FOIA Number: 2017-1075-F

FOIA MARKER

This is not a textual record. This is used as an administrative marker by the William J. Clinton Presidential Library Staff.

Collection/Record Group: Clinton Presidential Records

Subgroup/Office of Origin: National Economic Council

Series/Staff Member: Gene Sperling

Subseries:

OA/ID Number: 20830

FolderID:

Folder Title:
Tax Payer Relief Act [binder] [3]

Stack:	Row:	Section:	Shelf:	Position:
S	16	5	2	1

SEC. 1022. DECREASE OF THRESHOLD FOR REPORTING PAYMENTS TO CORPORATIONS PERFORMING SERVICES FOR FEDERAL AGENCIES.

(a) In General.--Subsection (d) of section 6041A (relating to returns regarding payments of remuneration for services and direct sales) is amended by adding at the end the following new paragraph:

"(3) Payments to corporations by federal executive agencies.--

"(A) In general.--Notwithstanding any regulation prescribed by the Secretary before the date of the enactment of this paragraph, subsection (a) shall apply to remuneration paid to a corporation by any Federal executive agency (as defined in section 6050M(b)).

"(B) Exception.--Subparagraph (A) shall not apply to--

"(i) services under contracts described in section 6050M(e)(3) with respect to which the requirements of section 6050M(e)(2) are met, and

"(ii) such other services as the Secretary may specify in regulations prescribed after the date of the enactment of this paragraph.".

(b) Effective Date.--The amendment made by this section shall apply to returns the due date for which (determined without regard to any extension) is more than 90 days after the date of the enactment of this Act.

SEC. 1023. DISCLOSURE OF RETURN INFORMATION FOR ADMINISTRATION OF CERTAIN VETERANS PROGRAMS.

(a) General Rule.--Clause (viii) of section 6103(l)(7)(D) (relating to disclosure of return information to Federal, State, and local agencies administering certain programs) is amended by striking "1998" and inserting "2003".

(b) Effective Date.--The amendment made by subsection (a) shall take effect on the date of the enactment of this Act.

SEC. 1024. CONTINUOUS LEVY ON CERTAIN PAYMENTS.

(a) In General.--Section 6331 (relating to levy and distraint) is amended--

(1) by redesignating subsection (h) as subsection (i), and

(2) by inserting after subsection (g) the following new subsection:

"(h) Continuing Levy on Certain Payments.--

"(1) In general.--The effect of a levy on specified payments to or received by a taxpayer shall be continuous from the date such levy is first made until such levy is released. Notwithstanding section 6334, such continuous levy shall attach to up to 15 percent of any specified payment due to the taxpayer.

"(2) Specified payment.--For the purposes of paragraph (1), the term `specified payment' means--

"(A) any Federal payment other than a payment for which eligibility is based on the income or assets (or both) of a payee,

"(B) any payment described in paragraph (4), (7), (9), or (11) of section 6334(a), and

"(C) any annuity or pension payment under the Railroad Retirement Act or benefit under the Railroad Unemployment Insurance Act.".

(b) Effective Date.--The amendment made by subsection (a) shall apply to levies issued after the date of the enactment of this Act.

SEC. 1025. MODIFICATION OF LEVY EXEMPTION.

(a) In General.--Section 6334 (relating to property exempt from levy) is amended by redesignating subsection (f) as subsection (g) and by inserting after subsection (e) the following new subsection:

"(f) Levy Allowed on Certain Specified Payments.--Any payment described in subparagraph (B) or (C) of section 6331(h)(2) shall not be exempt from levy if the Secretary approves the levy thereon under section 6331(h).".

(b) Effective Date.--The amendment made by subsection (a) shall apply to levies issued after the date of the enactment of this Act.

SEC. 1026. CONFIDENTIALITY AND DISCLOSURE OF RETURNS AND RETURN INFORMATION.

(a) In General.--Subsection (k) of section 6103 is amended by adding at the end the following new paragraph:

"(8) Levies on certain government payments.--

"(A) Disclosure of return information in levies on financial management service.--In serving a notice of levy, or release of such levy, with respect to any applicable government payment, the Secretary may disclose to officers and employees of the Financial Management Service--

"(i) return information, including taxpayer identity information,

"(ii) the amount of any unpaid liability under this title (including penalties and interest), and

"(iii) the type of tax and tax period to which such unpaid liability relates.

"(B) Restriction on use of disclosed information.--Return information disclosed under subparagraph (A) may be used by officers and employees of the Financial Management Service only for the purpose of, and to the extent necessary in, transferring levied funds in satisfaction of the levy, maintaining appropriate agency records in regard to such levy or the release thereof, notifying the taxpayer and the agency certifying such payment that the levy has been honored, or in the defense of any litigation ensuing from the honor of such levy.

"(C) Applicable government payment.--For purposes of this paragraph, the term `applicable government payment' means--

"(i) any Federal payment (other than a payment for which eligibility is based on the income or assets (or both) of a payee) certified to the Financial Management Service for disbursement, and

"(ii) any other payment which is certified to the Financial Management Service for disbursement and which the Secretary designates by published notice.".

(b) Conforming Amendments.--

(1) Section 6103(p) is amended--

(A) in paragraph (3)(A), by striking "(2), or (6)" and inserting "(2), (6), or (8)", and

(B) in paragraph (4), by inserting "(k)(8)," after "(j) (1) or (2)," each place it appears.

(2) Section 552a(a)(8)(B) of title 5, United States Code, is amended by striking "or" at the end of clause (v), by adding "or" at the end of clause (vi), and by adding at the end the following new clause:

"(vii) matches performed incident to a levy described in section 6103(k)(8) of the Internal Revenue Code of 1986;".

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

SEC. 1027. RETURNS OF BENEFICIARIES OF ESTATES AND TRUSTS REQUIRED TO FILE RETURNS CONSISTENT WITH ESTATE OR TRUST RETURN OR TO NOTIFY SECRETARY OF INCONSISTENCY.

(a) Domestic Estates and Trusts.--Section 6034A (relating to information to beneficiaries of estates and trusts) is amended by adding at the end the following new subsection:

"(c) Beneficiary's Return Must be Consistent with Estate or Trust Return or Secretary Notified of Inconsistency.--

"(1) In general.--A beneficiary of any estate or trust to which subsection (a) applies shall, on such beneficiary's return, treat any reported item in a manner which is consistent with the treatment of such item on the applicable entity's return.

"(2) Notification of inconsistent treatment.--

"(A) In general.--In the case of any reported item, if--

"(i)(I) the applicable entity has filed a return but the beneficiary's treatment on such beneficiary's return is (or may be) inconsistent with the treatment of the item on the applicable entity's return, or

"(II) the applicable entity has not filed a return, and

"(ii) the beneficiary files with the Secretary a statement identifying the inconsistency,

paragraph (1) shall not apply to such item.

"(B) Beneficiary receiving incorrect information.--A beneficiary shall be treated as having complied with clause (ii) of subparagraph (A) with respect to a reported item if the beneficiary--

"(i) demonstrates to the satisfaction of the Secretary that the treatment of the reported item on the beneficiary's return is consistent with the treatment of the item on the statement furnished under subsection (a) to the beneficiary by the applicable entity, and

"(ii) elects to have this paragraph apply with respect to that item.

"(3) Effect of failure to notify.--In any case--

"(A) described in subparagraph (A)(i)(I) of paragraph (2), and

"(B) in which the beneficiary does not comply with subparagraph (A)(ii) of paragraph (2),

any adjustment required to make the treatment of the items by such beneficiary consistent with the treatment of the items on the applicable entity's return shall be treated as arising out of mathematical or clerical errors and assessed according to section 6213(b)(1). Paragraph (2) of section 6213(b) shall not apply to any assessment referred to in the preceding sentence.

"(4) Definitions.--For purposes of this subsection--

"(A) Reported item.--The term `reported item' means any item for which information is required to be furnished under subsection (a).

"(B) Applicable entity.--The term `applicable entity' means the estate or trust of which the taxpayer is the beneficiary.

"(5) Addition to tax for failure to comply with section.--For addition to tax in the case of a beneficiary's negligence in connection with, or disregard of, the requirements of this section, see part II of subchapter A of chapter 68.".

(b) Foreign Trusts.--Subsection (d) of section 6048 (relating to information with respect to certain foreign trusts) is amended by adding at the end the following new paragraph:

"(5) United states person's return must be consistent with trust return or secretary notified of inconsistency.--Rules similar to the rules of section 6034A(c) shall apply to items reported by a trust under subsection (b)(1)(B) and to United States persons referred to in such subsection.".

(c) Effective Date.--The amendments made by this section shall apply to returns of beneficiaries and owners filed after the date of the enactment of this Act.

SEC. 1028. REGISTRATION AND OTHER PROVISIONS RELATING TO CONFIDENTIAL CORPORATE TAX SHELTERS.

(a) In General.--Section 6111 (relating to registration of tax shelters) is amended by redesignating subsections (d) and (e) as subsections (e) and (f), respectively, and by inserting after subsection (c) the following new subsection:

"(d) Certain Confidential Arrangements Treated as Tax Shelters.--

"(1) In general.--For purposes of this section, the term `tax shelter' includes any entity, plan, arrangement, or transaction--

"(A) a significant purpose of the structure of which is the avoidance or evasion of Federal income tax for a direct or indirect participant which is a corporation,

"(B) which is offered to any potential participant under conditions of confidentiality, and

"(C) for which the tax shelter promoters may receive fees in excess of $100,000 in the aggregate.

"(2) Conditions of confidentiality.--For purposes of paragraph (1)(B), an offer is under conditions of confidentiality if--

"(A) the potential participant to whom the offer is made (or any other person acting on behalf of such participant) has an understanding or agreement with or for the benefit of any promoter of the tax shelter that such participant (or such other person) will limit disclosure of the tax shelter or any significant tax features of the tax shelter, or

"(B) any promoter of the tax shelter--

"(i) claims, knows, or has reason to know,

"(ii) knows or has reason to know that any other person (other than the potential participant) claims, or

"(iii) causes another person to claim,

that the tax shelter (or any aspect thereof) is proprietary to any person other than the potential participant or is otherwise protected from disclosure to or use by others.

For purposes of this subsection, the term `promoter' means any person or any related person (within the meaning of section 267 or 707) who participates in the organization, management, or sale of the tax shelter.

"(3) Persons other than promoter required to register in certain cases.--

"(A) In general.--If--

"(i) the requirements of subsection (a) are not met with respect to any tax shelter (as defined in paragraph (1)) by any tax shelter promoter, and

"(ii) no tax shelter promoter is a United States person,

then each United States person who discussed participation in such shelter shall register such shelter under subsection (a).

"(B) Exception.--Subparagraph (A) shall not apply to a United States person who discussed participation in a tax shelter if--

"(i) such person notified the promoter in writing (not later than the close of the 90th day after the day on which such discussions began) that such person would not participate in such shelter, and

"(ii) such person does not participate in such shelter.

"(4) Offer to participate treated as offer for sale.--For purposes of subsections (a) and (b), an offer to participate in a tax shelter (as defined in paragraph (1)) shall be treated as an offer for sale.".

(b) Penalty.--Subsection (a) of section 6707 (relating to failure to furnish information regarding tax shelters) is amended by adding at the end the following new paragraph:

"(3) Confidential arrangements.--

"(A) In general.--In the case of a tax shelter (as defined in section 6111(d)), the penalty imposed under paragraph (1) shall be an amount equal to the greater of--

"(i) 50 percent of the fees paid to all promoters of the tax shelter with respect to offerings made before the date such shelter is registered under section 6111, or

"(ii) $10,000.

Clause (i) shall be applied by substituting `75 percent' for `50 percent' in the case of an intentional failure or act described in paragraph (1).

"(B) Special rule for participants required to register shelter.--In the case of a person required to register such a tax shelter by reason of section 6111(d)(3)--

"(i) such person shall be required to pay the penalty under paragraph (1) only if such person actually participated in such shelter,

"(ii) the amount of such penalty shall be determined by taking into account under subparagraph (A)(i) only the fees paid by such person, and

"(iii) such penalty shall be in addition to the penalty imposed on any other person for failing to register such shelter.".

(c) Modifications to Substantial Understatement Penalty.--

(1) Restriction on reasonable basis for corporate understatement of income tax.--Subparagraph (B) of

section 6662(d)(2) is amended by adding at the end the following new flush sentence:

"For purposes of clause (ii)(II), in no event shall a corporation be treated as having a reasonable basis for its tax treatment of an item attributable to a multiple-party financing transaction if such treatment does not clearly reflect the income of the corporation.".

(2) Modification to definition of tax shelter.--Clause (iii) of section 6662(d)(2)(C) is amended by striking "the principal purpose" and inserting "a significant purpose".

(d) Conforming Amendments.--

(1) Paragraph (2) of section 6707(a) is amended by striking "The penalty" and inserting "Except as provided in paragraph (3), the penalty".

(2) Subparagraph (A) of section 6707(a)(1) is amended by striking "paragraph (2)" and inserting "paragraph (2) or (3), as the case may be".

(e) Effective Date.--

(1) In general.--Except as provided in paragraph (2), the amendments made by this section shall apply to any tax shelter (as defined in section 6111(d) of the Internal Revenue Code of 1986, as amended by this section) interests in which are offered to potential participants after the Secretary of the Treasury prescribes guidance with respect to meeting requirements added by such amendments.

(2) Modifications to substantial understatement penalty.--The amendments made by subsection (c) shall apply to items with respect to transactions entered into after the date of the enactment of this Act.

Subtitle D--Excise and Employment Tax Provisions

SEC. 1031. EXTENSION AND MODIFICATION OF TAXES FUNDING AIRPORT AND AIRWAY TRUST FUND; INCREASED DEPOSITS INTO SUCH FUND.

(a) Fuel Taxes.--

(1) Aviation fuel.--Clause (ii) of section 4091(b)(3)(A) is amended by striking "September 30, 1997" and inserting "September 30, 2007".

(2) Aviation gasoline.--Subparagraph (B) of section 4081(d)(2) is amended by striking "September 30, 1997" and inserting "September 30, 2007".

(3) Noncommercial aviation.--Subparagraph (B) of section 4041(c)(3) is amended by striking "September 30, 1997" and inserting "September 30, 2007".

(b) Ticket Taxes.--

(1) Persons.--Clause (ii) of section 4261(g)(1)(A) is amended by striking "September 30, 1997" and inserting "September 30, 2007".

(2) Property.--Clause (ii) of section 4271(d)(1)(A) is amended by striking "September 30, 1997" and inserting "September 30, 2007".

(c) Modifications to Tax on Transportation of Persons by Air.--

(1) In general.--Section 4261 (relating to imposition of tax) is amended by striking subsections (a), (b), and (c) and inserting the following new subsections:

"(a) In General.--There is hereby imposed on the amount paid for taxable transportation of any person a tax equal to 7.5 percent of the amount so paid.

"(b) Domestic Segments of Taxable Transportation.--

"(1) In general.--There is hereby imposed on the amount paid for each domestic segment of taxable transportation by air a tax in the amount determined in accordance with the following table for the period in which the segment begins:

In the case of segments

beginning:The tax is:

After September 30, 1997, and before October 1, 1998$1.00_05

After September 30, 1998, and before October 1, 1999$2.00_05

After September 30, 1999, and before January 1, 2000$2.25_05

During 2000$2.50_05

During 2001$2.75_05

During 2002 or thereafter$3.00.

"(2) Domestic segment.--For purposes of this section, the term `domestic segment' means any segment consisting of 1 takeoff and 1 landing and which is taxable transportation described in section 4262(a)(1).

"(3) Changes in segments by reason of rerouting.--If--

"(A) transportation is purchased between 2 locations on specified flights, and

"(B) there is a change in the route taken between such 2 locations which changes the number of domestic segments, but there is no change in the amount charged for such transportation,

the tax imposed by paragraph (1) shall be determined without regard to such change in route.

"(c) Use of International Travel Facilities.--

"(1) In general.--There is hereby imposed a tax of $12.00 on any amount paid (whether within or without the United States) for any transportation of any person by air, if such transportation begins or ends in the United States.

"(2) Exception for transportation entirely taxable under subsection (a).--This subsection shall not apply to any transportation all of which is taxable under subsection (a) (determined without regard to sections 4281 and 4282).

"(3) Special rule for alaska and hawaii.--In any case in which the tax imposed by paragraph (1) applies to a domestic segment beginning or ending in Alaska or Hawaii, such tax shall apply only to departures and shall be at the rate of $6.".

(2) Special rules.--Section 4261 is amended by redesignating subsections (e), (f), and (g) as subsections (f), (g), and (h), respectively, and by inserting after subsection (d) the following new subsection:

"(e) Special Rules.--

"(1) Segments to and from rural airports.--

"(A) Exception from segment tax.--The tax imposed by subsection (b)(1) shall not apply to any domestic segment beginning or ending at an airport which is a rural airport for the calendar year in which such segment begins or ends (as the case may be).

"(B) Rural airport.--For purposes of this paragraph, the term `rural airport' means, with respect to any calendar year, any airport if--

"(i) there were fewer than 100,000 commercial passengers departing by air during the second preceding calendar year from such airport, and

"(ii) such airport--

"(I) is not located within 75 miles of another airport which is not described in clause (i), or

"(II) is receiving essential air service subsidies as of the date of the enactment of this paragraph.

"(C) No phasein of reduced ticket tax.--In the case of transportation beginning before October 1, 1999--

"(i) In general.--Paragraph (5) shall not apply to any domestic segment beginning or ending at an airport which is a rural airport for the calendar year in which such segment begins or ends (as the case may be).

"(ii) Transportation involving multiple segments.--In the case of transportation involving more than 1 domestic segment at least 1 of which does not begin or end at a rural airport, the 7.5 percent rate applicable by reason of clause (i) shall be applied by taking into account only an amount which bears the same ratio to the amount paid for such transportation as the number of specified miles in domestic segments which begin or end at a rural airport bears to the total number of specified miles in such transportation.

"(2) Amounts paid outside the united states.--In the case of amounts paid outside the United States for taxable transportation, the taxes imposed by subsections (a) and (b) shall apply only if such transportation begins and ends in the United States.

"(3) Amounts paid for right to award free or reduced rate air transportation.--

"(A) In general.--Any amount paid (and the value of any other benefit provided) to an air carrier (or any related person) for the right to provide mileage awards for (or other reductions in the cost of) any transportation of persons by air shall be treated for purposes of subsection (a) as an amount paid for taxable transportation, and such amount shall be taxable under subsection (a) without regard to any other provision of this subchapter.

"(B) Controlled group.--For purposes of subparagraph (A), a corporation and all wholly owned subsidiaries of such corporation shall be treated as 1 corporation.

"(C) Regulations.--The Secretary shall prescribe rules which reallocate items of income, deduction, credit, exclusion, or other allowance to the extent necessary to prevent the avoidance of tax imposed by reason of this paragraph. The Secretary may prescribe rules which exclude from the tax imposed by subsection (a) amounts attributable to mileage awards which are used other than for transportation of persons by air.

"(4) Inflation adjustment of dollar rates of tax.--

"(A) In general.--In the case of taxable events in a calendar year after the last nonindexed year, the $3.00 amount contained in subsection (b) and each dollar amount contained in subsection (c) 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 such calendar year by substituting the year before the last nonindexed year for `calendar year 1992' in subparagraph (B) thereof.

If any increase determined under the preceding sentence is not a multiple of 10 cents, such increase shall be rounded to the nearest multiple of 10 cents.

"(B) Last nonindexed year.--For purposes of subparagraph (A), the last nonindexed year is--

"(i) 2002 in the case of the $3.00 amount contained in subsection (b), and

"(ii) 1998 in the case of the dollar amounts contained in subsection (c).

"(C) Taxable event.--For purposes of subparagraph (A), in the case of the tax imposed subsection (b), the beginning of the domestic segment shall be treated as the taxable event.

"(5) Rates of ticket tax for transportation beginning before october 1, 1999.--Subsection (a) shall be applied by substituting for `7.5 percent'--

"(A) `9 percent' in the case of transportation beginning after September 30, 1997, and before October 1, 1998, and

"(B) `8 percent' in the case of transportation beginning after September 30, 1998, and before October 1, 1999.".

(3) Secondary liability of carrier for unpaid tax.--Subsection (c) of section 4263 is amended by striking "subchapter--" and all that follows and inserting "subchapter, such tax shall be paid by the carrier providing the initial segment of such transportation which begins or ends in the United States.".

(d) Increased Airport and Airway Trust Fund Deposits.--

(1) Paragraph (1) of section 9502(b) is amended--

(A) by striking "(to the extent that the rate of the tax on such gasoline exceeds 4.3 cents per gallon)" in subparagraph (C),

(B) by striking "to the extent attributable to the Airport and Airway Trust Fund financing rate" in subparagraph (D), and

(C) by adding at the end the following flush sentence:

"There shall not be taken into account under paragraph (1) so much of the taxes imposed by sections 4081 and 4091 as are determined at the rates specified in section 4081(a)(2)(B) or 4091(b)(2).".

(2) Section 9502 is amended by striking subsection (f).

(e) Effective Dates.--

(1) Fuel taxes.--The amendments made by subsection (a) shall apply take effect on October 1, 1997.

(2) Ticket taxes.--

(A) In general.--Except as otherwise provided in this paragraph, the amendments made by subsections (b) and (c) shall apply to transportation beginning on or after October 1, 1997.

(B) Treatment of amounts paid for tickets purchased before date of enactment.--The amendments made by subsection (c) shall not apply to amounts paid for a ticket purchased before the date of the enactment of this Act for a specified flight beginning on or after October 1, 1997.

(C) Amounts paid for right to award mileage awards.--

(i) In general.--Paragraph (3) of section 4261(e) of the Internal Revenue Code of 1986 (as added by the amendment made by subsection (c)) shall apply to amounts paid (and other benefits provided) after September 30, 1997.

(ii) Payments within controlled group.--For purposes of clause (i), any amount paid after June 11, 1997, and before October 1, 1997, by 1 member of a controlled group for a right which is described in such section 4261(e)(3) and is furnished by another member of such group after September 30, 1997, shall be treated as paid after September 30, 1997. For purposes of the preceding sentence, all persons treated as a single employer under subsection (a) or (b) of section 52 of such Code shall be treated as members of a controlled group.

(3) Increased deposits into airport and airway trust fund.--The amendments made by subsection (d) shall apply with respect to taxes received in the Treasury on and after October 1, 1997.

(g) Delayed Deposits of Airport Trust Fund Tax Revenues.--Notwithstanding section 6302 of the Internal Revenue Code of 1986--

(1) in the case of deposits of taxes imposed by section 4261 of such Code, the due date for any such deposit which would (but for this subsection) be required to be made after August 14, 1997, and before October 1, 1997, shall be October 10, 1997,

(2) in the case of deposits of taxes imposed by section 4261 of such Code, the due date for any such deposit which would (but for this subsection) be required to be made after August 14, 1998, and before October 1, 1998, shall be October 5, 1998, and

(3) in the case of deposits of taxes imposed by sections 4081(a)(2)(A)(ii), 4091, and 4271 of such Code, the due date for any such deposit which would (but for this subsection) be required to be made after July 31, 1998, and before October 1, 1998, shall be October 5, 1998.

SEC. 1032. KEROSENE TAXED AS DIESEL FUEL.

(a) In General.--Subsection (a) of section 4083 (defining taxable fuel) 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) kerosene.".

(b) Rate of Tax.--Clause (iii) of section 4081(a)(2)(A) is amended by inserting "or kerosene" after "diesel fuel".

(c) Exemptions From Tax; Refunds to Vendors.--

(1) In general.--Section 4082 (relating to exemptions for diesel fuel) is amended by striking "diesel fuel" each place it appears in subsections (a), (c), and (d) and inserting "diesel fuel and kerosene".

(2) Certain kerosene exempt from dyeing requirement.--Section 4082 is amended by redesignating subsections (d) and (e) as subsections (e) and (f), respectively, and by inserting after subsection (c) the following new subsection:

"(d) Additional Exceptions to Dyeing Requirements for Kerosene.--

"(1) Aviation-grade kerosene.--Subsection (a)(2) shall not apply to a removal, entry, or sale of aviation-grade kerosene (as determined under regulations prescribed by the Secretary) if the person receiving the kerosene is registered under section 4101 with respect to the tax imposed by section 4091.

"(2) Use for non-fuel feedstock purposes.--Subsection (a)(2) shall not apply to kerosene--

"(A) received by pipeline or vessel for use by the person receiving the kerosene in the manufacture or production of any substance (other than gasoline, diesel fuel, or special fuels referred to in section 4041), or

"(B) to the extent provided in regulations, removed or entered--

"(i) for such a use by the person removing or entering the kerosene, or

"(ii) for resale by such person for such a use by the purchaser,

but only if the person receiving, removing, or entering the kerosene and such purchaser (if any) are registered under section 4101 with respect to the tax imposed by section 4081.

"(3) Wholesale distributors.--To the extent provided in regulations, subsection (a)(2) shall not apply to a removal, entry, or sale of kerosene to a wholesale distributor of kerosene if such distributor--

"(A) is registered under section 4101 with respect to the tax imposed by section 4081 on kerosene, and

"(B) sells kerosene exclusively to ultimate vendors described in section 6427(l)(5)(B) with respect to kerosene."

(3) Refunds.--

(A) Subsection (l) of section 6427 is amended by inserting "or kerosene" after "diesel fuel" each place it appears in paragraphs (1), (2), and (5) (including the heading for paragraph (5)).

(B) Paragraph (5) of section 6427(l) is amended by redesignating subparagraph (B) as subparagraph (C) and by inserting after subparagraph (A) the following new subparagraph:

"(B) Sales of kerosene not for use in motor fuel.--Paragraph (1)(A) shall not apply to kerosene sold by a vendor--

"(i) for any use if such sale is from a pump which (as determined under regulations prescribed by the Secretary) is not suitable for use in fueling any diesel-powered highway vehicle or train, or

"(ii) to the extent provided by the Secretary, for blending with heating oil to be used during periods of extreme or unseasonable cold.".

(C) Subparagraph (C) of section 6427(l)(5), as redesignated by subparagraph (B) of this paragraph, is amended by striking "subparagraph (A)" and inserting "subparagraph (A) or (B)".

(D) The heading for subsection (l) of section 6427 is amended by inserting ", Kerosene," after "Diesel Fuel".

(E) Clause (i) of section 6427(i)(5)(A) is amended by inserting "($100 or more in the case of kerosene)" after "$200 or more".

(d) Certain Approved Terminals of Registered Persons Required To Offer Dyed Diesel Fuel and Kerosene for Nontaxable Purposes.--Section 4101 is amended by adding at the end the following new subsection:

"(e) Certain Approved Terminals of Registered Persons Required To Offer Dyed Diesel Fuel and Kerosene for Nontaxable Purposes.--

"(1) In general.--A terminal for kerosene or diesel fuel may not be an approved facility for storage of non-tax-paid diesel fuel or kerosene under this section unless the operator of such terminal offers dyed diesel fuel and kerosene for removal for nontaxable use in accordance with section 4082(a).

"(2) Exception.--Paragraph (1) shall not apply to any terminal exclusively providing aviation-grade kerosene by pipeline to an airport.".

(e) Conforming Amendments.--

(1) Paragraph (2) of section 4041(a), as amended by title IX, is amended by striking "kerosene,".

(2) Paragraph (1) of section 4041(c) is amended by striking "any liquid" and inserting "kerosene and any other liquid".

(3)(A) The heading for section 4082 is amended by inserting "and kerosene" after "diesel fuel".

(B) The table of sections for subpart A of part III of subchapter A of chapter 32 is amended by inserting "and kerosene" after "diesel fuel" in the item relating to section 4082.

(4) Subsection (b) of section 4083 is amended by striking "gasoline, diesel fuel," and inserting "taxable fuels".

(5) Subsection (a) of section 4093 is amended by striking "any liquid" and inserting "kerosene and any other liquid".

(6) The material following subparagraph (F) of section 6416(b)(2) is amended by inserting "or kerosene" after "diesel fuel".

(7) Paragraphs (1) and (3) of section 6427(f), and the heading for section 6427(f), are each amended by inserting "kerosene," after "diesel fuel,".

(8) Paragraph (2) of section 6427(f) is amended by striking "or diesel fuel" each place it appears and inserting ", diesel fuel, or kerosene".

(9) Subparagraph (A) of section 6427(i)(3) is amended by striking "or diesel fuel" and inserting ", diesel fuel, or kerosene".

(10) The heading for paragraph (4) of section 6427(i) is amended to read as follows:

"(4) Special rule for refunds under subsection (l).--"

(11) Paragraph (1) of section 6715(c) is amended by inserting "or kerosene" after "diesel fuel".

(12)(A) The text of section 7232 is amended by striking "gasoline, lubricating oil, diesel fuel" and inserting "any taxable fuel (as defined in section 4083)".

(B) The section heading for section 7232 is amended to read as follows:

"SEC. 7232. FAILURE TO REGISTER UNDER SECTION 4101, FALSE REPRESENTATIONS OF REGISTRATION STATUS, ETC.".

(C) The table of sections for part II of subchapter A of chapter 75 is amended by striking the item relating to section 7232 and inserting the following:

"Sec. 7232. Failure to register under section 4101, false representations of registration status, etc.".

(13) Sections 9503(b)(1)(E) and 9508(b)(2) are each amended by striking "and diesel fuel" and inserting ", diesel fuel, and kerosene".

(14) Subparagraph (B) of section 9503(b)(5) is amended by striking "or diesel fuel" and inserting ", diesel fuel, or kerosene".

(f) Effective Date.--The amendments made by this section shall take effect on July 1, 1998.

(g) Floor Stock Taxes.--

(1) Imposition of tax.--In the case of kerosene which is held on July 1, 1998, by any person, there is hereby imposed a floor stocks tax of 24.4 cents per gallon.

(2) Liability for tax and method of payment.--

(A) Liability for tax.--A person holding kerosene on July 1, 1998, to which the tax imposed by paragraph (1) applies shall be liable for such tax.

(B) Method of payment.--The tax imposed by paragraph (1) shall be paid in such manner as the Secretary shall prescribe.

(C) Time for payment.--The tax imposed by paragraph (1) shall be paid on or before August 31, 1998.

(3) Definitions.--For purposes of this subsection--

(A) Held by a person.--Kerosene shall be considered as "held by a person" if title thereto has passed to such person (whether or not delivery to the person has been made).

(B) Secretary.--The term "Secretary" means the Secretary of the Treasury or his delegate.

(4) Exception for exempt uses.--The tax imposed by paragraph (1) shall not apply to kerosene held by any person exclusively for any use to the extent a credit or refund of the tax imposed by section 4081 of the Internal Revenue Code of 1986 is allowable for such use.

(5) Exception for fuel held in vehicle tank.--No tax shall be imposed by paragraph (1) on kerosene held in the tank of a motor vehicle or motorboat.

(6) Exception for certain amounts of fuel.--

(A) In general.--No tax shall be imposed by paragraph (1) on kerosene held on July 1, 1998, by any person if the aggregate amount of kerosene held by such person on such date does not exceed 2,000 gallons. The preceding sentence shall apply only if such person submits to the Secretary (at the time and in the manner required by the Secretary) such information as the Secretary shall require for purposes of this paragraph.

(B) Exempt fuel.--For purposes of subparagraph (A), there shall not be taken into account fuel held by any person which is exempt from the tax imposed by paragraph (1) by reason of paragraph (4) or (5).

(C) Controlled groups.--For purposes of this paragraph--

(i) Corporations.--

(I) In general.--All persons treated as a controlled group shall be treated as 1 person.

(II) Controlled group.--The term "controlled group" has the meaning given to such term by subsection (a) of section 1563 of such Code; except that for such purposes the phrase "more than 50 percent" shall be substituted for the phrase "at least 80 percent" each place it appears in such subsection.

(ii) Nonincorporated persons under common control.--Under regulations prescribed by the Secretary, principles similar to the principles of clause (i) shall apply to a group of persons under common control where 1 or more of such persons is not a corporation.

(7) Coordination with section 4081.--No tax shall be imposed by paragraph (1) on kerosene to the extent that tax has been (or will be) imposed on such kerosene under section 4081 or 4091 of such Code.

(8) Other laws applicable.--All provisions of law, including penalties, applicable with respect to the

taxes imposed by section 4081 of such Code shall, insofar as applicable and not inconsistent with the provisions of this subsection, apply with respect to the floor stock taxes imposed by paragraph (1) to the same extent as if such taxes were imposed by such section 4081.

SEC. 1033. RESTORATION OF LEAKING UNDERGROUND STORAGE TANK TRUST FUND TAXES.

Paragraph (3) of section 4081(d) is amended by striking "shall not apply after December 31, 1995" and inserting "shall apply after September 30, 1997, and before April 1, 2005".

SEC. 1034. APPLICATION OF COMMUNICATIONS TAX TO PREPAID TELEPHONE CARDS.

(a) In General.--Section 4251 is amended by adding at the end the following new subsection:

"(d) Treatment of Prepaid Telephone Cards.--

"(1) In general.--For purposes of this subchapter, in the case of communications services acquired by means of a prepaid telephone card--

"(A) the face amount of such card shall be treated as the amount paid for such communications services, and

"(B) that amount shall be treated as paid when the card is transferred by any telecommunications carrier to any person who is not such a carrier.

"(2) Determination of face amount in absence of specified dollar amount.--In the case of any prepaid telephone card which entitles the user other than to a specified dollar amount of use, the face amount shall be determined under regulations prescribed by the Secretary.

"(3) Prepaid telephone card.--For purposes of this subsection, the term `prepaid telephone card' means any card or other similar arrangement which permits its holder to obtain communications services and pay for such services in advance.".

(b) Effective Date.--The amendments made by this section shall apply to amounts paid in calendar months beginning more than 60 days after the date of the enactment of this Act.

SEC. 1035. EXTENSION OF TEMPORARY UNEMPLOYMENT TAX.

Section 3301 (relating to rate of unemployment tax) is amended--

(1) by striking "1998" in paragraph (1) and inserting "2007", and

(2) by striking "1999" in paragraph (2) and inserting "2008".

Subtitle E--Provisions Relating to Tax-Exempt Entities

SEC. 1041. EXPANSION OF LOOK-THRU RULE FOR INTEREST, ANNUITIES, ROYALTIES, AND RENTS DERIVED BY SUBSIDIARIES OF TAX-EXEMPT ORGANIZATIONS.

(a) In General.--Paragraph (13) of section 512(b) is amended to read as follows:

"(13) Special rules for certain amounts received from controlled entities.--

"(A) In general.--If an organization (in this paragraph referred to as the `controlling organization') receives (directly or indirectly) a specified payment from another entity which it controls (in this paragraph referred to as the `controlled entity'), notwithstanding paragraphs (1), (2), and (3), the controlling organization shall include such payment as an item of gross income derived from an unrelated trade or business to the extent such payment reduces the net unrelated income of the controlled entity (or increases any net unrelated loss of the controlled entity). There shall be allowed all deductions of the controlling organization directly connected with amounts treated as derived from an unrelated trade or business under the preceding sentence.

"(B) Net unrelated income or loss.--For purposes of this paragraph--

"(i) Net unrelated income.--The term `net unrelated income' means--

"(I) in the case of a controlled entity which is not exempt from tax under section 501(a), the portion of such entity's taxable income which would be unrelated business taxable income if such entity were exempt from tax under section 501(a) and had the same exempt purposes (as defined in section 513A(a)(5)(A)) as the controlling organization, or

"(II) in the case of a controlled entity which is exempt from tax under section 501(a), the amount of the unrelated business taxable income of the controlled entity.

"(ii) Net unrelated loss.--The term `net unrelated loss' means the net operating loss adjusted under rules similar to the rules of clause (i).

"(C) Specified payment.--For purposes of this paragraph, the term `specified payment' means any interest, annuity, royalty, or rent.

"(D) Definition of control.--For purposes of this paragraph--

"(i) Control.--The term `control' means--

"(I) in the case of a corporation, ownership (by vote or value) of more than 50 percent of the stock in such corporation,

"(II) in the case of a partnership, ownership of more than 50 percent of the profits interests or capital interests in such partnership, or

"(III) in any other case, ownership of more than 50 percent of the beneficial interests in the entity.

"(ii) Constructive ownership.--Section 318 (relating to constructive ownership of stock) shall apply for purposes of determining ownership of stock in a corporation. Similar principles shall apply for purposes of determining ownership of interests in any other entity.

"(E) Related persons.--The Secretary shall prescribe such rules as may be necessary or appropriate to prevent avoidance of the purposes of this paragraph through the use of related persons.".

(b) Effective Date.--

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

(2) Binding contracts.--The amendments made by this section shall not apply to any payment made during the first 2 taxable years beginning on or after the date of the enactment of this Act if such payment is made pursuant to a written binding contract in effect on June 8, 1997, and at all times thereafter before such payment.

SEC. 1042. TERMINATION OF CERTAIN EXCEPTIONS FROM RULES RELATING TO EXEMPT ORGANIZATIONS WHICH PROVIDE COMMERCIAL-TYPE INSURANCE.

(a) In General.--Subparagraphs (A) and (B) of section 1012(c)(4) of the Tax Reform Act of 1986 shall not apply to any taxable year beginning after December 31, 1997.

(b) Special Rules.--In the case of an organization to which section 501(m) of the Internal Revenue Code of 1986 applies solely by reason of the amendment made by subsection (a)--

(1) no adjustment shall be made under section 481 (or any other provision) of such Code on account of a change in its method of accounting for its first taxable year beginning after December 31, 1997, and

(2) for purposes of determining gain or loss, the adjusted basis of any asset held on the 1st day of such taxable year shall be treated as equal to its fair market value as of such day.

(c) Reserve Weakening After June 8, 1997.--Any reserve weakening after June 8, 1997, by an organization described in subsection (b) shall be treated as occurring in such organization's 1st taxable year beginning after December 31, 1997.

(d) Regulations.--The Secretary of the Treasury or his delegate may prescribe rules for providing proper adjustments for organizations described in subsection (b) with respect to short taxable years which begin during 1998 by reason of section 843 of the Internal Revenue Code of 1986.

Subtitle F--Foreign Provisions

SEC. 1051. DEFINITION OF FOREIGN PERSONAL HOLDING COMPANY INCOME.

(a) Income From Notional Principal Contracts and Payments in Lieu of Dividends.--

(1) In general.--Paragraph (1) of section 954(c) (defining foreign personal holding company income) is amended by adding at the end the following new subparagraphs:

"(F) Income from notional principal contracts.--Net income from notional principal contracts. Any item of income, gain, deduction, or loss from a notional principal contract entered into for purposes of hedging any item described in any preceding subparagraph shall not be taken into account for purposes of this subparagraph but shall be taken into account under such other subparagraph.

"(G) Payments in lieu of dividends.--Payments in lieu of dividends which are made pursuant to an agreement to which section 1058 applies.".

(2) Conforming amendment.--Subparagraph (B) of section 954(c)(1) is amended--

(A) by striking the second sentence, and

(B) by striking "also" in the last sentence.

(b) Exception for Dealers.--Paragraph (2) of section 954(c) is amended by adding at the end the following new subparagraph:

"(C) Exception for dealers.--Except as provided in subparagraph (A), (E), or (G) of paragraph (1) or by regulations, in the case of a regular dealer in property (within the meaning of paragraph (1)(B)), forward contracts, option contracts, or similar financial instruments (including notional principal contracts and all instruments referenced to commodities), there shall not be taken into account in computing foreign personal holding income any item of income, gain, deduction, or loss from any transaction (including hedging transactions) entered into in the ordinary course of such dealer's trade or business as such a dealer.".

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

SEC. 1052. PERSONAL PROPERTY USED PREDOMINANTLY IN THE UNITED STATES TREATED AS NOT PROPERTY OF A LIKE KIND WITH RESPECT TO PROPERTY USED PREDOMINANTLY OUTSIDE THE UNITED STATES.

(a) In General.--Subsection (h) of section 1031 (relating to exchange of property held for productive use or investment) is amended to read as follows:

"(h) Special Rules for Foreign Real and Personal Property.--For purposes of this section--

"(1) Real property.--Real property located in the United States and real property located outside the United States are not property of a like kind.

"(2) Personal property.--

"(A) In general.--Personal property used predominantly within the United States and personal property used predominantly outside the United States are not property of a like kind.

"(B) Predominant use.--Except as provided in subparagraph (C) and (D), the predominant use of any property shall be determined based on--

"(i) in the case of the property relinquished in the exchange, the 2-year period ending on the date of such relinquishment, and

"(ii) in the case of the property acquired in the exchange, the 2-year period beginning on the date of such acquisition.

"(C) Property held for less than 2 years.--Except in the case of an exchange which is part of a transaction (or series of transactions) structured to avoid the purposes of this subsection--

"(i) only the periods the property was held by the person relinquishing the property (or any related person) shall be taken into account under subparagraph (B)(i), and

"(ii) only the periods the property was held by the person acquiring the property (or any related person) shall be taken into account under subparagraph (B)(ii).

"(D) Special rule for certain property.--Property described in any subparagraph of section 168(g)(4) shall be treated as used predominantly in the United States.".

(b) Effective Date.--

(1) In general.--The amendment made by this section shall apply to transfers after June 8, 1997, in taxable years ending after such date.

(2) Binding contracts.--The amendment made by this section shall not apply to any transfer pursuant to a written binding contract in effect on June 8, 1997, and at all times thereafter before the disposition of property. A contract shall not fail to meet the requirements of the preceding sentence solely because--

(A) it provides for a sale in lieu of an exchange, or

(B) the property to be acquired as replacement property was not identified under such contract before June 9, 1997.

SEC. 1053. HOLDING PERIOD REQUIREMENT FOR CERTAIN FOREIGN TAXES.

(a) In General.--Section 901 is amended by redesignating subsection (k) as subsection (l) and by inserting after subsection (j) the following new subsection:

"(k) Minimum Holding Period for Certain Taxes.--

"(1) Withholding taxes.--

"(A) In general.--In no event shall a credit be allowed under subsection (a) for any withholding tax on a dividend with respect to stock in a corporation if--

"(i) such stock is held by the recipient of the dividend for 15 days or less during the 30-day period beginning on the date which is 15 days before the date on which such share becomes ex-dividend with respect to such dividend, or

"(ii) to the extent that the recipient of the dividend is under an obligation (whether pursuant to a short sale or otherwise) to make related payments with respect to positions in substantially similar or related property.

"(B) Withholding tax.--For purposes of this paragraph, the term `withholding tax' includes any tax determined on a gross basis; but does not include any tax which is in the nature of a prepayment of a tax imposed on a net basis.

"(2) Deemed paid taxes.--In the case of income, war profits, or excess profits taxes deemed paid under section 853, 902, or 960 through a chain of ownership of stock in 1 or more corporations, no credit shall be allowed under subsection (a) for such taxes if--

"(A) any stock of any corporation in such chain (the ownership of which is required to obtain credit under subsection (a) for such taxes) is held for less than the period described in paragraph (1)(A)(i), or

"(B) the corporation holding the stock is under an obligation referred to in paragraph (1)(A)(ii).

"(3) 45-day rule in the case of certain preference dividends.--In the case of stock having preference in dividends and dividends with respect to such stock which are attributable to a period or periods aggregating in excess of 366 days, paragraph (1)(A)(i) shall be applied--

"(A) by substituting `45 days' for `15 days' each place it appears, and

"(B) by substituting `90-day period' for `30-day period'.

"(4) Exception for certain taxes paid by securities dealers.--

"(A) In general.--Paragraphs (1) and (2) shall not apply to any qualified tax with respect to any security held in the active conduct in a foreign country of a securities business of any person--

"(i) who is registered as a securities broker or dealer under section 15(a) of the Securities Exchange Act of 1934,

"(ii) who is registered as a Government securities broker or dealer under section 15C(a) of such Act, or

"(iii) who is licensed or authorized in such foreign country to conduct securities activities in such country and is subject to bona fide regulation by a securities regulating authority of such country.

"(B) Qualified tax.--For purposes of subparagraph (A), the term `qualified tax' means a tax paid to a foreign country (other than the foreign country referred to in subparagraph (A)) if--

"(i) the dividend to which such tax is attributable is subject to taxation on a net basis by the country referred to in subparagraph (A), and

"(ii) such country allows a credit against its net basis tax for the full amount of the tax paid to such other foreign country.

"(C) Regulations.--The Secretary may prescribe such regulations as may be appropriate to carry out this paragraph, including regulations to prevent the abuse of the exception provided by this paragraph and to treat other taxes as qualified taxes.

"(5) Certain rules to apply.--For purposes of this subsection, the rules of paragraphs (3) and (4) of section 246(c) shall apply.

"(6) Treatment of bona fide sales.--If a person's holding period is reduced by reason of the application of the rules of section 246(c)(4) to any contract for the bona fide sale of stock, the determination of whether such person's holding period meets the requirements of paragraph (2) with respect to taxes deemed paid under section 902 or 960 shall be made as of the date such contract is entered into.

"(7) Taxes allowed as deduction, etc.--Sections 275 and 78 shall not apply to any tax which is not allowable as a credit under subsection (a) by reason of this subsection.".

(b) Notice of Withholding Taxes Paid by Regulated Investment Company.--Subsection (c) of section 853 (relating to foreign tax credit allowed to shareholders) is amended by adding at the end the following new sentence: "Such notice shall also include the amount of such taxes which (without regard to the election under this section) would not be allowable as a credit under section 901(a) to the regulated investment company by reason of section 901(k).".

(c) Effective Date.--The amendments made by this section shall apply to dividends paid or accrued more than 30 days after the date of the enactment of this Act.

SEC. 1054. DENIAL OF TREATY BENEFITS FOR CERTAIN PAYMENTS THROUGH HYBRID ENTITIES.

(a) In General.--Section 894 (relating to income affected by treaty) is amended by inserting after subsection (b) the following new subsection:

"(c) Denial of Treaty Benefits for Certain Payments Through Hybrid Entities.--

"(1) Application to certain payments.--A foreign person shall not be entitled under any income tax treaty of the United States with a foreign country to any reduced rate of any withholding tax imposed by this title on an item of income derived through an entity which is treated as a partnership (or is otherwise treated as fiscally transparent) for purposes of this title if--

"(A) such item is not treated for purposes of the taxation laws of such foreign country as an item of income of such person,

"(B) the treaty does not contain a provision addressing the applicability of the treaty in the case of an item of income derived through a partnership, and

"(C) the foreign country does not impose tax on a distribution of such item of income from such entity to such person.

"(2) Regulations.--The Secretary shall prescribe such regulations as may be necessary or appropriate to determine the extent to which a taxpayer to which paragraph (1) does not apply shall not be entitled to benefits under any income tax treaty of the United States with respect to any payment received by, or income attributable to any activities of, an entity organized in any jurisdiction (including the United States) that is treated as a partnership or is otherwise treated as fiscally transparent for purposes of this title (including a common investment trust under section 584, a grantor trust, or an entity that is disregarded for purposes of this title) and is treated as fiscally nontransparent for purposes of the tax laws of the jurisdiction of residence of the taxpayer.".

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

SEC. 1055. INTEREST ON UNDERPAYMENTS NOT REDUCED BY FOREIGN TAX CREDIT CARRYBACKS.

(a) In General.--Subsection (d) of section 6601 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) Foreign tax credit carrybacks.--If any credit allowed for any taxable year is increased by reason of a carryback of tax paid or accrued to foreign countries or possessions of the United States, such increase shall not affect the computation of interest under this section for the period ending with the filing date for the taxable year in which such taxes were in fact paid or accrued, or, with respect to any portion of such credit carryback from a taxable year attributable to a net operating loss carryback or a capital loss carryback from a subsequent taxable year, such increase shall not affect the computation of interest under this section for the period ending with the filing date for such subsequent taxable year.".

(b) Conforming Amendment to Refunds Attributable to Foreign Tax Credit Carrybacks.--

(1) In general.--Subsection (f) of section 6611 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) Foreign tax credit carrybacks.--For purposes of subsection (a), if any overpayment of tax imposed by subtitle A results from a carryback of tax paid or accrued to foreign countries or possessions of the United States, such overpayment shall be deemed not to have been made before the filing date for the taxable year in which such taxes were in fact paid or accrued, or, with respect to any portion of such credit carryback from a taxable year attributable to a net operating loss carryback or a capital loss carryback from a subsequent taxable year, such overpayment shall be deemed not to have been made before the filing date for such subsequent taxable year.".

(2) Conforming amendments.--

(A) Paragraph (4) of section 6611(f) (as so redesignated) is amended--

(i) by striking "paragraphs (1) and (2)" and inserting "paragraphs (1), (2), and (3)", and

(ii) by striking "paragraph (1) or (2)" each place it appears and inserting "paragraph (1), (2), or (3)".

(B) Clause (ii) of section 6611(f)(4)(B) (as so redesignated) is amended by striking "and" at the end of subclause (I), by redesignating subclause (II) as subclause (III), and by inserting after subclause (I) the following new subclause:

"(II) in the case of a carryback of taxes paid or accrued to foreign countries or possessions of the United States, the taxable year in which such taxes were in fact paid or accrued (or, with respect to any portion of such carryback from a taxable year attributable to a net operating loss carryback or a capital loss carryback from a subsequent taxable year, such subsequent taxable year), and".

(C) Subclause (III) of section 6611(f)(4)(B)(ii) (as so redesignated) is amended by inserting "(as defined in paragraph (3)(B))" after "credit carryback" the first place it appears.

(D) Section 6611 is amended by striking subsection (g) and by redesignating subsections (h) and (i) as subsections (g) and (h), respectively.

(c) Effective Date.--The amendments made by this section shall apply to foreign tax credit carrybacks arising in taxable years beginning after the date of the enactment of this Act.

SEC. 1056. CLARIFICATION OF PERIOD OF LIMITATIONS ON CLAIM FOR CREDIT OR REFUND ATTRIBUTABLE TO FOREIGN TAX CREDIT CARRYFORWARD.

(a) In General.--Subparagraph (A) of section 6511(d)(3) is amended by striking "for the year with respect to which the claim is made" and inserting "for the year in which such taxes were actually paid or accrued".

(b) Effective Date.--The amendment made by subsection (a) shall apply to taxes paid or accrued in taxable years beginning after the date of the enactment of this Act.

SEC. 1057. REPEAL OF EXCEPTION TO ALTERNATIVE MINIMUM FOREIGN TAX CREDIT

LIMIT.

(a) In General.--Section 59(a)(2) (relating to limitation to 90 percent of tax) is amended by striking subparagraph (C).

(b) Effective Date.--The amendment made by this section shall apply to taxable years beginning after the date of the enactment of this Act.

Subtitle G--Partnership Provisions

SEC. 1061. ALLOCATION OF BASIS AMONG PROPERTIES DISTRIBUTED BY PARTNERSHIP.

(a) In General.--Subsection (c) of section 732 is amended to read as follows:

"(c) Allocation of Basis.--

"(1) In general.--The basis of distributed properties to which subsection (a)(2) or (b) is applicable shall be allocated--

"(A)(i) first to any unrealized receivables (as defined in section 751(c)) and inventory items (as defined in section 751(d)(2)) in an amount equal to the adjusted basis of each such property to the partnership, and

"(ii) if the basis to be allocated is less than the sum of the adjusted bases of such properties to the partnership, then, to the extent any decrease is required in order to have the adjusted bases of such properties equal the basis to be allocated, in the manner provided in paragraph (3), and

"(B) to the extent of any basis remaining after the allocation under subparagraph (A), to other distributed properties--

"(i) first by assigning to each such other property such other property's adjusted basis to the partnership, and

"(ii) then, to the extent any increase or decrease in basis is required in order to have the adjusted bases of such other distributed properties equal such remaining basis, in the manner provided in paragraph (2) or (3), whichever is appropriate.

"(2) Method of allocating increase.--Any increase required under paragraph (1)(B) shall be allocated among the properties--

"(A) first to properties with unrealized appreciation in proportion to their respective amounts of unrealized appreciation before such increase (but only to the extent of each property's unrealized appreciation), and

"(B) then, to the extent such increase is not allocated under subparagraph (A), in proportion to their respective fair market values.

"(3) Method of allocating decrease.--Any decrease required under paragraph (1)(A) or (1)(B) shall be allocated--

"(A) first to properties with unrealized depreciation in proportion to their respective amounts of unrealized depreciation before such decrease (but only to the extent of each property's unrealized depreciation), and

"(B) then, to the extent such decrease is not allocated under subparagraph (A), in proportion to their respective adjusted bases (as adjusted under subparagraph (A)).".

(b) Effective Date.--The amendment made by subsection (a) shall apply to distributions after the date of the enactment of this Act.

SEC. 1062. REPEAL OF REQUIREMENT THAT INVENTORY BE SUBSTANTIALLY APPRECIATED WITH RESPECT TO SALE OR EXCHANGE OF PARTNERSHIP INTEREST.

(a) In General.--Paragraph (2) of section 751(a) is amended to read as follows:

"(2) inventory items of the partnership,".

(b) Conforming Amendments.--

(1)(A) Paragraph (1) of section 751(b) is amended by striking subparagraphs (A) and (B) and inserting the following new subparagraphs:

"(A) partnership property which is--

"(i) unrealized receivables, or

"(ii) inventory items which have appreciated substantially in value,

in exchange for all or a part of his interest in other partnership property (including money), or

"(B) partnership property (including money) other than property described in subparagraph (A)(i) or (ii) in exchange for all or a part of his interest in partnership property described in subparagraph (A)(i) or (ii),".

(B) Subsection (b) of section 751 is amended by adding at the end the following new paragraph:

"(3) Substantial appreciation.--For purposes of paragraph (1)--

"(A) In general.--Inventory items of the partnership shall be considered to have appreciated substantially in value if their fair market value exceeds 120 percent of the adjusted basis to the partnership of such property.

"(B) Certain property excluded.--For purposes of subparagraph (A), there shall be excluded any inventory property if a principal purpose for acquiring such property was to avoid the provisions of this subsection relating to inventory items."

(2) Subsection (d) of section 751 is amended to read as follows:

"(d) Inventory Items.--For purposes of this subchapter, the term `inventory items' means--

"(1) property of the partnership of the kind described in section 1221(1),

"(2) any other property of the partnership which, on sale or exchange by the partnership, would be considered property other than a capital asset and other than property described in section 1231,

"(3) any other property of the partnership which, if sold or exchanged by the partnership, would result in a gain taxable under subsection (a) of section 1246 (relating to gain on foreign investment company stock), and

"(4) any other property held by the partnership which, if held by the selling or distributee partner, would be considered property of the type described in paragraph (1), (2), or (3).".

(3) Sections 724(d)(2), 731(a)(2)(B), 731(c)(6), 732(c)(1)(A) (as amended by the preceding section), 735(a)(2), and 735(c)(1) are each amended by striking "section 751(d)(2)" and inserting "section 751(d)".

(c) Effective Date.--

(1) In general.--The amendments made by this section shall apply to sales, exchanges, and distributions after the date of the enactment of this Act.

(2) Binding contracts.--The amendments made by this section shall not apply to any sale or exchange pursuant to a written binding contract in effect on June 8, 1997, and at all times thereafter before such sale or exchange.

SEC. 1063. EXTENSION OF TIME FOR TAXING PRECONTRIBUTION GAIN.

(a) In General.--Sections 704(c)(1)(B) and 737(b)(1) are each amended by striking "5 years" and inserting "7 years".

(b) Effective Date.--

(1) In general.--The amendment made by subsection (a) shall apply to property contributed to a partnership after June 8, 1997.

(2) Binding contracts.--The amendment made by subsection (a) shall not apply to any property contributed pursuant to a written binding contract in effect on June 8, 1997, and at all times thereafter before such contribution if such contract provides for the contribution of a fixed amount of property.

Subtitle H--Pension Provisions

SEC. 1071. PENSION ACCRUED BENEFIT DISTRIBUTABLE WITHOUT CONSENT INCREASED TO $5,000.

(a) Amendment to 1986 Code.--

(1) In general.--Subparagraph (A) of section 411(a)(11) (relating to restrictions on certain mandatory distributions) is amended by striking "$3,500" and inserting "$5,000".

(2) Conforming amendments.--

(A) Section 411(a)(7)(B), paragraphs (1) and (2) of section 417(e), and section 457(e)(9) are each amended by striking "$3,500" each place it appears (other than the headings) and inserting "the dollar limit under section 411(a)(11)(A)".

(B) The headings for paragraphs (1) and (2) of section 417(e) and subparagraph (A) of section 457(e)(9) are each amended by striking "$3,500" and inserting "dollar limit".

(b) Amendments to ERISA.--

(1) In general.--Section 203(e)(1) of the Employee Retirement Income Security Act of 1974 (29 U.S.C. 1053(e)(1)) is amended by striking "$3,500" and inserting "$5,000".

(2) Conforming amendments.--Sections 204(d)(1) and 205(g) (1) and (2) (29 U.S.C. 1054(d)(1) and 1055(g) (1) and (2)) are each amended by striking "$3,500" and inserting "the dollar limit under section 203(e)(1)".

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

SEC. 1072. ELECTION TO RECEIVE TAXABLE CASH COMPENSATION IN LIEU OF NONTAXABLE PARKING BENEFITS.

(a) In General.--Section 132(f)(4) (relating to benefits not in lieu of compensation) is amended by adding at the end the following new sentence: "This paragraph shall not apply to any qualified parking provided in lieu of compensation which otherwise would have been includible in gross income of the employee, and no amount shall be included in the gross income of the employee solely because the employee may choose between the qualified parking and compensation.".

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

SEC. 1073. REPEAL OF EXCESS DISTRIBUTION AND EXCESS RETIREMENT ACCUMULATION TAX.

(a) Repeal of Excess Distribution and Excess Retirement Accumulation Tax.--Section 4980A (relating to excess distributions from qualified retirement plans) is repealed.

(b) Conforming Amendments.--

(1) Section 691(c)(1) is amended by striking subparagraph (C).

(2) Section 2013 is amended by striking subsection (g).

(3) Section 2053(c)(1)(B) is amended by striking the last sentence.

(4) Section 6018(a) is amended by striking paragraph (4).

(c) Effective Dates.--

(1) Excess distribution tax repeal.--Except as provided in paragraph (2), the repeal made by subsection (a) shall apply to excess distributions received after December 31, 1996.

(2) Excess retirement accumulation tax repeal.--The repeal made by subsection (a) with respect to section 4980A(d) of the Internal Revenue Code of 1986 and the amendments made by subsection (b) shall apply to estates of decedents dying after December 31, 1996.

SEC. 1074. INCREASE IN TAX ON PROHIBITED TRANSACTIONS.

(a) In General.--Section 4975(a) is amended by striking "10 percent" and inserting "15 percent".

(b) Effective Date.--The amendment made by this section shall apply to prohibited transactions occurring after the date of the enactment of this Act.

SEC. 1075. BASIS RECOVERY RULES FOR ANNUITIES OVER MORE THAN ONE LIFE.

(a) In General.--Section 72(d)(1)(B) is amended by adding at the end the following new clause:

"(iv) Number of anticipated payments where more than one life.--If the annuity is payable over the lives of more than 1 individual, the number of anticipated payments shall be determined as follows:

"If the combined ages of annuitants are:

The number is:

Not more than 110 410_20

More than 110 but not more than 120 360_20

More than 120 but not more than 130 310_20

More than 130 but not more than 140 260_20

More than 140 210.".

(b) Conforming Amendment.--Section 72(d)(1)(B)(iii) is amended--

(1) by inserting "If the annuity is payable over the life of a single individual, the number of anticipated payments shall be determined as follows:" after the heading and before the table, and

(2) by striking "primary" in the table.

(c) Effective Date.--The amendments made by this section shall apply with respect to annuity starting dates beginning after December 31, 1997.

Subtitle I--Other Revenue Provisions

SEC. 1081. TERMINATION OF SUSPENSE ACCOUNTS FOR FAMILY CORPORATIONS REQUIRED TO USE ACCRUAL METHOD OF ACCOUNTING.

(a) In General.--Subsection (i) of section 447 (relating to method of accounting for corporations engaged in farming) is amended by striking paragraphs (3) and (4), by redesignating paragraphs (5) and (6) as paragraphs (3) and (4), respectively, and by adding at the end the following new paragraph:

"(5) Termination.--

"(A) In general.--No suspense account may be established under this subsection by any corporation required by this section to change its method of accounting for any taxable year ending after June 8, 1997.

"(B) Phaseout of existing suspense accounts.--

"(i) In general.--Each suspense account under this subsection shall be reduced (but not below zero) for each taxable year beginning after June 8, 1997, by an amount equal to the lesser of--

"(I) the applicable portion of such account, or

"(II) 50 percent of the taxable income of the corporation for the taxable year, or, if the corporation has no taxable income for such year, the amount of any net operating loss (as defined in section 172(c)) for such taxable year.

For purposes of the preceding sentence, the amount of taxable income and net operating loss shall be determined without regard to this paragraph.

"(ii) Coordination with other reductions.--The amount of the applicable portion for any taxable year shall be reduced (but not below zero) by the amount of any reduction required for such taxable year under any other provision of this subsection.

"(iv) Inclusion in income.--Any reduction in a suspense account under this paragraph shall be included in gross income for the taxable year of the reduction.

"(C) Applicable portion.--For purposes of subparagraph (B), the term `applicable portion' means, for any taxable year, the amount which would ratably reduce the amount in the account (after taking into account prior reductions) to zero over the period consisting of such taxable year and the remaining taxable years in such first 20 taxable years.

"(D) Amounts after 20th year.--Any amount in the account as of the close of the 20th year referred to in subparagraph (C) shall be treated as the applicable portion for each succeeding year thereafter to the extent not reduced under this paragraph for any prior taxable year after such 20th year.".

(b) Effective Date.--The amendments made by this section shall apply to taxable years ending after June 8, 1997.

SEC. 1082. MODIFICATION OF TAXABLE YEARS TO WHICH NET OPERATING LOSSES MAY BE CARRIED.

(a) In General.--Subparagraph (A) of section 172(b)(1) (relating to years to which loss may be carried) is amended--

(1) by striking "3" in clause (i) and inserting "2", and

(2) by striking "15" in clause (ii) and inserting "20".

(b) Retention of 3-Year Carryback for Certain Losses.--Paragraph (1) of section 172(b) is amended by adding at the end the following new subparagraph:

"(F) Retention of 3-year carryback in certain cases.--

"(i) In general.--Subparagraph (A)(i) shall be applied by substituting `3 years' for `2 years' with respect to the portion of the net operating loss for the taxable year which is an eligible loss with respect to the taxpayer.

"(ii) Eligible loss.--For purposes of clause (i), the term `eligible loss' means--

"(I) in the case of an individual, losses of property arising from fire, storm, shipwreck, or other casualty, or from theft,

"(II) in the case of a taxpayer which is a small business, net operating losses attributable to Presidentially declared disasters (as defined in section 1033(h)(3)), and

"(III) in the case of a taxpayer engaged in the trade or business of farming (as defined in section 263A(e)(4)), net operating losses attributable to such Presidentially declared disasters.

"(iii) Small business.--For purposes of this subparagraph, the term `small business' means a corporation or partnership which meets the gross receipts test of section 448(c) for the taxable year in which the loss arose (or, in the case of a sole proprietorship, which would meet such test if such proprietorship were a corporation).".

(c) Effective Date.--The amendments made by this section shall apply to net operating losses for taxable years beginning after the date of the enactment of this Act.

SEC. 1083. MODIFICATIONS TO TAXABLE YEARS TO WHICH UNUSED CREDITS MAY BE CARRIED.

(a) In General.--Section 39(a) (relating to unused credits) is amended--

(1) in paragraph (1), by striking "3" each place it appears and inserting "1" and by striking "15" each place it appears and inserting "20"; and

(2) in paragraph (2), by striking "18" each place it appears and inserting "22" and by striking "17" each place it appears and inserting "21".

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

SEC. 1084. EXPANSION OF DENIAL OF DEDUCTION FOR CERTAIN AMOUNTS PAID IN CONNECTION WITH INSURANCE.

(a) Denial of Deduction for Premiums.--

(1) In general.--Paragraph (1) of section 264(a) is amended to read as follows:

"(1) Premiums on any life insurance policy, or endowment or annuity contract, if the taxpayer is directly or indirectly a beneficiary under the policy or contract.".

(2) Exceptions.--Section 264 is amended by redesignating subsections (b), (c), and (d) as subsections (c), (d), and (e), respectively, and by inserting after subsection (a) the following new subsection:

"(b) Exceptions to Subsection (a)(1).--Subsection (a)(1) shall not apply to--

"(1) any annuity contract described in section 72(s)(5), and

"(2) any annuity contract to which section 72(u) applies.".

(b) Interest on Policy Loans.--

(1) In general.--Paragraph (4) of section 264(a) is amended by striking "individual, who" and all that follows and inserting "individual.".

(2) Coordination with transfers for value.--Paragraph (2) of section 101(a) is amended by adding at the end the following new flush sentence:

"The term `other amounts' in the first sentence of this paragraph includes interest paid or accrued by the transferee on indebtedness with respect to such contract or any interest therein if such interest paid or accrued is not allowable as a deduction by reason of section 264(a)(4).".

(c) Pro Rata Allocation of Interest Expense to Policy Cash Values.--Section 264 is amended by adding at the end the following new subsection:

"(f) Pro Rata Allocation of Interest Expense to Policy Cash Values.--

"(1) In general.--No deduction shall be allowed for that portion of the taxpayer's interest expense which is allocable to unborrowed policy cash values.

"(2) Allocation.--For purposes of paragraph (1), the portion of the taxpayer's interest expense which is allocable to unborrowed policy cash values is an amount which bears the same ratio to such interest expense as--

"(A) the taxpayer's average unborrowed policy cash values of life insurance policies, and annuity and endowment contracts, issued after June 8, 1997, bears to

"(B) the sum of--

"(i) in the case of assets of the taxpayer which are life insurance policies or annuity or endowment contracts, the average unborrowed policy cash values of such policies and contracts, and

"(ii) in the case of assets of the taxpayer not described in clause (i), the average adjusted bases (within the meaning of section 1016) of such assets.

"(3) Unborrowed policy cash value.--For purposes of this subsection, the term `unborrowed policy cash value' means, with respect to any life insurance policy or annuity or endowment contract, the excess of--

"(A) the cash surrender value of such policy or contract determined without regard to any surrender charge, over

"(B) the amount of any loan with respect to such policy or contract.

"(4) Exception for certain policies and contracts.--

"(A) Policies and contracts covering 20-percent owners, officers, directors, and employees.--Paragraph (1) shall not apply to any policy or contract owned by an entity engaged in a trade or business if such policy or contract covers only 1 individual and if such individual is (at the time first covered by the policy or contract)--

"(i) a 20-percent owner of such entity, or

"(ii) an individual (not described in clause (i)) who is an officer, director, or employee of such trade or business.

A policy or contract covering a 20-percent owner of such entity shall not be treated as failing to meet the requirements of the preceding sentence by reason of covering the joint lives of such owner and such owner's spouse.

"(B) Contracts subject to current income inclusion.--Paragraph (1) shall not apply to any annuity contract to which section 72(u) applies.

"(C) Coordination with paragraph (2).--Any policy or contract to which paragraph (1) does not apply by reason of this paragraph shall not be taken into account under paragraph (2).

"(D) 20-percent owner.--For purposes of subparagraph (A), the term `20-percent owner' has the meaning given such term by subsection (e)(4).

"(5) Exception for policies and contracts held by natural persons; treatment of partnerships and s corporations.--

"(A) Policies and contracts held by natural persons.--

"(i) In general.--This subsection shall not apply to any policy or contract held by a natural person.

"(ii) Exception where business is beneficiary.--If a trade or business is directly or indirectly the beneficiary under any policy or contract, such policy or contract shall be treated as held by such trade or business and not by a natural person.

"(iii) Special rules.--

"(I) Certain trades or businesses not taken into account.--Clause (ii) shall not apply to any trade or business carried on as a sole proprietorship and to any trade or business performing services as an employee.

"(II) Limitation on unborrowed cash value.--The amount of the unborrowed cash value of any policy or contract which is taken into account by reason of clause (ii) shall not exceed the benefit to which the trade or business is directly or indirectly entitled under the policy or contract.

"(iv) Reporting.--The Secretary shall require such reporting from policyholders and issuers as is necessary to carry out clause (ii). Any report required under the preceding sentence shall be treated as a statement referred to in section 6724(d)(1).

"(B) Treatment of partnerships and s corporations.--In the case of a partnership or S corporation, this subsection shall be applied at the partnership and corporate levels.

"(6) Special rules.--

"(A) Coordination with subsection (a) and section 265.--If interest on any indebtedness is disallowed under subsection (a) or section 265--

"(i) such disallowed interest shall not be taken into account for purposes of applying this subsection, and

"(ii) the amount otherwise taken into account under paragraph (2)(B) shall be reduced (but not below zero) by the amount of such indebtedness.

"(B) Coordination with section 263a.--This subsection shall be applied before the application of section 263A (relating to capitalization of certain expenses where taxpayer produces property).

"(7) Interest expense.--The term `interest expense' means the aggregate amount allowable to the taxpayer as a deduction for interest (within the meaning of section 265(b)(4)) for the taxable year (determined without regard to this subsection, section 265(b), and section 291).

"(8) Aggregation rules.--

"(A) In general.--All members of a controlled group (within the meaning of subsection (d)(5)(B)) shall be treated as 1 taxpayer for purposes of this subsection.

"(B) Treatment of insurance companies.--This subsection shall not apply to an insurance company subject to tax under subchapter L, and subparagraph (A) shall be applied without regard to any member of an affiliated group which is an insurance company.".

(b) Treatment of Insurance Companies.--

(1)(A) Clause (ii) of section 805(a)(4)(C) is amended by inserting ", or out of the increase for the taxable year in policy cash values (within the meaning of subparagraph (F)) of life insurance policies and annuity and endowment contracts to which section 264(f) applies," after "tax-exempt interest".

(B) Clause (iii) of section 805(a)(4)(D) is amended by striking "and" and inserting ", the increase for the taxable year in policy cash values (within the meaning of subparagraph (F)) of life insurance policies and annuity and endowment contracts to which section 264(f) applies, and".

(C) Paragraph (4) of section 805(a) is amended by adding at the end the following new subparagraph:

"(F) Increase in policy cash values.--For purposes of subparagraphs (C) and (D)--

"(i) In general.--The increase in the policy cash value for any taxable year with respect to policy or contract is the amount of the increase in the adjusted cash value during such taxable year determined without regard to--

"(I) gross premiums paid during such taxable year, and

"(II) distributions (other than amounts includible in the policyholder's gross income) during such taxable year to which section 72(e) applies.

"(ii) Adjusted cash value.--For purposes of clause (i), the term `adjusted cash value' means the cash surrender value of the policy or contract increased by the sum of--

"(I) commissions payable with respect to such policy or contract for the taxable year, and

"(II) asset management fees, surrender charges, mortality and expense charges, and any other fees or charges specified in regulations prescribed by the Secretary which are imposed (or which would be imposed were the policy or contract canceled) with respect to such policy or contract for the taxable year.".

(2)(A) Subparagraph (B) of section 807(a)(2) is amended by striking "interest," and inserting "interest and the amount of the policyholder's share of the increase for the taxable year in policy cash values (within the meaning of section 805(a)(4)(F)) of life insurance policies and annuity and endowment contracts to which section 264(f) applies,".

(B) Subparagraph (B) of section 807(b)(1) is amended by striking "interest," and inserting "interest and the amount of the policyholder's share of the increase for the taxable year in policy cash values (within the meaning of section 805(a)(4)(F)) of life insurance policies and annuity and endowment contracts to which section 264(f) applies,".

(3) Paragraph (1) of section 812(d) 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) the increase for any taxable year in the policy cash values (within the meaning of section 805(a)(4)(F)) of life insurance policies and annuity and endowment contracts to which section 264(f) applies.".

(4) Subparagraph (B) of section 832(b)(5) is amended by striking "and" at the end of clause (i), by striking the period at the end of clause (ii) and inserting ", and", and by adding at the end the following new clause:

"(iii) the increase for the taxable year in policy cash values (within the meaning of section 805(a)(4)(F)) of life insurance policies and annuity and endowment contracts to which section 264(f) applies.".

(c) Conforming Amendment.--Subparagraph (A) of section 265(b)(4) is amended by inserting ", section 264," before "and section 291".

(d) Effective Date.--The amendments made by this section shall apply to contracts issued after June 8, 1997, in taxable years ending after such date. For purposes of the preceding sentence, any material increase in the death benefit or other material change in the contract shall be treated as a new contract but the addition of covered lives shall be treated as a new contract only with respect to such additional covered lives. For purposes of this subsection, an increase in the death benefit under a policy or contract issued in connection with a lapse described in section 501(d)(2) of the Health Insurance Portability and Accountability Act of 1996 shall not be treated as a new contract.

SEC. 1085. IMPROVED ENFORCEMENT OF THE APPLICATION OF THE EARNED INCOME CREDIT.

(a) Restrictions on Availability of Earned Income Credit for Taxpayers who Improperly Claimed Credit in Prior Year.--

(1) In general.--Section 32 is amended by redesignating subsections (k) and (l) as subsections (l) and (m), respectively, and by inserting after subsection (j) the following new subsection:

"(k) Restrictions on Taxpayers Who Improperly Claimed Credit in Prior Year.--

"(1) Taxpayers making prior fraudulent or reckless claims.--

"(A) In general.--No credit shall be allowed under this section for any taxable year in the disallowance period.

"(B) Disallowance period.--For purposes of paragraph (1), the disallowance period is--

"(i) the period of 10 taxable years after the most recent taxable year for which there was a final determination that the taxpayer's claim of credit under this section was due to fraud, and

"(ii) the period of 2 taxable years after the most recent taxable year for which there was a final determination that the taxpayer's claim of credit under this section was due to reckless or intentional disregard of rules and regulations (but not due to fraud).

"(2) Taxpayers making improper prior claims.--In the case of a taxpayer who is denied credit under this section for any taxable year as a result of the deficiency procedures under subchapter B of chapter 63, no credit shall be allowed under this section for any subsequent taxable year unless the taxpayer provides such information as the Secretary may require to demonstrate eligibility for such credit.".

(2) Due diligence requirement on income tax return preparers.--Section 6695 is amended by adding at the end the following new subsection:

"(g) Failure To Be Diligent in Determining Eligibility for Earned Income Credit.--Any person who is an income tax return preparer with respect to any return or claim for refund who fails to comply with due diligence requirements imposed by the Secretary by regulations with respect to determining eligibility for, or the amount of, the credit allowable by section 32 shall pay a penalty of $100 for each such failure.".

(3) Extension procedures applicable to mathematical or clerical errors.--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 (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 information required by section 32(k)(2) (relating to taxpayers making improper prior claims of earned income credit).".

(b) Increase in Net Loss Disregarded for Modified Adjusted gross Income.--Section 32(c)(5)(B)(iv) is amended by striking "50 percent" and inserting "75 percent".

(c) Workfare Payments Not Included in Earned Income.--Section 32(c)(2)(B) is amended by striking "and" at the end of clause (iii), by striking the period at the end of clause (iv) and inserting ", and", and by adding at the end the following new clause:

"(v) no amount described in subparagraph (A) received for service performed in work activities as defined in section 407(d) of the Social Security Act to which the taxpayer is assigned under any State program under part A of title IV of such Act, but only to the extent such amount is subsidized under such State program.".

(d) Certain Nontaxable Income Included in Modified Adjusted Gross Income.--Section 32(c)(5)(B) is amended--

(1) by striking "and" at the end of clause (iii),

(2) by striking the period at the end of clause (iv)(III),

(3) by inserting after clause (iv)(III) the following new clauses:

"(v) interest received or accrued during the taxable year which is exempt from tax imposed by this chapter, and

"(vi) amounts received as a pension or annuity, and any distributions or payments received from an individual retirement plan, by the taxpayer during the taxable year to the extent not included in gross income.", and

(4) by adding at the end the following new sentence: "Clause (vi) shall not include any amount which is not includible in gross income by reason of section 402(c), 403(a)(4), 403(b), 408(d) (3), (4), or (5), or 457(e)(10).".

(e) Effective Dates.--

(1) The amendments made by subsection (a) shall apply to taxable years beginning after December 31, 1996.

(2) The amendments made by subsections (b), (c), and (d) shall apply to taxable years beginning after December 31, 1997.

SEC. 1086. LIMITATION ON PROPERTY FOR WHICH INCOME FORECAST METHOD MAY BE USED.

(a) Limitation.--Subsection (g) of section 167 is amended by adding at the end the following new paragraph:

"(6) Limitation on property for which income forecast method may be used.--The depreciation deduction allowable under this section may be determined under the income forecast method or any similar method only with respect to--

"(A) property described in paragraph (3) or (4) of section 168(f),

"(B) copyrights,

"(C) books,

"(D) patents, and

"(E) other property specified in regulations.

Such methods may not be used with respect to any amortizable section 197 intangible (as defined in section 197(c)).".

(b) Depreciation Period for Rent-To-own Property.--

(1) In general.--Subparagraph (A) of section 168(e)(3) (relating to 3-year property) is amended by striking "and" at the end of clause (i), by striking the period at the end of clause (ii) and inserting ", and", and by adding at the end the following new clause:

"(iii) any qualified rent-to-own property.".

(2) 4-year class life.--The table contained in section 168(g)(3)(B) is amended by inserting before the first item the following new item:

"(A)(iii)4_14".

(3) Definition of qualified rent-to-own property.--Subsection (i) of section 168 is amended by adding at the end the following new paragraph:

"(14) Qualified rent-to-own property.--

"(A) In general.--The term `qualified rent-to-own property' means property held by a rent-to-own dealer for purposes of being subject to a rent-to-own contract.

"(B) Rent-to-own dealer.--The term `rent-to-own dealer' means a person that, in the ordinary course of business, regularly enters into rent-to-own contracts with customers for the use of consumer property, if a substantial portion of those contracts terminate and the property is returned to such person before the receipt of all payments required to transfer ownership of the property from such person to the customer.

"(C) Consumer property.--The term `consumer property' means tangible personal property of a type generally used within the home for personal use.

"(D) Rent-to-own contract.--The term `rent-to-own contract' means any lease for the use of consumer property between a rent-to-own dealer and a customer who is an individual which--

"(i) is titled `Rent-to-Own Agreement' or `Lease Agreement with Ownership Option,' or uses other similar language,

"(ii) provides for level (or decreasing where no payment is less than 40 percent of the largest payment), regular periodic payments (for a payment period which is a week or month),

"(iii) provides that legal title to such property remains with the rent-to-own dealer until the customer makes all the payments described in clause (ii) or early purchase payments required under the contract to acquire legal title to the item of property,

"(iv) provides a beginning date and a maximum period of time for which the contract may be in effect that does not exceed 156 weeks or 36 months from such beginning date (including renewals or options to extend),

"(v) provides for payments within the 156-week or 36-month period that, in the aggregate, generally exceed the normal retail price of the consumer property plus interest,

"(vi) provides for payments under the contract that, in the aggregate, do not exceed $10,000 per item of consumer property,

"(vii) provides that the customer does not have any legal obligation to make all the payments referred to in clause (ii) set forth under the contract, and that at the end of each payment period the customer may either continue to use the consumer property by making the payment for the next payment period or return such property to the rent-to-own dealer in good working order, in which case the customer does not incur any further obligations under the contract and is not entitled to a return of any payments previously made under the contract, and

"(viii) provides that the customer has no right to sell, sublease, mortgage, pawn, pledge, encumber, or otherwise dispose of the consumer property until all the payments stated in the contract have been made.".

(c) Effective Date.--The amendment made by this section shall apply to property placed in service after the date of the enactment of this Act.

SEC. 1087. EXPANSION OF REQUIREMENT THAT INVOLUNTARILY CONVERTED PROPERTY BE REPLACED WITH PROPERTY ACQUIRED FROM AN UNRELATED PERSON.

(a) In General.--Subsection (i) of section 1033 is amended to read as follows:

"(i) Replacement Property Must Be Acquired From Unrelated Person in Certain Cases.--

"(1) In general.--If the property which is involuntarily converted is held by a taxpayer to which this subsection applies, subsection (a) shall not apply if the replacement property or stock is acquired from a related person. The preceding sentence shall not apply to the extent that the related person acquired the replacement property or stock from an unrelated person during the period applicable under subsection (a)(2)(B).

"(2) Taxpayers to which subsection applies.--This subsection shall apply to--

"(A) a C corporation,

"(B) a partnership in which 1 or more C corporations own, directly or indirectly (determined in accordance with section 707(b)(3)), more than 50 percent of the capital interest, or profits interest, in such partnership at the time of the involuntary conversion, and

"(C) any other taxpayer if, with respect to property which is involuntarily converted during the taxable year, the aggregate of the amount of realized gain on such property on which there is realized gain exceeds $100,000.

In the case of a partnership, subparagraph (C) shall apply with respect to the partnership and with respect to each partner. A similar rule shall apply in the case of an S corporation and its shareholders.

"(3) Related person.--For purposes of this subsection, a person is related to another person if the person bears a relationship to the other person described in section 267(b) or 707(b)(1).".

(b) Effective Date.--The amendment made by this section shall apply to involuntary conversions occurring after June 8, 1997.

SEC. 1088. TREATMENT OF EXCEPTION FROM INSTALLMENT SALES RULES FOR SALES OF PROPERTY BY A MANUFACTURER TO A DEALER.

(a) In General.--Paragraph (2) of section 811(c) of the Tax Reform Act of 1986 is hereby repealed.

(b) Effective Date.--

(1) In general.--The amendment made by this section shall apply to taxable years beginning more than 1 year after the date of the enactment of this Act.

(2) Coordination with section 481.--In the case of any taxpayer required by this section to change its method of accounting for any taxable year--

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

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

(C) the net amount of the adjustments required to be taken into account under section 481(a) of the Internal Revenue Code of 1986 shall be taken into account ratably over the 4 taxable year period beginning with the first taxable year beginning after the date of the enactment of this Act.

SEC. 1089. LIMITATIONS ON CHARITABLE REMAINDER TRUST ELIGIBILITY FOR CERTAIN TRUSTS.

(a) Limitation on Noncharitable Distributions.--

(1) In general.--Paragraphs (1)(A) and (2)(A) of section 664(d) (relating to charitable remainder trusts) are each amended by inserting "nor more than 50 percent" after "not less than 5 percent".

(2) Effective date.--The amendment made by paragraph (1) shall apply to transfers in trust after June 18, 1997.

(b) Minimum Charitable Benefit.--

(1) Charitable remainder annuity trusts.--Paragraph (1) of section 664(d) is amended by striking "and" at the end of subparagraph (B), by striking the period at the end of subparagraph (C), and by adding at the end the following new subparagraph:

"(D) the value (determined under section 7520) of such remainder interest is at least 10 percent of the initial net fair market value of all property placed in the trust."

(2) Charitable remainder unitrusts.--Paragraph (2) of section 664(d) is amended by striking "and" at the end of subparagraph (B), by striking the period at the end of subparagraph (C), and by adding at the end the following new subparagraph:

"(D) with respect to each contribution of property to the trust, the value (determined under section 7520) of such remainder interest in such property is at least 10 percent of the net fair market value of such property as of the date such property is contributed to the trust.".

(3) Void or reformed trust.--Paragraph (3) of section 2055(e) is amended by adding at the end the following new subparagraph:

"(J) Void or reformed trust in cases of insufficient remainder interests.--In the case of a trust that would qualify (or could be reformed to qualify pursuant to subparagraph (B)) but for failure to satisfy the requirement of paragraph (1)(D) or (2)(D) of section 664(d), such trust may be--

"(i) declared null and void ab initio, or

"(ii) changed by reformation, amendment, or otherwise to meet such requirement by reducing the payout rate or the duration (or both) of any noncharitable beneficiary's interest to the extent necessary to satisfy such requirement,

pursuant to a proceeding that is commenced within the period required in subparagraph (C)(iii). In a case described in clause (i), no deduction shall be allowed under this title for any transfer to the trust and any transactions entered into by the trust prior to being declared void shall be treated as entered into by the transferor."

(4) Severance of certain additional contributions.--Subsection (d) of section 664 is amended by adding at the end the following new paragraph:

"(4) Severance of certain additional contributions.--If--

"(A) any contribution is made to a trust which before the contribution is a charitable remainder unitrust, and

"(B) such contribution would (but for this paragraph) result in such trust ceasing to be a charitable unitrust by reason of paragraph (2)(D),

such contribution shall be treated as a transfer to a separate trust under regulations prescribed by the Secretary."

(5) Conforming amendment.--Section 2055(e)(3)(G) is amended by inserting "(or other proceeding pursuant to subparagraph (J)" after "reformation".

(6) Effective dates.--

(A) In general.--Except as otherwise provided in this paragraph, the amendments made by this subsection shall apply to transfers in trust after July 28, 1997.

(B) Special rule for certain decedents.--The amendments made by this subsection shall not apply to transfers in trust under the terms of a will (or other testamentary instrument) executed on or before July 28, 1997, if the decedent--

(i) dies before January 1, 1999, without having republished the will (or amended such instrument) by codicil or otherwise, or

(ii) was on July 28, 1997, under a mental disability to change the disposition of his property and did not regain his competence to dispose of such property before the date of his death.

SEC. 1090. EXPANDED SSA RECORDS FOR TAX ENFORCEMENT.

(a) Expansion of Coordinated Enforcement Efforts of IRS and HHS Office of Child Support Enforcement.--

(1) State reporting of ssn of child.--Section 454A(e)(4)(D) of the Social Security Act (42 U.S.C.

654a(e)(4)(D)) is amended by striking "the birth date of any child" and inserting "the birth date and, beginning not later than October 1, 1999, the social security number, of any child".

(2) Federal case registry of child support orders.--Section 453(h) of such Act (42 U.S.C. 653(h)) is amended--

(A) in paragraph (2), by adding at the end the following: "Beginning not later than October 1, 1999, the information referred to in paragraph (1) shall include the names and social security numbers of the children of such individuals."; and

(B) by adding at the end the following:

"(3) Administration of federal tax laws.--The Secretary of the Treasury shall have access to the information described in paragraph (2) for the purpose of administering those sections of the Internal Revenue Code of 1986 which grant tax benefits based on support or residence of children.".

CH registry

(3) Coordination between secretaries.--The Secretary of the Treasury and the Secretary of Health and Human Services shall consult regarding the implementation issues resulting from the amendments made by this subsection, including interim deadlines for States that may be able before October 1, 1999, to provide the data required by such amendments. The Secretaries shall report to Congress on the results of such consultation.

(4) Effective date.--The amendments made by this subsection shall take effect on October 1, 1998.

(b) Required Submission of SSN's on Applications.--

(1) In general.--Section 205(c)(2) of the Social Security Act (42 U.S.C. 405(c)(2)) is amended--

(A) in subparagraph (B)(ii), by adding at the end the following new sentence: "With respect to an application for a social security account number for an individual who has not attained the age of 18 before such application, such evidence shall include the information described in subparagraph (C)(ii).",

(B) in the second sentence of subparagraph (C)(ii), insert "the Commissioner of Social Security and" after "available to", and

(C) by adding at the end the following new subparagraph:

"(H) The Commissioner of Social Security shall share with the Secretary of the Treasury the information obtained by the Commissioner pursuant to the second sentence of subparagraph (B)(ii) and to subparagraph (C)(ii) for the purpose of administering those sections of the Internal Revenue Code of 1986 which grant tax benefits based on support or residence of children.".

(2) Effective dates.--

(A) The amendment made by paragraph (1)(A) shall apply to applications made after the date which is 180 days after the date of the enactment of this Act.

(B) The amendments made by subparagraphs (B) and (C) of paragraph (1) shall apply to information obtained on, before, or after the date of the enactment of this Act.

SEC. 1091. MODIFICATION OF ESTIMATED TAX SAFE HARBORS.

(a) In General.--Clause (i) of section 6654(d)(1)(C) (relating to limitation on use of preceding year's tax) is amended to read as follows:

"(i) In general.--If the adjusted gross income shown on the return of the individual for the preceding taxable year beginning in any calendar year exceeds $150,000, clause (ii) of subparagraph (B) shall be applied by substituting the applicable percentage for `100 percent'. For purposes of the preceding sentence, the applicable percentage shall be determined in accordance with the following table:

The applicable

"If the preceding taxable year begins in:

percentage is:

1998, 1999, or 2000 105_05

2001 112_05

2002 or thereafter 110.

This clause shall not apply in the case of a preceding taxable year beginning in calendar year 1997.".

(b) Effective Date.--The amendment made by this section shall apply with respect to any installment payment for taxable years beginning after December 31, 1997.TITLE XI--SIMPLIFICATION AND OTHER FOREIGN-RELATED PROVISIONS

Subtitle A--General Provisions

SEC. 1101. CERTAIN INDIVIDUALS EXEMPT FROM FOREIGN TAX CREDIT LIMITATION.

(a) General Rule.--Section 904 (relating to limitations on foreign tax credit) is amended by redesignating subsection (j) as subsection (k) and by inserting after subsection (i) the following new subsection:

"(j) Certain Individuals Exempt.--

"(1) In general.--In the case of an individual to whom this subsection applies for any taxable year--

"(A) the limitation of subsection (a) shall not apply,

"(B) no taxes paid or accrued by the individual during such taxable year may be deemed paid or accrued under subsection (c) in any other taxable year, and

"(C) no taxes paid or accrued by the individual during any other taxable year may be deemed paid or accrued under subsection (c) in such taxable year.

"(2) Individuals to whom subsection applies.--This subsection shall apply to an individual for any taxable year if--

"(A) the entire amount of such individual's gross income for the taxable year from sources without the United States consists of qualified passive income,

"(B) the amount of the creditable foreign taxes paid or accrued by the individual during the taxable year does not exceed $300 ($600 in the case of a joint return), and

"(C) such individual elects to have this subsection apply for the taxable year.

"(3) Definitions.--For purposes of this subsection--

"(A) Qualified passive income.--The term `qualified passive income' means any item of gross income if--

"(i) such item of income is passive income (as defined in subsection (d)(2)(A) without regard to clause (iii) thereof), and "(ii) such item of income is shown on a payee statement furnished to the individual.

"(B) Creditable foreign taxes.--The term `creditable foreign taxes' means any taxes for which a credit is allowable under section 901; except that such term shall not include any tax unless such tax is shown on a payee statement furnished to such individual.

"(C) Payee statement.--The term `payee statement' has the meaning given to such term by section 6724(d)(2).

"(D) Estates and trusts not eligible.--This subsection shall not apply to any estate or trust.".

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

SEC. 1102. EXCHANGE RATE USED IN TRANSLATING FOREIGN TAXES.

(a) Accrued Taxes Translated by Using Average Rate for Year to Which Taxes Relate.--

(1) In general.--Subsection (a) of section 986 (relating to translation of foreign taxes) is amended to read as follows:

"(a) Foreign Income Taxes.--

"(1) Translation of accrued taxes.--

"(A) In general.--For purposes of determining the amount of the foreign tax credit, in the case of a taxpayer who takes foreign income taxes into account when accrued, the amount of any foreign income taxes (and any adjustment thereto) shall be translated into dollars by using the average exchange rate for the taxable year to which such taxes relate.

"(B) Exception for certain taxes.--Subparagraph (A) shall not apply to any foreign income taxes--

"(i) paid after the date 2 years after the close of the taxable year to which such taxes relate, or

"(ii) paid before the beginning of the taxable year to which such taxes relate.

"(C) Exception for inflationary currencies.--Subparagraph (A) shall not apply to any foreign income taxes the liability for which is denominated in any inflationary currency (as determined under regulations).

"(D) Cross reference.--

"For adjustments where tax is not paid within 2 years, see section 905(c).

"(2) Translation of taxes to which paragraph (1) does not apply.--For purposes of determining the amount of the foreign tax credit, in the case of any foreign income taxes to which subparagraph (A) of paragraph (1) does not apply--

"(A) such taxes shall be translated into dollars using the exchange rates as of the time such taxes were paid to the foreign country or possession of the United States, and

"(B) any adjustment to the amount of such taxes shall be translated into dollars using--

"(i) except as provided in clause (ii), the exchange rate as of the time when such adjustment is paid to the foreign country or possession, or

"(ii) in the case of any refund or credit of foreign income taxes, using the exchange rate as of the time of the original payment of such foreign income taxes.

"(3) Foreign income taxes.--For purposes of this subsection, the term `foreign income taxes' means any income, war profits, or excess profits taxes paid or accrued to any foreign country or to any possession of the United States.".

(2) Adjustment when not paid within 2 years after year to which taxes relate.--Subsection (c) of section 905 is amended to read as follows:

"(c) Adjustments to Accrued Taxes.--

"(1) In general.--If--

"(A) accrued taxes when paid differ from the amounts claimed as credits by the taxpayer,

"(B) accrued taxes are not paid before the date 2 years after the close of the taxable year to which such taxes relate, or

"(C) any tax paid is refunded in whole or in part,

the taxpayer shall notify the Secretary, who shall redetermine the amount of the tax for the year or years affected. The Secretary may prescribe adjustments to the pools of post-1986 foreign income taxes and the pools of post-1986 undistributed earnings under sections 902 and 960 in lieu of the redetermination under the preceding sentence.

"(2) Special rule for taxes not paid within 2 years.--

"(A) In general.--Except as provided in subparagraph (B), in making the redetermination under paragraph (1), no credit shall be allowed for accrued taxes not paid before the date referred to in subparagraph (B) of paragraph (1).

"(B) Taxes subsequently paid.--Any such taxes if subsequently paid--

"(i) shall be taken into account--

"(I) in the case of taxes deemed paid under section 902 or section 960, for the taxable year in which paid (and no redetermination shall be made under this section by reason of such payment), and

"(II) in any other case, for the taxable year to which such taxes relate, and

"(ii) shall be translated as provided in section 986(a)(2)(A).

"(3) Adjustments.--The amount of tax (if any) due on any redetermination under paragraph (1) shall be paid by the taxpayer on notice and demand by the Secretary, and the amount of tax overpaid (if any) shall be credited or refunded to the taxpayer in accordance with subchapter B of chapter 66 (section 6511 et seq.).

"(4) Bond requirements.--In the case of any tax accrued but not paid, the Secretary, as a condition precedent to the allowance of the credit provided in this subpart, may require the taxpayer to give a bond, with sureties satisfactory to and approved by the Secretary, in such sum as the Secretary may require, conditioned on the payment by the taxpayer of any amount of tax found due on any such redetermination. Any such bond shall contain such further conditions as the Secretary may require.

"(5) Other special rules.--In any redetermination under paragraph (1) by the Secretary of the amount of tax due from the taxpayer for the year or years affected by a refund, the amount of the taxes refunded for which credit has been allowed under this section shall be reduced by the amount of any tax described in section 901 imposed by the foreign country or possession of the United States with respect to such refund; but no credit under this subpart, or deduction under section 164, shall be allowed for any taxable year with respect to any such tax imposed on the refund. No interest shall be assessed or collected on any amount of tax due on any redetermination by the Secretary, resulting from a refund to the taxpayer, for any period before the receipt of such refund, except to the extent interest was paid by the foreign country or possession of the United States on such refund for such period.".

(b) Authority To Use Average Rates.--

(1) In general.--Subsection (a) of section 986 (as amended by subsection (a)) is amended by redesignating paragraph (3) as paragraph (4) and inserting after paragraph (2) the following new paragraph:

"(3) Authority to permit use of average rates.--To the extent prescribed in regulations, the average exchange rate for the period (specified in such regulations) during which the taxes or adjustment is paid may be used instead of the exchange rate as of the time of such payment.".

(2) Determination of average rates.--Subsection (c) of section 989 is amended by striking "and" at the end of paragraph (4), by striking the period at the end of paragraph (5) and inserting ", and", and by adding at the end thereof the following new paragraph:

"(6) setting forth procedures for determining the average exchange rate for any period.".

(3) Conforming amendments.--Subsection (b) of section 989 is amended by striking "weighted" each place it appears.

(c) Effective Dates.--

(1) In general.--The amendments made by subsections (a)(1) and (b) shall apply to taxes paid or accrued in taxable years beginning after December 31, 1997.

(2) Subsection (a)(2).--The amendment made by subsection (a)(2) shall apply to taxes which relate to taxable years beginning after December 31, 1997.

SEC. 1103. ELECTION TO USE SIMPLIFIED SECTION 904 LIMITATION FOR ALTERNATIVE MINIMUM TAX.

(a) General Rule.--Subsection (a) of section 59 (relating to alternative minimum tax foreign tax credit) is amended by adding at the end thereof the following new paragraph:

"(3) Election to use simplified section 904 limitation.--

"(A) In general.--In determining the alternative minimum tax foreign tax credit for any taxable year to which an election under this paragraph applies--

"(i) subparagraph (B) of paragraph (1) shall not apply, and

"(ii) the limitation of section 904 shall be based on the proportion which--

"(I) the taxpayer's taxable income (as determined for purposes of the regular tax) from sources without the United States (but not in excess of the taxpayer's entire alternative minimum taxable income), bears to

"(II) the taxpayer's entire alternative minimum taxable income for the taxable year.

"(B) Election.--

"(i) In general.--An election under this paragraph may be made only for the taxpayer's first taxable year which begins after December 31, 1997, and for which the taxpayer claims an alternative minimum tax foreign tax credit.

"(ii) Election revocable only with consent.--An election under this paragraph, once made, shall apply to the taxable year for which made and all subsequent taxable years unless revoked with the consent of the Secretary.".

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

SEC. 1104. TREATMENT OF PERSONAL TRANSACTIONS BY INDIVIDUALS UNDER FOREIGN CURRENCY RULES.

(a) General Rule.--Subsection (e) of section 988 (relating to application to individuals) is amended to read as follows:

"(e) Application to Individuals.--

"(1) In general.--The preceding provisions of this section shall not apply to any section 988 transaction entered into by an individual which is a personal transaction.

"(2) Exclusion for certain personal transactions.--If--

"(A) nonfunctional currency is disposed of by an individual in any transaction, and

"(B) such transaction is a personal transaction,

no gain shall be recognized for purposes of this subtitle by reason of changes in exchange rates after such currency was acquired by such individual and before such disposition. The preceding sentence shall not apply if the gain which would otherwise be recognized on the transaction exceeds $200.

"(3) Personal transactions.--For purposes of this subsection, the term `personal transaction' means any transaction entered into by an individual, except that such term shall not include any transaction to the extent that expenses properly allocable to such transaction meet the requirements of--

"(A) section 162 (other than traveling expenses described in subsection (a)(2) thereof), or

"(B) section 212 (other than that part of section 212 dealing with expenses incurred in connection with taxes).".

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

SEC. 1105. FOREIGN TAX CREDIT TREATMENT OF DIVIDENDS FROM NONCONTROLLED SECTION 902 CORPORATIONS.

(a) Separate Basket Only To Apply to Pre-2003 Earnings.--

(1) In general.--Subparagraph (E) of section 904(d)(1) is amended to read as follows:

"(E) in the case of a corporation, dividends from noncontrolled section 902 corporations out of earnings and profits accumulated in taxable years beginning before January 1, 2003,".

(2) Aggregation of non-pfics.--Subparagraph (E) of section 904(d)(2) (relating to noncontrolled section 902 corporations) is amended by adding at the end the following new clause:

"(iv) All non-pfics treated as one.--All noncontrolled section 902 corporations which are not passive foreign investment companies (as defined in section 1297) shall be treated as one noncontrolled section 902 corporation for purposes of paragraph (1).".

(3) Conforming amendments.--Subparagraphs (C)(iii)(II) and (D) of section 904(d)(2) are each amended

by inserting "out of earnings and profits accumulated in taxable years beginning before January 1, 2003" after "corporation".

(b) Application of Look-Thru Rules to Dividends of Noncontrolled Section 902 Corporations Attributable to Post-2002 Earnings.--Section 904(d) is amended by redesignating paragraphs (4) and (5) as paragraphs (5) and (6), respectively, and by inserting after paragraph (3) the following new paragraph:

"(4) Look-thru applies to dividends from noncontrolled section 902 corporations.--

"(A) In general.--For purposes of this subsection, any applicable dividend shall be treated as income in a separate category in proportion to the ratio of--

"(i) the portion of the earnings and profits described in subparagraph (B)(ii) attributable to income in such category, to

"(ii) the total amount of such earnings and profits.

"(B) Applicable dividend.--For purposes of subparagraph (A), the term `applicable dividend' means any dividend--

"(i) from a noncontrolled section 902 corporation with respect to the taxpayer, and

"(ii) paid out of earnings and profits accumulated in taxable years beginning after December 31, 2002.

"(C) Special rules.--

"(i) In general.--Rules similar to the rules of paragraph (3)(F) shall apply for purposes of this paragraph.

"(ii) Earnings and profits.--For purposes of this paragraph and paragraph (1)(E)--

"(I) In general.--The rules of section 316 shall apply.

"(II) Regulations.--The Secretary may prescribe regulations regarding the treatment of distributions out of earnings and profits for periods prior to the taxpayer's acquisition of such stock.".

(c) Effective Date.--The amendments made by this section shall apply to taxable years beginning after December 31, 2002.

Subtitle B--Treatment of Controlled Foreign Corporations

SEC. 1111. GAIN ON CERTAIN STOCK SALES BY CONTROLLED FOREIGN CORPORATIONS TREATED AS DIVIDENDS.

(a) General Rule.--Section 964 (relating to miscellaneous provisions) is amended by adding at the end thereof the following new subsection:

"(e) Gain on Certain Stock Sales by Controlled Foreign Corporations Treated as Dividends.--

"(1) In general.--If a controlled foreign corporation sells or exchanges stock in any other foreign corporation, gain recognized on such sale or exchange shall be included in the gross income of such controlled foreign corporation as a dividend to the same extent that it would have been so included under section 1248(a) if such controlled foreign corporation were a United States person. For purposes of determining the amount which would have been so includible, the determination of whether such other foreign corporation was a controlled foreign corporation shall be made without regard to the preceding sentence.

"(2) Same country exception not applicable.--Clause (i) of section 954(c)(3)(A) shall not apply to any amount treated as a dividend by reason of paragraph (1).

"(3) Clarification of deemed sales.--For purposes of this subsection, a controlled foreign corporation shall be treated as having sold or exchanged any stock if, under any provision of this subtitle, such controlled foreign corporation is treated as having gain from the sale or exchange of such stock.".

(b) Amendment of Section 904(d).--Clause (i) of section 904(d)(2)(E) is amended by striking "and except as provided in regulations, the taxpayer was a United States shareholder in such corporation".

(c) Effective Dates.--

(1) The amendment made by subsection (a) shall apply to gain recognized on transactions occurring after the date of the enactment of this Act.

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

SEC. 1112. MISCELLANEOUS MODIFICATIONS TO SUBPART F.

(a) Section 1248 Gain Taken Into Account in Determining Pro Rata Share.--

(1) In general.--Paragraph (2) of section 951(a) (defining pro rata share of subpart F income) is amended by adding at the end thereof the following new sentence: "For purposes of subparagraph (B), any gain included in the gross income of any person as a dividend under section 1248 shall be treated as a distribution received by such person with respect to the stock involved.".

(2) Effective date.--The amendment made by paragraph (1) shall apply to dispositions after the date of the enactment of this Act.

(b) Basis Adjustments in Stock Held by Foreign Corporation.--

(1) In general.--Section 961 (relating to adjustments to basis of stock in controlled foreign corporations and of other property) is amended by adding at the end thereof the following new subsection:

"(c) Basis Adjustments in Stock Held by Foreign Corporation.--Under regulations prescribed by the Secretary, if a United States shareholder is treated under section 958(a)(2) as owning any stock in a controlled foreign corporation which is actually owned by another controlled foreign corporation, adjustments similar to the adjustments provided by subsections (a) and (b) shall be made to the basis of such stock in the hands of such other controlled foreign corporation, but only for the purposes of determining the amount included under section 951 in the gross income of such United States shareholder (or any other United States shareholder who acquires from any person any portion of the interest of such United States shareholder by reason of which such shareholder was treated as owning such stock, but only to the extent of such portion, and subject to such proof of identity of such interest as the Secretary may prescribe by regulations).".

(2) Effective date.--The amendment made by paragraph (1) shall apply for purposes of determining inclusions for taxable years of United States shareholders beginning after December 31, 1997.

(c) Clarification of Treatment of Branch Tax Exemptions or Reductions.--

(1) In general.--Subsection (b) of section 952 is amended by adding at the end thereof the following new sentence: "For purposes of this subsection, any exemption (or reduction) with respect to the tax imposed by section 884 shall not be taken into account.".

(2) Effective date.--The amendment made by paragraph (1) shall apply to taxable years beginning after December 31, 1986.

SEC. 1113. INDIRECT FOREIGN TAX CREDIT ALLOWED FOR CERTAIN LOWER TIER COMPANIES.

(a) Section 902 Credit.--

(1) In general.--Subsection (b) of section 902 (relating to deemed taxes increased in case of certain 2nd and 3rd tier foreign corporations) is amended to read as follows:

"(b) Deemed Taxes Increased in Case of Certain Lower Tier Corporations.--

"(1) In general.--If--

"(A) any foreign corporation is a member of a qualified group, and

"(B) such foreign corporation owns 10 percent or more of the voting stock of another member of such group from which it receives dividends in any taxable year,

such foreign corporation shall be deemed to have paid the same proportion of such other member's post-1986 foreign income taxes as would be determined under subsection (a) if such foreign corporation were a domestic corporation.

"(2) Qualified group.--For purposes of paragraph (1), the term `qualified group' means--

"(A) the foreign corporation described in subsection (a), and

"(B) any other foreign corporation if--

"(i) the domestic corporation owns at least 5 percent of the voting stock of such other foreign corporation indirectly through a chain of foreign corporations connected through stock ownership of at least 10 percent of their voting stock,

"(ii) the foreign corporation described in subsection (a) is the first tier corporation in such chain, and

"(iii) such other corporation is not below the sixth tier in such chain.

The term `qualified group' shall not include any foreign corporation below the third tier in the chain referred to in clause (i) unless such foreign corporation is a controlled foreign corporation (as defined in section 957) and the domestic corporation is a United States shareholder (as defined in section 951(b)) in such foreign corporation. Paragraph (1) shall apply to those taxes paid by a member of the qualified group below the third tier only with respect to periods during which it was a controlled foreign corporation.".

(2) Conforming amendments.--

(A) Subparagraph (B) of section 902(c)(3) is amended by adding "or" at the end of clause (i) and by striking clauses (ii) and (iii) and inserting the following new clause:

"(ii) the requirements of subsection (b)(2) are met with respect to such foreign corporation.".

(B) Subparagraph (B) of section 902(c)(4) is amended by striking "3rd foreign corporation" and inserting "sixth tier foreign corporation".

(C) The heading for paragraph (3) of section 902(c) is amended by striking "where domestic corporation acquires 10 percent of foreign corporation" and inserting "where foreign corporation first qualifies".

(D) Paragraph (3) of section 902(c) is amended by striking "ownership" each place it appears.

(b) Section 960 Credit.--Paragraph (1) of section 960(a) (relating to special rules for foreign tax credits) is amended to read as follows:

"(1) Deemed paid credit.--For purposes of subpart A of this part, if there is included under section 951(a) in the gross income of a domestic corporation any amount attributable to earnings and profits of a foreign corporation which is a member of a qualified group (as defined in section 902(b)) with respect to the domestic corporation, then, except to the extent provided in regulations, section 902 shall be applied as if the amount so included were a dividend paid by such foreign corporation (determined by applying section 902(c) in accordance with section 904(d)(3)(B)).".

(c) Effective Date.--

(1) In general.--The amendments made by this section shall apply to taxes of foreign corporations for taxable years of such corporations beginning after the date of enactment of this Act.

(2) Special rule.--In the case of any chain of foreign corporations described in clauses (i) and (ii) of section 902(b)(2)(B) of the Internal Revenue Code of 1986 (as amended by this section), no liquidation, reorganization, or similar transaction in a taxable year beginning after the date of the enactment of this Act shall have the effect of permitting taxes to be taken into account under section 902 of the Internal Revenue Code of 1986 which could not have been taken into account under such section but for such transaction.

Subtitle C--Treatment of Passive Foreign Investment Companies

SEC. 1121. UNITED STATES SHAREHOLDERS OF CONTROLLED FOREIGN CORPORATIONS NOT SUBJECT TO PFIC INCLUSION.

Section 1296 is amended by adding at the end the following new subsection:

"(e) Exception for United States Shareholders of Controlled Foreign Corporations.--

"(1) In general.--For purposes of this part, a corporation shall not be treated with respect to a shareholder as a passive foreign investment company during the qualified portion of such shareholder's holding period with respect to stock in such corporation.

"(2) Qualified portion.--For purposes of this subsection, the term `qualified portion' means the portion of the shareholder's holding period--

"(A) which is after December 31, 1997, and

"(B) during which the shareholder is a United States shareholder (as defined in section 951(b)) of the corporation and the corporation is a controlled foreign corporation.

"(3) New holding period if qualified portion ends.--

"(A) In general.--Except as provided in subparagraph (B), if the qualified portion of a shareholder's holding period with respect to any stock ends after December 31, 1997, solely for purposes of this part, the shareholder's holding period with respect to such stock shall be treated as beginning as of the first day following such period.

"(B) Exception.--Subparagraph (A) shall not apply if such stock was, with respect to such shareholder, stock in a passive foreign investment company at any time before the qualified portion of the shareholder's holding period with respect to such stock and no election under section 1298(b)(1) is made.".

SEC. 1122. ELECTION OF MARK TO MARKET FOR MARKETABLE STOCK IN PASSIVE FOREIGN INVESTMENT COMPANY.

(a) In General.--Part VI of subchapter P of chapter 1 is amended by redesignating subpart C as subpart D, by redesignating sections 1296 and 1297 as sections 1297 and 1298, respectively, and by inserting after subpart B the following new subpart:

"Subpart C--Election of Mark to Market For Marketable Stock

"Sec. 1296. Election of mark to market for marketable stock.

"SEC. 1296. ELECTION OF MARK TO MARKET FOR MARKETABLE STOCK.

"(a) General Rule.--In the case of marketable stock in a passive foreign investment company which is owned (or treated under subsection (g) as owned) by a United States person at the close of any taxable year of such person, at the election of such person--

"(1) If the fair market value of such stock as of the close of such taxable year exceeds its adjusted basis, such United States person shall include in gross income for such taxable year an amount equal to the amount of such excess.

"(2) If the adjusted basis of such stock exceeds the fair market value of such stock as of the close of such taxable year, such United States person shall be allowed a deduction for such taxable year equal to the lesser of--

"(A) the amount of such excess, or

"(B) the unreversed inclusions with respect to such stock.

"(b) Basis Adjustments.--

"(1) In general.--The adjusted basis of stock in a passive foreign investment company--

"(A) shall be increased by the amount included in the gross income of the United States person under subsection (a)(1) with respect to such stock, and

"(B) shall be decreased by the amount allowed as a deduction to the United States person under subsection (a)(2) with respect to such stock.

"(2) Special rule for stock constructively owned.--In the case of stock in a passive foreign investment company which the United States person is treated as owning under subsection (g)--

"(A) the adjustments under paragraph (1) shall apply to such stock in the hands of the person actually holding such stock but only for purposes of determining the subsequent treatment under this chapter of the United States person with respect to such stock, and

"(B) similar adjustments shall be made to the adjusted basis of the property by reason of which the United States person is treated as owning such stock.

"(c) Character and Source Rules.--

"(1) Ordinary treatment.--

"(A) Gain.--Any amount included in gross income under subsection (a)(1), and any gain on the sale or other disposition of marketable stock in a passive foreign investment company (with respect to which an election under this section is in effect), shall be treated as ordinary income.

"(B) Loss.--Any--

"(i) amount allowed as a deduction under subsection (a)(2), and

"(ii) loss on the sale or other disposition of marketable stock in a passive foreign investment company (with respect to which an election under this section is in effect) to the extent that the amount of such loss does not exceed the unreversed inclusions with respect to such stock, shall be treated as an ordinary loss. The amount so treated shall be treated as a deduction allowable in computing adjusted gross income.

"(2) Source.--The source of any amount included in gross income under subsection (a)(1) (or allowed as a deduction under subsection (a)(2)) shall be determined in the same manner as if such amount were gain or loss (as the case may be) from the sale of stock in the passive foreign investment company.

"(d) Unreversed Inclusions.--For purposes of this section, the term `unreversed inclusions' means, with respect to any stock in a passive foreign investment company, the excess (if any) of--

"(1) the amount included in gross income of the taxpayer under subsection (a)(1) with respect to such stock for prior taxable years, over

"(2) the amount allowed as a deduction under subsection (a)(2) with respect to such stock for prior taxable years.

The amount referred to in paragraph (1) shall include any amount which would have been included in gross income under subsection (a)(1) with respect to such stock for any prior taxable year but for section 1291.

"(e) Marketable Stock.--For purposes of this section--

"(1) In general.--The term `marketable stock' means--

"(A) any stock which is regularly traded on--

"(i) a national securities exchange which is registered with the Securities and Exchange Commission or the national market system established pursuant to section 11A of the Securities and Exchange Act of 1934, or

"(ii) any exchange or other market which the Secretary determines has rules adequate to carry out the purposes of this part,

"(B) to the extent provided in regulations, stock in any foreign corporation which is comparable to a regulated investment company and which offers for sale or has outstanding any stock of which it is the issuer and which is redeemable at its net asset value, and

"(C) to the extent provided in regulations, any option on stock described in subparagraph (A) or (B).

"(2) Special rule for regulated investment companies.--In the case of any regulated investment company which is offering for sale or has outstanding any stock of which it is the issuer and which is redeemable at its net asset value, all stock in a passive foreign investment company which it owns directly or indirectly shall be treated as marketable stock for purposes of this section. Except as provided in regulations, similar treatment as marketable stock shall apply in the case of any other regulated investment company which publishes net asset valuations at least annually.

"(f) Treatment of Controlled Foreign Corporations Which are Shareholders in Passive Foreign Investment Companies.--In the case of a foreign corporation which is a controlled foreign corporation and which owns (or is treated under subsection (g) as owning) stock in a passive foreign investment company--

"(1) this section (other than subsection (c)(2)) shall apply to such foreign corporation in the same manner as if such corporation were a United States person, and

"(2) for purposes of subpart F of part III of subchapter N--

"(A) any amount included in gross income under subsection (a)(1) shall be treated as foreign personal holding company income described in section 954(c)(1)(A), and

"(B) any amount allowed as a deduction under subsection (a)(2) shall be treated as a deduction allocable to foreign personal holding company income so described.

"(g) Stock Owned Through Certain Foreign Entities.--Except as provided in regulations--

"(1) In general.--For purposes of this section, stock owned, directly or indirectly, by or for a foreign partnership or foreign trust or foreign estate shall be considered as being owned proportionately by its partners or beneficiaries. Stock considered to be owned by a person by reason of the application of the preceding sentence shall, for purposes of applying such sentence, be treated as actually owned by such person.

"(2) Treatment of certain dispositions.--In any case in which a United States person is treated as owning stock in a passive foreign investment company by reason of paragraph (1)--

"(A) any disposition by the United States person or by any other person which results in the United States person being treated as no longer owning such stock, and

"(B) any disposition by the person owning such stock,

shall be treated as a disposition by the United States person of the stock in the passive foreign investment company.

"(h) Coordination With Section 851(b).--For purposes of paragraphs (2) and (3) of section 851(b), any amount included in gross income under subsection (a) shall be treated as a dividend.

"(i) Stock Acquired From a Decedent.--In the case of stock of a passive foreign investment company which is acquired by bequest, devise, or inheritance (or by the decedent's estate) and with respect to which an election under this section was in effect as of the date of the decedent's death, notwithstanding section 1014, the basis of such stock in the hands of the person so acquiring it shall be the adjusted basis of such stock in the hands of the decedent immediately before his death (or, if lesser, the basis which would have been determined under section 1014 without regard to this subsection).

"(j) Coordination With Section 1291 for First Year of Election.--

"(1) Taxpayers other than regulated investment companies.--

"(A) In general.--If the taxpayer elects the application of this section with respect to any marketable stock in a corporation after the beginning of the taxpayer's holding period in such stock, and if the requirements of subparagraph (B) are not satisfied, section 1291 shall apply to--

"(i) any distributions with respect to, or disposition of, such stock in the first taxable year of the taxpayer for which such election is made, and

"(ii) any amount which, but for section 1291, would have been included in gross income under subsection (a) with respect to such stock for such taxable year in the same manner as if such amount were gain on the disposition of such stock.

"(B) Requirements.--The requirements of this subparagraph are met if, with respect to each of such corporation's taxable years for which such corporation was a passive foreign investment company and which begin after December 31, 1986, and included any portion of the taxpayer's holding period in such stock, such corporation was treated as a qualified electing fund under this part with respect to the taxpayer.

"(2) Special rules for regulated investment companies.--

"(A) In general.--If a regulated investment company elects the application of this section with respect to any marketable stock in a corporation after the beginning of the taxpayer's holding period in such stock, then, with respect to such company's first taxable year for which such company elects the application of this section with respect to such stock--

"(i) section 1291 shall not apply to such stock with respect to any distribution or disposition during, or amount included in gross income under this section for, such first taxable year, but

"(ii) such regulated investment company's tax under this chapter for such first taxable year shall be increased by the aggregate amount of interest which would have been determined under section 1291(c)(3) if section 1291 were applied without regard to this subparagraph.

Clause (ii) shall not apply if for the preceding taxable year the company elected to mark to market the stock held by such company as of the last day of such preceding taxable year.

"(B) Disallowance of deduction.--No deduction shall be allowed to any regulated investment company for the increase in tax under subparagraph (A)(ii).

"(k) Election.--This section shall apply to marketable stock in a passive foreign investment company which is held by a United States person only if such person elects to apply this section with respect to such stock. Such an election shall apply to the taxable year for which made and all subsequent taxable years unless--

"(1) such stock ceases to be marketable stock, or

"(2) the Secretary consents to the revocation of such election.

"(l) Transition Rule for Individuals Becoming Subject to United States Tax.--If any individual becomes a United States person in a taxable year beginning after December 31, 1997, solely for purposes of this section, the adjusted basis (before adjustments under subsection (b)) of any marketable stock in a passive foreign investment company owned by such individual on the first day of such taxable year shall be treated as being the greater of its fair market value on such first day or its adjusted basis on such first day.".

(b) Coordination With Interest Charge, Etc.--

(1) Paragraph (1) of section 1291(d) is amended by adding at the end the following new flush sentence:

"Except as provided in section 1296(j), this section also shall not apply if an election under section 1296(k) is in effect for the taxpayer's taxable year.".

(2) The subsection heading for subsection (d) of section 1291 is amended by striking "Subpart B" and inserting "Subparts B and C".

(3) Subparagraph (A) of section 1291(a)(3) is amended to read as follows:

"(A) Holding period.--The taxpayer's holding period shall be determined under section 1223; except that--

"(i) for purposes of applying this section to an excess distribution, such holding period shall be treated as ending on the date of such distribution, and

"(ii) if section 1296 applied to such stock with respect to the taxpayer for any prior taxable year, such holding period shall be treated as beginning on the first day of the first taxable year beginning after the last taxable year for which section 1296 so applied.".

(c) Treatment of Mark-to-Market Gain Under Section 4982.--

(1) Subsection (e) of section 4982 is amended by adding at the end thereof the following new paragraph:

"(6) Treatment of gain recognized under section 1296.--For purposes of determining a regulated investment company's ordinary income--

"(A) notwithstanding paragraph (1)(C), section 1296 shall be applied as if such company's taxable year ended on October 31, and

"(B) any ordinary gain or loss from an actual disposition of stock in a passive foreign investment company during the portion of the calendar year after October 31 shall be taken into account in determining such regulated investment company's ordinary income for the following calendar year.

In the case of a company making an election under paragraph (4), the preceding sentence shall be applied by substituting the last day of the company's taxable year for October 31.".

(2) Subsection (b) of section 852 is amended by adding at the end thereof the following new paragraph:

"(10) Special rule for certain losses on stock in passive foreign investment company.--To the extent provided in regulations, the taxable income of a regulated investment company (other than a company to which an election under section 4982(e)(4) applies) shall be computed without regard to any net reduction in the value of any stock of a passive foreign investment company with respect to which an election under section 1296(k) is in effect occurring after October 31 of the taxable year, and any such reduction shall be treated as occurring on the first day of the following taxable year.".

(3) Subsection (c) of section 852 is amended by inserting after "October 31 of such year" the following: ", without regard to any net reduction in the value of any stock of a passive foreign investment company with respect to which an election under section 1296(k) is in effect occurring after October 31 of such year,".

(d) Conforming Amendments.--

(1) Sections 532(b)(4) and 542(c)(10) are each amended by striking "section 1296" and inserting "section 1297".

(2) Subsection (f) of section 551 is amended by striking "section 1297(b)(5)" and inserting "section 1298(b)(5)".

(3) Subsections (a)(1) and (d) of section 1293 are each amended by striking "section 1297(a)" and inserting "section 1298(a)".

(4) Paragraph (3) of section 1297(b), as redesignated by subsection (a), is hereby repealed.

(5) The table of sections for subpart D of part VI of subchapter P of chapter 1, as redesignated by subsection (a), is amended to read as follows:

"Sec. 1297. Passive foreign investment company.

"Sec. 1298. Special rules.".

(6) The table of subparts for part VI of subchapter P of chapter 1 is amended by striking the last item and inserting the following new items:

"Subpart C. Election of mark to market for marketable stock.

"Subpart D. General provisions.".

(e) Clarification of Gain Recognition Election.--The last sentence of section 1298(b)(1), as so redesignated, is amended by inserting "(determined without regard to the preceding sentence)" after "investment company".