172(h)(4) is amended by strik-
2 ing “subsection (b)(1)(E)” each place it ap-
3 pears and inserting “subsection (b)(1)(D)”.

4 (C) Section 172(j)(3) is amended by strik-
5 ing “subsection (b)(1)(G)” each place it ap-
6 pears and inserting “subsection (b)(1)(F)”.

7 (D) Section 172, as amended by subpara-
8 graphs (A) through (C) of this paragraph, is
9 further amended—

10 (i) by redesignating subsections (h),
11 (i), and (j) as subsections (g), (h), and (i),
12 respectively,

13 (ii) by striking “subsection (h)” each
14 place it appears and inserting “subsection
15 (g)”,

16 (iii) by striking “subsection (i)” each
17 place it appears and inserting “subsection
18 (h)”,

19 (E) Sections 904(f)(2)(B)(i) and
20 907(c)(4)(B)(iii)(I) are each amended by strik-
21 ing “section 172(h)” and inserting “section
22 172(g)”.

23 (19) RESEARCH AND EXPERIMENTAL EXPENDI-
24 TURES.—Subparagraph (A) of section 174(a)(2) is
25 amended to read as follows:

1 “(A) WITHOUT CONSENT.—A taxpayer
2 may, without the consent of the Secretary,
3 adopt the method provided in this subsection
4 for his first taxable year for which expenditures
5 described in paragraph (1) are paid or in-
6 curred.”.

7 (20) AMORTIZATION OF CERTAIN RESEARCH
8 AND EXPERIMENTAL EXPENDITURES.—Paragraph
9 (2) of section 174(b)(2) is amended by striking “be-
10 ginning after December 31, 1953”.

11 (21) SOIL AND WATER CONSERVATION EXPEND-
12 ITURES.—Paragraph (1) of section 175(d) is amend-
13 ed to read as follows:

14 “(1) WITHOUT CONSENT.—A taxpayer may,
15 without the consent of the Secretary, adopt the
16 method provided in this section for his first taxable
17 year for which expenditures described in subsection
18 (a) are paid or incurred.”.

19 (22) ACTIVITIES NOT ENGAGED IN FOR PROF-
20 IT.—Section 183(e)(1) is amended by striking the
21 last sentence.

22 (23) DIVIDENDS RECEIVED ON CERTAIN PRE-
23 FERRED STOCK; AND DIVIDENDS PAID ON CERTAIN
24 PREFERRED STOCK OF PUBLIC UTILITIES.—

1 (A) Sections 244 and 247 are hereby re-
2 pealed and the table of sections for part VIII
3 of subchapter B of chapter 1 is amended by
4 striking the items relating to sections 244 and
5 247.

6 (B) Paragraph (5) of section 172(d) is
7 amended to read as follows:

8 “(5) COMPUTATION OF DEDUCTION FOR DIVI-
9 DENDS RECEIVED.—The deductions allowed by sec-
10 tion 243 (relating to dividends received by corpora-
11 tions) and 245 (relating to dividends received from
12 certain foreign corporations) shall be computed with-
13 out regard to section 246(b) (relating to limitation
14 on aggregate amount of deductions).”.

15 (C) Paragraph (1) of section 243(c) is
16 amended to read as follows:

17 “(1) IN GENERAL.—In the case of any dividend
18 received from a 20-percent owned corporation, sub-
19 section (a)(1) shall be applied by substituting ‘80
20 percent’ for ‘70 percent’.”.

21 (D) Section 243(d) is amended by striking
22 paragraph (4).

23 (E) Section 246 is amended—

24 (i) by striking “, 244,” in subsection
25 (a)(1),

1 (ii) in subsection (b)(1)—

2 (I) by striking “sections
3 243(a)(1), and 244(a),” the first
4 place it appears and inserting “section
5 243(a)(1),”

6 (II) by striking “244(a),” the
7 second place it appears therein, and

8 (III) by striking “subsection (a)
9 or (b) of section 245, and 247,” and
10 inserting “and subsection (a) or (b) of
11 section 245,”

12 (iii) by striking “244,” subsection
13 (c)(1).

14 (F) Section 246A is amended by striking
15 “, 244,” both places it appears in subsections
16 (a) and (e).

17 (G) Sections 263(g)(2)(B)(iii), 277(a),
18 301(e)(2), 469(e)(4), 512(a)(3)(A), subpara-
19 graphs (A), (C), and (D) of section 805(a)(4),
20 805(b)(5), 812(e)(2)(A), 815(c)(2)(A)(iii),
21 832(b)(5), 833(b)(3)(E), 1059(b)(2)(B), and
22 1244(c)(2)(C) are each amended by striking “,
23 244,” each place it appears.

24 (H) Section 805(a)(4)(B) is amended by
25 striking “, 244(a),” each place it appears.

1 (I) Section 810(c)(2)(B) is amended by
2 striking “244 (relating to dividends on certain
3 preferred stock of public utilities),”.

4 (24) ORGANIZATION EXPENSES.—Section
5 248(c) is amended by striking “beginning after De-
6 cember 31, 1953,” and by striking the last sentence.

7 (25) BOND REPURCHASE PREMIUM.—Section
8 249(b)(1) is amended by striking “, in the case of
9 bonds or other evidences of indebtedness issued after
10 February 28, 1913,”.

11 (26) AMOUNT OF GAIN WHERE LOSS PRE-
12 VIOUSLY DISALLOWED.—Section 267(d) is amended
13 by striking “(or by reason of section 24(b) of the In-
14 ternal Revenue Code of 1939)” in paragraph (1), by
15 striking “after December 31, 1953,” in paragraph
16 (2), by striking the second sentence, and by striking
17 “or by reason of section 118 of the Internal Revenue
18 Code of 1939” in the last sentence.

19 (27) ACQUISITIONS MADE TO EVADE OR AVOID
20 INCOME TAX.—Paragraphs (1) and (2) of section
21 269(a) are each amended by striking “or acquired
22 on or after October 8, 1940,”.

23 (28) INTEREST ON INDEBTEDNESS INCURRED
24 BY CORPORATIONS TO ACQUIRE STOCK OR ASSETS

1 OF ANOTHER CORPORATION.—Section 279 is
2 amended—

3 (A) by striking “after December 31,
4 1967,” in subsection (a)(2),

5 (B) by striking “after October 9, 1969,” in
6 subsection (b),

7 (C) by striking “after October 9, 1969,
8 and” in subsection (d)(5), and

9 (D) by striking subsection (i) and redesignating
10 subsection (j) as subsection (i).

11 (29) SPECIAL RULES RELATING TO CORPORATE
12 PREFERENCE ITEMS.—Paragraph (4) of section
13 291(a) is amended by striking “In the case of tax-
14 able years beginning after December 31, 1984, sec-
15 tion” and inserting “Section”.

16 (30) DISTRIBUTIONS OF PROPERTY.—Section
17 301(c)(3) is amended to read as follows:

18 “(3) AMOUNTS IN EXCESS OF BASIS.—That
19 portion of the distribution which is not a dividend,
20 to the extent that it exceeds the adjusted basis of
21 the stock, shall be treated as gain from the sale or
22 exchange of property.”.

23 (31) EFFECT ON EARNINGS AND PROFITS.—
24 Subsection (d) of section 312 is amended by striking

1 paragraph (2) and redesignating paragraph (3) as
2 paragraph (2).

3 (32) BASIS TO CORPORATIONS.—Section 362 is
4 amended—

5 (A) by striking “on or after June 22,
6 1954,” in subsection (a), and

7 (B) by striking “, on or after June 22,
8 1954,” each place it appears in subsection (c).

9 (33) QUALIFICATIONS FOR TAX CREDIT EM-
10 PLOYEE STOCK OWNERSHIP PLAN.—Section 409 is
11 amended by striking subsections (a), (g), and (p).

12 (34) FUNDING STANDARDS.—Section
13 412(m)(4) is amended—

14 (A) by striking “the applicable percentage”
15 in subparagraph (A) and inserting “25 per-
16 cent”, and

17 (B) by striking subparagraph (C) and re-
18 designating subparagraph (D) as subparagraph
19 (C).

20 (35) RETIREE HEALTH ACCOUNTS.—Section
21 420 is amended—

22 (A) by striking paragraph (4) in subsection
23 (b) and redesignating paragraph (5) as para-
24 graph (4), and

1 (B) by amending paragraph (2) of sub-
2 section (c) to read as follows:

3 “(2) REQUIREMENTS RELATING TO PENSION
4 BENEFITS ACCRUING BEFORE TRANSFER.—The re-
5 quirements of this paragraph are met if the plan
6 provides that the accrued pension benefits of any
7 participant or beneficiary under the plan become
8 nonforfeitable in the same manner which would be
9 required if the plan had terminated immediately be-
10 fore the qualified transfer (or in the case of a partic-
11 ipant who separated during the 1-year period ending
12 on the date of the transfer, immediately before such
13 separation).”.

14 (36) EMPLOYEE STOCK PURCHASE PLANS.—
15 Section 423(a) is amended by striking “after De-
16 cember 31, 1963,”.

17 (37) LIMITATION ON DEDUCTIONS FOR CER-
18 TAIN FARMING.—Section 464 is amended—

19 (A) by striking “any farming syndicate (as
20 defined in subsection (c))” both places it ap-
21 pears in subsections (a) and (b) and inserting
22 “any taxpayer to whom subsection (f) applies”,
23 and

24 (B) by striking subsection (g).

1 (38) DEDUCTIONS LIMITED TO AMOUNT AT
2 RISK.—

3 (A) Paragraph (3) of section 465(e) is
4 amended by striking “In the case of taxable
5 years beginning after December 31, 1978, this”
6 and inserting “This”.

7 (B) Paragraph (2) of section 465(e)(2)(A)
8 is amended by striking “beginning after Decem-
9 ber 31, 1978”.

10 (39) NUCLEAR DECOMMISSIONING COSTS.—Sec-
11 tion 468A(e)(2) is amended—

12 (A) by striking “at the rate set forth in
13 subparagraph (B)” in subparagraph (A) and in-
14 serting “at a rate of 20 percent”, and

15 (B) by striking subparagraph (B) and re-
16 designating subparagraphs (C) and (D) as sub-
17 paragraphs (B) and (C), respectively.

18 (40) PASSIVE ACTIVITY LOSSES AND CREDITS
19 LIMITED.—Section 469 is amended by striking sub-
20 section (m).

21 (41) ADJUSTMENTS REQUIRED BY CHANGES IN
22 METHOD OF ACCOUNTING.—Section 481(b)(3) is
23 amended by striking subparagraph (C).

1 (42) EXEMPTION FROM TAX ON CORPORATIONS,
2 CERTAIN TRUSTS, ETC.—Section 501 is amended by
3 striking subsection (p).

4 (43) REQUIREMENTS FOR EXEMPTION.—

5 (A) Section 503(a)(1) is amended to read
6 as follows:

7 “(1) GENERAL RULE.—An organization de-
8 scribed in paragraph (17) or (18) of section 501(a)
9 or described in section 401(a) and referred to in sec-
10 tion 4975(g)(2) or (3) shall not be exempt from tax-
11 ation under section 501(a) if it has engaged in a
12 prohibited transaction.”.

13 (B) Paragraph (2) of section 503(a) is
14 amended by striking “described in section
15 501(c)(17) or (18) or paragraph (a)(1)(B)” and
16 inserting “described in paragraph (1)”.

17 (C) Subsection (c) of section 503 is
18 amended by striking “described in section
19 501(c)(17) or (18) or subsection (a)(1)(B)” and
20 inserting “described in subsection (a)(1)”.

21 (44) ACCUMULATED TAXABLE INCOME.—Para-
22 graph (1) of section 535(b), paragraph (1) of section
23 545(b), and paragraph (1) of section 556(b) are
24 each amended by striking “section 531” and all that

1 follows and inserting “section 531 or the personal
2 holding company tax imposed by section 541.”.

3 (45) DEFINITION OF FOREIGN PERSONAL
4 HOLDING COMPANY.—Paragraph (1) of section
5 552(a) is amended by striking “ending after August
6 26, 1937,”.

7 (46) SPECIAL RULES AS TO OPERATING MIN-
8 ERAL INTEREST IN OIL AND GAS WELLS OR GEO-
9 THERMAL DEPOSITS.—Section 614(b) is amended—

10 (A) by striking paragraphs (3)(C) and (5),
11 and

12 (B) by striking “whichever of the following
13 taxable years is the later: The first taxable year
14 beginning after December 31, 1963, or” in
15 paragraph (4)(A).

16 (47) AMOUNTS RECEIVED BY SURVIVING ANNU-
17 ITANT UNDER JOINT AND SURVIVOR ANNUITY CON-
18 TRACT.—Subparagraph (A) of section 691(d)(1) is
19 amended by striking “after December 31, 1953,
20 and”.

21 (48) INCOME TAXES OF MEMBERS OF ARMED
22 FORCES ON DEATH.—Section 692(a)(1) is amended
23 by striking “after June 24, 1950”.

24 (49) SPECIAL RULES FOR COMPUTING RE-
25 SERVES.—Section 807(e)(7) is amended by striking

1 subparagraph (B) and redesignating subparagraph
2 (C) as subparagraph (B).

3 (50) TRANSITIONAL RULE FOR CERTAIN HIGH
4 SURPLUS MUTUAL LIFE INSURANCE COMPANIES.—
5 Section 809 is amended by striking subsection (i)
6 and redesignating subsection (j) as subsection (i).

7 (51) INSURANCE COMPANY TAXABLE INCOME.—

8 (A) Section 832(e) is amended by striking
9 “of taxable years beginning after December 31,
10 1966,”.

11 (B) Section 832(e)(6) is amended by strik-
12 ing “In the case of any taxable year beginning
13 after December 31, 1970, the” and by inserting
14 “The”.

15 (52) CAPITALIZATION OF CERTAIN POLICY AC-
16 QUISSION EXPENSES.—Section 848 is amended by
17 striking subsection (j).

18 (53) TAX ON NONRESIDENT ALIEN INDIVID-
19 UALS.—Subparagraph (B) of section 871(a)(1) is
20 amended to read as follows:

21 “(B) gains described in section 631(b) or
22 (c),”.

23 (54) LIMITATION ON CREDIT.—Paragraph (2)
24 of section 904(d) is amended by striking subpara-
25 graph (I).

1 (55) BASIS OF PROPERTY ACQUIRED FROM A
2 DECEDENT.—Section 1014(b) is amended by strik-
3 ing paragraphs (7) and (8) and redesignating para-
4 graphs (9) and (10) as paragraphs (7) and (8), re-
5 spectively.

6 (56) ADJUSTMENTS TO BASIS.—Section
7 1016(a) is amended by striking paragraphs (4) and
8 (12).

9 (57) PROPERTY ON WHICH LESSEE HAS MADE
10 IMPROVEMENTS.—Section 1019 is amended by strik-
11 ing the last sentence.

12 (58) PROPERTY ACQUIRED DURING AFFILI-
13 ATION.—Section 1051 is repealed and the table of
14 sections for part IV of subchapter O of chapter 1 is
15 amended by striking the item relating to section
16 1051.

17 (59) SECTION 1081: NONRECOGNITION OF GAIN
18 OR LOSS ON EXCHANGES OR DISTRIBUTIONS IN OBE-
19 DIENCE TO ORDERS OF S.E.C.—

20 (A) Part VI of subchapter O of chapter 1
21 (relating to exchanges in obedience to S.E.C.
22 orders) is repealed, and the table of parts for
23 subchapter O is amended by striking the item
24 relating to part VI.

1 (B) Paragraph (3) of section 1223 is re-
2 pealed.

3 (C) Paragraph (5) of section 1245(b) is re-
4 pealed.

5 (D) Paragraph (5) of section 1250(d) is
6 repealed.

7 (60) REDEEMABLE GROUND RENTS.—Sub-
8 section (b) of section 1055 is repealed and sub-
9 sections (c) and (d) are redesignated as subsections
10 (b) and (e), respectively.

11 (61) HOLDING PERIOD OF PROPERTY.—

12 (A) Paragraph (5) of section 1223 is
13 amended by striking “(or under so much of sec-
14 tion 1052(c) as refers to section 113(a)(23) of
15 the Internal Revenue Code of 1939)”.

16 (B) Paragraph (7) of section 1223 is
17 amended by striking the last sentence.

18 (C) Paragraph (9) of section 1223 is re-
19 pealed.

20 (62) PROPERTY USED IN THE TRADE OR BUSI-
21 NESS AND INVOLUNTARY CONVERSIONS.—Subpara-
22 graph (A) of section 1231(c)(2) is amended by strik-
23 ing “beginning after December 31, 1981”.

24 (63) SALE OR EXCHANGE OF PATENTS.—Sec-
25 tion 1235 is amended by striking subsection (c) and

1 redesignating subsections (d) and (e) as (c) and (d),
2 respectively.

3 (64) DEALERS IN SECURITIES.—Subsection (b)
4 of section 1236 is amended by striking “after No-
5 vember 19, 1951,”.

6 (65) SALE OF PATENTS.—Subsection (a) of sec-
7 tion 1249 is amended by striking “after December
8 31, 1962,”.

9 (66) GAIN FROM DISPOSITION OF FARM
10 LAND.—Paragraph (1) of section 1252(a) is amend-
11 ed by striking “after December 31, 1969,” both
12 places it appears.

13 (67) TREATMENT OF AMOUNTS RECEIVED ON
14 RETIREMENT OR SALE OR EXCHANGE OF DEBT IN-
15 STRUMENTS.—Subsection (c) of section 1271 is
16 amended by striking paragraph (1).

17 (68) AMOUNT AND METHOD OF ADJUST-
18 MENT.—Section 1314 is amended by striking sub-
19 section (d) and redesignating subsection (e) as sub-
20 section (d).

21 (69) COMPUTATION OF TAX WHERE TAXPAYER
22 RESTORES SUBSTANTIAL AMOUNT HELD UNDER
23 CLAIM OF RIGHT.—Section 1341(a) is amended by
24 striking the last sentence.

1 (70) ELECTION; REVOCATION; TERMINATION.—
2 Clause (iii) of section 1362(d)(3) is amended by
3 striking “unless” and all that follows and inserting
4 “unless the corporation was an S corporation for
5 such taxable year.”.

6 (71) OLD-AGE, SURVIVORS, AND DISABILITY IN-
7 SURANCE.—Subsection (a) of section 1401 is amend-
8 ed by striking “the following percent” and all that
9 follows and inserting “12.4 percent of the amount of
10 the self-employment income for such taxable year.”.

11 (72) HOSPITAL INSURANCE.—Subsection (b) of
12 section 1401 is amended by striking “the following
13 percent” and all that follows and inserting “2.9 per-
14 cent of the amount of the self-employment income
15 for such taxable year.”.

16 (73) MINISTERS, MEMBERS OF RELIGIOUS OR-
17 DERS, AND CHRISTIAN SCIENCE PRACTITIONERS.—
18 Paragraph (3) of section 1402(e) is amended by
19 striking “whichever of the following dates is later:
20 (A)” and by striking “; or (B)” and all that follows
21 and by inserting a period.

22 (74) WITHHOLDING OF TAX ON NONRESIDENT
23 ALIENS.—The first sentence of subsection (b) of sec-
24 tion 1441 and the first sentence of paragraph (5) of
25 section 1441(c) are each amended by striking “gains

1 subject to tax” and all that follows through “Octo-
2 ber 4, 1966” and inserting “and gains subject to tax
3 under section 871(a)(1)(D)”.

4 (75) AFFILIATED GROUP DEFINED.—Subpara-
5 graph (A) of section 1504(a)(3) is amended by strik-
6 ing “for a taxable year which includes any period
7 after December 31, 1984” in clause (i) and by strik-
8 ing “in a taxable year beginning after December 31,
9 1984” in clause (ii).

10 (76) DISALLOWANCE OF THE BENEFITS OF
11 THE GRADUATED CORPORATE RATES AND ACCUMU-
12 LATED EARNINGS CREDIT.—

13 (A) Subsection (a) of section 1551 is
14 amended by striking paragraph (1) and redesign-
15 ating paragraphs (2) and (3) as paragraphs
16 (1) and (2), respectively.

17 (B) Subsection (b) of section 1551 is
18 amended by striking “or (2)”.

19 (77) PROPERTY WITHIN THE UNITED
20 STATES.—Subsection (c) of section 2104 is amended
21 by striking “With respect to estates of decedents
22 dying after December 31, 1969, deposits” and in-
23 serting “Deposits”.

24 (78) POWERS OF APPOINTMENT.—Section 2514
25 is amended by striking subsection (f).

1 (79) CREDITS AGAINST TAX.—

2 (A) Paragraph (4) of section 3302(f) is
3 amended by striking “subsection—” and all
4 that follows through “(A) IN GENERAL.—”, by
5 striking subparagraph (B), by redesignating
6 clauses (i) and (ii) as subparagraphs (A) and
7 (B), respectively, and by moving the text of
8 such subparagraphs (as so redesignated) 2 ems
9 to the left.

10 (B) Paragraph (5) of section 3302(f) is
11 amended by striking subparagraphs (D) and re-
12 designating subparagraph (E) as subparagraph
13 (D).

14 (80) DOMESTIC SERVICE EMPLOYMENT
15 TAXES.—Section 3510(b) is amended by striking
16 paragraph (4).

17 (81) TAX ON FUEL USED IN COMMERCIAL
18 TRANSPORTATION ON INLAND WATERWAYS.—Section
19 4042(b)(2)(A) is amended to read as follows:

20 “(A) The Inland Waterways Trust Fund
21 financing rate is 20 cents per gallon.”.

22 (82) TRANSPORTATION BY AIR.—Section
23 4261(e) is amended—

24 (A) in paragraph (1) by striking subpara-
25 graph (C), and

1 (B) by striking paragraph (5).

2 (83) TAXES ON FAILURE TO DISTRIBUTE IN-
3 COME.—Section 4942 is amended—

4 (A) by striking subsection (f)(2)(D),

5 (B) in subsection (g)(2)(A) by striking
6 “For all taxable years beginning on or after
7 January 1, 1975, subject” and inserting “Sub-
8 ject”,

9 (C) in subsection (g) by striking paragraph
10 (4), and

11 (D) in subsection (i)(2) by striking “begin-
12 ning after December 31, 1969, and”.

13 (84) TAXES ON TAXABLE EXPENDITURES.—
14 Section 4945(f) is amended by striking “(excluding
15 therefrom any preceding taxable year which begins
16 before January 1, 1970)”.

17 (85) RETURNS.—Subsection (a) of section
18 6039D is amended by striking “beginning after De-
19 cember 31, 1984,”.

20 (86) INFORMATION RETURNS.—Subsection (c)
21 of section 6060 is amended by striking “year” and
22 all that follows and inserting “year.”.

23 (87) ABATEMENTS.—Section 6404(f) is amend-
24 ed by striking paragraph (3).

1 (88) FAILURE BY CORPORATION TO PAY ESTI-
2 MATED INCOME TAX.—Clause (i) of section
3 6655(g)(4)(A) is amended by striking “(or the cor-
4 responding provisions of prior law)”.

5 (89) RETIREMENT.—Section 7447(i)(3)(B)(ii)
6 is amended by striking “at 4 percent per annum to
7 December 31, 1947, and at 3 percent per annum
8 thereafter”, and inserting “at 3 percent per
9 annum”.

10 (90) ANNUITIES TO SURVIVING SPOUSES AND
11 DEPENDENT CHILDREN OF JUDGES.—

12 (A) Paragraph (2) of section 7448(a) is
13 amended by striking “or under section 1106 of
14 the Internal Revenue Code of 1939” and by
15 striking “or pursuant to section 1106(d) of the
16 Internal Revenue Code of 1939”.

17 (B) Subsection (g) of section 7448 is
18 amended by striking “or other than pursuant to
19 section 1106 of the Internal Revenue Code of
20 1939”.

21 (C) Subsection (j)(1) and (j)(2) of section
22 7448 are each amended by striking “at 4 per-
23 cent per annum to December 31, 1947, and at
24 3 percent per annum thereafter” and inserting
25 “at 3 percent per annum”.

1 (91) MERCHANT MARINE CAPITAL CONSTRUC-
2 TION FUNDS.—Paragraph (4) of section 7518(g) is
3 amended by striking “any nonqualified withdrawal”
4 and all that follows through “shall be determined”
5 and inserting “any nonqualified withdrawal shall be
6 determined”.

7 (92) VALUATION TABLES.—Paragraph (3) of
8 section 7520(c) is amended—

9 (A) by striking “Not later than December
10 31, 1989, the” and inserting “The”, and

11 (B) by striking “thereafter” in the last
12 sentence thereof.

13 (93) ADMINISTRATION AND COLLECTION OF
14 TAXES IN POSSESSIONS.—Section 7651 is amended
15 by striking paragraph (4) and redesignating para-
16 graph (5) as paragraph (4).

17 (94) DEFINITION OF EMPLOYEE.—(A) Section
18 7701(a)(20) is amended by striking “chapter 21”
19 and all that follows and inserting “chapter 21.”.

20 (b) EFFECTIVE DATE.—

21 (1) GENERAL RULE.—Except as otherwise pro-
22 vided in paragraph (2), the amendments made by
23 subsection (a) shall take effect on the date of enact-
24 ment of this Act.

25 (2) SAVINGS PROVISION.—If—

1 (A) any provision amended or repealed by
2 subsection (a) applied to—

3 (i) any transaction occurring before
4 the date of the enactment of this Act,

5 (ii) any property acquired before such
6 date of enactment, or

7 (iii) any item of income, loss, deduc-
8 tion, or credit taken into account before
9 such date of enactment, and

10 (B) the treatment of such transaction,
11 property, or item under such provision would
12 (without regard to the amendments made by
13 subsection (a)) affect the liability for tax for pe-
14 riods ending after such date of enactment,

15 nothing in the amendments made by subsection (a)
16 shall be construed to affect the treatment of such
17 transaction, property, or item for purposes of deter-
18 mining liability for tax for periods ending after such
19 date of enactment.

○