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TAXPAYER RELIEF ACT OF 1997

SECTION 1. SHORT TITLE; ETC.

(a) Short Title.--This Act may be cited as the "Taxpayer Relief Act of 1997".

(b) Amendment of 1986 Code.--Except as otherwise expressly provided, whenever in this Act an amendment or repeal is expressed in terms of an amendment to, or repeal of, a section or other provision, the reference shall be considered to be made to a section or other provision of the Internal Revenue Code of 1986.

(c) Section 15 Not To Apply.--No amendment made by this Act shall be treated as a change in a rate of tax for purposes of section 15 of the Internal Revenue Code of 1986.

(d) Waiver of Estimated Tax Penalties.--No addition to tax shall be made under section 6654 or 6655 of the Internal Revenue Code of 1986 for any period before January 1, 1998, for any payment the due date of which is before January 16, 1998, with respect to any underpayment attributable to such period to the extent such underpayment was created or increased by any provision of this Act.

(e) Table of Contents.--The table of contents for this Act is as follows:

TITLE I--CHILD TAX CREDIT

SEC. 101. CHILD TAX CREDIT.

(a) In General.--Subpart A of part IV of subchapter A of chapter 1 (relating to nonrefundable personal credits) is amended by inserting after section 23 the following new section:

"SEC. 24. CHILD TAX CREDIT.

"(a) Allowance of Credit.--There shall be allowed as a credit against the tax imposed by this chapter for the taxable year with respect to each qualifying child of the taxpayer an amount equal to $500 ($400 in the case of taxable years beginning in 1998).

"(b) Limitation Based on Adjusted Gross Income.--

"(1) In general.--The amount of the credit allowable under subsection (a) shall be reduced (but not below zero) by $50 for each $1,000 (or fraction thereof) by which the taxpayer's modified adjusted gross income exceeds the threshold amount. For purposes of the preceding sentence, the term `modified adjusted gross income' means adjusted gross income increased by any amount excluded from gross income under section 911, 931, or 933.

"(2) Threshold amount.--For purposes of paragraph (1), the term `threshold amount' means--

"(A) $110,000 in the case of a joint return,

"(B) $75,000 in the case of an individual who is not married, and

"(C) $55,000 in the case of a married individual filing a separate return.

For purposes of this paragraph, marital status shall be determined under section 7703.

"(c) Qualifying Child.--For purposes of this section--

"(1) In general.--The term `qualifying child' means any individual if--

"(A) the taxpayer is allowed a deduction under section 151 with respect to such individual for the taxable year,

"(B) such individual has not attained the age of 17 as of the close of the calendar year in which the taxable year of the taxpayer begins, and

"(C) such individual bears a relationship to the taxpayer described in section 32(c)(3)(B).

"(2) Exception for certain noncitizens.--The term `qualifying child' shall not include any individual who would not be a dependent if the first sentence of section 152(b)(3) were applied without regard to all that follows `resident of the United States'.

"(d) Additional Credit for Families With 3 or More Children.--

"(1) In general.--In the case of a taxpayer with 3 or more qualifying children for any taxable year, the amount of the credit allowed under this section shall be equal to the greater of--

"(A) the amount of the credit allowed under this section (without regard to this subsection and after application of the limitation under section 26), or

"(B) the alternative credit amount determined under paragraph (2).

"(2) Alternative credit amount.--For purposes of this subsection, the alternative credit amount is the amount of the credit which would be allowed under this section if the limitation under paragraph (3) were applied in lieu of the limitation under section 26.

"(3) Limitation.--The limitation under this paragraph for any taxable year is the limitation under section 26 (without regard to this subsection)--

"(A) increased by the taxpayer's social security taxes for such taxable year, and

"(B) reduced by the sum of--

"(i) the credits allowed under this part other than under subpart C or this section, and

"(ii) the credit allowed under section 32 without regard to subsection (m) thereof.

"(4) Unused credit to be refundable.--If the amount of the credit under paragraph (1)(B) exceeds the amount of the credit under paragraph (1)(A), such excess shall be treated as a credit to which subpart C applies. The rule of section 32(h) shall apply to such excess.

"(5) Social security taxes.--For purposes of paragraph (3)--

"(A) In general.--The term `social security taxes' means, with respect to any taxpayer for any taxable year--

"(i) the amount of the taxes imposed by sections 3101 and 3201(a) on amounts received by the taxpayer during the calendar year in which the taxable year begins,

"(ii) 50 percent of the taxes imposed by section 1401 on the self-employment income of the taxpayer for the taxable year, and

"(iii) 50 percent of the taxes imposed by section 3211(a)(1) on amounts received by the taxpayer during the calendar year in which the taxable year begins.

"(B) Coordination with special refund of social security taxes.--The term `social security taxes' shall not include any taxes to the extent the taxpayer is entitled to a special refund of such taxes under section 6413(c).

"(C) Special rule.--Any amounts paid pursuant to an agreement under section 3121(l) (relating to agreements entered into by American employers with respect to foreign affiliates) which are equivalent to the taxes referred to in subparagraph (A)(i) shall be treated as taxes referred to in such subparagraph.

"(e) Identification Requirement.--No credit shall be allowed under this section to a taxpayer with respect to any qualifying child unless the taxpayer includes the name and taxpayer identification number of such qualifying child on the return of tax for the taxable year.

"(f) Taxable Year Must Be Full Taxable Year.--Except in the case of a taxable year closed by reason of the death of the taxpayer, no credit shall be allowable under this section in the case of a taxable year covering a period of less than 12 months.".

(b) Supplemental Credit.--Section 32 is amended by adding at the end the following new subsection:

"(m) Supplemental Child Credit.--

"(1) In general.--In the case of a taxpayer with respect to whom a credit is allowed under section 24 for the taxable year, there shall be allowed as a credit under this section an amount equal to the supplemental child credit (if any) determined for such taxpayer for such taxable year under paragraph (2). Such credit shall be in addition to the credit allowed under subsection (a).

"(2) Supplemental child credit.--For purposes of this subsection, the supplemental child credit is an amount equal to the excess (if any) of--

"(A) the amount determined under section 24(d)(1)(A), over

"(B) the amount determined under section 24(d)(1)(B).

The amounts referred to in subparagraphs (A) and (B) shall be determined as if section 24(d) applied to all taxpayers.

"(3) Coordination with section 24.--The amount of the credit under section 24 shall be reduced by the amount of the credit allowed under this subsection."

(c) High Risk Pools Permitted To Cover Spouses and Dependents of High Risk Individuals.--Paragraph (26) of section 501(c) is amended by adding at the end the following flush sentence:

"A spouse and any qualifying child (as defined in section 24(c)) of an individual described in subparagraph (B) (without regard to this sentence) shall be treated as described in subparagraph (B).".

(d) Conforming Amendments.--

(1) Section 1324(b)(2) of title 31, United States Code, is amended by inserting before the period at the end ", or enacted by the Taxpayer Relief Act of 1997".

(2) Paragraph (2) of section 6213(g) (relating to the definition of mathematical or clerical errors) is amended by striking "and" at the end of subparagraph (G), by striking the period at the end of subparagraph (H) and inserting ", and", and by inserting after subparagraph (H) the following new subparagraph:

"(I) an omission of a correct TIN required under section 24(e) (relating to child tax credit) to be included on a return.".

(3) The table of sections for subpart A of part IV of subchapter A of chapter 1 is amended by inserting after the item relating to section 23 the following new item:

"Sec. 24. Child tax credit.".

(e) Effective Date.--The amendments made by this section shall apply to taxable years beginning after December 31, 1997.

TITLE II--EDUCATION INCENTIVES

Subtitle A--Tax Benefits Relating to Education Expenses

SEC. 201. HOPE AND LIFETIME LEARNING CREDITS.

(a) In General.--Subpart A of part IV of subchapter A of chapter 1 (relating to nonrefundable personal credits) is amended by inserting after section 25 the following new section:

"SEC. 25A. HOPE AND LIFETIME LEARNING CREDITS.

"(a) Allowance of Credit.--In the case of an individual, there shall be allowed as a credit against the tax imposed by this chapter for the taxable year the amount equal to the sum of--

"(1) the Hope Scholarship Credit, plus

"(2) the Lifetime Learning Credit.

"(b) Hope Scholarship Credit.--

"(1) Per student credit.--In the case of any eligible student for whom an election is in effect under this section for any taxable year, the Hope Scholarship Credit is an amount equal to the sum of--

"(A) 100 percent of so much of the qualified tuition and related expenses paid by the taxpayer during the taxable year (for education furnished to the eligible student during any academic period beginning in such taxable year) as does not exceed $1,000, plus

"(B) 50 percent of such expenses so paid as exceeds $1,000 but does not exceed the applicable limit.

"(2) Limitations applicable to hope scholarship credit.--

"(A) Credit allowed only for 2 taxable years.--An election to have this section apply with respect to any eligible student for purposes of the Hope Scholarship Credit under subsection (a)(1) may not be made for any taxable year if such an election (by the taxpayer or any other individual) is in effect with respect to such student for any 2 prior taxable years.

"(B) Credit allowed for year only if individual is at least 1/2 time student for portion of year.--The Hope Scholarship Credit under subsection (a)(1) shall not be allowed for a taxable year with respect to the qualified tuition and related expenses of an individual unless such individual is an eligible student for at least one academic period which begins during such year.

"(C) Credit allowed only for first 2 years of postsecondary education.--The Hope Scholarship Credit under subsection (a)(1) shall not be allowed for a taxable year with respect to the qualified tuition and related expenses of an eligible student if the student has completed (before the beginning of such taxable year) the first 2 years of postsecondary education at an eligible educational institution.

"(D) Denial of credit if student convicted of a felony drug offense.--The Hope Scholarship Credit under subsection (a)(1) shall not be allowed for qualified tuition and related expenses for the enrollment or attendance of a student for any academic period if such student has been convicted of a Federal or State felony offense consisting of the possession or distribution of a controlled substance before the end of the taxable year with or within which such period ends.

"(3) Eligible student.--For purposes of this subsection, the term `eligible student' means, with respect to any academic period, a student who--

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

"(B) is carrying at least 1/2 the normal full-time work load for the course of study the student is pursuing.

"(4) Applicable limit.--For purposes of paragraph (1)(B), the applicable limit for any taxable year is an amount equal to 2 times the dollar amount in effect under paragraph (1)(A) for such taxable year.

"(c) Lifetime Learning Credit.--

"(1) Per taxpayer credit.--The Lifetime Learning Credit for any taxpayer for any taxable year is an amount equal to 20 percent of so much of the qualified tuition and related expenses paid by the taxpayer during the taxable year for education furnished to an individual during any academic period beginning in such taxable year as does not exceed $10,000 ($5,000 in the case of taxable years beginning before January 1, 2003).

"(2) Special rules for determining expenses.--

"(A) Coordination with hope scholarship.--The qualified tuition and related expenses with respect to an individual who is an eligible student for whom a Hope Scholarship Credit under subsection (a)(1) is allowed for the taxable year shall not be taken into account under this subsection.

"(B) Certain additional expenses eligible for lifetime learning credit.--For purposes of paragraph (1), qualified tuition and related expenses shall include expenses with respect to any course of instruction at an eligible educational institution to acquire or improve job skills of the individual.

"(d) Limitation Based on Modified Adjusted Gross Income.--

"(1) In general.--The amount which would (but for this subsection) be taken into account under subsection (a) for the taxable year shall be reduced (but not below zero) by the amount determined under paragraph (2).

"(2) Amount of reduction.--The amount determined under this paragraph is the amount which bears the same ratio to the amount which would be so taken into account as--

"(A) the excess of--

"(i) the taxpayer's modified adjusted gross income for such taxable year, over

"(ii) $40,000 ($80,000 in the case of a joint return), bears to

"(B) $10,000 ($20,000 in the case of a joint return).

"(3) Modified adjusted gross income.--The term `modified adjusted gross income' means the adjusted gross income of the taxpayer for the taxable year increased by any amount excluded from gross income under section 911, 931, or 933.

"(e) Election To Have Section Apply.--

"(1) In general.--No credit shall be allowed under subsection (a) for a taxable year with respect to the qualified tuition and related expenses of an individual unless the taxpayer elects to have this section apply with respect to such individual for such year.

"(2) Coordination with exclusions.--An election under this subsection shall not take effect with respect to an individual for any taxable year if there is in effect for such taxable year an election under section 530(d)(2)(C) (by the taxpayer or any other individual) to exclude from gross income distributions from an education individual retirement account used to pay qualified higher education expenses of the individual.

"(f) Definitions.--For purposes of this section--

"(1) Qualified tuition and related expenses.--

"(A) In general.--The term `qualified tuition and related expenses' means tuition and fees required for the enrollment or attendance of--

"(i) the taxpayer,

"(ii) the taxpayer's spouse, or

"(iii) any dependent of the taxpayer with respect to whom the taxpayer is allowed a deduction under section 151,

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

"(B) Exception for education involving sports, etc.--Such term does not include expenses with respect to any course or other education involving sports, games, or hobbies, unless such course or other education is part of the individual's degree program.

"(C) Exception for nonacademic fees.--Such term does not include student activity fees, athletic fees, insurance expenses, or other expenses unrelated to an individual's academic course of instruction.

"(2) Eligible educational institution.--The term `eligible educational institution' means an institution--

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

"(B) which is eligible to participate in a program under title IV of such Act.

"(g) Special Rules.--

"(1) Identification requirement.--No credit shall be allowed under subsection (a) to a taxpayer with respect to the qualified tuition and related expenses of an individual unless the taxpayer includes the name and taxpayer identification number of such individual on the return of tax for the taxable year.

"(2) Adjustment for certain scholarships, etc.--The amount of qualified tuition and related expenses otherwise taken into account under subsection (a) with respect to an individual for an academic period shall be reduced (before the application of subsections (b), (c), and (d)) by the sum of any amounts paid for the benefit of such individual which are allocable to such period as--

"(A) a qualified scholarship which is excludable from gross income under section 117,

"(B) an educational assistance allowance under chapter 30, 31, 32, 34, or 35 of title 38, United States Code, or under chapter 1606 of title 10, United States Code, and

"(C) a payment (other than a gift, bequest, devise, or inheritance within the meaning of section 102(a)) for such individual's educational expenses, or attributable to such individual's enrollment at an eligible educational institution, which is excludable from gross income under any law of the United States.

"(3) Treatment of expenses paid by dependent.--If a deduction under section 151 with respect to an individual is allowed to another taxpayer for a taxable year beginning in the calendar year in which such individual's taxable year begins--

"(A) no credit shall be allowed under subsection (a) to such individual for such individual's taxable year, and

"(B) qualified tuition and related expenses paid by such individual during such individual's taxable year shall be treated for purposes of this section as paid by such other taxpayer.

"(4) Treatment of certain prepayments.--If qualified tuition and related expenses are paid by the taxpayer during a taxable year for an academic period which begins during the first 3 months following such taxable year, such academic period shall be treated for purposes of this section as beginning during such taxable year.

"(5) Denial of double benefit.--No credit shall be allowed under this section for any expense for which a deduction is allowed under any other provision of this chapter.

"(6) No credit for married individuals filing separate returns.--If the taxpayer is a married individual (within the meaning of section 7703), this section shall apply only if the taxpayer and the taxpayer's spouse file a joint return for the taxable year.

"(7) Nonresident aliens.--If the taxpayer is a nonresident alien individual for any portion of the taxable year, this section shall apply only if such individual is treated as a resident alien of the United States for purposes of this chapter by reason of an election under subsection (g) or (h) of section 6013.

"(h) Inflation Adjustments.--

"(1) Dollar limitation on amount of credit.--

"(A) In general.--In the case of a taxable year beginning after 2001, each of the $1,000 amounts under subsection (b)(1) shall be increased by an amount equal to--

"(i) such dollar amount, multiplied by

"(ii) the cost-of-living adjustment determined under section 1(f)(3) for the calendar year in which the taxable year begins, determined by substituting `calendar year 2000' for `calendar year 1992' in subparagraph (B) thereof.

"(B) Rounding.--If any amount as adjusted under subparagraph (A) is not a multiple of $100, such amount shall be rounded to the next lowest multiple of $100.

"(2) Income limits.--

"(A) In general.--In the case of a taxable year beginning after 2001, the $40,000 and $80,000 amounts in subsection (d)(2) shall each be increased by an amount equal to--

"(i) such dollar amount, multiplied by

"(ii) the cost-of-living adjustment determined under section 1(f)(3) for the calendar year in which the taxable year begins, determined by substituting `calendar year 2000' for `calendar year 1992' in subparagraph (B) thereof.

"(B) Rounding.--If any amount as adjusted under subparagraph (A) is not a multiple of $1,000, such amount shall be rounded to the next lowest multiple of $1,000.

"(i) Regulations.--The Secretary may prescribe such regulations as may be necessary or appropriate to carry out this section, including regulations providing for a recapture of the credit allowed under this section in cases where there is a refund in a subsequent taxable year of any amount which was taken into account in determining the amount of such credit.".

(b) Extension of Procedures Applicable to Mathematical or Clerical Errors.--Paragraph (2) of section 6213(g) (relating to the definition of mathematical or clerical errors), as amended by section 101, is amended by striking "and" at the end of subparagraph (H), by striking the period at the end of subparagraph (I) and inserting ", and", and by inserting after subparagraph (I) the following new subparagraph:

"(J) an omission of a correct TIN required under section 25A(g)(1) (relating to higher education tuition and related expenses) to be included on a return.".

(c) Returns Relating to Tuition and Related Expenses.--

(1) In general.--Subpart B of part III of subchapter A of chapter 61 (relating to information concerning transactions with other persons) is amended by inserting after section 6050R the following new section:

"SEC. 6050S. RETURNS RELATING TO HIGHER EDUCATION TUITION AND RELATED EXPENSES.

"(a) In General.--Any person--

"(1) which is an eligible educational institution which receives payments for qualified tuition and related expenses with respect to any individual for any calendar year, or

"(2) which is engaged in a trade or business and which, in the course of such trade or business, makes payments during any calendar year to any individual which constitute reimbursements or refunds (or similar amounts) of qualified tuition and related expenses of such individual,

shall make the return described in subsection (b) with respect to the individual at such time as the Secretary may by regulations prescribe.

"(b) Form and Manner of Returns.--A return is described in this subsection if such return--

"(1) is in such form as the Secretary may prescribe, "(2) contains--

"(A) the name, address, and TIN of the individual with respect to whom payments described in subsection (a) were received from (or were paid to),

"(B) the name, address, and TIN of any individual certified by the individual described in subparagraph (A) as the taxpayer who will claim the individual as a dependent for purposes of the deduction allowable under section 151 for any taxable year ending with or within the calendar year, and

"(C) the--

"(i) aggregate amount of payments for qualified tuition and related expenses received with respect to the individual described in subparagraph (A) during the calendar year, and

"(ii) aggregate amount of reimbursements or refunds (or similar amounts) paid to such individual during the calendar year, and

"(D) such other information as the Secretary may prescribe.

"(c) Application to Governmental Units.--For purposes of this section--

"(1) a governmental unit or any agency or instrumentality thereof shall be treated as a person, and

"(2) any return required under subsection (a) by such governmental entity shall be made by the officer or employee appropriately designated for the purpose of making such return.

"(d) Statements To Be Furnished to Individuals With Respect to Whom Information Is Required.--Every person required to make a return under subsection (a) shall furnish to each individual whose name is required to be set forth in such return under subparagraph (A) or (B) of subsection (b)(2) a written statement showing--

"(1) the name, address, and phone number of the information contact of the person required to make such return, and

"(2) the aggregate amounts described in subparagraph (C) of subsection (b)(2).

The written statement required under the preceding sentence shall be furnished on or before January 31 of the year following the calendar year for which the return under subsection (a) was required to be made.

"(e) Definitions.--For purposes of this section, the terms `eligible educational institution' and `qualified tuition and related expenses' have the meanings given such terms by section 25A.

"(f) Returns Which Would Be Required To Be Made by 2 or More Persons.--Except to the extent provided in regulations prescribed by the Secretary, in the case of any amount received by any person on behalf of another person, only the person first receiving such amount shall be required to make the return under subsection (a).

"(g) Regulations.--The Secretary shall prescribe such regulations as may be necessary to carry out the provisions of this section. No penalties shall be imposed under part II of subchapter B of chapter 68 with respect to any return or statement required under this section until such time as such regulations are issued.".

(2) Assessable penalties.--

(A) Subparagraph (B) of section 6724(d)(1) (relating to definitions) is amended by redesignating clauses (ix) through (xiv) as clauses (x) through (xv), respectively, and by inserting after clause (viii) the following new clause:

"(ix) section 6050S (relating to returns relating to payments for qualified tuition and related expenses),".

(B) Paragraph (2) of section 6724(d) is amended by striking "or" at the end of the next to last subparagraph, by striking the period at the end of the last subparagraph and inserting ", or", and by adding at the end the following new subparagraph:

"(Z) section 6050S(d) (relating to returns relating to qualified tuition and related expenses).".

(3) Clerical amendment.--The table of sections for subpart B of part III of subchapter A of chapter 61 is amended by inserting after the item relating to section 6050R the following new item:

"Sec. 6050S. Returns relating to higher education tuition and related expenses.".

(d) Coordination With Section 135.--Subsection (d) of section 135 is amended by redesignating paragraphs (2) and (3) as paragraphs (3) and (4), respectively, and by inserting after paragraph (1) the following new paragraph:

"(2) Coordination with higher education credit.--The amount of the qualified higher education expenses otherwise taken into account under subsection (a) with respect to the education of an individual shall be reduced (before the application of subsection (b)) by the amount of such expenses which are taken into account in determining the credit allowable to the taxpayer or any other person under section 25A with respect to such expenses.".

(e) Clerical Amendment.--The table of sections for subpart A of part IV of subchapter A of chapter 1 is amended by inserting after the item relating to section 25 the following new item:

"Sec. 25A. Higher education tuition and related expenses.".

(f) Effective Dates.--

(1) In general.--The amendments made by this section shall apply to expenses paid after December 31, 1997 (in taxable years ending after such date), for education furnished in academic periods beginning after such date.

(2) Lifetime learning credit.--Section 25A(a)(2) of the Internal Revenue Code of 1986 shall apply to expenses paid after June 30, 1998 (in taxable years ending after such date), for education furnished in academic periods beginning after such dates.

SEC. 202. DEDUCTION FOR INTEREST ON EDUCATION LOANS.

(a) In General.--Part VII of subchapter B of chapter 1 (relating to additional itemized deductions for individuals) is amended by redesignating section 221 as section 222 and by inserting after section 220 the following new section:

"SEC. 221. INTEREST ON EDUCATION LOANS.

"(a) Allowance of Deduction.--In the case of an individual, there shall be allowed as a deduction for the taxable year an amount equal to the interest paid by the taxpayer during the taxable year on any qualified education loan.

"(b) Maximum Deduction.--

"(1) In general.--Except as provided in paragraph (2), the deduction allowed by subsection (a) for the taxable year shall not exceed the amount determined in accordance with the following table:

"In the case of taxable years The dollar beginning in: amount is:

1998 $1,000_05

1999 $1,500_05

2000 $2,000_05

2001 or thereafter $2,500.

"(2) Limitation based on modified adjusted gross income.--

"(A) In general.--The amount which would (but for this paragraph) be allowable as a deduction under this section shall be reduced (but not below zero) by the amount determined under subparagraph (B).

"(B) Amount of reduction.--The amount determined under this subparagraph is the amount which bears the same ratio to the amount which would be so taken into account as--

"(i) the excess of--

"(I) the taxpayer's modified adjusted gross income for such taxable year, over

"(II) $40,000 ($60,000 in the case of a joint return), bears to

"(ii) $15,000.

"(C) Modified adjusted gross income.--The term `modified adjusted gross income' means adjusted gross income determined--

"(i) without regard to this section and sections 135, 137, 911, 931, and 933, and

"(ii) after application of sections 86, 219, and 469.

For purposes of sections 86, 135, 137, 219, and 469, adjusted gross income shall be determined without regard to the deduction allowed under this section.

"(c) Dependents Not Eligible for Deduction.--No deduction shall be allowed by this section to an individual for the taxable year if a deduction under section 151 with respect to such individual is allowed to another taxpayer for the taxable year beginning in the calendar year in which such individual's taxable year begins.

"(d) Limit on Period Deduction Allowed.--A deduction shall be allowed under this section only with respect to interest paid on any qualified education loan during the first 60 months (whether or not consecutive) in which interest payments are required. For purposes of this paragraph, any loan and all refinancings of such loan shall be treated as 1 loan.

"(e) Definitions.--For purposes of this section--

"(1) Qualified education loan.--The term `qualified education loan' means any indebtedness incurred to pay qualified higher education expenses--

"(A) which are incurred on behalf of the taxpayer, the taxpayer's spouse, or any dependent of the taxpayer as of the time the indebtedness was incurred,

"(B) which are paid or incurred within a reasonable period of time before or after the indebtedness is incurred, and

"(C) which are attributable to education furnished during a period during which the recipient was an eligible student.

Such term includes indebtedness used to refinance indebtedness which qualifies as a qualified education loan. The term `qualified education loan' shall not include any indebtedness owed to a person who is related (within the meaning of section 267(b) or 707(b)(1)) to the taxpayer.

"(2) Qualified higher education expenses.--The term `qualified higher education expenses' means the cost of attendance (as defined in section 472 of the Higher Education Act of 1965, 20 U.S.C. 1087ll, as in effect on the day before the date of the enactment of this Act) at an eligible educational institution, reduced by the sum of--

"(A) the amount excluded from gross income under section 127, 135, or 530 by reason of such expenses, and

"(B) the amount of any scholarship, allowance, or payment described in section 25A(g)(2).

For purposes of the preceding sentence, the term `eligible educational institution' has the same meaning given such term by section 25A(f)(2), except that such term shall also include an institution conducting an internship or residency program leading to a degree or certificate awarded by an institution of higher education, a hospital, or a health care facility which offers postgraduate training.

"(3) Eligible student.--The term `eligible student' has the meaning given such term by section 25A(b)(3).

"(4) Dependent.--The term `dependent' has the meaning given such term by section 152.

"(f) Special Rules.--

"(1) Denial of double benefit.--No deduction shall be allowed under this section for any amount for which a deduction is allowable under any other provision of this chapter.

"(2) Married couples must file joint return.--If the taxpayer is married at the close of the taxable year, the deduction shall be allowed under subsection (a) only if the taxpayer and the taxpayer's spouse file a joint return for the taxable year.

"(3) Marital status.--Marital status shall be determined in accordance with section 7703.

"(g) Inflation Adjustments.--

"(1) In general.--In the case of a taxable year beginning after 2002, the $40,000 and $60,000 amounts in subsection (b)(2) shall each be increased by an amount equal to--

"(A) such dollar amount, multiplied by

"(B) the cost-of-living adjustment determined under section 1(f)(3) for the calendar year in which the taxable year begins, determined by substituting `calendar year 2001' for `calendar year 1992' in subparagraph (B) thereof.

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

(b) Deduction Allowed Whether or Not Taxpayer Itemizes Other Deductions.--Subsection (a) of section 62 is amended by inserting after paragraph (16) the following new paragraph:

"(17) Interest on education loans.--The deduction allowed by section 221.".

(c) Reporting Requirement.--

(1) In general.--Section 6050S(a)(2) (relating to returns relating to higher education tuition and related

expenses) is amended to read as follows:

"(2) which is engaged in a trade or business and which, in the course of such trade or business--

"(A) makes payments during any calendar year to any individual which constitutes reimbursements or refunds (or similar amounts) of qualified tuition and related expenses of such individual, or

"(B) except as provided in regulations, receives from any individual interest aggregating $600 or more for any calendar year on 1 or more qualified education loans,".

(2) Information.--Section 6050S(b)(2) is amended--

(A) by inserting "or interest" after "payments" in subparagraph (A), and

(B) in subparagraph (C), by striking "and" at the end of clause (i), by inserting "and" at the end of clause (ii), and by inserting after clause (ii) the following:

"(iii) aggregate amount of interest received for the calendar year from such individual,".

(3) Definition.--Section 6050S(e) is amended by inserting ", and except as provided in regulations, the term `qualified education loan' has the meaning given such term by section 221(e)(1)" after "section 25A".

(d) Clerical Amendment.--The table of sections for part VII of subchapter B of chapter 1 is amended by striking the last item and inserting the following new items:

"Sec. 221. Interest on education loans.

"Sec. 222. Cross reference.".

(e) Effective Date.--The amendments made by this section shall apply to any qualified education loan (as defined in section 221(e)(1) of the Internal Revenue Code of 1986, as added by this section) incurred on, before, or after the date of the enactment of this Act, but only with respect to--

(1) any loan interest payment due and paid after December 31, 1997, and

(2) the portion of the 60-month period referred to in section 221(d) of the Internal Revenue Code of 1986 (as added by this section) after December 31, 1997.

SEC. 203. PENALTY-FREE WITHDRAWALS FROM INDIVIDUAL RETIREMENT PLANS FOR HIGHER EDUCATION EXPENSES.

(a) In General.--Paragraph (2) of section 72(t) (relating to exceptions to 10-percent additional tax on early distributions from qualified retirement plans) is amended by adding at the end the following new subparagraph:

"(E) Distributions from individual retirement plans for higher education expenses.--Distributions to an individual from an individual retirement plan to the extent such distributions do not exceed the qualified higher education expenses (as defined in paragraph (7)) of the taxpayer for the taxable year. Distributions shall not be taken into account under the preceding sentence if such distributions are described in subparagraph (A), (C), or (D) or to the extent paragraph (1) does not apply to such distributions by reason of subparagraph (B).".

(b) Definition.--Section 72(t) is amended by adding at the end the following new paragraph:

"(7) Qualified higher education expenses.--For purposes of paragraph (2)(E)--

"(A) In general.--The term `qualified higher education expenses' means qualified higher education expenses (as defined in section 529(e)(3)) for education furnished to--

"(i) the taxpayer,

"(ii) the taxpayer's spouse, or

"(iii) any child (as defined in section 151(c)(3)) or grandchild of the taxpayer or the taxpayer's spouse,

at an eligible educational institution (as defined in section 529(e)(5)).

"(B) Coordination with other benefits.--The amount of qualified higher education expenses for any taxable year shall be reduced as provided in section 25A(g)(2).".

(c) Effective Date.--The amendments made by this section shall apply to distributions after December 31, 1997, with respect to expenses paid after such date (in taxable years ending after such date), for education furnished in academic periods beginning after such date.

Subtitle B--Expanded Education Investment Savings Opportunities

PART I--QUALIFIED TUITION PROGRAMS

SEC. 211. MODIFICATIONS OF QUALIFIED STATE TUITION PROGRAMS.

(a) Qualified Higher Education Expenses To Include Room and Board.--Paragraph (3) of section 529(e) (defining qualified higher education expenses) is amended to read as follows:

"(3) Qualified higher education expenses.--

"(A) In general.--The term `qualified higher education expenses' means tuition, fees, books, supplies, and equipment required for the enrollment or attendance of a designated beneficiary at an eligible educational institution.

"(B) Room and board included for students under guaranteed plans who are at least half-time.--

"(i) In general.--In the case of an individual who is an eligible student (as defined in section 25A(b)(3)) for any academic period, such term shall also include reasonable costs for such period (as determined under the qualified State tuition program) incurred by the designated beneficiary for room and board while attending such institution. For purposes of subsection (b)(7), a designated beneficiary shall be treated as meeting the requirements of this clause.

"(ii) Limitation.--The amount treated as qualified higher education expenses by reason of the preceding sentence shall not exceed the minimum amount (applicable to the student) included for room and board for such period in the cost of attendance (as defined in section 472 of the Higher Education Act of 1965, 20 U.S.C. 1087ll, as in effect on the date of the enactment of this paragraph) for the eligible educational institution for such period."

(b) Additional Modifications.--

(1) Member of family.--Paragraph (2) of section 529(e) (relating to other definitions and special rules) is amended to read as follows:

"(2) Member of family.--The term `member of the family' means--

"(A) an individual who bears a relationship to another individual which is a relationship described in paragraphs (1) through (8) of section 152(a), and

"(B) the spouse of any individual described in subparagraph (A).".

(2) Eligible educational institution.--Section 529(e) is amended by adding at the end the following:

"(5) Eligible educational institution.--The term `eligible educational institution' means an institution--

"(A) which is described in section 481 of the Higher Education Act of 1965 (20 U.S.C. 1088), as in effect on the date of the enactment of this paragraph, and

"(B) which is eligible to participate in a program under title IV of such Act.".

(3) Estate and gift tax treatment.--

(A) Gift tax treatment.--

(i) Paragraph (2) of section 529(c) is amended to read as follows:

"(2) Gift tax treatment of contributions.--For purposes of chapters 12 and 13--

"(A) In general.--Any contribution to a qualified tuition program on behalf of any designated beneficiary--

"(i) shall be treated as a completed gift to such beneficiary which is not a future interest in property, and

"(ii) shall not be treated as a qualified transfer under section 2503(e).

"(B) Treatment of excess contributions.--If the aggregate amount of contributions described in subparagraph (A) during the calendar year by a donor exceeds the limitation for such year under section 2503(b), such aggregate amount shall, at the election of the donor, be taken into account for purposes of such section ratably over the 5-year period beginning with such calendar year."

(ii) Paragraph (5) of section 529(c) is amended to read as follows:

"(5) Other gift tax rules.--For purposes of chapters 12 and 13--

"(A) Treatment of distributions.--Except as provided in subparagraph (B), in no event shall a distribution from a qualified tuition program be treated as a taxable gift.

"(B) Treatment of designation of new beneficiary.--The taxes imposed by chapters 12 and 13 shall apply to a transfer by reason of a change in the designated beneficiary under the program (or a rollover to the account of a new beneficiary) only if the new beneficiary is a generation below the generation of the old beneficiary (determined in accordance with section 2651).".

(B) Estate tax treatment.--Paragraph (4) of section 529(c) is amended to read as follows:

"(4) Estate tax treatment.--

"(A) In general.--No amount shall be includible in the gross estate of any individual for purposes of chapter 11 by reason of an interest in a qualified tuition program.

"(B) Amounts includible in estate of designated beneficiary in certain cases.--Subparagraph (A) shall not apply to amounts distributed on account of the death of a beneficiary.

"(C) Amounts includible in estate of donor making excess contributions.--In the case of a donor who makes the election described in paragraph (2)(B) and who dies before the close of the 5-year period referred to in such paragraph, notwithstanding subparagraph (A), the gross estate of the donor shall include the portion of such contributions properly allocable to periods after the date of death of the donor."

(4) Prohibition against investment direction.--Section 529(b)(5) is amended by inserting "directly or

indirectly" after "may not".

(c) Coordination With Education Savings Bond.--Section 135(c)(2) (defining qualified higher education expenses) is amended by adding at the end the following:

"(C) Contributions to qualified state tuition program.--Such term shall include any contribution to a qualified State tuition program (as defined in section 529) on behalf of a designated beneficiary (as defined in such section) who is an individual described in subparagraph (A); but there shall be no increase in the investment in the contract for purposes of applying section 529(c)(3)(A) by reason of any portion of such contribution which is not includible in gross income by reason of this subparagraph.".

(d) Clarification of Taxation of Distributions.--Subparagraph (A) of section 529(c)(3) is amended by striking "section 72" and inserting "section 72(b)".

(e) Technical Amendments.--

(1)(A) The heading for part VIII of subchapter F of chapter 1 is amended to read as follows:

"PART VIII--HIGHER EDUCATION SAVINGS ENTITIES".

(B) The table of parts for subchapter F of chapter 1 is amended by striking the item relating to part VIII and inserting:

"Part VIII. Higher education savings entities.".

(2)(A) Section 529(d) is amended to read as follows:

"(d) Reports.--Each officer or employee having control of the qualified State tuition program or their designee shall make such reports regarding such program to the Secretary and to designated beneficiaries with respect to contributions, distributions, and such other matters as the Secretary may require. The reports required by this subsection shall be filed at such time and in such manner and furnished to such individuals at such time and in such manner as may be required by the Secretary.".

(B) Paragraph (2) of section 6693(a) (relating to failure to provide reports on individual retirement accounts or annuities) is amended by striking "and" at the end of subparagraph (A), by striking the period at the end of subparagraph (B) and inserting ", and", and by adding at the end the following new subparagraph:

"(C) Section 529(d) (relating to qualified State tuition programs).".

(C) The section heading for section 6693 is amended by striking "individual retirement" and inserting "certain tax-favored".

(D) The item relating to section 6693 in the table of sections for part I of subchapter B of chapter 68 is amended by striking "individual retirement" and inserting "certain tax-favored".

(f) Effective Dates.--

(1) In general.--Except as otherwise provided in this subsection, the amendments made by this section shall take effect on January 1, 1998.

(2) Expenses to include room and board.--The amendment made by subsection (a) shall take effect as if included in the amendments made by section 1806 of the Small Business Job Protection Act of 1996.

(3) Eligible educational institution.--The amendment made by subsection (b)(2) shall apply to distributions after December 31, 1997, with respect to expenses paid after such date (in taxable years ending after such date), for education furnished in academic periods beginning after such date.

(4) Coordination with education savings bonds.--The amendment made by subsection (c) shall apply to taxable years beginning after December 31, 1997.

(5) Estate and gift tax changes.--

(A) Gift tax changes.--Paragraphs (2) and (5) of section 529(c) of the Internal Revenue Code of 1986, as amended by this section, shall apply to transfers (including designations of new beneficiaries) made after the date of the enactment of this Act.

(B) Estate tax changes.--Paragraph (4) of such section 529(c) shall apply to estates of decedents dying after June 8, 1997.

(6) Transition rule for pre-august 20, 1996 contracts.--In the case of any contract issued prior to August 20, 1996, section 529(c)(3)(C) of the Internal Revenue Code of 1986 shall be applied for taxable years ending after August 20, 1996, without regard to the requirement that a distribution be transferred to a member of the family or the requirement that a change in beneficiaries may be made only to a member of the family.

PART II--EDUCATION INDIVIDUAL RETIREMENT ACCOUNTS

SEC. 213. EDUCATION INDIVIDUAL RETIREMENT ACCOUNTS.

(a) In General.--Part VIII of subchapter F of chapter 1 (relating to qualified State tuition programs) is amended by adding at the end the following new section:

"SEC. 530. EDUCATION INDIVIDUAL RETIREMENT ACCOUNTS.

"(a) General Rule.--An education individual retirement account shall be exempt from taxation under this subtitle. Notwithstanding the preceding sentence, the education individual retirement account shall be subject to the taxes imposed by section 511 (relating to imposition of tax on unrelated business income of charitable organizations).

"(b) Definitions and Special Rules.--For purposes of this section--

"(1) Education individual retirement account.--The term `education individual retirement account' means a trust created or organized in the United States exclusively for the purpose of paying the qualified higher education expenses of the designated beneficiary of the trust (and designated as an education individual retirement account at the time created or organized), but only if the written governing instrument creating the trust meets the following requirements:

"(A) No contribution will be accepted--

"(i) unless it is in cash,

"(ii) after the date on which such beneficiary attains age 18, or

"(iii) except in the case of rollover contributions, if such contribution would result in aggregate contributions for the taxable year exceeding $500.

"(B) The trustee is a bank (as defined in section 408(n)) or another person who demonstrates to the satisfaction of the Secretary that the manner in which that person will administer the trust will be consistent with the requirements of this section or who has so demonstrated with respect to any individual retirement plan.

"(C) No part of the trust assets will be invested in life insurance contracts.

"(D) The assets of the trust shall not be commingled with other property except in a common trust fund or common investment fund.

"(E) Upon the death of the designated beneficiary, any balance to the credit of the beneficiary shall be distributed within 30 days after the date of death to the estate of such beneficiary.

"(2) Qualified higher education expenses.--

"(A) In general.--The term `qualified higher education expenses' has the meaning given such term by section 529(e)(3), reduced as provided in section 25A(g)(2).

"(B) Qualified state tuition programs.--Such term shall include amounts paid or incurred to purchase tuition credits or certificates, or to make contributions to an account, under a qualified State tuition program (as defined in section 529(b)) for the benefit of the beneficiary of the account.

"(3) Eligible educational institution.--The term `eligible educational institution' has the meaning given such term by section 529(f)(5).

"(c) Reduction in Permitted Contributions Based on Adjusted Gross Income.--

"(1) In general.--The maximum amount which a contributor could otherwise make to an account under this section shall be reduced by an amount which bears the same ratio to such maximum amount as--

"(A) the excess of--

"(i) the contributor's modified adjusted gross income for such taxable year, over

"(ii) $95,000 ($150,000 in the case of a joint return), bears to

"(B) $15,000 ($10,000 in the case of a joint return).

"(2) Modified adjusted gross income.--For purposes of paragraph (1), the term `modified adjusted gross income' means the adjusted gross income of the taxpayer for the taxable year increased by any amount excluded from gross income under section 911, 931, or 933.

"(d) Tax Treatment of Distributions.--

"(1) In general.--Any distribution shall be includible in the gross income of the distributee in the manner as provided in section 72(b).

"(2) Distributions for qualified higher education expenses.--

"(A) In general.--No amount shall be includible under paragraph (1) if the qualified higher education expenses of the designated beneficiary during the taxable year are not less than the aggregate distributions during the taxable year.

"(B) Distributions in excess of expenses.--If such aggregate distributions exceed such expenses during the taxable year, the amount includible in gross income under paragraph (1) shall be equal to the amount which bears the same ratio to the amount which would be includible in gross income under paragraph (1) (without regard to this subparagraph) as the qualified higher education expenses bear to such aggregate distributions.

"(C) Election to waive exclusion.--A taxpayer may elect to waive the application of this paragraph for any taxable year.

"(3) Special rules for applying estate and gift taxes with respect to account.--Rules similar to the rules of paragraphs (2), (4), and (5) of section 529(c) shall apply for purposes of this section.

"(4) Additional tax for distributions not used for educational expenses.--

"(A) In general.--The tax imposed by this chapter for any taxable year on any taxpayer who receives a payment or distribution from an education individual retirement account which is includible in gross income shall be increased by 10 percent of the amount which is so includible.

"(B) Exceptions.--Subparagraph (A) shall not apply if the payment or distribution is--

"(i) made to a beneficiary (or to the estate of the designated beneficiary) on or after the death of the designated beneficiary,

"(ii) attributable to the designated beneficiary's being disabled (within the meaning of section 72(m)(7)), or

"(iii) made on account of a scholarship, allowance, or payment described in section 25A(g)(2) received by the account holder to the extent the amount of the payment or distribution does not exceed the amount of the scholarship, allowance, or payment.

"(C) Excess contributions returned before due date of return.--Subparagraph (A) shall not apply to the distribution of any contribution made during a taxable year on behalf of a designated beneficiary to the extent that such contribution exceeds $500 if--

"(i) such distribution is received on or before the day prescribed by law (including extensions of time) for filing such contributor's return for such taxable year, and

"(ii) such distribution is accompanied by the amount of net income attributable to such excess contribution.

Any net income described in clause (ii) shall be included in gross income for the taxable year in which such excess contribution was made.

"(5) Rollover contributions.--Paragraph (1) shall not apply to any amount paid or distributed from an education individual retirement account to the extent that the amount received is paid into another education individual retirement account for the benefit of the same beneficiary or a member of the family (within the meaning of section 529(e)(2)) of such beneficiary not later than the 60th day after the date of such payment or distribution. The preceding sentence shall not apply to any payment or distribution if it applied to any prior payment or distribution during the 12-month period ending on the date of the payment or distribution.

"(6) Change in beneficiary.--Any change in the beneficiary of an education individual retirement account shall not be treated as a distribution for purposes of paragraph (1) if the new beneficiary is a member of the family (as so defined) of the old beneficiary.

"(7) Special rules for death and divorce.--Rules similar to the rules of paragraphs (7) and (8) of section 220(f) shall apply.

"(e) Tax Treatment of Accounts.--Rules similar to the rules of paragraphs (2) and (4) of section 408(e) shall apply to any education individual retirement account.

"(f) Community Property Laws.--This section shall be applied without regard to any community property laws.

"(g) Custodial Accounts.--For purposes of this section, a custodial account shall be treated as a trust if the assets of such account are held by a bank (as defined in section 408(n)) or another person who demonstrates, to the satisfaction of the Secretary, that the manner in which he will administer the account will be consistent with the requirements of this section, and if the custodial account would, except for the fact that it is not a trust, constitute an account described in subsection (b)(1). For purposes of this title, in the case of a custodial account treated as a trust by reason of the preceding sentence, the custodian of such account shall be treated as the trustee thereof.

"(h) Reports.--The trustee of an education individual retirement account shall make such reports regarding such account to the Secretary and to the beneficiary of the account with respect to contributions, distributions, and such other matters as the Secretary may require. The reports required by this subsection shall be filed at such time and in such manner and furnished to such individuals at such time and in such manner as may be required.".

(b) Tax on Prohibited Transactions.--

(1) In general.--Paragraph (1) of section 4975(e) (relating to prohibited transactions) is amended by striking "or" at the end of subparagraph (D), by redesignating subparagraph (E) as subparagraph (F), and by inserting after subparagraph (D) the following new subparagraph:

"(E) an education individual retirement account described in section 530, or".

(2) Special rule.--Subsection (c) of section 4975 is amended by adding at the end of subsection (c) the following new paragraph:

"(5) Special rule for education individual retirement accounts.--An individual for whose benefit an education individual retirement account is established and any contributor to such account shall be exempt from the tax imposed by this section with respect to any transaction concerning such account (which would otherwise be taxable under this section) if section 530(d) applies with respect to such transaction.".

(c) Failure To Provide Reports on Education Individual Retirement Accounts.--Paragraph (2) of section 6693(a) (relating to failure to provide reports on individual retirement accounts or annuities) is amended by striking "and" at the end of subparagraph (B), by striking the period at the end of subparagraph (C) and inserting ", and", and by adding at the end the following new subparagraph:

"(D) Section 530(h) (relating to education individual retirement accounts).".

(d) Tax on Excess Contributions.--

(1) In general.--Subsection (a) of section 4973 is amended by striking "or" at the end of paragraph (2), by adding "or" at the end of paragraph (3), and by inserting after paragraph (3) the following new paragraph:

"(4) an education individual retirement account (as defined in section 530),".

(2) Excess contributions defined.--Section 4973 is amended by adding at the end the following new subsection:

"(e) Excess Contributions to Education Individual Retirement Accounts.--For purposes of this section--

"(1) In general.--In the case of education individual retirement accounts maintained for the benefit of any 1 beneficiary, the term `excess contributions' means--

"(A) the amount by which the amount contributed for the taxable year to such accounts exceeds $500, and

"(B) any amount contributed to such account for any taxable year if any amount is contributed during such year to a qualified State tuition program for the benefit of such beneficiary.

"(2) Special rules.--For purposes of paragraph (1), the following contributions shall not be taken into account:

"(A) Any contribution which is distributed out of the education individual retirement account in a distribution to which section 530(d)(4)(C) applies.

"(B) Any contribution described in section 530(b)(2)(B) to a qualified State tuition program.

"(C) Any rollover contribution.".

(e) Technical Amendments.--

(1) Section 26(b)(2) is amended by redesignating subparagraphs (E) through (P) as subparagraphs (F) through (Q), respectively, and by inserting after subparagraph (D) the following new subparagraph:

"(E) section 530(d)(3) (relating to additional tax on certain distributions from education individual retirement accounts),".

(2) Subparagraph (C) of section 135(c)(2), as added by the preceding section, is amended by inserting ", or to an education individual retirement account (as defined in section 530) on behalf of an account beneficiary," after "(as defined in such section)".

(3) The table of sections for part VIII of subchapter F of chapter 1 is amended by adding at the end the following new item:

"Sec. 530. Education individual retirement accounts.".

(f) Effective Date.--The amendments made by this section shall apply to taxable years beginning after December 31, 1997.

Subtitle C--Other Education Initiatives

SEC. 221. EXTENSION OF EXCLUSION FOR EMPLOYER-PROVIDED EDUCATIONAL ASSISTANCE.

(a) In General.--Subsection (d) of section 127 (relating to educational assistance programs) is amended to read as follows:

"(d) Termination.--This section shall not apply to expenses paid with respect to courses beginning after May 31, 2000.".

(b) Effective Date.--The amendment made by subsection (a) shall apply to taxable years beginning after December 31, 1996.

SEC. 222. REPEAL OF LIMITATION ON QUALIFIED 501(c)(3) BONDS OTHER THAN HOSPITAL BONDS.

Section 145(b) (relating to qualified 501(c)(3) bond) is amended by adding at the end the following new paragraph:

"(5) Termination of limitation.--This subsection shall not apply with respect to bonds issued after the date of the enactment of this paragraph as part of an issue 95 percent or more of the net proceeds of which are to be used to finance capital expenditures incurred after such date.".

SEC. 223. INCREASE IN ARBITRAGE REBATE EXCEPTION FOR GOVERNMENTAL BONDS USED TO FINANCE EDUCATION FACILITIES.

(a) In General.--Section 148(f)(4)(D) (relating to exception for governmental units issuing $5,000,000 or less of bonds) is amended by adding at the end the following new clause:

"(vii) Increase in exception for bonds financing public school capital expenditures.--Each of the $5,000,000 amounts in the preceding provisions of this subparagraph shall be increased by the lesser of $5,000,000 or so much of the aggregate face amount of the bonds as are attributable to financing the construction (within the meaning of subparagraph (C)(iv)) of public school facilities.".

(b) Effective Date.--The amendments made by this section shall apply to bonds issued after December 31, 1997.

SEC. 224. CONTRIBUTIONS OF COMPUTER TECHNOLOGY AND EQUIPMENT FOR ELEMENTARY OR SECONDARY SCHOOL PURPOSES.

(a) Contributions of Computer Technology and Equipment for Elementary or Secondary School Purposes.--Subsection (e) of section 170 is amended by adding at the end the following new paragraph:

"(6) Special rule for contributions of computer technology and equipment for elementary or secondary school purposes.--

"(A) Limit on reduction.--In the case of a qualified elementary or secondary educational contribution, the reduction under paragraph (1)(A) shall be no greater than the amount determined under paragraph (3)(B).

"(B) Qualified elementary or secondary educational contribution.--For purposes of this paragraph, the term `qualified elementary or secondary educational contribution' means a charitable contribution by a corporation of any computer technology or equipment, but only if--

"(i) the contribution is to--

"(I) an educational organization described in subsection (b)(1)(A)(ii), or

"(II) an entity described in section 501(c)(3) and exempt from tax under section 501(a) (other than an entity described in subclause (I)) that is organized primarily for purposes of supporting elementary and secondary education,

"(ii) the contribution is made not later than 2 years after the date the taxpayer acquired the property (or in the case of property constructed by the taxpayer, the date the construction of the property is substantially completed),

"(iii) the original use of the property is by the donor or the donee,

"(iv) substantially all of the use of the property by the donee is for use within the United States for educational purposes in any of the grades Kÿ0912 that are related to the purpose or function of the organization or entity,

"(v) the property is not transferred by the donee in exchange for money, other property, or services, except for shipping, installation and transfer costs,

"(vi) the property will fit productively into the entity's education plan, and

"(vii) the entity's use and disposition of the property will be in accordance with the provisions of clauses (iv) and (v).

"(C) Contribution to private foundation.--A contribution by a corporation of any computer technology or equipment to a private foundation (as defined in section 509) shall be treated as a qualified elementary or secondary educational contribution for purposes of this paragraph if--

"(i) the contribution to the private foundation satisfies the requirements of clauses (ii) and (v) of subparagraph (B), and

"(ii) within 30 days after such contribution, the private foundation--

"(I) contributes the property to an entity described in clause (i) of subparagraph (B) that satisfies the requirements of clauses (iv) through (vii) of subparagraph (B), and

"(II) notifies the donor of such contribution.

"(D) Special rule relating to construction of property.--For the purposes of this paragraph, the rules of paragraph (4)(C) shall apply.

"(E) Definitions.--For the purposes of this paragraph--

"(i) Computer technology or equipment.--The term `computer technology or equipment' means computer software (as defined by section 197(e)(3)(B)), computer or peripheral equipment (as defined by section 168(i)(2)(B)), and fiber optic cable related to computer use.

"(ii) Corporation.--The term `corporation' has the meaning given to such term by paragraph (4)(D).

"(F) Termination.--This paragraph shall not apply to any contribution made during any taxable year beginning after December 31, 1999.".

(b) Effective Date.--The amendment made by this section shall apply to taxable years beginning after December 31, 1997.

SEC. 225. TREATMENT OF CANCELLATION OF CERTAIN STUDENT LOANS.

(a) Certain Loans by Exempt Organizations.--

(1) In general.--Paragraph (2) of section 108(f) (defining student loan) is amended by striking "or" at the end of subparagraph (B) and by striking subparagraph (D) and inserting the following:

"(D) any educational organization described in section 170(b)(1)(A)(ii) if such loan is made--

"(i) pursuant to an agreement with any entity described in subparagraph (A), (B), or (C) under which the funds from which the loan was made were provided to such educational organization, or

"(ii) pursuant to a program of such educational organization which is designed to encourage its students to serve in occupations with unmet needs or in areas with unmet needs and under which the services provided by the students (or former students) are for or under the direction of a governmental unit or an organization described in section 501(c)(3) and exempt from tax under section 501(a).

The term `student loan' includes any loan made by an educational organization so described or by an organization exempt from tax under section 501(a) to refinance a loan meeting the requirements of the preceding sentence.".

(2) Exception for discharges on account of services performed for certain lenders.--Subsection (f) of section 108 is amended by adding at the end the following new paragraph:

"(3) Exception for discharges on account of services performed for certain lenders.--Paragraph (1) shall not apply to the discharge of a loan made by an organization described in paragraph (2)(D) (or by an organization described in paragraph (2)(E) from funds provided by an organization described in paragraph (2)(D)) if the discharge is on account of services performed for either such organization.".

(b) Effective Date.--The amendments made by this section shall apply to discharges of indebtedness after the date of the enactment of this Act.

SEC. 226. INCENTIVES FOR EDUCATION ZONES.

(a) In General.--Subchapter U of chapter 1 (relating to additional incentives for empowerment zones) is amended by redesignating part IV as part V, by redesignating section 1397E as section 1397F, and by inserting after part III the following new part:

"PART IV--INCENTIVES FOR EDUCATION ZONES

"Sec. 1397E. Credit to holders of qualified zone academy bonds."

"SEC. 1397E. CREDIT TO HOLDERS OF QUALIFIED ZONE ACADEMY BONDS.

"(a) Allowance of Credit.--In the case of an eligible taxpayer who holds a qualified zone academy bond on the credit allowance date of such bond which occurs during the taxable year, there shall be allowed as a credit against the tax imposed by this chapter for such taxable year the amount determined under subsection (b).

"(b) Amount of Credit.--

"(1) In general.--The amount of the credit determined under this subsection with respect to any qualified zone academy bond is the amount equal to the product of--

"(A) the credit rate determined by the Secretary under paragraph (2) for the month in which such bond was issued, multiplied by

"(B) the face amount of the bond held by the taxpayer on the credit allowance date.

"(2) Determination.--During each calendar month, the Secretary shall determine a credit rate which shall apply to bonds issued during the following calendar month. The credit rate for any month is the percentage which the Secretary estimates will permit the issuance of qualified zone academy bonds without discount and without interest cost to the issuer.

"(c) Limitation Based on Amount of Tax.--The credit allowed under subsection (a) for any taxable year shall not exceed the excess of--

"(1) the sum of the regular tax liability (as defined in section 26(b)) plus the tax imposed by section 55, over

"(2) the sum of the credits allowable under part IV of subchapter A (other than subpart C thereof, relating to refundable credits).

"(d) Qualified Zone Academy Bond.--For purposes of this section--

"(1) In general.--The term `qualified zone academy bond' means any bond issued as part of an issue if--

"(A) 95 percent or more of the proceeds of such issue are to be used for a qualified purpose with respect to a qualified zone academy established by an eligible local education agency,

"(B) the bond is issued by a State or local government within the jurisdiction of which such academy is located,

"(C) the issuer--

"(i) designates such bond for purposes of this section,

"(ii) certifies that it has written assurances that the private business contribution requirement of paragraph (2) will be met with respect to such academy, and

"(iii) certifies that it has the written approval of the eligible local education agency for such bond issuance, and

"(D) the term of each bond which is part of such issue does not exceed the maximum term permitted under paragraph (3).

"(2) Private business contribution requirement.--

"(A) In general.--For purposes of paragraph (1), the private business contribution requirement of this paragraph is met with respect to any issue if the eligible local education agency that established the qualified zone academy has written commitments from private entities to make qualified contributions having a present value (as of the date of issuance of the issue) of not less than 10 percent of the proceeds of the issue.

"(B) Qualified contributions.--For purposes of subparagraph (A), the term `qualified contribution' means any contribution (of a type and quality acceptable to the eligible local education agency) of--

"(i) equipment for use in the qualified zone academy (including state-of-the-art technology and vocational equipment),

"(ii) technical assistance in developing curriculum or in training teachers in order to promote appropriate market driven technology in the classroom,

"(iii) services of employees as volunteer mentors,

"(iv) internships, field trips, or other educational opportunities outside the academy for students, or

"(v) any other property or service specified by the eligible local education agency.

"(3) Term requirement.--During each calendar month, the Secretary shall determine the maximum term permitted under this paragraph for bonds issued during the following calendar month. Such maximum term shall be the term which the Secretary estimates will result in the present value of the obligation to repay the principal on the bond being equal to 50 percent of the face amount of the bond. Such present value shall be determined using as a discount rate the average annual interest rate of tax-exempt obligations having a term of 10 years or more which are issued during the month. If the term as so determined is not a multiple of a whole year, such term shall be rounded to the next highest whole year.

"(4) Qualified zone academy.--

"(A) In general.--The term `qualified zone academy' means any public school (or academic program within a public school) which is established by and operated under the supervision of an eligible local education agency to provide education or training below the postsecondary level if--

"(i) such public school or program (as the case may be) is designed in cooperation with business to enhance the academic curriculum, increase graduation and employment rates, and better prepare students for the rigors of college and the increasingly complex workforce,

"(ii) students in such public school or program (as the case may be) will be subject to the same academic standards and assessments as other students educated by the eligible local education agency,

"(iii) the comprehensive education plan of such public school or program is approved by the eligible local education agency, and

"(iv)(I) such public school is located in an empowerment zone or enterprise community (including any such zone or community designated after the date of the enactment of this section), or

"(II) there is a reasonable expectation (as of the date of issuance of the bonds) that at least 35 percent of the students attending such school or participating in such program (as the case may be) will be eligible for free or reduced-cost lunches under the school lunch program established under the National School Lunch Act.

"(B) Eligible local education agency.--The term `eligible local education agency' means any local education agency as defined in section 14101 of the Elementary and Secondary Education Act of 1965.

"(5) Qualified purpose.--The term `qualified purpose' means, with respect to any qualified zone academy--

"(A) rehabilitating or repairing the public school facility in which the academy is established,

"(B) providing equipment for use at such academy,

"(C) developing course materials for education to be provided at such academy, and

"(D) training teachers and other school personnel in such academy.

"(6) Eligible taxpayer.--The term `eligible taxpayer' means--

"(A) a bank (within the meaning of section 581),

"(B) an insurance company to which subchapter L applies, and

"(C) a corporation actively engaged in the business of lending money.

"(e) Limitation on Amount of Bonds Designated.--

"(1) National limitation.--There is a national zone academy bond limitation for each calendar year. Such limitation is $400,000,000 for 1998 and 1999, and, except as provided in paragraph (4), zero thereafter.

"(2) Allocation of limitation.--The national zone academy bond limitation for a calendar year shall be allocated by the Secretary among the States on the basis of their respective populations of individuals below the poverty line (as defined by the Office of Management and Budget). The limitation amount allocated to a State under the preceding sentence shall be allocated by the State education agency to qualified zone academies within such State.

"(3) Designation subject to limitation amount.--The maximum aggregate face amount of bonds issued during any calendar year which may be designated under subsection (d)(1) with respect to any qualified zone academy shall not exceed the limitation amount allocated to such academy under paragraph (2) for such calendar year.

"(4) Carryover of unused limitation.--If for any calendar year--

"(A) the limitation amount for any State, exceeds

"(B) the amount of bonds issued during such year which are designated under subsection (d)(1) with respect to qualified zone academies within such State,

the limitation amount for such State for the following calendar year shall be increased by the amount of such excess.

"(f) Other Definitions.--For purposes of this section--

"(1) Credit allowance date.--The term `credit allowance date' means, with respect to any issue, the last day of the 1-year period beginning on the date of issuance of such issue and the last day of each successive 1-year period thereafter.

"(2) Bond.--The term `bond' includes any obligation.

"(3) State.--The term `State' includes the District of Columbia and any possession of the United States.

"(g) Credit Included in Gross Income.--Gross income includes the amount of the credit allowed to the taxpayer under this section."

(b) Conforming Amendments.--

(1) The table of parts for subchapter U of chapter 1 is amended by striking the last item and inserting the following:

"Part IV. Incentives for education zones.

"Part V. Regulations."

(2) The table of sections for part V, as so redesignated, is amended to read as follows:

"Sec. 1397F. Regulations."

(c) Effective Date.--The amendments made by this section shall apply to obligations issued after December 31, 1997.

TITLE III--SAVINGS AND INVESTMENT INCENTIVES

Subtitle A--Retirement Savings

SEC. 301. RESTORATION OF IRA DEDUCTION FOR CERTAIN TAXPAYERS.

(a) Increase in Income Limits Applicable to Active Participants.--

(1) In general.--Subparagraph (B) of section 219(g)(3) (relating to applicable dollar amount) is amended to read as follows:

"(B) Applicable dollar amount.--The term `applicable dollar amount' means the following:

"(i) In the case of a taxpayer filing a joint return:

The applicable

"For taxable years beginning in:

dollar amount is:

1998 $50,000_05

1999 $51,000_05

2000 $52,000_05

2001 $53,000_05

2002 $54,000_05

2003 $60,000_05

2004 $65,000_05

2005 $70,000_05

2006 $75,000_05

2007 and thereafter $80,000.

"(ii) In the case of any other taxpayer (other than a married individual filing a separate return):

The applicable

"For taxable years beginning in:

dollar amount is:

1998 $30,000_05

1999 $31,000_05

2000 $32,000_05

2001 $33,000_05

2002 $34,000_05

2003 $40,000_05

2004 $45,000_05

2005 and thereafter $50,000.

"(iii) In the case of a married individual filing a separate return, zero.".

(2) Increase in phase-out range for joint returns.--Clause (ii) of section 219(g)(2)(A) is amended by inserting "($20,000 in the case of a joint return for a taxable year beginning after December 31, 2006)".

(b) Limitations for Active Participation Not Based on Spouse's Participation.--Section 219(g) (relating to limitation on deduction for active participants in certain pension plans) is amended--

(1) by striking "or the individual's spouse" in paragraph (1), and

(2) by adding at the end the following new paragraph:

"(7) Special rule for certain spouses.--In the case of an individual who is an active participant at no time during any plan year ending with or within the taxable year but whose spouse is an active participant for any part of any such plan year--

"(A) the applicable dollar amount under paragraph (3)(B)(i) with respect to the taxpayer shall be $150,000, and

"(B) the amount applicable under paragraph (2)(A)(ii) shall be $10,000."

(c) Effective Date.--The amendments made by this section shall apply to taxable years beginning after December 31, 1997.

SEC. 302. ESTABLISHMENT OF NONDEDUCTIBLE TAX-FREE INDIVIDUAL RETIREMENT ACCOUNTS.

(a) In General.--Subpart A of part I of subchapter D of chapter 1 (relating to pension, profit-sharing, stock bonus plans, etc.) is amended by inserting after section 408 the following new section:

"SEC. 408A. ROTH IRAS.

"(a) General Rule.--Except as provided in this section, a Roth IRA shall be treated for purposes of this title in the same manner as an individual retirement plan.

"(b) Roth IRA.--For purposes of this title, the term `Roth IRA' means an individual retirement plan (as defined in section 7701(a)(37)) which is designated (in such manner as the Secretary may prescribe) at the time of establishment of the plan as a Roth IRA. Such designation shall be made in such manner as the Secretary may prescribe.

"(c) Treatment of Contributions.--

"(1) No deduction allowed.--No deduction shall be allowed under section 219 for a contribution to a Roth IRA.

"(2) Contribution limit.--The aggregate amount of contributions for any taxable year to all Roth IRAs maintained for the benefit of an individual shall not exceed the excess (if any) of--

"(A) the maximum amount allowable as a deduction under section 219 with respect to such individual for such taxable year (computed without regard to subsection (d)(1) or (g) of such section), over

"(B) the aggregate amount of contributions for such taxable year to all other individual retirement plans (other than Roth IRAs) maintained for the benefit of the individual.

"(3) Limits based on modified adjusted gross income.--

"(A) Dollar limit.--The amount determined under paragraph (2) for any taxable year shall be reduced (but not below zero) by the amount which bears the same ratio to such amount as--

"(i) the excess of--

"(I) the taxpayer's adjusted gross income for such taxable year, over

"(II) the applicable dollar amount, bears to

"(ii) $15,000 ($10,000 in the case of a joint return).

The rules of subparagraphs (B) and (C) of section 219(g)(2) shall apply to any reduction under this subparagraph.

"(B) Rollover from ira.--A taxpayer shall not be allowed to make a qualified rollover contribution to a Roth IRA from an individual retirement plan other than a Roth IRA during any taxable year if--

"(i) the taxpayer's adjusted gross income for such taxable year exceeds $100,000, or

"(ii) the taxpayer is a married individual filing a separate return.

"(C) Definitions.--For purposes of this paragraph--

"(i) adjusted gross income shall be determined in the same manner as under section 219(g)(3), except that any amount included in gross income under subsection (d)(3) shall not be taken into account and the deduction under section 219 shall be taken into account, and

"(ii) the applicable dollar amount is--

"(I) in the case of a taxpayer filing a joint return, $150,000,

"(II) in the case of any other taxpayer (other than a married individual filing a separate return), $95,000, and

"(III) in the case of a married individual filing a separate return, zero.

"(D) Marital status.--Section 219(g)(4) shall apply for purposes of this paragraph.

"(4) Contributions permitted after age 701/2.--Contributions to a Roth IRA may be made even after the individual for whom the account is maintained has attained age 701/2.

"(5) Mandatory distribution rules not to apply before death.--Notwithstanding subsections (a)(6) and (b)(3) of section 408 (relating to required distributions), the following provisions shall not apply to any Roth IRA:

"(A) Section 401(a)(9)(A).

"(B) The incidental death benefit requirements of section 401(a).

"(6) Rollover contributions.--

"(A) In general.--No rollover contribution may be made to a Roth IRA unless it is a qualified rollover contribution.

"(B) Coordination with limit.--A qualified rollover contribution shall not be taken into account for purposes of paragraph (2).

"(7) Time when contributions made.--For purposes of this section, the rule of section 219(f)(3) shall apply.

"(d) Distribution Rules.--For purposes of this title--

"(1) General rules.--

"(A) Exclusions from gross income.--Any qualified distribution from a Roth IRA shall not be includible in gross income.

"(B) Nonqualified distributions.--In applying section 72 to any distribution from a Roth IRA which is not a qualified distribution, such distribution shall be treated as made from contributions to the Roth IRA to the extent that such distribution, when added to all previous distributions from the Roth IRA, does not exceed the aggregate amount of contributions to the Roth IRA.

"(2) Qualified distribution.--For purposes of this subsection--

"(A) In general.--The term `qualified distribution' means any payment or distribution--

"(i) made on or after the date on which the individual attains age 591/2,

"(ii) made to a beneficiary (or to the estate of the individual) on or after the death of the individual,

"(iii) attributable to the individual's being disabled (within the meaning of section 72(m)(7)), or

"(iv) which is a qualified special purpose distribution.

"(B) Certain distributions within 5 years.--A payment or distribution shall not be treated as a qualified distribution under subparagraph (A) if--

"(i) it is made within the 5-taxable year period beginning with the 1st taxable year for which the individual made a contribution to a Roth IRA (or such individual's spouse made a contribution to a Roth IRA) established for such individual, or

"(ii) in the case of a payment or distribution properly allocable (as determined in the manner prescribed by the Secretary) to a qualified rollover contribution from an individual retirement plan other than a Roth IRA (or income allocable thereto), it is made within the 5-taxable year period beginning with the taxable year in which the rollover contribution was made.

"(3) Rollovers from an ira other than a Roth IRA.--

"(A) In general.--Notwithstanding section 408(d)(3), in the case of any distribution to which this paragraph applies--

"(i) there shall be included in gross income any amount which would be includible were it not part of a qualified rollover contribution,

"(ii) section 72(t) shall not apply, and

"(iii) in the case of a distribution before January 1, 1999, any amount required to be included in gross income by reason of this paragraph shall be so included ratably over the 4-taxable year period beginning with the taxable year in which the payment or distribution is made.

"(B) Distributions to which paragraph applies.--This paragraph shall apply to a distribution from an individual retirement plan (other than a Roth IRA) maintained for the benefit of an individual which is contributed to a Roth IRA maintained for the benefit of such individual in a qualified rollover contribution.

"(C) Conversions.--The conversion of an individual retirement plan (other than a Roth IRA) to a Roth IRA shall be treated for purposes of this paragraph as a distribution to which this paragraph applies.

"(D) Conversion of excess contributions.--If, no later than the due date for filing the return of tax for any taxable year (without regard to extensions), an individual transfers, from an individual retirement plan (other than a Roth IRA), contributions for such taxable year (and any earnings allocable thereto) to a Roth IRA, no such amount shall be includible in gross income to the extent no deduction was allowed with respect to such amount.

"(E) Additional reporting requirements.--Trustees of Roth IRAs, trustees of individual retirement plans, or both, whichever is appropriate, shall include such additional information in reports required under section 408(i) as the Secretary may require to ensure that amounts required to be included in gross income under subparagraph (A) are so included.

"(4) Coordination with individual retirement accounts.--Section 408(d)(2) shall be applied separately with respect to Roth IRAs and other individual retirement plans.

"(5) Qualified special purpose distribution.--For purposes of this section, the term `qualified special purpose distribution' means any distribution to which subparagraph (F) of section 72(t)(2) applies.

"(e) Qualified Rollover Contribution.--For purposes of this section, the term `qualified rollover contribution' means a rollover contribution to a Roth IRA from another such account, or from an individual retirement plan, but only if such rollover contribution meets the requirements of section 408(d)(3). For purposes of section 408(d)(3)(B), there shall be disregarded any qualified rollover contribution from an individual retirement plan (other than a Roth IRA) to a Roth IRA.".

(b) Excess Contributions.--Section 4973(b), as amended by title II, is amended by adding at the end the following new subsection:

"(f) Excess Contributions to Roth IRAs.--For purposes of this section, in the case of contributions to a Roth IRA (within the meaning of section 408A(b)), the term `excess contributions' means the sum of--

"(1) the excess (if any) of--

"(A) the amount contributed for the taxable year to such accounts (other than a qualified rollover contribution described in section 408A(e)), over

"(B) the amount allowable as a contribution under sections 408A (c)(2) and (c)(3), and

"(2) the amount determined under this subsection for the preceding taxable year, reduced by the sum of--

"(A) the distributions out of the accounts for the taxable year, and

"(B) the excess (if any) of the maximum amount allowable as a contribution under sections 408A (c)(2) and (c)(3) for the taxable year over the amount contributed to the accounts for the taxable year.

For purposes of this subsection, any contribution which is distributed from a Roth IRA in a distribution described in section 408(d)(4) shall be treated as an amount not contributed."

(c) Spousal IRA.--Clause (ii) of section 219(c)(1)(B) is amended to read as follows:

"(ii) the compensation includible in the gross income of such individual's spouse for the taxable year reduced by--

"(I) the amount allowed as a deduction under subsection (a) to such spouse for such taxable year, and

"(II) the amount of any contribution on behalf of such spouse to a Roth IRA under section 408A for such taxable year.".

(d) Authority To Prescribe Necessary Reporting.--Section 408(i) is amended--

(1) by striking "under regulations", and

(2) by striking "in such regulations" each place it appears.

(e) Conforming Amendment.--The table of sections for subpart A of part I of subchapter D of chapter 1 is amended by inserting after the item relating to section 408 the following new item:

"Sec. 408A. Roth IRAs.".

(f) Effective Date.--The amendments made by this section shall apply to taxable years beginning after December 31, 1997.

SEC. 303. DISTRIBUTIONS FROM CERTAIN PLANS MAY BE USED WITHOUT PENALTY TO PURCHASE FIRST HOMES.

(a) In General.--Paragraph (2) of section 72(t) (relating to exceptions to 10-percent additional tax on early distributions from qualified retirement plans), as amended by section 203, is amended by adding at the end the following new subparagraph:

"(F) Distributions from certain plans for first home purchases.--Distributions to an individual from an individual retirement plan which are qualified first-time homebuyer distributions (as defined in paragraph (8)). Distributions shall not be taken into account under the preceding sentence if such distributions are described in subparagraph (A), (C), (D), or (E) or to the extent paragraph (1) does not apply to such distributions by reason of subparagraph (B).".

(b) Definitions.--Section 72(t), as amended by section 203, is amended by adding at the end the following new paragraphs:

"(8) Qualified first-time homebuyer distributions.--For purposes of paragraph (2)(F)--

"(A) In general.--The term `qualified first-time homebuyer distribution' means any payment or distribution received by an individual to the extent such payment or distribution is used by the individual before the close of the 120th day after the day on which such payment or distribution is received to pay qualified acquisition costs with respect to a principal residence of a first-time homebuyer who is such individual, the spouse of such individual, or any child, grandchild, or ancestor of such individual or the individual's spouse.

"(B) Lifetime dollar limitation.--The aggregate amount of payments or distributions received by an individual which may be treated as qualified first-time homebuyer distributions for any taxable year shall not exceed the excess (if any) of--

"(i) $10,000, over

"(ii) the aggregate amounts treated as qualified first-time homebuyer distributions with respect to such individual for all prior taxable years.

"(C) Qualified acquisition costs.--For purposes of this paragraph, the term `qualified acquisition costs' means the costs of acquiring, constructing, or reconstructing a residence. Such term includes any usual or reasonable settlement, financing, or other closing costs.

"(D) First-time homebuyer; other definitions.--For purposes of this paragraph--

"(i) First-time homebuyer.--The term `first-time homebuyer' means any individual if--

"(I) such individual (and if married, such individual's spouse) had no present ownership interest in a principal residence during the 2-year period ending on the date of acquisition of the principal residence to which this paragraph applies, and

"(II) subsection (h) or (k) of section 1034 (as in effect on the day before the date of the enactment of this paragraph) did not suspend the running of any period of time specified in section 1034 (as so in effect) with respect to such individual on the day before the date the distribution is applied pursuant to subparagraph (A).

"(ii) Principal residence.--The term `principal residence' has the same meaning as when used in section 121.

"(iii) Date of acquisition.--The term `date of acquisition' means the date--

"(I) on which a binding contract to acquire the principal residence to which subparagraph (A) applies is entered into, or

"(II) on which construction or reconstruction of such a principal residence is commenced.

"(E) Special rule where delay in acquisition.--If any distribution from any individual retirement plan fails to meet the requirements of subparagraph (A) solely by reason of a delay or cancellation of the purchase or construction of the residence, the amount of the distribution may be contributed to an individual retirement plan as provided in section 408(d)(3)(A)(i) (determined by substituting `120 days' for `60 days' in such section), except that--

"(i) section 408(d)(3)(B) shall not be applied to such contribution, and

"(ii) such amount shall not be taken into account in determining whether section 408(d)(3)(B) applies to any other amount.".

(c) Effective Date.--The amendments made by this section shall apply to payments and distributions in taxable years beginning after December 31, 1997.

SEC. 304. CERTAIN BULLION NOT TREATED AS COLLECTIBLES.

(a) In General.--Paragraph (3) of section 408(m) (relating to exception for certain coins) is amended to read as follows:

"(3) Exception for certain coins and bullion.--For purposes of this subsection, the term `collectible' shall not include--

"(A) any coin which is--

"(i) a gold coin described in paragraph (7), (8), (9), or (10) of section 5112(a) of title 31, United States Code,

"(ii) a silver coin described in section 5112(e) of title 31, United States Code,

"(iii) a platinum coin described in section 5112(k) of title 31, United States Code, or

"(iv) a coin issued under the laws of any State, or

"(B) any gold, silver, platinum, or palladium bullion of a fineness equal to or exceeding the minimum fineness that a contract market (as described in section 7 of the Commodity Exchange Act, 7 U.S.C. 7) requires for metals which may be delivered in satisfaction of a regulated futures contract,

if such bullion is in the physical possession of a trustee described under subsection (a) of this section.".

(b) Effective Date.--The amendment made by this section shall apply to taxable years beginning after December 31, 1997.

Subtitle B--Capital Gains

SEC. 311. MAXIMUM CAPITAL GAINS RATES FOR INDIVIDUALS.

(a) In General.--Subsection (h) of section 1 (relating to maximum capital gains rate) is amended to read as follows:

"(h) Maximum Capital Gains Rate.--

"(1) In general.--If a taxpayer has a net capital gain for any taxable year, the tax imposed by this section for such taxable year shall not exceed the sum of--

"(A) a tax computed at the rates and in the same manner as if this subsection had not been enacted on the greater of--

"(i) taxable income reduced by the net capital gain, or

"(ii) the lesser of--

"(I) the amount of taxable income taxed at a rate below 28 percent, or

"(II) taxable income reduced by the adjusted net capital gain, plus

"(B) 25 percent of the excess (if any) of--

"(i) the unrecaptured section 1250 gain (or, if less, the net capital gain), over

"(ii) the excess (if any) of--

"(I) the sum of the amount on which tax is determined under subparagraph (A) plus the net capital gain, over

"(II) taxable income, plus

"(C) 28 percent of the amount of taxable income in excess of the sum of--

"(i) the adjusted net capital gain, plus

"(ii) the sum of the amounts on which tax is determined under subparagraphs (A) and (B), plus

"(D) 10 percent of so much of the taxpayer's adjusted net capital gain (or, if less, taxable income) as does not exceed the excess (if any) of--

"(i) the amount of taxable income which would (without regard to this paragraph) be taxed at a rate below 28 percent, over

"(ii) the taxable income reduced by the adjusted net capital gain, plus

"(E) 20 percent of the taxpayer's adjusted net capital gain (or, if less, taxable income) in excess of the amount on which a tax is determined under subparagraph (D).

"(2) Reduced capital gain rates for qualified 5-year gain.--

"(A) Reduction in 10-percent rate.--In the case of any taxable year beginning after December 31, 2000, the rate under paragraph (1)(D) shall be 8 percent with respect to so much of the amount to which the 10-percent rate would otherwise apply as does not exceed qualified 5-year gain, and 10 percent with respect to the remainder of such amount.

"(B) Reduction in 20-percent rate.--The rate under paragraph (1)(E) shall be 18 percent with respect to so much of the amount to which the 20-percent rate would otherwise apply as does not exceed the lesser of--

"(i) the excess of qualified 5-year gain over the amount of such gain taken into account under subparagraph (A) of this paragraph, or

"(ii) the amount of qualified 5-year gain (determined by taking into account only property the holding period for which begins after December 31, 2000),

and 20 percent with respect to the remainder of such amount. For purposes of determining under the preceding sentence whether the holding period of property begins after December 31, 2000, the holding period of property acquired pursuant to the exercise of an option (or other right or obligation to acquire property) shall include the period such option (or other right or obligation) was held.

"(3) Net capital gain taken into account as investment income.--For purposes of this subsection, the net capital gain for any taxable year shall be reduced (but not below zero) by the amount which the taxpayer takes into account as investment income under section 163(d)(4)(B)(iii).

"(4) Adjusted net capital gain.--For purposes of this subsection, the term `adjusted net capital gain' means net capital gain determined without regard to--

"(A) collectibles gain,

"(B) unrecaptured section 1250 gain,

"(C) section 1202 gain, and

"(D) mid-term gain.

"(5) Collectibles gain.--For purposes of this subsection--

"(A) In general.--The term `collectibles gain' means gain from the sale or exchange of a collectible (as defined in section 408(m) without regard to paragraph (3) thereof) which is a capital asset held for more than 1 year but only to the extent such gain is taken into account in computing gross income.

"(B) Partnerships, etc.--For purposes of subparagraph (A), any gain from the sale of an interest in a partnership, S corporation, or trust which is attributable to unrealized appreciation in the value of collectibles shall be treated as gain from the sale or exchange of a collectible. Rules similar to the rules of section 751 shall apply for purposes of the preceding sentence.

"(6) Unrecaptured section 1250 gain.--For purposes of this subsection--

"(A) In general.--The term `unrecaptured section 1250 gain' means the amount of long-term capital gain which would be treated as ordinary income if--

"(i) section 1250(b)(1) included all depreciation and the applicable percentage under section 1250(a) were 100 percent, and

"(ii) in the case of gain properly taken into account after July 28, 1997, only gain from section 1250 property held for more than 18 months were taken into account.

"(B) Limitation with respect to section 1231 property.--The amount of unrecaptured section 1250 gain from sales, exchanges, and conversions described in section 1231(a)(3)(A) for any taxable year shall not exceed the excess of the net section 1231 gain (as defined in section 1231(c)(3)) for such year over the amount treated as ordinary income under section 1231(c)(1) for such year.

"(C) Pre-may 7, 1997, gain.--In the case of a taxable year which includes May 7, 1997, subparagraph (A) shall be applied by taking into account only the gain properly taken into account for the portion of the taxable year after May 6, 1997.

"(7) Section 1202 gain.--For purposes of this subsection, the term `section 1202 gain' means an amount equal to the gain excluded from gross income under section 1202(a).

"(8) Mid-term gain.--For purposes of this subsection, the term `mid-term gain' means the amount which would be adjusted net capital gain for the taxable year if--

"(A) adjusted net capital gain were determined by taking into account only the gain or loss properly taken into account after July 28, 1997, from property held for more than 1 year but not more than 18 months, and

"(B) paragraph (3) and section 1212 did not apply.

"(9) Qualified 5-year gain.--For purposes of this subsection, the term `qualified 5-year gain' means the amount of long-term capital gain which would be computed for the taxable year if only gains from the sale or exchange of property held by the taxpayer for more than 5 years were taken into account. The determination under the preceding sentence shall be made without regard to collectibles gain, unrecaptured section 1250 gain (determined without regard to subparagraph (B) of paragraph (6)), section 1202 gain, or mid-term gain.

"(10) Pre-effective date gain.--

"(A) In general.--In the case of a taxable year which includes May 7, 1997, gains and losses properly taken into account for the portion of the taxable year before May 7, 1997, shall be taken into account in determining mid-term gain as if such gains and losses were described in paragraph (8)(A).

"(B) Special rules for pass-thru entities.--In applying subparagraph (A) with respect to any pass-thru entity, the determination of when gains and loss are properly taken into account shall be made at the entity level.

"(C) Pass-thru entity defined.--For purposes of subparagraph (B), the term `pass-thru entity' means--

"(i) a regulated investment company,

"(ii) a real estate investment trust,

"(iii) an S corporation,

"(iv) a partnership,

"(v) an estate or trust, and

"(vi) a common trust fund.

"(11) Treatment of pass-thru entities.--The Secretary may prescribe such regulations as are appropriate (including regulations requiring reporting) to apply this subsection in the case of sales and exchanges by pass-thru entities (as defined in paragraph (10)(C)) and of interests in such entities.".

(b) Minimum Tax.--

(1) In general.--Subsection (b) of section 55 is amended by adding at the end the following new paragraph:

"(3) Maximum rate of tax on net capital gain of noncorporate taxpayers.--The amount determined under the first sentence of paragraph (1)(A)(i) shall not exceed the sum of--

"(A) the amount determined under such first sentence computed at the rates and in the same manner as if this paragraph had not been enacted on the taxable excess reduced by the lesser of--

"(i) the net capital gain, or

"(ii) the sum of--

"(I) the adjusted net capital gain, plus

"(II) the unrecaptured section 1250 gain, plus

"(B) 25 percent of the lesser of--

"(i) the unrecaptured section 1250 gain, or

"(ii) the amount of taxable excess in excess of the sum of--

"(I) the adjusted net capital gain, plus

"(II) the amount on which a tax is determined under subparagraph (A), plus

"(C) 10 percent of so much of the taxpayer's adjusted net capital gain (or, if less, taxable excess) as does not exceed the amount on which a tax is determined under section 1(h)(1)(D), plus

"(D) 20 percent of the taxpayer's adjusted net capital gain (or, if less, taxable excess) in excess of the amount on which tax is determined under subparagraph (C).

In the case of taxable years beginning after December 31, 2000, rules similar to the rules of section 1(h)(2) shall apply for purposes of subparagraphs (C) and (D). Terms used in this paragraph which are also used in section 1(h) shall have the respective meanings given such terms by section 1(h).".

(2) Conforming amendments.--

(A) Clause (ii) of section 55(b)(1)(A) is amended by striking "clause (i)" and inserting "this subsection".

(B) Paragraph (7) of section 57(a) is amended by striking "one-half" and inserting "42 percent".

(c) Other Conforming Amendments.--

(1) Paragraph (1) of section 1445(e) is amended by striking "28 percent" and inserting "20 percent".

(2) The second sentence of section 7518(g)(6)(A), and the second sentence of section 607(h)(6)(A) of the Merchant Marine Act, 1936, are each amended by striking "28 percent" and inserting "20 percent".

(3) Paragraph (2) of section 904(b) is amended by adding at the end the following new subparagraph:

"(C) Coordination with capital gains rates.--The Secretary may by regulations modify the application of this paragraph and paragraph (3) to the extent necessary to properly reflect any capital gain rate differential under section 1(h) or 1201(a) and the computation of net capital gain.".

(d) Effective Dates.--

(1) In general.--Except as provided in paragraph (2), the amendments made by this section shall apply to taxable years ending after May 6, 1997.

(2) Withholding.--The amendment made by subsection (c)(1) shall apply only to amounts paid after the date of the enactment of this Act.

(e) Election To Recognize Gain on Assets Held on January 1, 2001.--For purposes of the Internal Revenue Code of 1986--

(1) In general.--A taxpayer other than a corporation may elect to treat--

(A) any readily tradable stock (which is a capital asset) held by such taxpayer on January 1, 2001, and not sold before the next business day after such date, as having been sold on such next business day for an amount equal to its closing market price on such next business day (and as having been reacquired on such next business day for an amount equal to such closing market price), and

(B) any other capital asset or property used in the trade or business (as defined in section 1231(b) of the Internal Revenue Code of 1986) held by the taxpayer on January 1, 2001, as having been sold on such date for an amount equal to its fair market value on such date (and as having been reacquired on such date for an amount equal to such fair market value).

(2) Treatment of gain or loss.--

(A) Any gain resulting from an election under paragraph (1) shall be treated as received or accrued on the date the asset is treated as sold under paragraph (1) and shall be recognized notwithstanding any provision of the Internal Revenue Code of 1986.

(B) Any loss resulting from an election under paragraph (1) shall not be allowed for any taxable year.

(3) Election.--An election under paragraph (1) shall be made in such manner as the Secretary of the Treasury or his delegate may prescribe and shall specify the assets for which such election is made. Such an election, once made with respect to any asset, shall be irrevocable.

(4) Readily tradable stock.--For purposes of this subsection, the term "readily tradable stock" means any stock which, as of January 1, 2001, is readily tradable on an established securities market or otherwise.

SEC. 312. EXEMPTION FROM TAX FOR GAIN ON SALE OF PRINCIPAL RESIDENCE.

(a) In General.--Section 121 (relating to one-time exclusion of gain from sale of principal residence by individual who has attained age 55) is amended to read as follows:

"SEC. 121. EXCLUSION OF GAIN FROM SALE OF PRINCIPAL RESIDENCE.

"(a) Exclusion.--Gross income shall not include gain from the sale or exchange of property if, during the 5-year period ending on the date of the sale or exchange, such property has been owned and used by the taxpayer as the taxpayer's principal residence for periods aggregating 2 years or more.

"(b) Limitations.--

"(1) In general.--The amount of gain excluded from gross income under subsection (a) with respect to any sale or exchange shall not exceed $250,000.

"(2) $500,000 limitation for certain joint returns.--Paragraph (1) shall be applied by substituting `$500,000' for `$250,000' if--

"(A) a husband and wife make a joint return for the taxable year of the sale or exchange of the property,

"(B) either spouse meets the ownership requirements of subsection (a) with respect to such property,

"(C) both spouses meet the use requirements of subsection (a) with respect to such property, and

"(D) neither spouse is ineligible for the benefits of subsection (a) with respect to such property by reason of paragraph (3).

"(3) Application to only 1 sale or exchange every 2 years.--

"(A) In general.--Subsection (a) shall not apply to any sale or exchange by the taxpayer if, during the 2-year period ending on the date of such sale or exchange, there was any other sale or exchange by the taxpayer to which subsection (a) applied.

"(B) Pre-may 7, 1997, sales not taken into account.--Subparagraph (A) shall be applied without regard to any sale or exchange before May 7, 1997.

"(c) Exclusion for Taxpayers Failing To Meet Certain Requirements.--

"(1) In general.--In the case of a sale or exchange to which this subsection applies, the ownership and use requirements of subsection (a) shall not apply and subsection (b)(3) shall not apply; but the amount of gain excluded from gross income under subsection (a) with respect to such sale or exchange shall not exceed--

"(A) the amount which bears the same ratio to the amount which would be so excluded under this section if such requirements had been met, as

"(B) the shorter of--

"(i) the aggregate periods, during the 5-year period ending on the date of such sale or exchange, such property has been owned and used by the taxpayer as the taxpayer's principal residence, or

"(ii) the period after the date of the most recent prior sale or exchange by the taxpayer to which subsection (a) applied and before the date of such sale or exchange,

bears to 2 years.

"(2) Sales and exchanges to which subsection applies.--This subsection shall apply to any sale or exchange if--

"(A) subsection (a) would not (but for this subsection) apply to such sale or exchange by reason of--

"(i) a failure to meet the ownership and use requirements of subsection (a), or "(ii) subsection (b)(3), and

"(B) such sale or exchange is by reason of a change in place of employment, health, or, to the extent provided in regulations, unforeseen circumstances.

"(d) Special Rules.--

"(1) Joint returns.--If a husband and wife make a joint return for the taxable year of the sale or exchange of the property, subsections (a) and (c) shall apply if either spouse meets the ownership and use requirements of subsection (a) with respect to such property.

"(2) Property of deceased spouse.--For purposes of this section, in the case of an unmarried individual whose spouse is deceased on the date of the sale or exchange of property, the period such unmarried individual owned and used such property shall include the period such deceased spouse owned and used such property before death.

"(3) Property owned by spouse or former spouse.--For purposes of this section--

"(A) Property transferred to individual from spouse or former spouse.--In the case of an individual holding property transferred to such individual in a transaction described in section 1041(a), the period such individual owns such property shall include the period the transferor owned the property.

"(B) Property used by former spouse pursuant to divorce decree, etc.--Solely for purposes of this section, an individual shall be treated as using property as such individual's principal residence during any period of ownership while such individual's spouse or former spouse is granted use of the property under a divorce or separation instrument (as defined in section 71(b)(2)).

"(4) Tenant-stockholder in cooperative housing corporation.--For purposes of this section, if the taxpayer holds stock as a tenant-stockholder (as defined in section 216) in a cooperative housing corporation (as defined in such section), then--

"(A) the holding requirements of subsection (a) shall be applied to the holding of such stock, and

"(B) the use requirements of subsection (a) shall be applied to the house or apartment which the taxpayer was entitled to occupy as such stockholder.

"(5) Involuntary conversions.--

"(A) In general.--For purposes of this section, the destruction, theft, seizure, requisition, or condemnation of property shall be treated as the sale of such property.

"(B) Application of section 1033.--In applying section 1033 (relating to involuntary conversions), the amount realized from the sale or exchange of property shall be treated as being the amount determined without regard to this section, reduced by the amount of gain not included in gross income pursuant to this section.

"(C) Property acquired after involuntary conversion.--If the basis of the property sold or exchanged is determined (in whole or in part) under section 1033(b) (relating to basis of property acquired through involuntary conversion), then the holding and use by the taxpayer of the converted property shall be treated as holding and use by the taxpayer of the property sold or exchanged.

"(6) Recognition of gain attributable to depreciation.--Subsection (a) shall not apply to so much of the gain from the sale of any property as does not exceed the portion of the depreciation adjustments (as defined in section 1250(b)(3)) attributable to periods after May 6, 1997, in respect of such property.

"(7) Determination of use during periods of out-of-residence care.--In the case of a taxpayer who--

"(A) becomes physically or mentally incapable of self-care, and

"(B) owns property and uses such property as the taxpayer's principal residence during the 5-year period described in subsection (a) for periods aggregating at least 1 year,

then the taxpayer shall be treated as using such property as the taxpayer's principal residence during any time during such 5-year period in which the taxpayer owns the property and resides in any facility (including a nursing home) licensed by a State or political subdivision to care for an individual in the taxpayer's condition.

"(8) Sales of remainder interests.--For purposes of this section--

"(A) In general.--At the election of the taxpayer, this section shall not fail to apply to the sale or exchange of an interest in a principal residence by reason of such interest being a remainder interest in such residence, but this section shall not apply to any other interest in such residence which is sold or exchanged separately.

"(B) Exception for sales to related parties.--Subparagraph (A) shall not apply to any sale to, or exchange with, any person who bears a relationship to the taxpayer which is described in section 267(b) or 707(b).

"(e) Denial of Exclusion for Expatriates.--This section shall not apply to any sale or exchange by an individual if the treatment provided by section 877(a)(1) applies to such individual.

"(f) Election To Have Section Not Apply.--This section shall not apply to any sale or exchange with respect to which the taxpayer elects not to have this section apply.

"(g) Residences Acquired in Rollovers Under Section 1034.--For purposes of this section, in the case of property the acquisition of which by the taxpayer resulted under section 1034 (as in effect on the day before the date of the enactment of this section) in the nonrecognition of any part of the gain realized on the sale or exchange of another residence, in determining the period for which the taxpayer has owned and used such property as the taxpayer's principal residence, there shall be included the aggregate periods for which such other residence (and each prior residence taken into account under section 1223(7) in determining the holding period of such property) had been so owned and used.".

(b) Repeal of Nonrecognition of Gain on Rollover of Principal Residence.--Section 1034 (relating to rollover of gain on sale of principal residence) is hereby repealed.

(c) Exception From Reporting.--Subsection (e) of section 6045 (relating to return required in the case of real estate transactions) is amended by adding at the end the following new paragraph:

"(5) Exception for sales or exchanges of certain principal residences.--

"(A) In general.--Paragraph (1) shall not apply to any sale or exchange of a residence for $250,000 or less if the person referred to in paragraph (2) receives written assurance in a form acceptable to the Secretary from the seller that--

"(i) such residence is the principal residence (within the meaning of section 121) of the seller,

"(ii) if the Secretary requires the inclusion on the return under subsection (a) of information as to whether there is federally subsidized mortgage financing assistance with respect to the mortgage on residences, that there is no such assistance with respect to the mortgage on such residence, and

"(iii) the full amount of the gain on such sale or exchange is excludable from gross income under section 121.

If such assurance includes an assurance that the seller is married, the preceding sentence shall be applied by substituting `$500,000' for `$250,000'.

The Secretary may by regulation increase the dollar amounts under this subparagraph if the Secretary determines that such an increase will not materially reduce revenues to the Treasury.

"(B) Seller.--For purposes of this paragraph, the term `seller' includes the person relinquishing the residence in an exchange.".

(d) Conforming Amendments.--

(1) The following provisions of the Internal Revenue Code of 1986 are each amended by striking "section 1034" and inserting "section 121": sections 25(e)(7), 56(e)(1)(A), 56(e)(3)(B)(i), 143(i)(1)(C)(i)(I), 163(h)(4)(A)(i)(I), 280A(d)(4)(A), 464(f)(3)(B)(i), 1033(h)(4), 1274(c)(3)(B), 6334(a)(13), and 7872(f)(11)(A).

(2) Paragraph (4) of section 32(c) is amended by striking "(as defined in section 1034(h)(3))" and by adding at the end the following new sentence: "For purposes of the preceding sentence, the term `extended active duty' means any period of active duty pursuant to a call or order to such duty for a period in excess of 90 days or for an indefinite period.".

(3) Subparagraph (A) of 143(m)(6) is amended by inserting "(as in effect on the day before the date of the enactment of the Taxpayer Relief Act of 1997)" after "1034(e)".

(4) Subsection (e) of section 216 is amended by striking "such exchange qualifies for nonrecognition of gain under section 1034(f)" and inserting "such dwelling unit is used as his principal residence (within the meaning of section 121)".

(5) Section 512(a)(3)(D) is amended by inserting "(as in effect on the day before the date of the enactment of the Taxpayer Relief Act of 1997)" after "1034".

(6) Paragraph (7) of section 1016(a) is amended by inserting "(as in effect on the day before the date of the enactment of the Taxpayer Relief Act of 1997)" after "1034" and by inserting "(as so in effect)" after "1034(e)".

(7) Paragraph (3) of section 1033(k) is amended to read as follows:

"(3) For exclusion from gross income of gain from involuntary conversion of principal residence, see section 121.".

(8) Subsection (e) of section 1038 is amended to read as follows:

"(e) Principal Residences.--If--

"(1) subsection (a) applies to a reacquisition of real property with respect to the sale of which gain was not recognized under section 121 (relating to gain on sale of principal residence); and

"(2) within 1 year after the date of the reacquisition of such property by the seller, such property is resold by him,

then, under regulations prescribed by the Secretary, subsections (b), (c), and (d) of this section shall not apply to the reacquisition of such property and, for purposes of applying section 121, the resale of such property shall be treated as a part of the transaction constituting the original sale of such property.".

(9) Paragraph (7) of section 1223 is amended by inserting "(as in effect on the day before the date of the enactment of the Taxpayer Relief Act of 1997)" after "1034".

(10)(A) Subsection (d) of section 1250 is amended by striking paragraph (7) and by redesignating paragraphs (9) and (10) as paragraphs (7) and (8), respectively.

(B) Subsection (e) of section 1250 is amended by striking paragraph (3).

(11) Subsection (c) of section 6012 is amended by striking "(relating to one-time exclusion of gain from sale of principal residence by individual who has attained age 55)" and inserting "(relating to gain from sale of principal residence)".

(12) Paragraph (2) of section 6212(c) is amended by striking subparagraph (C) and by redesignating the succeeding subparagraphs accordingly.

(13) Section 6504 is amended by striking paragraph (4) and by redesignating the succeeding paragraphs accordingly.

(14) The item relating to section 121 in the table of sections for part III of subchapter B of chapter 1 is amended to read as follows:

"Sec. 121. Exclusion of gain from sale of principal residence.".

(15) The table of sections for part III of subchapter O of chapter 1 is amended by striking the item relating to section 1034.

(d) Effective Date.--

(1) In general.--The amendments made by this section shall apply to sales and exchanges after May 6, 1997.

(2) Sales before date of enactment.--At the election of the taxpayer, the amendments made by this section shall not apply to any sale or exchange before the date of the enactment of this Act.

(3) Certain sales within 2 years after date of enactment.--Section 121 of the Internal Revenue Code of 1986 (as amended by this section) shall be applied without regard to subsection (c)(2)(B) thereof in the case of any sale or exchange of property during the 2-year period beginning on the date of the enactment of this Act if the taxpayer held such property on the date of the enactment of this Act and fails to meet the ownership and use requirements of subsection (a) thereof with respect to such property.

(4) Binding contracts.--At the election of the taxpayer, the amendments made by this section shall not apply to a sale or exchange after the date of the enactment of this Act, if--

(A) such sale or exchange is pursuant to a contract which was binding on such date, or

(B) without regard to such amendments, gain would not be recognized under section 1034 of the Internal Revenue Code of 1986 (as in effect on the day before the date of the enactment of this Act) on such sale or exchange by reason of a new residence acquired on or before such date or with respect to the acquisition of which by the taxpayer a binding contract was in effect on such date.

This paragraph shall not apply to any sale or exchange by an individual if the treatment provided by section 877(a)(1) of the Internal Revenue Code of 1986 applies to such individual.

SEC. 313. ROLLOVER OF GAIN FROM SALE OF QUALIFIED STOCK.

(a) In General.--Part III of subchapter O of chapter 1 is amended by adding at the end the following new section:

"SEC. 1045. ROLLOVER OF GAIN FROM QUALIFIED SMALL BUSINESS STOCK TO ANOTHER QUALIFIED SMALL BUSINESS STOCK.

"(a) Nonrecognition of Gain.--In the case of any sale of qualified small business stock held by an individual for more than 6 months and with respect to which such individual elects the application of this section, gain from such sale shall be recognized only to the extent that the amount realized on such sale exceeds--

"(1) the cost of any qualified small business stock purchased by the taxpayer during the 60-day period beginning on the date of such sale, reduced by

"(2) any portion of such cost previously taken into account under this section.

This section shall not apply to any gain which is treated as ordinary income for purposes of this title.

"(b) Definitions and Special Rules.--For purposes of this section--

"(1) Qualified small business stock.--The term `qualified small business stock' has the meaning given such term by section 1202(c).

"(2) Purchase.--A taxpayer shall be treated as having purchased any property if, but for paragraph (3), the unadjusted basis of such property in the hands of the taxpayer would be its cost (within the meaning of section 1012).

"(3) Basis adjustments.--If gain from any sale is not recognized by reason of subsection (a), such gain shall be applied to reduce (in the order acquired) the basis for determining gain or loss of any qualified small business stock which is purchased by the taxpayer during the 60-day period described in subsection (a).

"(4) Holding period.--For purposes of determining whether the nonrecognition of gain under subsection (a) applies to stock which is sold--

"(A) the taxpayer's holding period for such stock and the stock referred to in subsection (a)(1) shall be determined without regard to section 1223, and

"(B) only the first 6 months of the taxpayer's holding period for the stock referred to in subsection (a)(1) shall be taken into account for purposes of applying section 1202(c)(2).".

(b) Conforming Amendments.--

(1) Section 1016(a)(23) is amended--

(A) by striking "or 1044" and inserting ", 1044, or 1045", and

(B) by striking "or 1044(d)" and inserting ", 1044(d), or 1045(b)(4)".

(2) Section 1223 is amended by redesignating paragraph (15) as paragraph (16) and by inserting after paragraph (14) the following new paragraph:

"(15) In determining the period for which the taxpayer has held property the acquisition of which resulted under section 1045 in the nonrecognition of any part of the gain realized on the sale of other property, there shall be included the period for which such other property has been held as of the date of such sale.".

(3) The table of sections for part III of subchapter O of chapter 1 is amended by adding at the end the following new item:

"Sec. 1045. Rollover of gain from qualified small business stock to another qualified small business stock.".

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

SEC. 314. AMOUNT OF NET CAPITAL GAIN TAKEN INTO ACCOUNT IN COMPUTING ALTERNATIVE TAX ON CAPITAL GAINS FOR CORPORATIONS NOT TO EXCEED TAXABLE INCOME OF THE CORPORATION.

(a) In General.--Paragraph (2) of section 1201(a) is amended by inserting before the period "(or, if less, taxable income)".

(b) Effective Date.--The amendment made by this section shall apply to taxable years ending after December 31, 1997.

TITLE IV--ALTERNATIVE MINIMUM TAX REFORM

SEC. 401. EXEMPTION FROM ALTERNATIVE MINIMUM TAX FOR SMALL CORPORATIONS.

(a) In General.--Section 55 (relating to alternative minimum tax imposed) is amended by adding at the end the following new subsection:

"(e) Exemption for Small Corporations.--

"(1) In general.--The tentative minimum tax of a corporation shall be zero for any taxable year if--

"(A) such corporation met the $5,000,000 gross receipts test of section 448(c) for its first taxable year beginning after December 31, 1996, and

"(B) such corporation would meet such test for the taxable year and all prior taxable years beginning after such first taxable year if such test were applied by substituting `$7,500,000' for `$5,000,000'.

"(2) Prospective application of minimum tax if small corporation ceases to be small.--In the case of a corporation whose tentative minimum tax is zero for any prior taxable year by reason of paragraph (1), the application of this part for taxable years beginning with the first taxable year such corporation ceases to be described in paragraph (1) shall be determined with the following modifications:

"(A) Section 56(a)(1) (relating to depreciation) and section 56(a)(5) (relating to pollution control facilities) shall apply only to property placed in service on or after the change date.

"(B) Section 56(a)(2) (relating to mining exploration and development costs) shall apply only to costs paid or incurred on or after the change date.

"(C) Section 56(a)(3) (relating to treatment of long-term contracts) shall apply only to contracts entered into on or after the change date.

"(D) Section 56(a)(4) (relating to alternative net operating loss deduction) shall apply in the same manner as if, in section 56(d)(2), the change date were substituted for `January 1, 1987' and the day before the change date were substituted for `December 31, 1986' each place it appears.

"(E) Section 56(g)(2)(B) (relating to limitation on allowance of negative adjustments based on adjusted current earnings) shall apply only to prior taxable years beginning on or after the change date.

"(F) Section 56(g)(4)(A) (relating to adjustment for depreciation to adjusted current earnings) shall not apply.

"(G) Subparagraphs (D) and (F) of section 56(g)(4) (relating to other earnings and profits adjustments and depletion) shall apply in the same manner as if the day before the change date were substituted for `December 31, 1989' each place it appears therein.

"(3) Exception.--The modifications in paragraph (2) shall not apply to--

"(A) any item acquired by the corporation in a transaction to which section 381 applies, and

"(B) any property the basis of which in the hands of the corporation is determined by reference to the basis of the property in the hands of the transferor, if such item or property was subject to any provision referred to in paragraph (2) while held by the transferor.

"(4) Change date.--For purposes of paragraph (2), the change date is the first day of the first taxable year for which the taxpayer ceases to be described in paragraph (1).

"(5) Limitation on use of credit for prior year minimum tax liability.--In the case of a taxpayer whose tentative minimum tax for any taxable year is zero by reason of paragraph (1), section 53(c) shall be applied for such year by reducing the amount otherwise taken into account under section 53(c)(1) by 25 percent of so much of such amount as exceeds $25,000. Rules similar to the rules of section 38(c)(3)(B) shall apply for purposes of the preceding sentence.".

(b) Effective Date.--The amendment made by this section shall apply to taxable years beginning after December 31, 1997.

SEC. 402. REPEAL OF SEPARATE DEPRECIATION LIVES FOR MINIMUM TAX PURPOSES.

(a) In General.--Clause (i) of section 56(a)(1)(A) is amended by adding at the end the following new sentence: "In the case of property placed in service after December 31, 1998, the preceding sentence shall not apply but clause (ii) shall continue to apply."

(b) Pollution Control Facilities.--Paragraph (5) of section 56(a) is amended by adding at the end the following new sentence: "In the case of such a facility placed in service after December 31, 1998, such deduction shall be determined under section 168 using the straight line method.".

SEC. 403. MINIMUM TAX NOT TO APPLY TO FARMERS' INSTALLMENT SALES.

(a) In General.--Subsection (a) of section 56 is amended by striking paragraph (6) (relating to treatment of installment sales) and by redesignating paragraphs (7) and (8) as paragraphs (6) and (7), respectively.

(b) Effective Dates.--

(1) In general.--The amendment made by this section shall apply to dispositions in taxable years beginning after December 31, 1987.

(2) Special rule for 1987.--In the case of taxable years beginning in 1987, the last sentence of section 56(a)(6) of the Internal Revenue Code of 1986 (as in effect for such taxable years) shall be applied by inserting "or in the case of a taxpayer using the cash receipts and disbursements method of accounting, any disposition described in section 453C(e)(1)(B)(ii)" after "section 453C(e)(4)".

TITLE V--ESTATE, GIFT, AND GENERATION-SKIPPING TAX PROVISIONS

Subtitle A--Estate and Gift Tax Provisions

SEC. 501. COST-OF-LIVING ADJUSTMENTS RELATING TO ESTATE AND GIFT TAX PROVISIONS.

(a) Increase in Unified Estate and Gift Tax Credit.--

(1) Estate tax credit.--

(A) In general.--Subsection (a) of section 2010 (relating to unified credit against estate tax) is amended by striking "$192,800" and inserting "the applicable credit amount".

(B) Applicable credit amount.--Section 2010 is amended by redesignating subsection (c) as subsection (d) and by inserting after subsection (b) the following new subsection:

"(c) Applicable Credit Amount.--For purposes of this section, the applicable credit amount is the amount of the tentative tax which would be determined under the rate schedule set forth in section 2001(c) if the amount with respect to which such tentative tax is to be computed were the applicable exclusion amount determined in accordance with the following table:

"In the case of estates of decedents The applicable

dying, and gifts made, during: exclusion amount is:

1998 $ 625,000_05

1999 $ 650,000_05

2000 and 2001$ 675,000_05

2002 and 2003 $ 700,000_05

2004 $ 850,000_05

2005 $ 950,000_05

2006 or thereafter $1,000,000."

(C) Estate tax returns.--Paragraph (1) of section 6018(a) is amended by striking "$600,000" and inserting "the applicable exclusion amount in effect under section 2010(c) for the calendar year which includes the date of death".

(D) Phaseout of graduated rates and unified credit.--Paragraph (2) of section 2001(c) is amended by striking "$21,040,000" and inserting "the amount at which the average tax rate under this section is 55 percent".

(E) Estates of nonresidents not citizens.--Subparagraph (A) of section 2102(c)(3) is amended by striking "$192,800" and inserting "the applicable credit amount in effect under section 2010(c) for the calendar year which includes the date of death".

(2) Unified gift tax credit.--Paragraph (1) of section 2505(a) is amended by striking "$192,800" and inserting "the applicable credit amount in effect under section 2010(c) for such calendar year".

(b) Alternate Valuation of Certain Farm, Etc., Real Property.--Subsection (a) of section 2032A is amended by adding at the end the following new paragraph:

"(3) Inflation adjustment.--In the case of estates of decedents dying in a calendar year after 1998, the $750,000 amount contained in paragraph (2) shall be increased by an amount equal to--

"(A) $750,000, multiplied by

"(B) the cost-of-living adjustment determined under section 1(f)(3) for such calendar year by substituting `calendar year 1997' for `calendar year 1992' in subparagraph (B) thereof.

If any amount as adjusted under the preceding sentence is not a multiple of $10,000, such amount shall be rounded to the next lowest multiple of $10,000.".

(c) Annual Gift Tax Exclusion.--Subsection (b) of section 2503 is amended--

(1) by striking the subsection heading and inserting the following:

"(b) Exclusions From Gifts.--

"(1) In general.--",

(2) by moving the text 2 ems to the right, and

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

"(2) Inflation adjustment.--In the case of gifts made in a calendar year after 1998, the $10,000 amount contained in paragraph (1) shall be increased by an amount equal to--

"(A) $10,000, multiplied by

"(B) the cost-of-living adjustment determined under section 1(f)(3) for such calendar year by substituting `calendar year 1997' for `calendar year 1992' in subparagraph (B) thereof.

If any amount as adjusted under the preceding sentence is not a multiple of $1,000, such amount shall be rounded to the next lowest multiple of $1,000.".

(d) Exemption From Generation-Skipping Tax.--Section 2631 (relating to GST exemption) is amended by adding at the end the following new subsection:

"(c) Inflation Adjustment.--In the case of an individual who dies in any calendar year after 1998, the $1,000,000 amount contained in subsection (a) shall be increased by an amount equal to--

"(1) $1,000,000, multiplied by

"(2) the cost-of-living adjustment determined under section 1(f)(3) for such calendar year by substituting `calendar year 1997' for `calendar year 1992' in subparagraph (B) thereof.

If any amount as adjusted under the preceding sentence is not a multiple of $10,000, such amount shall be rounded to the next lowest multiple of $10,000.".

(e) Amount Subject to Reduced Rate Where Extension of Time for Payment of Estate Tax on Closely Held Business.--

Subsection (j) of section 6601 is amended by redesignating paragraph (3) as paragraph (4) and by inserting after paragraph (2) the following new paragraph:

"(3) Inflation adjustment.--In the case of estates of decedents dying in a calendar year after 1998, the $1,000,000 amount contained in paragraph (2)(A) shall be increased by an amount equal to--

"(A) $1,000,000, multiplied by

"(B) the cost-of-living adjustment determined under section 1(f)(3) for such calendar year by substituting `calendar year 1997' for `calendar year 1992' in subparagraph (B) thereof.

If any amount as adjusted under the preceding sentence is not a multiple of $10,000, such amount shall be rounded to the next lowest multiple of $10,000.".

(f) Effective date.--The amendments made by this section shall apply to the estates of decedents dying, and gifts made, after December 31, 1997.

SEC. 502. FAMILY-OWNED BUSINESS EXCLUSION.

(a) In General.--Part III of subchapter A of chapter 11 (relating to gross estate) is amended by inserting after section 2033 the following new section:

"SEC. 2033A. FAMILY-OWNED BUSINESS EXCLUSION.

"(a) In General.--In the case of an estate of a decedent to which this section applies, the value of the gross estate shall not include the lesser of--

"(1) the adjusted value of the qualified family-owned business interests of the decedent otherwise includible in the estate, or

"(2) the excess of $1,300,000 over the applicable exclusion amount under section 2010(c) with respect to such estate.

"(b) Estates to Which Section Applies.--

"(1) In general.--This section shall apply to an estate if--

"(A) the decedent was (at the date of the decedent's death) a citizen or resident of the United States,

"(B) the executor elects the application of this section and files the agreement referred to in subsection (h),

"(C) the sum of--

"(i) the adjusted value of the qualified family-owned business interests described in paragraph (2), plus

"(ii) the amount of the gifts of such interests determined under paragraph (3),

exceeds 50 percent of the adjusted gross estate, and

"(D) during the 8-year period ending on the date of the decedent's death there have been periods aggregating 5 years or more during which--

"(i) such interests were owned by the decedent or a member of the decedent's family, and

"(ii) there was material participation (within the meaning of section 2032A(e)(6)) by the decedent or a member of the decedent's family in the operation of the business to which such interests relate.

"(2) Includible qualified family-owned business interests.--The qualified family-owned business interests described in this paragraph are the interests which--

"(A) are included in determining the value of the gross estate (without regard to this section), and

"(B) are acquired by any qualified heir from, or passed to any qualified heir from, the decedent (within the meaning of section 2032A(e)(9)).

"(3) Includible gifts of interests.--The amount of the gifts of qualified family-owned business interests determined under this paragraph is the excess of--

"(A) the sum of--

"(i) the amount of such gifts from the decedent to members of the decedent's family taken into account under subsection 2001(b)(1)(B), plus

"(ii) the amount of such gifts otherwise excluded under section 2503(b),

to the extent such interests are continuously held by members of such family (other than the decedent's spouse) between the date of the gift and the date of the decedent's death, over

"(B) the amount of such gifts from the decedent to members of the decedent's family otherwise included in the gross estate.

"(c) Adjusted Gross Estate.--For purposes of this section, the term `adjusted gross estate' means the value of the gross estate (determined without regard to this section)--

"(1) reduced by any amount deductible under paragraph (3) or (4) of section 2053(a), and

"(2) increased by the excess of--

"(A) the sum of--

"(i) the amount of gifts determined under subsection (b)(3), plus

"(ii) the amount (if more than de minimis) of other transfers from the decedent to the decedent's spouse (at the time of the transfer) within 10 years of the date of the decedent's death, plus

"(iii) the amount of other gifts (not included under clause (i) or (ii)) from the decedent within 3 years of such date, other than gifts to members of the decedent's family otherwise excluded under section 2503(b), over

"(B) the sum of the amounts described in clauses (i), (ii), and (iii) of subparagraph (A) which are otherwise includible in the gross estate.

For purposes of the preceding sentence, the Secretary may provide that de minimis gifts to persons other than members of the decedent's family shall not be taken into account.

"(d) Adjusted Value of the Qualified Family-Owned Business Interests.--For purposes of this section, the adjusted value of any qualified family-owned business interest is the value of such interest for purposes of this chapter (determined without regard to this section), reduced by the excess of--

"(1) any amount deductible under paragraph (3) or (4) of section 2053(a), over

"(2) the sum of--

"(A) any indebtedness on any qualified residence of the decedent the interest on which is deductible under section 163(h)(3), plus

"(B) any indebtedness to the extent the taxpayer establishes that the proceeds of such indebtedness were used for the payment of educational and medical expenses of the decedent, the decedent's spouse, or the decedent's dependents (within the meaning of section 152), plus

"(C) any indebtedness not described in subparagraph (A) or (B), to the extent such indebtedness does not exceed $10,000.

"(e) Qualified Family-Owned Business Interest.--

"(1) In general.--For purposes of this section, the term `qualified family-owned business interest' means--

"(A) an interest as a proprietor in a trade or business carried on as a proprietorship, or

"(B) an interest in an entity carrying on a trade or business, if--

"(i) at least--

"(I) 50 percent of such entity is owned (directly or indirectly) by the decedent and members of the decedent's family,

"(II) 70 percent of such entity is so owned by members of 2 families, or

"(III) 90 percent of such entity is so owned by members of 3 families, and

"(ii) for purposes of subclause (II) or (III) of clause (i), at least 30 percent of such entity is so owned by the decedent and members of the decedent's family.

"(2) Limitation.--Such term shall not include--

"(A) any interest in a trade or business the principal place of business of which is not located in the United States,

"(B) any interest in an entity, if the stock or debt of such entity or a controlled group (as defined in section 267(f)(1)) of which such entity was a member was readily tradable on an established securities market or secondary market (as defined by the Secretary) at any time within 3 years of the date of the decedent's death,

"(C) any interest in a trade or business not described in section 542(c)(2), if more than 35 percent of the adjusted ordinary gross income of such trade or business for the taxable year which includes the date of the decedent's death would qualify as personal holding company income (as defined in section 543(a)),

"(D) that portion of an interest in a trade or business that is attributable to--

"(i) cash or marketable securities, or both, in excess of the reasonably expected day-to-day working capital needs of such trade or business, and

"(ii) any other assets of the trade or business (other than assets used in the active conduct of a trade or business described in section 542(c)(2)), which produce, or are held for the production of, income of which is described in section 543(a) or in section 954(c)(1) (determined without regard to subparagraph (A) thereof and by substituting `trade or business' for `controlled foreign corporation').

"(3) Rules regarding ownership.--

"(A) Ownership of entities.--For purposes of paragraph (1)(B)--

"(i) Corporations.--Ownership of a corporation shall be determined by the holding of stock possessing the appropriate percentage of the total combined voting power of all classes of stock entitled to vote and the appropriate percentage of the total value of shares of all classes of stock.

"(ii) Partnerships.--Ownership of a partnership shall be determined by the owning of the appropriate percentage of the capital interest in such partnership.

"(B) Ownership of tiered entities.--For purposes of this section, if by reason of holding an interest in a trade or business, a decedent, any member of the decedent's family, any qualified heir, or any member of any qualified heir's family is treated as holding an interest in any other trade or business--

"(i) such ownership interest in the other trade or business shall be disregarded in determining if the ownership interest in the first trade or business is a qualified family-owned business interest, and

"(ii) this section shall be applied separately in determining if such interest in any other trade or business is a qualified family-owned business interest.

"(C) Individual ownership rules.--For purposes of this section, an interest owned, directly or indirectly, by or for an entity described in paragraph (1)(B) shall be considered

as being owned proportionately by or for the entity's shareholders, partners, or beneficiaries. A person shall be treated as a beneficiary of any trust only if such person has a present interest in such trust.

"(f) Tax Treatment of Failure To Materially Participate in Business or Dispositions of Interests.--

"(1) In general.--There is imposed an additional estate tax if, within 10 years after the date of the decedent's death and before the date of the qualified heir's death--

"(A) the material participation requirements described in section 2032A(c)(6)(B) are not met with respect to the qualified family-owned business interest which was acquired (or passed) from the decedent,

"(B) the qualified heir disposes of any portion of a qualified family-owned business interest (other than by a disposition to a member of the qualified heir's family or through a qualified conservation contribution under section 170(h)),

"(C) the qualified heir loses United States citizenship (within the meaning of section 877) or with respect to whom an event described in subparagraph (A) or (B) of section 877(e)(1) occurs, and such heir does not comply with the requirements of subsection (g), or

"(D) the principal place of business of a trade or business of the qualified family-owned business interest ceases to be located in the United States.

"(2) Additional estate tax.--

"(A) In general.--The amount of the additional estate tax imposed by paragraph (1) shall be equal to--

"(i) the applicable percentage of the adjusted tax difference attributable to the qualified family-owned business interest (as determined under rules similar to the rules of section 2032A(c)(2)(B)), plus

"(ii) interest on the amount determined under clause (i) at the underpayment rate established under section 6621 for the period beginning on the date the estate tax liability was due under this chapter and ending on the date such additional estate tax is due.

"(B) Applicable percentage.--For purposes of this paragraph, the applicable percentage shall be determined under the following table:

"If the event described in

paragraph (1) occurs in

the following year of

The applicable

material participation:

percentage is:

1 through 6 100_05

7 80_05

8 60_05

9 40_05

10 20.

"(g) Security Requirements for Noncitizen Qualified Heirs.--

"(1) In general.--Except upon the application of subparagraph (F) or (M) of subsection (i)(3), if a qualified heir is not a citizen of the United States, any interest under this section passing to or acquired by such heir (including any interest held by such heir at a time described in subsection (f)(1)(C)) shall be treated as a qualified family-owned business interest only if the interest passes or is acquired (or is held) in a qualified trust.

"(2) Qualified trust.--The term `qualified trust' means a trust--

"(A) which is organized under, and governed by, the laws of the United States or a State, and

"(B) except as otherwise provided in regulations, with respect to which the trust instrument requires that at least 1 trustee of the trust be an individual citizen of the United States or a domestic corporation.

"(h) Agreement.--The agreement referred to in this subsection is a written agreement signed by each person in being who has an interest (whether or not in possession) in any property designated in such agreement consenting to the application of subsection (f) with respect to such property.

"(i) Other Definitions and Applicable Rules.--For purposes of this section--

"(1) Qualified heir.--The term `qualified heir'--

"(A) has the meaning given to such term by section 2032A(e)(1), and

"(B) includes any active employee of the trade or business to which the qualified family-owned business interest relates if such employee has been employed by such trade or business for a period of at least 10 years before the date of the decedent's death.

"(2) Member of the family.--The term `member of the family' has the meaning given to such term by section 2032A(e)(2).

"(3) Applicable rules.--Rules similar to the following rules shall apply:

"(A) Section 2032A(b)(4) (relating to decedents who are retired or disabled).

"(B) Section 2032A(b)(5) (relating to special rules for surviving spouses).

"(C) Section 2032A(c)(2)(D) (relating to partial dispositions).

"(D) Section 2032A(c)(3) (relating to only 1 additional tax imposed with respect to any 1 portion).

"(E) Section 2032A(c)(4) (relating to due date).

"(F) Section 2032A(c)(5) (relating to liability for tax; furnishing of bond).

"(G) Section 2032A(c)(7) (relating to no tax if use begins within 2 years; active management by eligible qualified heir treated as material participation).

"(H) Paragraphs (1) and (3) of section 2032A(d) (relating to election; agreement).

"(I) Section 2032A(e)(10) (relating to community property).

"(J) Section 2032A(e)(14) (relating to treatment of replacement property acquired in section 1031 or 1033 transactions).

"(K) Section 2032A(f) (relating to statute of limitations).

"(L) Section 6166(b)(3) (relating to farmhouses and certain other structures taken into account).

"(M) Subparagraphs (B), (C), and (D) of section 6166(g)(1) (relating to acceleration of payment).

"(N) Section 6324B (relating to special lien for additional estate tax).".

(b) Clerical Amendment.--The table of sections for part III of subchapter A of chapter 11 is amended by inserting after the item relating to section 2033 the following new item:

"Sec. 2033A. Family-owned business exclusion.".

(c) Effective Date.--The amendments made by this section shall apply to estates of decedents dying after December 31, 1997.

SEC. 503. MODIFICATIONS TO RATE OF INTEREST ON PORTION OF ESTATE TAX EXTENDED UNDER SECTION 6166.

(a) In General.--Paragraphs (1) and (2) of section 6601(j) (relating to 4-percent rate on certain portion of estate tax extended under section 6166) are amended to read as follows:

"(1) In general.--If the time for payment of an amount of tax imposed by chapter 11 is extended as provided in section 6166, then in lieu of the annual rate provided by subsection (a)--

"(A) interest on the 2-percent portion of such amount shall be paid at the rate of 2 percent, and

"(B) interest on so much of such amount as exceeds the 2-percent portion shall be paid at a rate equal to 45 percent of the annual rate provided by subsection (a).

For purposes of this subsection, the amount of any deficiency which is prorated to installments payable under section 6166 shall be treated as an amount of tax payable in installments under such section.

"(2) 2-percent portion.--For purposes of this subsection, the term `2-percent portion' means the lesser of--

"(A)(i) the amount of the tentative tax which would be determined under the rate schedule set forth in section 2001(c) if the amount with respect to which such tentative tax is to be computed were the sum of $1,000,000 and the applicable exclusion amount in effect under section 2010(c), reduced by

"(ii) the applicable credit amount in effect under section 2010(c), or

"(B) the amount of the tax imposed by chapter 11 which is extended as provided in section 6166.".

(b) Disallowance of Interest Deduction.--

(1) Estate tax.--Paragraph (1) of section 2053(c) is amended by adding at the end the following new subparagraph:

"(D) Section 6166 interest.--No deduction shall be allowed under this section for any interest payable under section 6601 on any unpaid portion of the tax imposed by section 2001 for the period during which an extension of time for payment of such tax is in effect under section 6166.".

(2) Income tax.--

(A) Section 163 is amended by redesignating subsection (k) as subsection (l) and by inserting after subsection (j) the following new subsection:

"(k) Section 6166 Interest.--No deduction shall be allowed under this section for any interest payable under section 6601 on any unpaid portion of the tax imposed by section 2001 for the period during which an extension of time for payment of such tax is in effect under section 6166.".

(B) Subparagraph (E) of section 163(h)(2) is amended by striking "or 6166" and all that follows and inserting a period.

(c) Conforming Amendments.--

(1) Paragraphs (7)(A)(iii) and (8)(A)(iii) of section 6166(b) are amended by striking "4-percent" each place it appears (including the heading) and inserting "2-percent".

(2) Paragraph (4) of section 6601(j), as redesignated by section 501(e), is amended by striking "4-percent" each place it appears and inserting "2-percent".

(3) The subsection heading for section 6601(j) is amended by striking "4-Percent" and inserting "2-Percent".

(d) Effective Date.--

(1) In general.--The amendments made by this section shall apply to estates of decedents dying after December 31, 1997.

(2) Election.--In the case of the estate of any decedent dying before January 1, 1998, with respect to which there is an election under section 6166 of the Internal Revenue Code of 1986, the executor of the estate may elect to have the amendments made by this section apply with respect to installments due after the effective date of the election; except that the 2-percent portion of such installments shall be equal to the amount which would be the 4-percent portion of such installments without regard to such election. Such an election shall be made before January 1, 1999 in the manner prescribed by the Secretary of the Treasury and, once made, is irrevocable.

SEC. 504. EXTENSION OF TREATMENT OF CERTAIN RENTS UNDER SECTION 2032A TO LINEAL DESCENDANTS.

(a) General Rule.--Paragraph (7) of section 2032A(c) (relating to special rules for tax treatment of dispositions and failures to use for qualified use) is amended by adding at the end the following new subparagraph:

"(E) Certain rents treated as qualified use.--For purposes of this subsection, a surviving spouse or lineal descendant of the decedent shall not be treated as failing to use qualified real property in a qualified use solely because such spouse or descendant rents such property to a member of the family of such spouse or descendant on a net cash basis. For purposes of the preceding sentence, a legally adopted child of an individual shall be treated as the child of such individual by blood.".

(b) Conforming Amendment.--Section 2032A(b)(5)(A) is amended by striking the last sentence.

(c) Effective Date.--The amendments made by this section shall apply with respect to leases entered into after December 31, 1976.

SEC. 505. CLARIFICATION OF JUDICIAL REVIEW OF ELIGIBILITY FOR EXTENSION OF TIME FOR PAYMENT OF ESTATE TAX.

(a) In General.--Part IV of subchapter C of chapter 76 of the Internal Revenue Code of 1986 (relating to declaratory judgments) is amended by adding at the end the following new section:

"SEC. 7479. DECLARATORY JUDGMENTS RELATING TO ELIGIBILITY OF ESTATE WITH RESPECT TO INSTALLMENT PAYMENTS UNDER SECTION 6166.

"(a) Creation of remedy.--In a case of actual controversy involving a determination by the Secretary of (or a failure by the Secretary to make a determination with respect to)--

"(1) whether an election may be made under section 6166 (relating to extension of time for payment of estate tax where estate consists largely of interest in closely held business) with respect to an estate, or

"(2) whether the extension of time for payment of tax provided in section 6166(a) has ceased to apply with respect to an estate,

upon the filing of an appropriate pleading, the Tax Court may make a declaration with respect to whether such election may be made or whether such extension has ceased to apply. Any such declaration shall have the force and effect of a decision of the Tax Court and shall be reviewable as such.

"(b) Limitations.--

"(1) Petitioner.--A pleading may be filed under this section, with respect to any estate, only--

"(A) by the executor of such estate, or

"(B) by any person who has assumed an obligation to make payments under section 6166 with respect to such estate (but only if each other such person is joined as a party).

"(2) Exhaustion of administrative remedies.--The court shall not issue a declaratory judgment or decree under this section in any proceeding unless it determines that the petitioner has exhausted all available administrative remedies within the Internal Revenue Service. A petitioner shall be deemed to have exhausted its administrative remedies with respect to a failure of the Secretary to make a determination at the expiration of 180 days after the date on which the request for such determination was made if the petitioner has taken, in a timely manner, all reasonable steps to secure such determination.

"(3) Time for bringing action.--If the Secretary sends by certified or registered mail notice of his determination as described in subsection (a) to the petitioner, no proceeding may be initiated under this section unless the pleading is filed before the 91st day after the date of such mailing.".

(b) Clerical Amendment.--The table of sections for part IV of subchapter C of chapter 76 of such Code is amended by adding at the end the following new item:

"Sec. 7479. Declaratory judgments relating to eligibility of estate with respect to installment payments under section 6166.".

(c) Effective Date.--The amendments made by this section shall apply to the estates of decedents dying after the date of the enactment of this Act.

SEC. 506. GIFTS MAY NOT BE REVALUED FOR ESTATE TAX PURPOSES AFTER EXPIRATION OF STATUTE OF LIMITATIONS.

(a) In General.--Section 2001 (relating to imposition and rate of estate tax) is amended by adding at the end the following new subsection:

"(f) Valuation of Gifts.--If--

"(1) the time has expired within which a tax may be assessed under chapter 12 (or under corresponding provisions of prior laws) on the transfer of property by gift made during a preceding calendar period (as defined in section 2502(b)), and

"(2) the value of such gift is shown on the return for such preceding calendar period or is disclosed in such return, or in a statement attached to the return, in a manner adequate to apprise the Secretary of the nature of such gift,

the value of such gift shall, for purposes of computing the tax under this chapter, be the value of such gift as finally determined for purposes of chapter 12.".

(b) Modification of Application of Statute of Limitations.--Paragraph (9) of section 6501(c) is amended to read as follows:

"(9) Gift tax on certain gifts not shown on return.--If any gift of property the value of which (or any increase in taxable gifts required under section 2701(d) which) is required to be shown on a return of tax imposed by chapter 12 (without regard to section 2503(b)), and is not shown on such return, any tax imposed by chapter 12 on such gift may be assessed, or a proceeding in court for the collection of such tax may be begun without assessment, at any time. The preceding sentence shall not apply to any item which is disclosed in such return, or in a statement attached to the return, in a manner adequate to apprise the Secretary of the nature of such item. The value of any item which is so disclosed may not be redetermined by the Secretary after the expiration of the period under subsection (a).".

(c) Declaratory Judgment Procedure for Determining Value of Gift.--

(1) In general.--Part IV of subchapter C of chapter 76 is amended by inserting after section 7476 the following new section:

"SEC. 7477. DECLARATORY JUDGMENTS RELATING TO VALUE OF CERTAIN GIFTS.

"(a) Creation of Remedy.--In a case of an actual controversy involving a determination by the Secretary of the value of any gift shown on the return of tax imposed by chapter 12 or disclosed on such return or in any statement attached to such return, upon the filing of an appropriate pleading, the Tax Court may make a declaration of the value of such gift. Any such declaration shall have the force and effect of a decision of the Tax Court and shall be reviewable as such.

"(b) Limitations.--

"(1) Petitioner.--A pleading may be filed under this section only by the donor.

"(2) Exhaustion of administrative remedies.--The court shall not issue a declaratory judgment or decree under this section in any proceeding unless it determines that the petitioner has exhausted all available administrative remedies within the Internal Revenue Service.

"(3) Time for bringing action.--If the Secretary sends by certified or registered mail notice of his determination as described in subsection (a) to the petitioner, no proceeding may be initiated under this section unless the pleading is filed before the 91st day after the date of such mailing.".

(2) Clerical amendment.--The table of sections for such part IV is amended by inserting after the item relating to section 7476 the following new item:

"Sec. 7477. Declaratory judgments relating to value of certain gifts.".

(d) Conforming Amendment.--Subsection (c) of section 2504 is amended by striking ", and if a tax under this chapter or under corresponding provisions of prior laws has been assessed or paid for such preceding calendar period".

(e) Effective Dates.--

(1) In general.--The amendments made by subsections (a) and (c) shall apply to gifts made after the date of the enactment of this Act.

(2) Subsection (b)--The amendment made by subsection (b) shall apply to gifts made in calendar years ending after the date of the enactment of this Act.

SEC. 507. REPEAL OF THROWBACK RULES APPLICABLE TO CERTAIN DOMESTIC TRUSTS.

(a) Accumulation Distributions.--

(1) In general.--Section 665 is amended by inserting after subsection (b) the following new subsection:

"(c) Exception for Accumulation Distributions From Certain Domestic Trusts.--For purposes of this subpart--

"(1) In general.--In the case of a qualified trust, any distribution in any taxable year beginning after the date of the enactment of this subsection shall be computed without regard to any undistributed net income.

"(2) Qualified trust.--For purposes of this subsection, the term `qualified trust' means any trust other than--

"(A) a foreign trust (or, except as provided in regulations, a domestic trust which at any time was a foreign trust), or

"(B) a trust created before March 1, 1984, unless it is established that the trust would not be aggregated with other trusts under section 643(f) if such section applied to such trust.".

(2) Conforming amendments.--Subsection (b) of section 665 is amended by inserting "except as provided in subsection (c)," after "subpart,".

(b) Repeal of Tax on Transfers to Trusts at Less Than Fair Market Value.--

(1) Subpart A of part I of subchapter J of chapter 1 is amended by striking section 644 and by redesignating section 645 as section 644.

(2) Paragraph (5) of section 706(b) is amended by striking "section 645" and inserting "section 644".

(3) The table of sections for such subpart is amended by striking the last 2 items and inserting the following new item:

"Sec. 644. Taxable year of trusts."

(c) Effective Dates.--

(1) Accumulation distributions.--The amendments made by subsection (a) shall apply to distributions in taxable years beginning after the date of the enactment of this Act.

(2) Transferred property.--The amendments made by subsection (b) shall apply to sales or exchanges after the date of the enactment of this Act.

SEC. 508. TREATMENT OF LAND SUBJECT TO A QUALIFIED CONSERVATION EASEMENT.

(a) Estate Tax With Respect to Land Subject to a Qualified Conservation Easement.--Section 2031 (relating to the definition of gross estate) is amended by redesignating subsection (c) as subsection (d) and by inserting after subsection (b) the following new subsection:

"(c) Estate Tax With Respect to Land Subject to a Qualified Conservation Easement.--

"(1) In general.--If the executor makes the election described in paragraph (6), then, except as otherwise provided in this subsection, there shall be excluded from the gross estate the lesser of--

"(A) the applicable percentage of the value of land subject to a qualified conservation easement, reduced by the amount of any deduction under section 2055(f) with respect to such land, or

"(B) the exclusion limitation.

"(2) Applicable percentage.--For purposes of paragraph (1), the term `applicable percentage' means 40 percent reduced (but not below zero) by 2 percentage points for each percentage point (or fraction thereof) by which the value of the qualified conservation easement is less than 30 percent of the value of the land (determined without regard to the value of such easement and reduced by the value of any retained development right (as defined in paragraph (5)).

"(3) Exclusion limitation.--For purposes of paragraph (1), the exclusion limitation is the limitation determined in accordance with the following table:

"In the case of estates of The exclusion

decedents dying during: limitation is:

1998 $100,000_05

1999 $200,000_05

2000 $300,000_05

2001 $400,000_05

2002 or thereafter $500,000.

"(4) Treatment of certain indebtedness.--

"(A) In general.--The exclusion provided in paragraph (1) shall not apply to the extent that the land is debt-financed property.

"(B) Definitions.--For purposes of this paragraph--

"(i) Debt-financed property.--The term `debt-financed property' means any property with respect to which there is an acquisition indebtedness (as defined in clause (ii)) on the date of the decedent's death.

"(ii) Acquisition indebtedness.--The term `acquisition indebtedness' means, with respect to debt-financed property, the unpaid amount of--

"(I) the indebtedness incurred by the donor in acquiring such property,

"(II) the indebtedness incurred before the acquisition of such property if such indebtedness would not have been incurred but for such acquisition,

"(III) the indebtedness incurred after the acquisition of such property if such indebtedness would not have been incurred but for such acquisition and the incurrence of such indebtedness was reasonably foreseeable at the time of such acquisition, and

"(IV) the extension, renewal, or refinancing of an acquisition indebtedness.

"(5) Treatment of retained development right.--

"(A) In general.--Paragraph (1) shall not apply to the value of any development right retained by the donor in the conveyance of a qualified conservation easement.

"(B) Termination of retained development right.--If every person in being who has an interest (whether or not in possession) in the land executes an agreement to extinguish permanently some or all of any development rights (as defined in subparagraph (D)) retained by the donor on or before the date for filing the return of the tax imposed by section 2001, then any tax imposed by section 2001 shall be reduced accordingly. Such agreement shall be filed with the return of the tax imposed by section 2001. The agreement shall be in such form as the Secretary shall prescribe.

"(C) Additional tax.--Any failure to implement the agreement described in subparagraph (B) not later than the earlier of--

"(i) the date which is 2 years after the date of the decedent's death, or

"(ii) the date of the sale of such land subject to the qualified conservation easement,

shall result in the imposition of an additional tax in the amount of the tax which would have been due on the retained development rights subject to such agreement. Such additional tax shall be due and payable on the last day of the 6th month following such date.

"(D) Development right defined.--For purposes of this paragraph, the term `development right' means any right to use the land subject to the qualified conservation easement in which such right is retained for any commercial purpose which is not subordinate to and directly supportive of the use of such land as a farm for farming purposes (within the meaning of section 2032A(e)(5)).

"(6) Election.--The election under this subsection shall be made on the return of the tax imposed by section 2001. Such an election, once made, shall be irrevocable.

"(7) Calculation of estate tax due.--An executor making the election described in paragraph (6) shall, for purposes of calculating the amount of tax imposed by section 2001, include the value of any development right (as defined in paragraph (5)) retained by the donor in the conveyance of such qualified conservation easement. The computation of tax on any retained development right prescribed in this paragraph shall be done in such manner and on such forms as the Secretary shall prescribe.

"(8) Definitions.--For purposes of this subsection--

"(A) Land subject to a qualified conservation easement.--The term `land subject to a qualified conservation easement' means land--

"(i) which is located--

"(I) in or within 25 miles of an area which, on the date of the decedent's death, is a metropolitan area (as defined by the Office of Management and Budget),

"(II) in or within 25 miles of an area which, on the date of the decedent's death, is a national park or wilderness area designated as part of the National Wilderness Preservation System (unless it is determined by the Secretary that land in or within 25 miles of such a park or wilderness area is not under significant development pressure), or

"(III) in or within 10 miles of an area which, on the date of the decedent's death, is an Urban National Forest (as designated by the Forest Service),

"(ii) which was owned by the decedent or a member of the decedent's family at all times during the 3-year period ending on the date of the decedent's death, and

"(iii) with respect to which a qualified conservation easement has been made by an individual described in subparagraph (C), as of the date of the election described in paragraph (6).

"(B) Qualified conservation easement.--The term `qualified conservation easement' means a qualified conservation contribution (as defined in section 170(h)(1)) of a qualified real property interest (as defined in section 170(h)(2)(C)), except that clause (iv) of section 170(h)(4)(A) shall not apply, and the restriction on the use of such interest described in section 170(h)(2)(C) shall include a prohibition on more than a de minimis use for a commercial recreational activity.

"(C) Individual described.--An individual is described in this subparagraph if such individual is--

"(i) the decedent,

"(ii) a member of the decedent's family, "(iii) the executor of the decedent's estate, or

"(iv) the trustee of a trust the corpus of which includes the land to be subject to the qualified conservation easement.

"(D) Member of family.--The term `member of the decedent's family' means any member of the family (as defined in section 2032A(e)(2)) of the decedent.

"(9) Application of this section to interests in partnerships, corporations, and trusts.--This section shall apply to an interest in a partnership, corporation, or trust if at least 30 percent of the entity is owned (directly or indirectly) by the decedent, as determined under the rules described in section 2033A(e)(3).".

(b) Carryover Basis.--Section 1014(a) (relating to basis of property acquired from a decedent) is amended by striking "or" at the end of paragraphs (1) and (2), by striking the period at the end of paragraph (3) and inserting ", or" and by adding at the end the following new paragraph:

"(4) to the extent of the applicability of the exclusion described in section 2031(c), the basis in the hands of the decedent.".

(c) Qualified Conservation Contribution Is Not a Disposition.--Subsection (c) of section 2032A (relating to alternative valuation method) is amended by adding at the end the following new paragraph:

"(8) Qualified conservation contribution is not a disposition.--A qualified conservation contribution (as defined in section 170(h)) by gift or otherwise shall not be deemed a disposition under subsection (c)(1)(A).".

(d) Qualified Conservation Contribution Where Surface and Mineral Rights are Separated.--Section 170(h)(5)(B)(ii) (relating to special rule) is amended to read as follows:

"(ii) Special rule.--With respect to any contribution of property in which the ownership of the surface estate and mineral interests has been and remains separated, subparagraph (A) shall be treated as met if the probability of surface mining occurring on such property is so remote as to be negligible.".

(e) Effective Dates.--

(1) Exclusion.--The amendments made by subsections (a) and (b) shall apply to estates of decedents dying after December 31, 1997.

(2) Easements.--The amendments made by subsections (c) and (d) shall apply to easements granted after December 31, 1997.

Subtitle B--Generation-Skipping Tax Provision

SEC. 511. EXPANSION OF EXCEPTION FROM GENERATION-SKIPPING TRANSFER TAX FOR TRANSFERS TO INDIVIDUALS WITH DECEASED PARENTS.

(a) In General.--Section 2651 (relating to generation assignment) is amended by redesignating subsection (e) as subsection (f) and by inserting after subsection (d) the following new subsection:

"(e) Special Rule for Persons With a Deceased Parent.--

"(1) In general.--For purposes of determining whether any transfer is a generation-skipping transfer, if--

"(A) an individual is a descendant of a parent of the transferor (or the transferor's spouse or former spouse), and

"(B) such individual's parent who is a lineal descendant of the parent of the transferor (or the transferor's spouse or former spouse) is dead at the time the transfer (from which an interest of such individual is established or derived) is subject to a tax imposed by chapter 11 or 12 upon the transferor (and if there shall be more than 1 such time, then at the earliest such time),

such individual shall be treated as if such individual were a member of the generation which is 1 generation below the lower of the transferor's generation or the generation assignment of the youngest living ancestor of such individual who is also a descendant of the parent of the transferor (or the transferor's spouse or former spouse), and the generation assignment of any descendant of such individual shall be adjusted accordingly.

"(2) Limited application of subsection to collateral heirs.--This subsection shall not apply with respect to a transfer to any individual who is not a lineal descendant of the transferor (or the transferor's spouse or former spouse) if, at the time of the transfer, such transferor has any living lineal descendant.".

(b) Conforming Amendments.--

(1) Section 2612(c) (defining direct skip) is amended by striking paragraph (2) and by redesignating paragraph (3) as paragraph (2).

(2) Section 2612(c)(2) (as so redesignated) is amended by striking "section 2651(e)(2)" and inserting "section 2651(f)(2)".

(c) Effective Date.--The amendments made by this section shall apply to terminations, distributions, and transfers occurring after December 31, 1997.

TITLE VI--EXTENSIONS

SEC. 601. RESEARCH TAX CREDIT.

(a) In General.--Paragraph (1) of section 41(h) (relating to termination) is amended--

(1) by striking "May 31, 1997" and inserting "June 30, 1998", and

(2) by striking in the last sentence "during the first 11 months of such taxable year." and inserting "during the 24-month period beginning with the first month of such year. The 24 months referred to in the preceding sentence shall be reduced by the number of full months after June 1996 (and before the first month of such first taxable year) during which the taxpayer paid or incurred any amount which is taken into account in determining the credit under this section.".

(b) Technical Amendments.--

(1) Subparagraph (B) of section 41(c)(4) is amended to read as follows:

"(B) Election.--An election under this paragraph shall apply to the taxable year for which made and all succeeding taxable years unless revoked with the consent of the Secretary.".

(2) Paragraph (1) of section 45C(b) is amended by striking "May 31, 1997" and inserting "June 30, 1998".

(c) Effective Date.--The amendments made by this section shall apply to amounts paid or incurred after May 31, 1997.

SEC. 602. CONTRIBUTIONS OF STOCK TO PRIVATE FOUNDATIONS.

(a) In General.--Clause (ii) of section 170(e)(5)(D) (relating to termination) is amended by striking "May 31, 1997" and inserting "June 30, 1998".

(b) Effective Date.--The amendment made by subsection (a) shall apply to contributions made after May 31, 1997.