Memorandum on the Child Support Initiative

June 18, 1996

Memorandum for the Secretary of Health and Human Services

Subject: Child Support Initiative

I hereby direct you to implement the plan I am announcing today to strengthen the child support system and promote parental responsibility.

I direct you to exercise your legal authority to take the following steps to implement that plan:

1) issue proposed regulations relating to paternity establishment that:
   (a) clarify the definition, under the Aid to Families with Dependent Children (AFDC) program, of "cooperation" with paternity establishment by requiring that a mother provide both the name of the father and other identifying information deemed appropriate by the State (except when there is good cause, such as being in danger of domestic violence, for not cooperating);
   (b) require all applicants for assistance under the AFDC program to cooperate with paternity establishment efforts prior to the receipt of assistance; and
   (c) require that applicants for assistance under the AFDC program be referred to the State child support agency within 2 days of application, so that the agency can initiate a legal paternity action; and
2) implement a pilot program matching new-hire data collected by participating States with Federal Parent Locator Service data in order to better track parents owing child support obligations who have taken a job in another State.

The plan I have outlined will help strengthen child support operations by toughening the paternity establishment requirements for applicants for welfare and by enabling States to locate, and withhold wages from, child support obligors who have taken a job in another State. Its prompt implementation is integral to achieving our goal of promoting the American value of parental responsibility.

William J. Clinton

Memorandum on the Child Support Initiative

June 18, 1996

Memorandum for the Secretary of Labor

Subject: Child Support Initiative

I hereby direct you to assist in the implementation of the plan I am announcing today to strengthen the child support system and promote parental responsibility.

I direct you to exercise your legal authority in a manner that will assist the implementation of the plan by encouraging those State employment security agencies that collect new-hire information for use in child support enforcement to report such information to the Department of Health and Human Service's pilot program for matching new-hire data with Federal Parent Locator Service data in order to better track parents owing child support who have taken a job in another State.

The plan I have outlined will help strengthen child support operations by toughening the paternity establishment requirements for applicants for welfare and by enabling States to locate, and withhold wages from, child support obligors who have taken a job in another State. Its prompt implementation is integral to achieving our goal of promoting the American value of parental responsibility.

William J. Clinton

Remarks Prior to a Meeting With Southern Governors and an Exchange With Reporters

June 19, 1996

Church Burnings in the South

The President. I would like to welcome the Governors, the other State elected officials who are here, the commissioners of public safety who are here, the Members of Congress who have come together to discuss the problem of church burnings, which has troubled so much of our country. I expect that for our part we will cover three areas today. We want to talk about the efforts to prosecute those who are responsible for these crimes, and we want to give a report

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vist of the United States. Upon transfer, such imagery shall be deemed declassified and shall be made available to the public.

Sec. 2. *Review for Future Public Release of Intelligence Imagery.* (a) All information that meets the criteria in section 2(b) of this order shall be kept secret in the interests of national defense and foreign policy until deemed otherwise by the Director of Central Intelligence. In consultation with the Secretaries of State and Defense, the Director of Central Intelligence shall establish a comprehensive program for the periodic review of imagery from systems other than the Corona, Argon, and Lanyard missions, with the objective of making available to the public as much imagery as possible consistent with the interests of national defense and foreign policy. For imagery from obsolete broad-area film-return systems other than Corona, Argon, and Lanyard missions, this review shall be completed within 5 years of the date of this order. Review of imagery from any other system that the Director of Central Intelligence deems to be obsolete shall be accomplished according to a timetable established by the Director of Central Intelligence. The Director of Central Intelligence shall report annually to the President on the implementation of this order.

(b) The criteria referred to in section 2(a) of this order consist of the following: imagery acquired by a space-based national intelligence reconnaissance system other than the Corona, Argon, and Lanyard missions.

Sec. 3. *General Provisions.* (a) This order prescribes a comprehensive and exclusive system for the public release of imagery acquired by space-based national intelligence reconnaissance systems. This order is the exclusive Executive order governing the public release of imagery for purposes of section 552(b)(1) of the Freedom of Information Act.

(b) Nothing contained in this order shall create any right or benefit, substantive or procedural, enforceable by any party against the United States, its agencies or instrumentalities, its officers or employees, or any other person.

Sec. 4. *Definition.* As used herein, "imagery" means the product acquired by space-based national intelligence reconnaissance systems that provides a likeness or representation of any natural or man-made feature or related objective or activities and satellite positional data acquired at the same time the likeness or representation was acquired.

WILLIAM J. CLINTON

THE WHITE HOUSE,
February 22, 1995.

Executive Order 12952 of February 24, 1995

Amendment to Executive Order No. 12950

By the authority vested in me as President by the Constitution and the laws of the United States of America, and in order to amend Executive Order No. 12950, it is hereby ordered that the list of Labor Organizations attached to and made a part of such order is amended to include the following:

International Brotherhood of Firemen & Oilers

WILLIAM J. CLINTON

THE WHITE HOUSE,
February 24, 1995.

Executive Order 12953 of February 27, 1995

Actions Required of all Executive Agencies To Facilitate Payment of Child Support

Children need and deserve the emotional and financial support of both their parents.

The Federal Government requires States and, through them, public and private employers to take actions necessary to ensure that monies in payment of child support obligations are withheld and transferred to the child's caretaker in an efficient and expeditious manner.

The Federal Government, through its civilian employees and Uniformed Services members, is the Nation's largest single employer and as such should set an example of leadership and encouragement in ensuring that all children are properly supported.

NOW, THEREFORE, by the authority vested in me as President by the Constitution and the laws of the United States of America, including section 301 of title 3, United States Code, it is hereby ordered as follows:

PART I—PURPOSE

Section 101. This executive order: (a) Establishes the executive branch of the Federal Government, through its civilian employees and Uniformed Services members, as a model employer in promoting and facilitating the establishment and enforcement of child support.

(b) Requires all Federal agencies, including the Uniformed Services, to cooperate fully in efforts to establish paternity and child support orders and to enforce the collection of child and medical support in all situations where such actions may be required.

(c) Requires each Federal agency, including the Uniformed Services, to provide information to its employees and members about actions that they should take and services that are available to ensure that their children are provided the support to which they are legally entitled.

PART 2—DEFINITIONS

For purposes of this order:

Sec. 201. "Federal agency" means any authority as defined at 5 U.S.C. 105, including the Uniformed Services, as defined in section 202 of this order.

Sec. 202. "Uniformed Services" means the Army, Navy, Marine Corps, Air Force, Coast Guard, and the Commissioned Corps of the National Oceanic and Atmospheric Administration, and the Public Health Service.

Sec. 203. "Child support enforcement" means any administrative or judicial action by a court or administrative entity of a State necessary to establish paternity or establish a child support order, including a medical support order, and any actions necessary to enforce a child support or medical support order. Child support actions may be brought under the civil or criminal laws of a State and are not limited to actions brought on behalf of the State or individual by State agencies providing services under title IV-D of the Social Security Act, 42 U.S.C. 651 *et seq.*

Sec. 204. "State" means any of the fifty States, the District of Columbia, the territories, the possessions, and the Commonwealths of Puerto Rico and of the Mariana Islands.

PART 3—IMMEDIATE ACTIONS TO ENSURE CHILDREN ARE SUPPORTED BY THEIR PARENTS

Sec. 301. *Wage Withholding.* (a) Within 60 days from the date of this order, every Federal agency shall review its procedures for wage withholding under 42 U.S.C. 659 and implementing regulations to ensure that it is in full compliance with the requirements of that section, and shall endeavor, to the extent feasible, to process wage withholding actions consistent with the requirements of 42 U.S.C. 666(b).

(b) Beginning no later than July 1, 1995, the Director of the Office of Personnel Management (OPM) shall publish annually in the **Federal Register** the list of agents (and their addresses) designated to receive service of withholding notices for Federal employees.

Sec. 302. *Service of Legal Process.* Every Federal agency shall assist in the service of legal process in civil actions pursuant to orders of courts of States to establish paternity and establish or enforce a support obligation by making Federal employees and members of the Uniformed Services stationed outside the United States available for the service of process. Each agency shall designate an official who shall be responsible for facilitating a Federal employee's or member's availability for service of process, regardless of the location of the employee's workplace or member's duty station. The OPM shall publish a list of these officials annually in the **Federal Register**, beginning no later than July 1, 1995.

Sec. 303. *Federal Parent Locator.* Every Federal agency shall cooperate with the Federal Parent Locator Service, established under 42 U.S.C. 653, by providing complete, timely and accurate information that will assist in locating noncustodial parents and their employers.

Sec. 304. *Crossmatch for Delinquent Obligors.* (a) The master file of delinquent obligors that each State child support enforcement agency submits to the Internal Revenue Service for Federal income tax refund offset purposes shall be matched at least annually with the payroll or personnel files of Federal agencies in order to determine if there are any Federal employees with child support delinquencies. The list of matches shall be forwarded to the appropriate State child support enforcement agency to determine, in each instance, whether wage withholding or other enforcement actions should be commenced. All matches will be performed in accordance with 5 U.S.C. 552a(o)-(u).

(b) All Federal agencies shall inform current and prospective employees that crossmatches are routinely made between Federal personnel records

and State records on individuals who owe child support, and inform employees how to initiate voluntary wage withholding requests.

Sec. 305. *Availability of Service.* All Federal agencies shall advise current and prospective employees of services authorized under title IV-D of the Social Security Act that are available through the States. At a minimum, information shall be provided annually to current employees through the Employee Assistance Program, or similar programs, and to new employees during routine orientation.

Sec. 306. *Report on Actions Taken.* Within 90 days of the date of this order, all Federal agencies shall report to the Director of the Office of Management and Budget (OMB) on the actions they have taken to comply with this order and any statutory, regulatory, and administrative barriers that hinder them from complying with the requirements of part 3 of this order.

PART 4—ADDITIONAL ACTIONS

Sec. 401. *Additional Review for the Uniformed Services.* (a) In addition to the requirements outlined above, the Secretary of the Department of Defense (DOD) will chair a task force, with participation by the Department of Health and Human Services (HHS), the Department of Commerce, and the Department of Transportation, that shall conduct a full review of current policies and practices within the Uniformed Services to ensure that children of Uniformed Services personnel are provided financial and medical support in the same manner and within the same time frames as is mandated for all other children due such support. This review shall include, but not be limited to, issues related to withholding non-custodial parents' wages, service of legal process, activities to locate parents and their income and assets, release time to attend civil paternity and support proceedings, and health insurance coverage under the Civilian Health and Medical Program of the Uniformed Services (CHAMPUS). All relevant existing statutes, including the Soldiers and Sailors Civil Relief Act of 1940, the Uniformed Services Former Spouses Protection Act, and the Tax Equity and Fiscal Responsibility Act of 1982, shall be reviewed and appropriate legislative modifications shall be identified.

(b) Within 180 days of the date of this order, DOD shall submit to OMB a report based on this review. The report shall recommend additional policy, regulatory and legislative changes that would improve and enhance the Federal Government's commitment to ensuring parental support for all children.

Sec. 402. *Additional Federal Agency Actions.* (a) OPM and HHS shall jointly study and prepare recommendations concerning additional administrative, regulatory, and legislative improvements in the policies and procedures of Federal agencies affecting child support enforcement. Other agencies shall be included in the development of recommendations for specific items as appropriate. The recommendations shall address, among other things:

(i) any changes that would be needed to ensure that Federal employees comply with child support orders that require them to provide health insurance coverage for their children;

(ii) changes needed to ensure that more accurate and up-to-date data about civilian and uniformed personnel who are being sought in conjunction with State paternity or child support actions can be obtained from

Federal agencies and their payroll and personnel records, to improve efforts to locate noncustodial parents and their income and assets;

(iii) changes needed for selecting Federal agencies to test and evaluate new approaches to the establishment and enforcement of child support obligations;

(iv) proposals to improve service of process for civilian employees and members of the Uniformed Services stationed outside the United States, including the possibility of serving process by certified mail in establishment and enforcement cases or of designating an agent for service of process that would have the same effect and bind employees to the same extent as actual service upon the employees;

(v) strategies to facilitate compliance with Federal and State child support requirements by quasi-governmental agencies, advisory groups, and commissions; and

(vi) analysis of whether compliance with support orders should be a factor used in defining suitability for Federal employment.

(b) The recommendations are due within 180 days of the date of this order. The recommendations are to be submitted in writing to the Office of Management and Budget.

Sec. 501. *Internal Management.* This order is intended only to improve the internal management of the executive branch with regard to child support enforcement and shall not be interpreted to create any right or benefit, substantive or procedural, enforceable at law by a party against the United States, its officers, or any other person.

Sec. 502. *Sovereignty of the United States Government.* This order is intended only to provide that the Federal Government has elected to require Federal agencies to adhere to the same standards as are applicable to all other employers in the Nation and shall not be interpreted as subjecting the Federal Government to any State law or requirement. This order should not be construed as a waiver of the sovereign immunity of the United States Government or of any existing statutory or regulatory provisions, including 42 U.S.C. 659, 662, and 665; 5 CFR Part 581; 42 CFR Part 21, Subpart C; 32 CFR Part 54; and 32 CFR Part 81.

Sec. 503. *Defense and Security.*

This order is not intended to require any action that would compromise the defense or national security interest of the United States.

WILLIAM J. CLINTON

THE WHITE HOUSE,

February 27, 1995.

Ensuring the Economical and Efficient Administration and Completion of Federal Government Contracts

Efficient economic performance and productivity are directly related to the existence of cooperative working relationships between employers and employees. When Federal contractors become involved in prolonged labor disputes with their employees, the Federal Government's economy, efficiency, and cost of operations are adversely affected. In order to operate as effectively as possible, by receiving timely goods and quality services, the Federal Government must assist the entities with which it has contractual relations to develop stable relationships with their employees.

An important aspect of a stable collective bargaining relationship is the balance between allowing businesses to operate during a strike and preserving worker rights. This balance is disrupted when permanent replacement employees are hired. It has been found that strikes involving permanent replacement workers are longer in duration than other strikes. In addition, the use of permanent replacements can change a limited dispute into a broader, more contentious struggle, thereby exacerbating the problems that initially led to the strike. By permanently replacing its workers, an employer loses the accumulated knowledge, experience, skill, and expertise of its incumbent employees. These circumstances then adversely affect the businesses and entities, such as the Federal Government, which rely on that employer to provide high quality and reliable goods or services.

NOW, THEREFORE, to ensure the economical and efficient administration and completion of Federal Government contracts, and by the authority vested in me as President by the Constitution and the laws of the United States of America, including 40 U.S.C. 486(a) and 3 U.S.C. 301, it is hereby ordered as follows:

Section 1. It is the policy of the executive branch in procuring goods and services that, to ensure the economical and efficient administration and completion of Federal Government contracts, contracting agencies shall not contract with employers that permanently replace lawfully striking employees. All discretion under this Executive order shall be exercised consistent with this policy.

Sec. 2. (a) The Secretary of Labor ("Secretary") may investigate an organizational unit of a Federal contractor to determine whether the unit has permanently replaced lawfully striking workers. Such investigation shall be conducted in accordance with procedures established by the Secretary.

(b) The Secretary shall receive and may investigate complaints by employees of any entity covered under section 2(a) of this order where such complaints allege lawfully striking employees have been permanently replaced.

(c) The Secretary may hold such hearings, public or private, as he or she deems advisable, to determine whether an entity covered under section 2(a) has permanently replaced lawfully striking employees.

Sec. 3. (a) When the Secretary determines that a contractor has permanently replaced lawfully striking employees, the Secretary may make a finding that it is appropriate to terminate the contract for convenience. The

HHS NEWS

U.S. DEPARTMENT OF HEALTH AND HUMAN SERVICES

FOR IMMEDIATE RELEASE
Monday, June 24, 1996

Jeff Lancashire, 301-436-7551
Sandra Smith, 301-436-7551

TEEN BIRTHS DROP FOR THIRD STRAIGHT YEAR

Birth rates for teenagers in the U.S. declined in 1994 for the third straight year, according to the latest natality statistics released today by HHS Secretary Donna E. Shalala.

"The Advance Report of Final Natality Statistics, United States: 1994," prepared by the National Center for Health Statistics, a part of the Centers for Disease Control and Prevention, shows the birth rate for teenagers 15-19 years of age dropped from 59.6 births per 1,000 population in 1993 to 58.9 per 1,000 in 1994.

"This is another piece of good news in the battle against teen pregnancy, but we still have a long way to go," Secretary Shalala said. "Every day the tragedy of teen pregnancy hurts our children, our communities and our country. The President understands that teen pregnancy is one of the greatest problems facing our nation, and he has demonstrated leadership and taken action to help solve it."

To continue this progress, the administration has proposed a new $30 million Teen Pregnancy Initiative, to support community prevention efforts in cities with high teen pregnancy rates. In the past year, HHS also funded 15 demonstration programs through the Adolescent Family Life program aimed at preventing early teen sexual activity and pregnancy, as well as 13 grants through the Centers for Disease Control to help communities build coalitions to reduce teen pregnancy. (See HHS Fact Sheet: "Preventing Teenage Pregnancy.")

The 1994 birth rate among teens ages 15-19 was five percent lower than the recent high of 62.1 in 1991. The decline from 1993 to 1994 in teen births was 1 percent for teens age 15-17 (to 37.6 per 1,000 women) and 1 percent for teens age 18-19 (to 91.5 births per 1,000 women). Recent declines in abortion rates and birth rates for teenagers indicate that the teenage pregnancy rate has also fallen in the 1990's.

Despite this recent decline, the 1994 rate was still higher than in any year during the period from 1974 to 1989.

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Today's report covers broad natality statistics. Overall, births in the U.S. declined for the fourth straight year in 1994 to 3,952,767. The birth rate fell 2 percent to 15.2 births per 1,000 total population, the lowest rate since 1978.

Among women of different race and ethnic groups, fertility rates were highest for Hispanic women, especially Mexican women, and for black women. Successively lower rates were reported for American Indian, Asian or Pacific Islander, and white women. Rates for teenaged women were highest among Mexican, Puerto Rican, and black women.

Meanwhile, the birth rate among unmarried women increased four percent in 1994, although the increases over the past five years have been much slower than that of the period 1984-1989. In 1994, nearly one out of three births were to unmarried women.

The multiple birth ratio rose to 26 per 1,000, an increase of two percent from 1993, and 33 percent since 1980. The higher-order multiple birth ratio (primarily triplet births) jumped 12 percent, doubling since 1987 and tripling since the early 1980's.

The report also provides a great deal of information on maternal health and behavioral characteristics, and improvements were reported in early prenatal care and reduced cigarette smoking:

--Eighty percent of mothers began prenatal care within the first trimester of pregnancy, the third consecutive year of increase. Meanwhile the proportion of mothers with late or no care continued to decline, dropping to four percent.

--Cigarette smoking during pregnancy declined again in 1994, for the fifth consecutive year, to 14.6 percent of mothers. Over 12 percent of births to smokers were low birthweight (less than 2,500 grams) compared with almost 7 percent of births to non-smokers.

--The incidence of low birthweight continued to climb, rising from 7.2 to 7.3 percent. Low birthweight improved among black mothers, but rose among white mothers. There was no change in low birthweight among American Indian or Hispanic mothers, but levels increased among Asian or Pacific Islander infants.

The report is available from National Center for Health Statistics, 6525 Belcrest Road, Hyattsville, MD, 20782; or by e-mail at: paoquery@nch10a.em.cdc.gov. The report is also found on the Internet at http://www.CDC.gov/nchswww/nchshome.htm.

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HHS NEWS

U.S. DEPARTMENT OF HEALTH AND HUMAN SERVICES

EMBARGOED FOR 4 P.M. EDT
Thursday, Sept. 21, 1995

Contact: CDC (404) 639-3286

CDC RELEASES NATALITY AND TEEN PREGNANCY REPORTS

Teen births are down nationwide and teen pregnancy declined in a majority of states, according to two new studies from the Centers for Disease Control and Prevention released today. CDC also reports that the rate of unmarried childbearing among women of all ages may have stabilized, and the agency released new findings on maternal and infant health.

Although the 1993 teen birth rate is still higher than 20 years ago, the birth rate for those 15-19 declined 4 percent from 1991 to 1993, according to the Advance Report of Final Natality Statistics, 1993, the annual report on birth patterns in America from CDC's National Center for Health Statistics. Teen pregnancy rates (including both births and abortions) were down in a majority of states as reported in "State-Specific Pregnancy and Birth Rates Among Teenagers--United States, 1991-1992," in the Sept. 22 Morbidity and Mortality Weekly Report, also being released today.

"Although these findings are encouraging, we clearly still need to do more to reduce teen pregnancy," said HHS Secretary Donna E. Shalala.

After increasing steadily between 1986 and 1991, the birth rate for teenagers 15-17 years declined 2 percent from 1991 to 1992 and was unchanged in 1993 at 37.8 births per 1,000. The birth rate for

- More -

older teens aged 18-19 was down 3 percent in 1993, to 92.1 per 1,000.

Pregnancy rates for teens declined in 30 of 41 reporting states and in the District of Columbia from 1991 to 1992. Decreases in teen pregnancy are reflected in a decline in both abortion and birth rates, with greater declines noted in the abortion rates. There were a wide range in pregnancy rates by state, from 53.7 per 1,000 women 15-19 in Wyoming to 106.9 for Georgia. Rates increased significantly in only two states.

In 1993, there were over a half-million births to teenagers -- over 200,000 to those not even 18. The teenage population is growing and if teen birth rates do not continue to decline, there will be a rise in the number of teen births over the next few years.

The 1993 annual natality report also documents that the rate of nonmarital childbearing has been essentially unchanged for three consecutive years, at 45.3 births per 1,000 unmarried women aged 15-44 in 1993. Prior to this period, there had been a 50-year rise in childbearing by unmarried women, and from 1980 to 1991 the rate increased 54 percent. Nonmarital births totaled just over 1.2 million in 1993 and accounted for 31 percent of all births that year.

The birth rate for unmarried teens leveled off between 1991 and 1993, showing the same pattern as that for all unmarried women. The vast majority of teen births are nonmarital (72 percent) but teen unmarried births account for only 30 percent of all nonmarital births.

Overall, births in the United States declined in 1993 for the third consecutive year, to just over 4 million. The birth rate per 1,000 total population declined to 15.5, its lowest point in 15 years. Birth rates for women in their twenties, the peak childbearing ages, declined in 1993 by 2 percent.

After rising steadily for almost two decades, birth rates for women in their thirties appear to have stabilized, recording just modest increases for the past few years. Still, there were more than 900,000 births to women in their early thirties, and the number of births to women aged 35-39, 357,000, was higher than in any year since 1960.

More than 100,000 babies were born in multiple deliveries in 1993, the highest number ever reported. Live births in twin delivery increased 1 percent while the number of triplet and higher-order plural births rose 7 percent.

The report documents maternal medical and lifestyle risk factors during pregnancy and their impact on the health of the infant:

-- **Cigarette smoking** during pregnancy declined to 15.8 percent, down from 19.5 percent in 1989, the first year that information on smoking was recorded on the birth certificate. Smoking during pregnancy declined in all age groups; still almost a quarter of young white and American Indian women, aged 15-24, smoked during pregnancy. Smoking is a key risk factor for low birth weight and infant mortality.

-- The most frequently-reported **medical risk factors** continued to be anemia, diabetes, and pregnancy-related hypertension.

-- **Prenatal care utilization** improved in 1993, following more than a decade of little change, with 79 percent of mothers receiving care in the first trimester. Fewer than 5 percent of mothers had late or no care, the lowest level since 1969.

-- The **cesarean delivery rate** declined again in 1993, to 21.8 percent of all births, continuing the downward trend noted in recent years following a rapid and steady increase through the late 1980s. The vaginal birth after cesarean delivery (VBAC) rate increased 8 percent in 1993.

Other measures of maternal and infant health were not so positive, the annual report shows.

-- **Preterm births** (prior to 37 completed weeks) increased 3 percent in 1993 to 11 percent of all births and almost one in five black infants.

-- **Low birthweight** increased from 7.1 to 7.2 percent the highest level reported since 1976. Most of the rise occurred among white births (6.0 percent), but low birthweight is still much higher among black infants (13.3). Low birthweight contributes to three-quarters of all infant deaths.

Data in Advance Report of Final Natality Statistics, 1993, are based on the birth certificates filed in state vital statistics offices and reported to the National Center for Health Statistics through the Vital Statistics Cooperative Program. "State-Specific Pregnancy and Birth Rates Among Teenagers--United States, 1991-1992," is based on birth certificate data as well as abortions reported to the Division of Reproductive Health, National Center for Chronic Disease Prevention and Health Promotion. Both centers are part of the Centers for Disease Control and Prevention, U.S. Public Health Service, within HHS.

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Note: For further information regarding these individual reports, please contact: "State-Specific Pregnancy and Birth Rates Among Teenagers--United States, 1991-1992," MMWR, Rachel Kaufmann or Lisa Koonin at 404-488-5200. Advance Report of Final Natality Statistics, 1993, Stephanie Ventura at 301-436-8954 or Sandy Smith at 301-436-7551.

CC: CHR
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NOTE TO LORRIE MCHUGH --

FYI, data to be released by the CDC indicate that birth rates for teenagers in the U.S. declined for the third straight year in 1994, down 2 percent to 58.9 births per 1,000 teens aged 15-19. Altogether, the birth rate for 15-19 year olds has fallen 5 percent since 1991. Birth rates for 15-17 year olds and for 18-19 year olds both fell by nearly 1 percent in 1994, and have declined by 3 percent since 1991.

This new data on teen birth rates confirm what President Clinton has been saying, that the teen pregnancy rate has been going down in the 1990s but that it is still far too high.

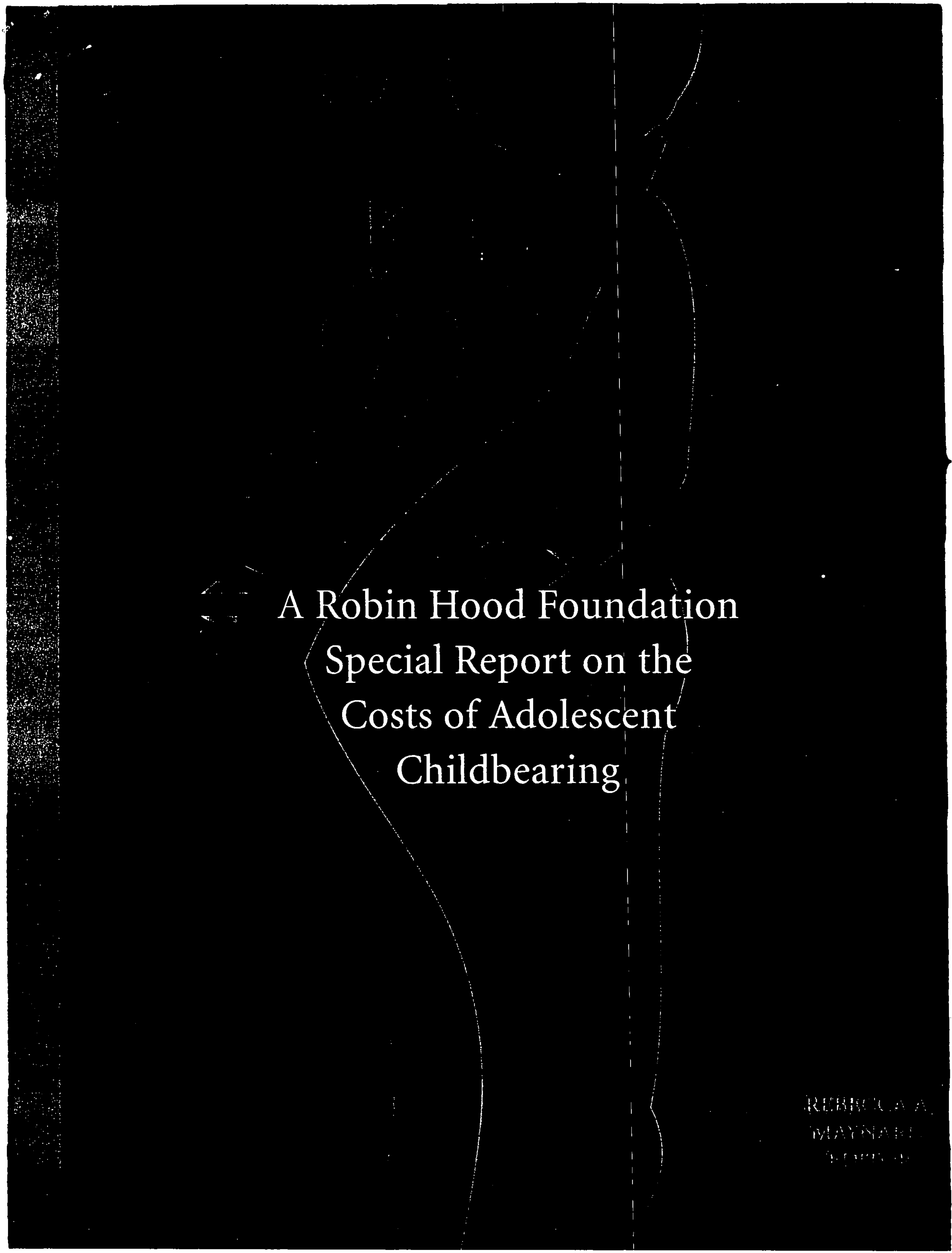
We have some flexibility in timing the release of this good news. The CDC needs to decide in the next couple days when to release the data, and they would like the release date to be on or before June 28th. If there is interest in working with us on this release, please let me know how you would like to proceed. Although this may not merit the scheduling of another White House event, we could time this release to coincide with a Presidential announcement of the data in a speech.

We also need to discuss a Surgeon General's report on physical activity and immunization when you get a minute.

Thank you.

Melissa Skolfield

cc: Jeremy Ben-Ami
Rahm Emanuel



A Robin Hood Foundation Special Report on the Costs of Adolescent Childbearing

REBECCA A. MAYNARD

KIDS HAVING KIDS

A Robin Hood Foundation Special Report on the
Costs of Adolescent Childbearing

Rebecca A. Maynard, Editor

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The Robin Hood Foundation
111 Broadway, 19th Floor
New York, New York 10006
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DESIGN: MARGOT FRANKEL

Kids Having Kids

A Synthesis of Project Findings

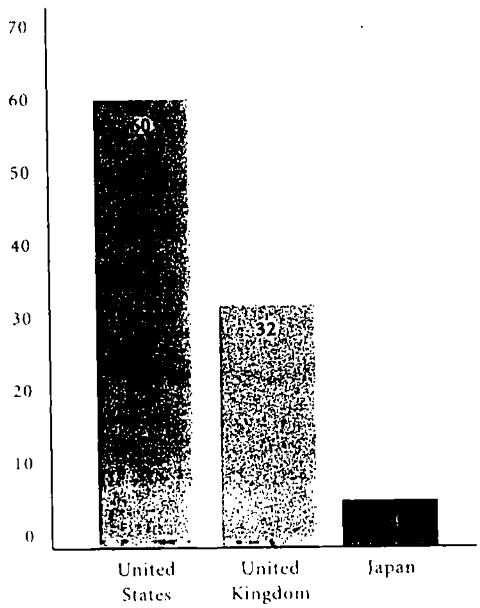
Each year, nearly one million teenagers in the United States—approximately 10 percent of all 15- to 19-year-old females—become pregnant. About one third of these teens abort their pregnancies, 14 percent miscarry, and 52 percent (or more than half a million teens) bear children, 72 percent of them out of wedlock. Of the half a million teens who give birth each year, roughly three-fourths are giving birth for the first time. Even more striking, more than 175,000 of these new mothers are 17 years old or younger. These young mothers and their offspring are especially vulnerable to severe adverse social and economic consequences. More than 80 percent of these young mothers end up in poverty and reliant on welfare, many for the majority of their children's critically important developmental years.

Due to their weak educational and skill levels, low rates of marriage, and inadequate support from nonresident fathers of their children, young mothers face significant challenges in trying to provide for their children. Partly because of their young age, very few of these mothers complete high school before their first child is born. More than 80 percent of those who are 17 or younger when they have their first child are unmarried. Fewer than half of them will get married within 10 years. Only a small minority of the unwed fathers of the children born to adolescent mothers provide any ongoing economic support for their children.

Much of all this seems to be a uniquely American phenomenon. The teen birthrate in the United States is the highest of any industrialized nation, nearly twice as great as the next highest, the United Kingdom, and more than 15 times that of Japan. In addition, in 1988, the last year for which comparative data are available, a teenager in the United States was twice as likely to have an abortion as a teenager in the United Kingdom, the industrialized country with the next highest abortion rate. American teens were more than 13 times as likely to have an abortion as Japanese teens.

The public focus on adolescent childbearing as a major social issue has been fueled by three social forces. First, child poverty rates are high and rising. Second, the number of welfare recipients and the concomitant costs of public assistance have risen dramatically. And third, among those on welfare we see a much higher proportion of never-married women, younger recipients, and recipients who have long average durations of dependency. Adolescent childbearing has both contributed to and been affected by these trends.

BIRTHRATE FOR 15- TO 19-YEAR-OLD FEMALES (PER 1000)



To better understand the full costs and consequences of adolescent childbearing, the Robin Hood Foundation commissioned some of the nation's leading scholars to research the issue. Working in teams on seven coordinated stud-

Much of all this seems to be a uniquely American phenomenon. The teen birthrate in the United States is the highest of any industrialized nation, nearly twice as great as that of the United Kingdom and 15 times that of Japan.

Footnotes

[1]As of 1993, only 28 percent of births to teenagers occurred within the marriage (Moore, Snyder, and Glei 1995).

[2] The estimate of out-of-wedlock childbearing for the study sample was 15 percent both for adolescent childbearers and for later childbearers who were born to teenage mothers. In view of the rapid rise in the population of teen births that are out of wedlock, the results of a more current sample than the one available for this study (a sample of teenagers in the late 1970s and early 1980s) would be quite different.

[3] The framework is not comprehensive in that we have omitted many possible costs (and a few benefits for the adolescent childbearers) because they were not a focus of the project studies. In most cases, the fact that certain costs were not estimated reflects the inadequacies of available data to address the outcomes.

[4] The project studies did not provide detailed estimates of the effects of adolescent childbearing on costs and subsidies for healthcare provided to the mothers.

[5] This category does not include healthcare and administrative costs for the mother, since the research did not address maternal health outcomes.

[6] Haveman et al. (forthcoming) provides clear evidence that adolescent childbearing imposes costs on those among the next generation of young adults who were born to adolescent mothers. These costs are relatively straightforward to measure. It is more challenging to extrapolate from the estimated outcomes for individuals to the second-generation costs for society, however. This is because adolescent childbearing increases fertility and so expands the size of the next generation's workforce at the same time it changes the skills composition. Untangling these components of social benefits and costs was beyond the scope of the *Kids Having Kids* project.

[7]As noted above, only two of the project studies controlled for observed and unobserved differences between adolescent and later childbearers. In computing the cost estimates, we have sometimes combined the estimates from studies that were and were not able to control for unobservables. For example, we combined estimates of outcomes for children (not controlling for unobservable differences between adolescent and later childbearers) with estimates of the effects of adolescent childbearing on fertility patterns (controlling for observable and unobservable differences) to obtain an estimate of the aggregate effects of the outcome per mother rather than per child.

[8] This assumption about the cohort size likely will tend to overstate current costs, insofar as this figure exceeds the average cohort size over the past 13 years. It understates future costs, insofar as the size of the teenage parent population has been increasing in recent years. A more precise estimate would entail both making population projections and projecting future trends in the teenage birth rate.

THE WHITE HOUSE

Office of the Press Secretary

For Immediate Release

January 29, 1996

PRESIDENT CLINTON ANNOUNCES APPOINTMENT OF DR. HENRY FOSTER AS SENIOR ADVISOR ON TEEN PREGNANCY

The President today announced the appointment of Dr. Henry Foster as Senior Advisor to the President on Teen Pregnancy and Youth Issues. Dr. Foster will also be serving as an Expert Advisor to the Director of the Centers for Disease Control and Prevention and to the Secretary of Health and Human Services.

The announcement follows the President's State of the Union address in which he challenged Americans to strengthen families and do everything possible to reduce the rate of teenage pregnancy. While pregnancy rates are beginning to come down among teenagers, one million teenage girls still become pregnant every year.

In the State of the Union, the President announced that a group of prominent Americans will launch a National Campaign to Reduce Teenage Pregnancy, designed to support grass roots community efforts in this area. A dozen people have already agreed to be a part of this effort, including C. Everett Koop, David Hamburg of the Carnegie Corporation, Urban League President Hugh Price, Whoopi Goldberg, former Senator Warren Rudman, former Governor Tom Kean, Ogilvy and Mather CEO Charlotte Beers, and MTV President Judy McGrath.

Today, the President will meet with people working at the state and local level to reduce teen pregnancy and ask Dr. Foster to serve as his liaison to the National Campaign. Dr. Foster will also be working to bring national attention to the issue, to galvanize activity at the local level and will be advising the Administration on policies related to teen pregnancy. He will be meeting with leaders in business, media and other fields to mobilize and intensify their interest and efforts in this area.

"I am pleased that Dr. Foster has agreed to work with us in our efforts to reduce teen pregnancy and promote hope and opportunity for our youth," the President said. "Teen pregnancy is one of our most pressing social problems. All of us must work together to send a clear message to our young people that staying in school, postponing sexual activity, and preparing to work are the right things to do."

Dr. Foster is presently a Professor of Obstetrics and Gynecology at Meharry Medical College in Nashville, Tennessee. He has in the past been the Dean of the School of Medicine at Meharry and Chairman of the Department of Obstetrics and Gynecology. The appointment of Dr. Foster is effective immediately.

-30-30-30-

THE WHITE HOUSE

Office of the Press Secretary

For Immediate Release May 4, 1996

RADIO ADDRESS BY THE PRESIDENT
TO THE NATION

The Map Room

10:06 A.M. EDT

THE PRESIDENT: Good morning. This week was another good week for America. We learned that growth is up and unemployment is down. That's good for American jobs and good for America's families. We also had more good news on America's families today involving the Family and Medical Leave Act, which I was proud to sign in 1993. This week the bipartisan panel Congress created to study it reported that the law has helped more than one in six American employees take time off because of a serious family health problem, without any danger of losing their jobs. And almost 90 percent of the businesses found that complying with Family and Medical Leave cost them little or nothing. This is making America's families stronger, promoting work and family.

That's what we have to do with welfare reform, too. Our job is to fix a welfare system that too often pulls families apart and turns it into one that helps families pull together, to fix a system that traps too many people in a cycle of dependency that ends up snaring their children as well, and, instead, to create one that promotes jobs and independence.

For the last three years, we have been working hard to turn the welfare system around. All across America, the welfare rolls are down, food stamp rolls are down, teen pregnancy rates are down, compared to four years ago. And compared to four years ago, more and more people on welfare today are working as a condition of receiving welfare.

A lot of this has happened because our administration has worked very hard to free states from federal rules and regulations which have built up over the years and which contribute to the flaws in the present system. We have slashed this red tape to 37 states, covering 75 percent of all the people on welfare in America, so that they can take steps to fix the broken system.

State by state, we are building a welfare system that demands work, requires responsibility, and protects our children.

But more needs to be done. The American people need a welfare system that honors American values: work, family, and personal responsibility. In 1994, and again this year, I sent Congress a sweeping welfare reform plan that would impose strict time limits on how long people can stay on welfare and strict work requirements for people when they are on welfare. My plan would also provide more funding for child care, so single parents can go to work. And it would crack down on parents who skip out on their responsibility to pay child support.

If Congress sends me a welfare reform bill that is tough on work instead of tough on children and weak on work, I will gladly and proudly sign it. Meanwhile, I am going to keep moving ahead to fix the welfare system by promoting work and looking out for our children.

Today, I'm acting to help teen mothers break free from the cycle of dependency for good. The only way for teen mothers to escape the welfare trap is to live at home, stay in school, and get the education they need to get a good job. We must make sure the welfare system demands that teen mothers follow the responsible path to independence.

Ohio has used freedom from federal rules to implement a terrific program they call LEAP -- Learning, Education, and Parenting. LEAP cuts welfare checks when teen mothers don't go to school, and rewards them when they do. And it works. A report released just this week by the Manpower Demonstration Research Corporation shows that for an important group of teens LEAP significantly increased the number of teen mothers who finished school, got jobs, and got off welfare. Every state should follow this example.

That's why, today, I'm announcing that every state must put in place a plan to keep teen mothers on welfare in school. We are going to audit the progress of every state and make the results public.

Second, we are going to make teen mothers who drop out of school go back to school and sign contracts that spell out exactly how they are going to take responsibility for their own lives.

And third, we are giving states immediate authority to provide bonuses to teen mothers who go to school and graduate, and to cut back the checks of those who don't.

Finally, I'm challenging every state in the country to use its power to keep children who have children at home where they belong. There should be no incentive to leave home for a bigger welfare check. Unfortunately, even though they can, most states don't require teen mothers to live at home. That's wrong. Of course, if there is an abusive situation at home, children should be living in another safe, responsible setting.

But we have to make it clear that a baby doesn't give you a right, and won't give you the money, to leave home and drop out of school. Today, we are moving to make responsibility a way of life, not an option.

These commonsense steps have bipartisan support. They will help teen parents escape the cycle of dependency and start down the path to a successful future for themselves and their children. Now Congress needs to do its job and pass welfare reform. I'm glad that a group of bipartisan lawmakers is working on welfare reform. If Congress sends me a clean welfare reform plan that demands work, demands responsibility, protects children, and helps families stay together -- I will sign it. Until then, I'll keep working to do everything in my power to reform welfare, step by step and state by state.

Thanks for listening.

END 10:12 A.M. EDT

HR3286 Molinari (R-NY) 06/24/96 (1985 lines)
Reported in Senate (subsequent referral)

Adoption Promotion and Stability Act of 1996.

Special typefaces used in this bill version:

<< >> Struck-through
// \\ Italic
[[ ]] Bold brackets
!! !! Bold roman
/! !\ Bold Italic
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Item Key: 10413

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Calendar No. 454

104TH CONGRESS
2D SESSION

H. R. 3286

[Report No. 104-279]

[Report No. 104-288]

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IN THE SENATE OF THE UNITED STATES

May 13, 1996

Received; read twice and referred to the Committee on Finance

MAY 23, 1996

Ordered, if and when reported by the Committee on Finance the bill then be referred to the Committee on Indian Affairs for the purpose of considering title 3, for a period of 10 days of session, to report or be discharged

June 13, 1996

Reported by Mr. ROTH, with amendments; referred to the Committee on Indian Affairs pursuant to the order of May 23, 1996

[Omit the part struck through and insert the part printed in italic]

June 24, 1996

Reported by Mr. MCCAIN, with an amendment

[Omit the part enclosed in boldface brackets]

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AN ACT

To help families defray adoption costs, and to promote the adoption of minority children.

//Be it enacted by the Senate and House of Representatives of the United States of America in Congress assembled,\\

!!SECTION 1. SHORT TITLE.!!

This Act may be cited as the "Adoption Promotion and Stability Act of 1996".

!!SEC. 2. TABLE OF CONTENTS.!!

The table of contents of this Act is as follows:

<!TITLE I--CREDIT FOR ADOPTION EXPENSES!>

<!SEC. 101. CREDIT FOR ADOPTION EXPENSES.!>

<<(a) IN GENERAL.--Subpart A of part IV of subchapter A of

chapter 1 of the Internal Revenue Code of 1986 (relating to nonrefundable personal credits) is amended by inserting after section 22 the following new section:>>

<!"SEC. 23. ADOPTION EXPENSES.!>

<<"(a) ALLOWANCE OF CREDIT.--In the case of an individual, there shall be allowed as a credit against the tax imposed by this chapter for the taxable year the amount of the qualified adoption expenses paid or incurred by the taxpayer during such taxable year.>>

<<"(b) LIMITATIONS.-->>

<<"(1) DOLLAR LIMITATION.--The aggregate amount of qualified adoption expenses which may be taken into account under subsection (a) for all taxable years with respect to the adoption of a child by the taxpayer shall not exceed $5,000.>>

<<"(2) INCOME LIMITATION.--The amount allowable as a credit under subsection (a) for any taxable year shall be reduced (but not below zero) by an amount which bears the same ratio to the amount so allowable (determined without regard to this paragraph but with regard to paragraph (1)) as-->>

<<"(A) the amount (if any) by which the taxpayer's adjusted gross income (determined without regard to sections 911, 931, and 933) exceeds $75,000, bears to>>

<<"(B) $40,000.>>

<<"(3) DENIAL OF DOUBLE BENEFIT.-->>

<<"(A) IN GENERAL.--No credit shall be allowed under subsection (a) for any expense for which a deduction or credit is allowable under any other provision of this chapter.>>

<<"(B) GRANTS.--No credit shall be allowed under subsection (a) for any expense to the extent that funds for such expense are received under any Federal, State, or local program. The preceding sentence shall not apply to expenses for the adoption of a child with special needs. >>

<<"(C) REIMBURSEMENT.--No credit shall be allowed under subsection (a) for any expense to the extent that such expense is reimbursed and the reimbursement is excluded from gross income under section 137.>>

<<"(c) CARRYFORWARDS OF UNUSED CREDIT.--If the credit allowable under subsection (a) for any taxable year exceeds the limitation imposed by section 26(a) for such taxable year reduced by the sum of the credits allowable under this subpart (other than this section), such excess shall be carried to the succeeding taxable year and added to the credit allowable under subsection (a) for such taxable year. No credit may be carried forward under this subsection to any taxable year following the fifth taxable year after the taxable year in which the credit arose. For purposes of the preceding sentence, credits shall be treated as used on a first-in first-out basis.>>

<<"(d) DEFINITIONS.--For purposes of this section-->>

<<"(1) QUALIFIED ADOPTION EXPENSES.--The term `qualified adoption expenses' means reasonable and necessary adoption fees, court costs, attorney fees, and other expenses-- >>

<<"(A) which are directly related to, and the principal purpose of which is for, the legal adoption of an eligible child by the taxpayer, and>>

<<"(B) which are not incurred in violation of State or Federal law or in carrying out any surrogate parenting arrangement.>>

<<"(2) EXPENSES FOR ADOPTION OF SPOUSE'S CHILD NOT ELIGIBLE.--The term `qualified adoption expenses' shall not include any expenses in connection with the adoption by an

individual of a child who is the child of such individual's spouse.>>

<<"(3) ELIGIBLE CHILD.--The term `eligible child' means any individual-->>

<<"(A) who has not attained age 18 as of the time of the adoption, or>>

<<"(B) who is physically or mentally incapable of caring for himself.>>

<<"(4) CHILD WITH SPECIAL NEEDS.--The term `child with special needs' means any child if-->>

<<"(A) a State has determined that the child cannot or should not be returned to the home of his parents, and>>

<<"(B) such State has determined that there exists with respect to the child a specific factor or condition (such as his ethnic background, age, or membership in a minority or sibling group, or the presence of factors such as medical conditions or physical, mental, or emotional handicaps) because of which it is reasonable to conclude that such child cannot be placed with adoptive parents without providing adoption assistance.>>

<<"(e) SPECIAL RULES FOR FOREIGN ADOPTIONS.--In the case of a foreign adoption-->>

<<"(1) subsection (a) shall not apply to any qualified adoption expense with respect to such adoption unless such adoption becomes final, and>>

<<"(2) any such expense which is paid or incurred before the taxable year in which such adoption becomes final shall be taken into account under this section as if such expense were paid or incurred during such year.>>

<<"(f) MARRIED COUPLES MUST FILE JOINT RETURNS.--Rules similar to the rules of paragraphs (2), (3), and (4) of section 21(e) shall apply for purposes of this section.>>

<<"(g) BASIS ADJUSTMENTS.--For purposes of this subtitle, if a credit is allowed under this section for any expenditure with respect to any property, the increase in the basis of such property which would (but for this subsection) result from such expenditure shall be reduced by the amount of the credit so allowed.>>

<<"(h) REGULATIONS.--The Secretary shall prescribe such regulations as may be appropriate to carry out this section and section 137, including regulations which treat unmarried individuals who pay or incur qualified adoption expenses with respect to the same child as 1 taxpayer for purposes of applying the dollar limitation in subsection (b)(1) of this section and in section 137(b)(1).".>>

<<(b) EXCLUSION OF AMOUNTS RECEIVED UNDER EMPLOYER'S ADOPTION ASSISTANCE PROGRAMS.--Part III of subchapter B of chapter 1 of such Code (relating to items specifically excluded from gross income) is amended by redesignating section 137 as section 138 and by inserting after section 136 the following new section:>>

<!"SEC. 137. ADOPTION ASSISTANCE PROGRAMS.!>

<<"(a) IN GENERAL.--Gross income of an employee does not include amounts paid or expenses incurred by the employer for qualified adoption expenses in connection with the adoption of a child by an employee if such amounts are furnished pursuant to an adoption assistance program.>>

<<"(b) LIMITATIONS.-->>

<<"(1) DOLLAR LIMITATION.--The aggregate amount excludable

from gross income under subsection (a) for all taxable years with respect to the adoption of a child by the taxpayer shall not exceed $5,000.>>

<<"(2) INCOME LIMITATION.--The amount excludable from gross income under subsection (a) for>> <<any taxable year shall be reduced (but not below zero) by an amount which bears the same ratio to the amount so excludable (determined without regard to this paragraph but with regard to paragraph (1)) as-->>

<<"(A) the amount (if any) by which the taxpayer's adjusted gross income exceeds $75,000, bears to>>

<<"(B) $40,000.>>

<<"(3) DETERMINATION OF ADJUSTED GROSS INCOME.--For purposes of paragraph (2), adjusted gross income shall be determined-->>

<<"(A) without regard to this section and sections 911, 931, and 933, and>>

<<"(B) after the application of sections 86, 135, 219, and 469.>>

<<"(c) ADOPTION ASSISTANCE PROGRAM.--For purposes of this section, an adoption assistance program is a plan of an employer-->>

<<"(1) under which the employer provides employees with adoption assistance, and>>

<<"(2) which meets requirements similar to the requirements of paragraphs (2), (3), and (5) of section 127(b).>>

<<An adoption reimbursement program operated under section 1052 of title 10, United States Code (relating to armed forces) or section 514 of title 14, United States Code (relating to members of the Coast Guard) shall be treated as an adoption assistance program for purposes of this section.>>

<<"(d) QUALIFIED ADOPTION EXPENSES.--For purposes of this section, the term `qualified adoption expenses' has the meaning given such term by section 23(d).>>

<<"(e) CERTAIN RULES TO APPLY.--Rules similar to the rules of subsections (e) and (g) of section 23 shall apply for purposes of this section.".>>

<<(c) CONFORMING AMENDMENTS.-->>

<<(1) Sections 86(b)(2)(A) and 135(c)(4)(A) of such Code are each amended by inserting "137," before "911".>>

<<(2) Clause (i) of section 219(g)(3)(A) of such Code is amended by inserting ", 137," before "and 911".>>

<<(3) Clause (ii) of section 469(i)(3)(E) of such Code is amended to read as follows:>>

<<"(ii) the amounts excludable from gross income under sections 135 and 137,".>>

<<(4) Subsection (a) of section 1016 of such Code is amended by striking "and" at the end of paragraph (24), by striking the period at the end of paragraph (25) and inserting ", and", and by adding at the end the following new paragraph:>>

<<"(26) to the extent provided in sections 23(g) and 137(e).">>

<<(5) The table of sections for subpart A of part IV of subchapter A of chapter 1 of such Code is amended by inserting after the item relating to section 22 the following new item:>>

<<"Sec. 23. Adoption expenses.".>>

<<(6) The table of sections for part III of subchapter B of chapter 1 of such Code is amended by striking the item relating to section 137 and inserting the following:>>

<<"Sec. 137. Adoption assistance programs.>>

<<"Sec. 138. Cross reference to other Acts.".>>

<<(d) EFFECTIVE DATE.--The amendments made by this section shall apply to taxable years beginning after December 31, 1996.>>

/!TITLE I--CREDIT FOR ADOPTION EXPENSES!\

/!SEC. 101. CREDIT FOR ADOPTION EXPENSES.!\

//(a) IN GENERAL.--Subpart A of part IV of subchapter A of chapter 1 of the Internal Revenue Code of 1986 (relating to nonrefundable personal credits) is amended by inserting after section 22 the following new section:\\

/!"SEC. 23. ADOPTION EXPENSES.!\

//"(a) ALLOWANCE OF CREDIT.--In the case of an individual, there shall be allowed as a credit against the tax imposed by this chapter for the taxable year the amount of the qualified adoption expenses paid or incurred by the taxpayer during such taxable year.\\

//"(b) LIMITATIONS.--\\
//"(1) DOLLAR LIMITATION.--The aggregate amount of qualified adoption expenses which may be taken into account under subsection (a) for all taxable years with respect to the adoption of a child by the taxpayer shall not exceed $5,000 ($6,000, in the case of a child with special needs).\\
//"(2) INCOME LIMITATION.--\\
//"(A) IN GENERAL.--The amount allowable as a credit under subsection (a) for any taxable year shall be reduced (but not below zero) by an amount which bears the same ratio to the amount so allowable (determined without regard to this paragraph but with regard to paragraph (1)) as--\\
//"(i) the amount (if any) by which the taxpayer's adjusted gross income exceeds $75,000, bears to\\
//"(ii) $40,000.\\
//"(B) DETERMINATION OF ADJUSTED GROSS INCOME.--For purposes of subparagraph (A), adjusted gross income shall be determined--\\
//"(i) without regard to sections 911, 931, and 933, and\\
//"(ii) after the application of sections 86, 135, 137, 219, and 469.\\
//"(3) DENIAL OF DOUBLE BENEFIT.--\\
//"(A) IN GENERAL.--No credit shall be allowed under subsection (a) for any expense for which a deduction or credit is allowed under any other provision of this chapter.\\
//"(B) GRANTS.--No credit shall be allowed under subsection (a) for any expense to the extent that funds for such expense are received under any Federal, State, or local program. \\

//"(c) CARRYFORWARDS OF UNUSED CREDIT.--If the credit allowable under subsection (a) for any taxable year exceeds the limitation imposed by section 26(a) for such taxable year reduced by the sum of the credits allowable under this subpart (other than this section), such excess shall be carried to the succeeding taxable year and added to the credit allowable under subsection (a) for such taxable year. No credit may be carried forward under this subsection to any taxable year following the fifth taxable year after the taxable year in which the credit arose. For purposes of the preceding sentence, credits shall be treated as used on a first-in first-out basis.\\

//"(d) DEFINITIONS.--For purposes of this section--\\
//"(1) QUALIFIED ADOPTION EXPENSES.--The term `qualified adoption expenses' means reasonable and necessary adoption fees, court costs, attorney fees, and other expenses-- \\
//"(A) which are directly related to, and the principal purpose of which is for, the legal adoption of an eligible child by the taxpayer,\\
//"(B) which are not incurred in violation of State or Federal law or in carrying out any surrogate parenting arrangement,\\
//"(C) which are not expenses in connection with the adoption by an individual of a child who is the child of such individual's spouse, and\\
//"(D) which are not reimbursed under an employer program or otherwise.\\
//"(2) ELIGIBLE CHILD.--The term `eligible child' means any individual--\\
//"(A) who--\\
//"(i) has not attained age 18, or\\
//"(ii) is physically or mentally incapable of caring for himself, and\\
//"(B) in the case of qualified adoption expenses paid or incurred after December 31, 2000, who is a child with special needs.\\
//"(4) CHILD WITH SPECIAL NEEDS.--The term `child with special needs' means any child if--\\
//"(A) a State has determined that the child cannot or should not be returned to the home of his parents, and\\
//"(B) such State has determined that there exists with respect to the child a specific factor or condition (such as his ethnic background, age, or membership in a minority or sibling group, or the presence of factors such as medical conditions or physical, mental, or emotional handicaps) because of which it is reasonable to conclude that such child cannot be placed with adoptive parents without providing adoption assistance.\\

//"(e) SPECIAL RULES FOR FOREIGN ADOPTIONS.--In the case of an adoption of a child who is not a citizen or resident of the United States (as defined in section 217(h)(3))--\\
//"(1) subsection (a) shall not apply to any qualified adoption expense with respect to such adoption unless such adoption becomes final, and\\
//"(2) any such expense which is paid or incurred before the taxable year in which such adoption becomes final shall be taken into account under this section as if such expense were paid or incurred during such year.\\

//"(f) MARRIED COUPLES MUST FILE JOINT RETURNS.--Rules similar to the rules of paragraphs (2), (3), and (4) of section 21(e) shall apply for purposes of this section.\\

//"(g) BASIS ADJUSTMENTS.--For purposes of this subtitle, if a credit is allowed under this section for any expenditure with respect to any property, the increase in the basis of such property which would (but for this subsection) result from such expenditure shall be reduced by the amount of the credit so allowed.\\

//"(h) REGULATIONS.--The Secretary shall prescribe such regulations as may be appropriate to carry out this section and section 137, including regulations which treat unmarried individuals who pay or incur qualified adoption expenses with respect to the same child as 1 taxpayer for\\ //purposes of applying the dollar limitation in subsection (b)(1) of this section and in section 137(b)(1)."\\

//(b) EXCLUSION OF AMOUNTS RECEIVED UNDER EMPLOYER'S ADOPTION ASSISTANCE PROGRAMS.--Part III of subchapter B of chapter 1 of such Code (relating to items specifically excluded from gross income) is amended by redesignating section 137 as section 138 and by inserting after section 136 the following new section:\\

/!"SEC. 137. ADOPTION ASSISTANCE PROGRAMS.!\

//"(a) IN GENERAL.--Gross income of an employee does not include amounts paid or expenses incurred by the employer for qualified adoption expenses in connection with the adoption of a child by an employee if such amounts are furnished pursuant to an adoption assistance program.\\

//"(b) LIMITATIONS.--\\
//"(1) DOLLAR LIMITATION.--The aggregate amount excludable from gross income under subsection (a) for all taxable years with respect to the adoption of a child by the taxpayer shall not exceed $5,000 ($6,000, in the case of a child with special needs).\\
//"(2) INCOME LIMITATION.--The amount excludable from gross income under subsection (a) for any taxable year shall be reduced (but not below zero) by an amount which bears the same ratio to the amount \\ //so excludable (determined without regard to this paragraph but with regard to paragraph (1)) as-\\
//"(A) the amount (if any) by which the taxpayer's adjusted gross income exceeds $75,000, bears to\\
//"(B) $40,000.\\
//"(3) DETERMINATION OF ADJUSTED GROSS INCOME.--For purposes of paragraph (2), adjusted gross income shall be determined--\\
//"(A) without regard to this section and sections 911, 931, and 933, and\\
//"(B) after the application of sections 86, 135, 219, and 469.\\

//"(c) ADOPTION ASSISTANCE PROGRAM.--For purposes of this section, an adoption assistance program is a separate written plan of an employer for the exclusive benefit of such employer's employees--\\
//"(1) under which the employer provides such employees with adoption assistance, and\\
//"(2) which meets requirements similar to the requirements of paragraphs (2), (3), (5), and (6) of section 127(b).\\

//An adoption reimbursement program operated under section 1052 of title 10, United States Code (relating to armed forces) or section 514 of title 14, United States Code (relating to members of the Coast Guard) shall be treated as an adoption assistance program for purposes of this section.\\

//"(d) QUALIFIED ADOPTION EXPENSES.--For purposes of this section, the term `qualified adoption expenses' has the meaning given such term by section 23(d).\\

//"(e) CERTAIN RULES TO APPLY.--Rules similar to the rules of subsections (e), (f), and (g) of section 23 shall apply for purposes of this section.\\

//"(f) TERMINATION.--This section shall not apply to amounts paid or expenses incurred after December 31, 2000."\\

//(c) CONFORMING AMENDMENTS.--\\
//(1) Subparagraph (C) of section 25(e)(1) of such Code is

amended by inserting "and section 23" after "this section".\\
//(2) Sections 86(b)(2)(A) and 135(c)(4)(A) of such Code are each amended by inserting "137," before "911".\\
//(3) Clause (i) of section 219(g)(3)(A) of such Code is amended by inserting ", 137," before "and 911".\\
//(4) Clause (ii) of section 469(i)(3)(E) of such Code is amended to read as follows:\\
//"(ii) the amounts excludable from gross income under sections 135 and 137,".\\
//(5) Subsection (a) of section 1016 of such Code is amended by striking "and" at the end of paragraph (24), by striking the period at the end of paragraph (25) and inserting ", and", and by adding at the end the following new paragraph:\\
//"(26) to the extent provided in sections 23(g) and 137(e)."\\
//(6) The table of sections for subpart A of part IV of subchapter A of chapter 1 of such Code is amended by inserting after the item relating to section 22 the following new item:\\

//"Sec. 23. Adoption expenses."\\
//(7) The table of sections for part III of subchapter B of chapter 1 of such Code is amended by striking the item relating to section 137 and inserting the following:\\

//"Sec. 137. Adoption assistance programs.\\
//"Sec. 138. Cross reference to other Acts."\\

//(d) STUDY AND REPORT.--The Secretary of the Treasury shall study the effect on adoptions of the tax credit and gross income exclusion established by the amendments made by this section and shall submit a report regarding the study to the Committee on Finance of the Senate and the Committee on Ways and Means of the House of Representatives not later than January 1, 2000.\\

//(e) EFFECTIVE DATE.--The amendments made by this section shall apply to taxable years beginning after December 31, 1996.\\

<!TITLE II--INTERETHNIC ADOPTION!>

<!SEC. 201. REMOVAL OF BARRIERS TO INTERETHNIC ADOPTION.!>

<<(a) STATE PLAN REQUIREMENTS.--Section 471(a) of the Social Security Act (42 U.S.C 671(a)) is amended-->>
<<(1) by striking "and" at the end of paragraph (16);>>
<<(2) by striking the period at the end of paragraph (17) and inserting "; and"; and>>
<<(3) by adding at the end the following:>>
<<"(18) not later than January 1, 1997, provides that neither the State nor any other entity in the State that receives funds from the Federal Government and is involved in adoption or foster care placements may-->>
<<"(A) deny to any person the opportunity to become an adoptive or a foster parent, on the basis of the race, color, or national origin of the person, or of the child, involved; or>>
<<"(B) delay or deny the placement of a child for adoption or into foster care, on the basis of the race, color, or national origin of the adoptive or foster parent, or the child, involved.".>>

<<(b) ENFORCEMENT.--Section 474 of such Act (42 U.S.C. 674) is amended by adding at the end the following:>>

<<"(d)(1) If a State's program operated under this part is found, as a result of a review conducted under section 1123, to have

violated section 471(a)(18) during a quarter with respect to any person, then, notwithstanding subsection (a) of this section and any regulations promulgated under section 1123(b)(3), the Secretary shall reduce the amount otherwise payable to the State under this part, for the quarter and for each subsequent quarter before the 1st quarter for which the State program is found, as a result of such a review, not to have violated section 471(a)(18) with respect to any person, by-->>

<<"(A) 2 percent of such otherwise payable amount, in the case of the 1st such finding with respect to the State;>>

<<"(B) 5 percent of such otherwise payable amount, in the case of the 2nd such finding with respect to the State; or>>

<<"(C) 10 percent of such otherwise payable amount, in the case of the 3rd or subsequent such finding with respect to the State.>>

<<"(2) Any other entity which is in a State that receives funds under this part and which violates section 471(a)(18) during a quarter with respect to any person shall remit to the Secretary all funds that were paid by the State to the entity during the quarter from such funds.>>

<<"(3)(A) Any individual who is aggrieved by a violation of section 471(a)(18) by a State or other entity may bring an action seeking relief from the State or other entity in any United States district court.>>

<<"(B) An action under this paragraph may not be brought more than 2 years after the date the alleged violation occurred.>>

<<"(4) This subsection shall not be construed to affect the application of the Indian Child Welfare Act of 1978.".>>

<<(c) CIVIL RIGHTS.-->>

<<(1) PROHIBITED CONDUCT.--A person or government that is involved in adoption or foster care placements may not-->>

<<(A) deny to any individual the opportunity to become an adoptive or a foster parent, on the basis of the race, color, or national origin of the individual, or of the child, involved; or>>

<<(B) delay or deny the placement of a child for adoption or into foster care, on the basis of the race, color, or national origin of the adoptive or foster parent, or the child, involved.>>

<<(2) ENFORCEMENT.--Noncompliance with paragraph (1) is deemed a violation of title VI of the Civil Rights Act of 1964.>>

<<(3) NO EFFECT ON THE INDIAN CHILD WELFARE ACT OF 1978.--This subsection shall not be construed to affect the application of the Indian Child Welfare Act of 1978.>>

<<(d) CONFORMING REPEAL.--Section 553 of the Howard M. Metzenbaum Multiethnic Placement Act of 1994 (42 U.S.C. 5115a) is repealed.>>

/!TITLE II--INTERETHNIC ADOPTION!\

/!SEC. 201. REMOVAL OF BARRIERS TO INTERETHNIC ADOPTION.!\

//(a) STATE PLAN REQUIREMENTS.--Section 471(a) of the Social Security Act (42 U.S.C 671(a)) is amended--\\

//(1) by striking "and" at the end of paragraph (16);\\

//(2) by striking the period at the end of paragraph (17) and inserting "; and"; and\\

//(3) by adding at the end the following:\\

//"(18) not later than January 1, 1997, provides that neither the State nor any other entity in the State that receives funds from the Federal Government and is involved in adoption or foster care placements may--\\

//"(A) deny to any person the opportunity to become an adoptive or a foster parent, on the basis of the race, color, or national origin of the person, or of the child, involved; or\\

//"(B) delay or deny the placement of a child for adoption or into foster care, on the basis of the race, color, or national origin of the adoptive or foster parent, or the child, involved.".\\

//(b) ENFORCEMENT.--Section 474 of such Act (42 U.S.C. 674) is amended by adding at the end the following:\\

//"(d) PENALTIES FOR VIOLATIONS OF INTERETHNIC ADOPTION REQUIREMENTS.--\\

//"(1) STATE VIOLATIONS.--If, during a fiscal year, a State's program operated under this part is found, as a result of a completed review under section 1123A, including the completion of any administrative appeal or judicial review conducted under subsection (c) of such section, to have violated section 471(a)(18) during a quarter of such fiscal year with respect to a person, then, notwithstanding subsection (a) of this section and any regulations promulgated under section 1123A(b)(3), the Secretary shall reduce the amount otherwise payable to the State under this part, for that fiscal year quarter and for any subsequent quarter of such fiscal year, until the State program is found, as a result of a subsequent review under section 1123A, not to have violated section 471(a)(18) with respect to such person, or no penalty remains to be carried forward under paragraph (2)(B).\\

//"(2) AMOUNT OF REDUCTION.--\\

//"(A) IN GENERAL.--For purposes of paragraph (1), the amount otherwise payable to a State under this part shall be reduced as follows:\\

//"(i) 2 percent of such otherwise payable amount, in the case of the 1st such finding for the fiscal year with respect to the State.\\

//"(ii) 5 percent of such otherwise payable amount, in the case of the 2nd such finding for the fiscal year with respect to the State. \\

//"(iii) 10 percent of such otherwise payable amount, in the case of the 3rd or subsequent such finding for the fiscal year with respect to the State.\\

//"(B) LIMITATION ON AMOUNT OF PENALTY.--\\

//"(i) IN GENERAL.--In imposing the penalties described in this subsection, the Secretary shall not reduce any quarterly payment to a State by more than 25 percent.\\

//"(ii) CARRYFORWARD OF UNRECOVERED PENALTIES.--To the extent that clause (i) prevents the Secretary from recovering during a fiscal year the full amount of all penalties imposed on a State under this subsection for such fiscal year, the Secretary shall apply any remaining amount of such penalties to the amount payable to the State under this part for the immediately succeeding fiscal year quarter.\\

//"(3) PRIVATE VIOLATIONS.--Any other entity which is in a State that receives funds under this part and which violates section 471(a)(18) during a fiscal year quarter with respect to any person shall remit to the Secretary all funds that were paid by the \\ //State to the entity during such quarter from such funds.\\

//"(4) PRIVATE CAUSE OF ACTION.--\\
//"(A) IN GENERAL.--Any individual who is aggrieved by a violation of section 471(a)(18) by a State or other entity may bring an action seeking relief from the State or other entity in any United States district court.\\
//"(B) STATUTE OF LIMITATIONS.--An action under this paragraph may not be brought more than 2 years after the date the alleged violation occurred.\\
//"(5) RULE OF CONSTRUCTION.--This subsection shall not be construed to affect the application of the Indian Child Welfare Act of 1978.".\\

//(c) CIVIL RIGHTS.--\\
//(1) PROHIBITED CONDUCT.--A person or government that is involved in adoption or foster care placements may not--\\
//(A) deny to any individual the opportunity to become an adoptive or a foster parent, on the basis of the race, color, or national origin of the individual, or of the child, involved; or\\
//(B) delay or deny the placement of a child for adoption or into foster care, on the basis of the race, color, or national origin of the adoptive or foster parent, or the child, involved.\\
//(2) ENFORCEMENT.--Noncompliance with paragraph (1) is deemed a violation of title VI of the Civil Rights Act of 1964.\\
//(3) NO EFFECT ON THE INDIAN CHILD WELFARE ACT OF 1978.--This subsection shall not be construed to affect the application of the Indian Child Welfare Act of 1978.\\

//(d) CONFORMING AMENDMENTS.--\\
//(1) REPEAL.--Section 553 of the Howard M. Metzenbaum Multiethnic Placement Act of 1994 (42 U.S.C. 5115a) is repealed.\\
//(2) REDESIGNATION OF SECTION 1123.--The Social Security Act is amended by redesignating section 1123, the second place it appears (42 U.S.C. 1320a-1a), as section 1123A.\\

!![[TITLE III--CHILD CUSTODY PROCEEDINGS AFFECTED BY THE INDIAN CHILD WELFARE ACT OF 1978!!

!![[SEC. 301. INAPPLICABILITY OF THE INDIAN CHILD WELFARE ACT OF 1978 TO CHILD CUSTODY PROCEEDINGS INVOLVING A CHILD WHOSE PARENTS DO NOT MAINTAIN AFFILIATION WITH THEIR INDIAN TRIBE.!!

[[Title I of the Indian Child Welfare Act of 1978 (25 U.S.C. 1911 et seq.) is amended by adding at the end the following:

[["SEC. 114. (a) This title does not apply to any child custody proceeding involving a child who does not reside or is not domiciled within a reservation unless--
[["(1) at least one of the child's biological parents is of Indian descent; and
[["(2) at least one of the child's biological parents maintains significant social, cultural, or political affiliation with the Indian tribe of which either parent is a member.

[["(b) The factual determination as to whether a biological parent maintains significant social, cultural, or political affiliation with the Indian tribe of which either parent is a member shall be based on such affiliation as of the time of the child custody proceeding.

[["(c) The determination that this title does not apply pursuant to subsection (a) is final, and, thereafter, this title shall not be the basis for determining jurisdiction over any child custody proceeding involving the child.".

!![[SEC. 302. MEMBERSHIP AND CHILD CUSTODY PROCEEDINGS.!!

[[Title I of the Indian Child Welfare Act of 1978 (25 U.S.C. 1911 et seq.), as amended by section 301 of this title, is further amended by adding at the end the following:

[["SEC. 115. (a) A person who attains the age of 18 years before becoming a member of an Indian tribe may become a member of an Indian tribe only upon the person's written consent.

[["(b) For the purposes of any child custody proceeding involving an Indian child, membership in an Indian tribe shall be effective from the actual date of admission to membership in the Indian tribe and shall not be given retroactive effect.".

!![[SEC. 303. EFFECTIVE DATE.!!

[[The amendments made by this title shall take effect on the date of the enactment of this Act and shall apply with respect to any child custody proceeding in which a final decree has not been entered as of such date.]]

!!TITLE IV--REVENUE OFFSETS!!

!!SEC. 400. AMENDMENT OF 1986 CODE.!!

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

<!SUBTITLE A--EXCLUSION FOR ENERGY CONSERVATION SUBSIDIES LIMITED TO SUBSIDIES WITH RESPECT TO DWELLING UNITS!>

<!SEC. 401. EXCLUSION FOR ENERGY CONSERVATION SUBSIDIES LIMITED TO SUBSIDIES WITH RESPECT TO DWELLING UNITS.!>

<<(a) IN GENERAL.--Paragraph (1) of section 136(c) (defining energy conservation measure) is amended by striking "energy demand--" and all that follows and inserting "energy demand with respect to a dwelling unit.">>

<<(b) CONFORMING AMENDMENTS.-->>
<<(1) Subsection (a) of section 136 is amended to read as follows:>>

<<"(a) EXCLUSION.--Gross income shall not include the value of any subsidy provided (directly or indirectly) by a public utility to a customer for the purchase or installation of any energy conservation measure.">>
<<(2) Paragraph (2) of section 136(c) is amended-->>
<<(A) by striking subparagraph (A) and by redesignating subparagraphs (B) and (C) as subparagraphs (A) and (B), respectively, and>>
<<(B) by striking "AND SPECIAL RULES" in the paragraph heading.>>

<<(c) EFFECTIVE DATE.--The amendments made by this section shall apply to amounts received after December 31, 1996, unless received pursuant to a written binding contract in effect on

September 13, 1995, and at all times thereafter.>>

<!SUBTITLE B--FOREIGN TRUST TAX COMPLIANCE!>

<!SEC. 411. IMPROVED INFORMATION REPORTING ON FOREIGN TRUSTS.!>

<<(a) IN GENERAL.--Section 6048 (relating to returns as to certain foreign trusts) is amended to read as follows:>>

<!"SEC. 6048. INFORMATION WITH RESPECT TO CERTAIN FOREIGN TRUSTS.!>

<<"(a) NOTICE OF CERTAIN EVENTS.-->>

<<"(1) GENERAL RULE.--On or before the 90th day (or such later day as the Secretary may prescribe) after any reportable event, the responsible party shall provide written notice of such event to the Secretary in accordance with paragraph (2).>>

<<"(2) CONTENTS OF NOTICE.--The notice required by paragraph (1) shall contain such information as the Secretary may prescribe, including-->>

<<"(A) the amount of money or other property (if any) transferred to the trust in connection with the reportable event, and>>

<<"(B) the identity of the trust and of each trustee and beneficiary (or class of beneficiaries) of the trust.>>

<<"(3) REPORTABLE EVENT.--For purposes of this subsection->>

<<"(A) IN GENERAL.--The term `reportable event' means->>

<<"(i) the creation of any foreign trust by a United States person,>>

<<"(ii) the transfer of any money or property (directly or indirectly) to a foreign trust by a United States person, including a transfer by reason of death, and>>

<<"(iii) the death of a citizen or resident of the United States if-->>

<<"(I) the decedent was treated as the owner of any portion of a foreign trust under the rules of subpart E of part I of subchapter J of chapter 1, or>>

<<"(II) any portion of a foreign trust was included in the gross estate of the decedent.>>

<<"(B) EXCEPTIONS.-->>

<<"(i) FAIR MARKET VALUE SALES.--Subparagraph (A)(ii) shall not apply to any transfer of property to a trust in exchange for consideration of at least the fair market value of the transferred property. For purposes of the preceding sentence, consideration other than cash shall be taken into account at its fair market value and the rules of section 679(a)(3) shall apply.>>

<<"(ii) DEFERRED COMPENSATION AND CHARITABLE TRUSTS.--Subparagraph (A) shall not apply with respect to a trust which is-->>

<<"(I) described in section 402(b), 404(a)(4), or 404A, or>>

<<"(II) determined by the Secretary to be described in section 501(c)(3).>>

<<"(4) RESPONSIBLE PARTY.--For purposes of this subsection, the term `responsible party' means-->>

<<"(A) the grantor in the case of the creation of an inter vivos trust,>>

<<"(B) the transferor in the case of a reportable event described in paragraph (3)(A)(ii) other than a transfer by reason of death, and>>

<<"(C) the executor of the decedent's estate in any

other case.>>

<<"(b) UNITED STATES GRANTOR OF FOREIGN TRUST.-->>

<<"(1) IN GENERAL.--If, at any time during any taxable year of a United States person, such person is treated as the owner of any portion of a foreign trust under the rules of subpart E of part I of subchapter J of chapter 1, such person shall be responsible to ensure that-->>

<<"(A) such trust makes a return for such year which sets forth a full and complete accounting of all trust activities and operations for the year, the name of the United States agent for such trust, and such other information as the Secretary may prescribe, and>>

<<"(B) such trust furnishes such information as the Secretary may prescribe to each United States person (i) who is treated as the owner of any portion of such trust or (ii) who receives (directly or indirectly) any distribution from the trust.>>

<<"(2) TRUSTS NOT HAVING UNITED STATES AGENT.-->>

<<"(A) IN GENERAL.--If the rules of this paragraph apply to any foreign trust, the determination of amounts required to be taken into account with respect to such trust by a United States person under the rules of subpart E of part I of subchapter J of chapter 1 shall be determined by the Secretary.>>

<<"(B) UNITED STATES AGENT REQUIRED.--The rules of this paragraph shall apply to any foreign trust to which paragraph (1) applies unless such trust agrees (in such manner, subject to such conditions, and at such time as the Secretary shall prescribe) to authorize a United States person to act as such trust's limited agent solely for purposes of applying sections 7602, 7603, and 7604 with respect to-->>

<<"(i) any request by the Secretary to examine records or produce testimony related to the proper treatment of amounts required to be taken into account under the rules referred to in subparagraph (A), or>>

<<"(ii) any summons by the Secretary for such records or testimony.>>

<<The appearance of persons or production of records by reason of a United States person being such an agent shall not subject such persons or records to legal process for any purpose other than determining the correct treatment under this title of the amounts required to be taken into account under the rules referred to in subparagraph (A). A foreign trust which appoints an described in this subparagraph shall not be considered to have an office or a permanent establishment in the United States, or to be engaged in a trade or business in the United States, solely because of the activities of such agent pursuant to this subsection.>>

<<"(C) OTHER RULES TO APPLY.--Rules similar to the rules of paragraphs (2) and (4) of section 6038A(e) shall apply for purposes of this paragraph.>>

<<"(c) REPORTING BY UNITED STATES BENEFICIARIES OF FOREIGN TRUSTS.-->>

<<"(1) IN GENERAL.--If any United States person receives (directly or indirectly) during any taxable year of such person any distribution from a foreign>> <<trust, such person shall make a return with respect to such trust for such year which includes-->>

<<"(A) the name of such trust,>>

<<"(B) the aggregate amount of the distributions so received from such trust during such taxable year, and>>

<<"(C) such other information as the Secretary may

prescribe.>>

<<"(2) INCLUSION IN INCOME IF RECORDS NOT PROVIDED.-->>

<<"(A) IN GENERAL.--If adequate records are not provided to the Secretary to determine the proper treatment of any distribution from a foreign trust, such distribution shall be treated as an accumulation distribution includible in the gross income of the distributee under chapter 1. To the extent provided in regulations, the preceding sentence shall not apply if the foreign trust elects to be subject to rules similar to the rules of subsection (b)(2)(B).>>

<<"(B) APPLICATION OF ACCUMULATION DISTRIBUTION RULES.--For purposes of applying section 668 in a case to which subparagraph (A) applies, the applicable number of years for purposes of section 668(a) shall be \1/2\ of the number of years the trust has been in existence.>>

<<"(d) SPECIAL RULES.-->>

<<"(1) DETERMINATION OF WHETHER UNITED STATES PERSON MAKES TRANSFER OR RECEIVES DISTRIBUTION.--For purposes of this section, in determining whether a United States person makes a transfer to, or receives a distribution from, a foreign trust, the fact that a portion of such trust is treated as owned by another person under the rules of subpart E of part I of subchapter J of chapter 1 shall be disregarded.>>

<<"(2) DOMESTIC TRUSTS WITH FOREIGN ACTIVITIES.--To the extent provided in regulations, a trust which is a United States person shall be treated as a foreign trust for purposes of this section and section 6677 if such trust has substantial activities, or holds substantial property, outside the United States.>>

<<"(3) TIME AND MANNER OF FILING INFORMATION.--Any notice or return required under this section shall be made at such time and in such manner as the Secretary shall prescribe.>>

<<"(4) MODIFICATION OF RETURN REQUIREMENTS.--The Secretary is authorized to suspend or modify any requirement of this section if the Secretary determines that the United States has no significant tax interest in obtaining the required information.".>>

<<(b) INCREASED PENALTIES.--Section 6677 (relating to failure to file information returns with respect to certain foreign trusts) is amended to read as follows:>>

<!"SEC. 6677. FAILURE TO FILE INFORMATION WITH RESPECT TO CERTAIN FOREIGN TRUSTS.!>

<<"(a) CIVIL PENALTY.--In addition to any criminal penalty provided by law, if any notice or return required to be filed by section 6048-->>

<<"(1) is not filed on or before the time provided in such section, or>>

<<"(2) does not include all the information required pursuant to such section or includes incorrect information,>>

<<the person required to file such notice or return shall pay a penalty equal to 35 percent of the gross reportable amount. If any failure described in the preceding sentence continues for more than 90 days after the day on which the Secretary mails notice of such failure to the person required to pay such penalty, such person shall pay a penalty (in addition to the amount determined under the preceding sentence) of $10,000 for each 30-day period (or fraction thereof) during which such failure continues after the expiration of such 90-day period. In no event shall the penalty under this subsection with respect to any failure exceed the gross reportable amount.' >>

<<"(b) SPECIAL RULES FOR RETURNS UNDER SECTION 6048(b).--In the case of a return required under section 6048(b)-->>
<<"(1) the United States person referred to in such section shall be liable for the penalty imposed by subsection (a), and>>
<<"(2) subsection (a) shall be applied by substituting `5 percent' for `35 percent'.>>

<<"(c) GROSS REPORTABLE AMOUNT.--For purposes of subsection (a), the term `gross reportable amount' means-->>
<<"(1) the gross value of the property involved in the event (determined as of the date of the event) in the case of a failure relating to section 6048(a), >>
<<"(2) the gross value of the portion of the trust's assets at the close of the year treated as owned by the United States person in the case of a failure relating to section 6048(b)(1), and>>
<<"(3) the gross amount of the distributions in the case of a failure relating to section 6048(c).>>

<<"(d) REASONABLE CAUSE EXCEPTION.--No penalty shall be imposed by this section on any failure which is shown to be due to reasonable cause and not due to willful>> <<neglect. The fact that a foreign jurisdiction would impose a civil or criminal penalty on the taxpayer (or any other person) for disclosing the required information is not reasonable cause.>>

<<"(e) DEFICIENCY PROCEDURES NOT TO APPLY.--Subchapter B of chapter 63 (relating to deficiency procedures for income, estate, gift, and certain excise taxes) shall not apply in respect of the assessment or collection of any penalty imposed by subsection (a).".>>

<<(c) CONFORMING AMENDMENTS.-->>
<<(1) Paragraph (2) of section 6724(d) is amended by striking "or" at the end of subparagraph (S), by striking the period at the end of subparagraph (T) and inserting ", or", and by inserting after subparagraph (T) the following new subparagraph:>>
<<"(U) section 6048(b)(1)(B) (relating to foreign trust reporting requirements).".>>
<<(2) The table of sections for subpart B of part III of subchapter A of chapter 61 is amended by striking the item relating to section 6048 and inserting the following new item:>>

<<"Sec. 6048. Information with respect to certain foreign trusts.".>>
<<(3) The table of sections for part I of subchapter B of chapter 68 is amended by striking the item relating to section 6677 and inserting the following new item:>>

<<"Sec. 6677. Failure to file information with respect to certain foreign trusts.".>>

<<(d) EFFECTIVE DATES.-->>
<<(1) REPORTABLE EVENTS.--To the extent related to subsection (a) of section 6048 of the Internal Revenue Code of 1986, as amended by this section, the amendments made by this section shall apply to reportable events (as defined in such section 6048) occurring after the date of the enactment of this Act.>>
<<(2) GRANTOR TRUST REPORTING.--To the extent related to subsection (b) of such section 6048, the amendments made by this section shall apply to taxable years of United States persons beginning after December 31, 1995.>>
<<(3) REPORTING BY UNITED STATES BENEFICIARIES.--To the

extent related to subsection (c) of such section 6048, the amendments made by this section shall apply to distributions received after the date of the enactment of this Act.>>

<!SEC. 412. COMPARABLE PENALTIES FOR FAILURE TO FILE RETURN RELATING TO TRANSFERS TO FOREIGN ENTITIES.!>

<<(a) IN GENERAL.--Section 1494 is amended by adding at the end the following new subsection:>>

<<"(c) PENALTY.--In the case of any failure to file a return required by the Secretary with respect to any transfer described in section 1491, the person required to file such return shall be liable for the penalties provided in section 6677 in the same manner as if such failure were a failure to file a notice under section 6048(a).".>>

<<(b) EFFECTIVE DATE.--The amendment made by subsection (a) shall apply to transfers after the date of the enactment of this Act.>>

<!SEC. 413. MODIFICATIONS OF RULES RELATING TO FOREIGN TRUSTS HAVING ONE OR MORE UNITED STATES BENEFICIARIES.!>

<<(a) TREATMENT OF TRUST OBLIGATIONS, ETC.-->>

<<(1) Paragraph (2) of section 679(a) is amended by striking subparagraph (B) and inserting the following:>>

<<"(B) TRANSFERS AT FAIR MARKET VALUE.--To any transfer of property to a trust in exchange for consideration of at least the fair market value of the transferred property. For purposes of the preceding sentence, consideration other than cash shall be taken into account at its fair market value.".>>

<<(2) Subsection (a) of section 679 (relating to foreign trusts having one or more United States beneficiaries) is amended by adding at the end the following new paragraph:>>

<<"(3) CERTAIN OBLIGATIONS NOT TAKEN INTO ACCOUNT UNDER FAIR MARKET VALUE EXCEPTION.-->>

<<"(A) IN GENERAL.--In determining whether paragraph (2)(B) applies to any transfer by a person described in clause (ii) or (iii) of subparagraph (C), there shall not be taken into account-->>

<<"(i) except as provided in regulations, any obligation of a person described in subparagraph (C), and>>

<<"(ii) to the extent provided in regulations, any obligation which is guaranteed by a person described in subparagraph (C).>>

<<"(B) TREATMENT OF PRINCIPAL PAYMENTS ON OBLIGATION.--Principal payments by the trust on any obligation referred to in subparagraph (A) shall be taken into account on and after the date of the payment in determining the portion of the trust attributable to the property transferred.>>

<<"(C) PERSONS DESCRIBED.--The persons described in this subparagraph are-->>

<<"(i) the trust,>>

<<"(ii) any grantor or beneficiary of the trust, and>>

<<"(iii) any person who is related (within the meaning of section 643(i)(2)(B)) to any grantor or beneficiary of the trust.".>>

<<(b) EXEMPTION OF TRANSFERS TO CHARITABLE TRUSTS.--Subsection (a) of section 679 is amended by striking "section 404(a)(4) or 404A" and inserting "section 6048(a)(3)(B)(ii)".>>

<<(c) OTHER MODIFICATIONS.--Subsection (a) of section 679 is amended by adding at the end the following new paragraphs:>>

<<"(4) SPECIAL RULES APPLICABLE TO FOREIGN GRANTOR WHO LATER BECOMES A UNITED STATES PERSON.-->>

<<"(A) IN GENERAL.--If a nonresident alien individual has a residency starting date within 5 years after directly or indirectly transferring property to a foreign trust, this section and section 6048 shall be applied as if such individual transferred to such trust on the residency starting date an amount equal to the portion of such trust attributable to the property transferred by such individual to such trust in such transfer.>>

<<"(B) TREATMENT OF UNDISTRIBUTED INCOME.--For purposes of this section, undistributed net income for periods before such individual's residency starting date shall be taken into account in determining the portion of the trust which is attributable to property transferred by such individual to such trust but shall not otherwise be taken into account.>>

<<"(C) RESIDENCY STARTING DATE.--For purposes of this paragraph, an individual's residency starting date is the residency starting date determined under section 7701(b)(2)(A).>>

<<"(5) OUTBOUND TRUST MIGRATIONS.--If-->>

<<"(A) an individual who is a citizen or resident of the United States transferred property to a trust which was not a foreign trust, and>>

<<"(B) such trust becomes a foreign trust while such individual is alive,>>

<<then this section and section 6048 shall be applied as if such individual transferred to such trust on the date such trust becomes a foreign trust an amount equal to the portion of such trust attributable to the property previously transferred by such individual to such trust. A rule similar to the rule of paragraph (4)(B) shall apply for purposes of this paragraph.".>>

<<(d) MODIFICATIONS RELATING TO WHETHER TRUST HAS UNITED STATES BENEFICIARIES.--Subsection (c) of section 679 is amended by adding at the end the following new paragraph:>>

<<"(3) CERTAIN UNITED STATES BENEFICIARIES DISREGARDED.--A beneficiary shall not be treated as a United States person in applying this section with respect to any transfer of property to foreign trust if such beneficiary first became a United States person more than 5 years after the date of such transfer.".>>

<<(e) TECHNICAL AMENDMENT.--Subparagraph (A) of section 679(c)(2) is amended to read as follows:>>

<<"(A) in the case of a foreign corporation, such corporation is a controlled foreign corporation (as defined in section 957(a)),".>>

<<(f) REGULATIONS.--Section 679 is amended by adding at the end the following new subsection:>>

<<"(d) REGULATIONS.--The Secretary shall prescribe such regulations as may be necessary or appropriate to carry out the purposes of this section.".>>

<<(g) EFFECTIVE DATE.--The amendments made by this section shall apply to transfers of property after February 6, 1995.>>

<!SEC. 414. FOREIGN PERSONS NOT TO BE TREATED AS OWNERS UNDER GRANTOR TRUST RULES.!>

<<(a) GENERAL RULE.-->>

<<(1) Subsection (f) of section 672 (relating to special rule where grantor is foreign person) is amended to read as follows:>>

<<"(f) SUBPART NOT TO RESULT IN FOREIGN OWNERSHIP.-->>

<<"(1) IN GENERAL.--Notwithstanding any other provision of this subpart, this subpart shall apply only to the extent such application results in an amount (if any) being currently taken into account (directly or through 1 or more entities) under this chapter in computing the income of a citizen or resident of the United States or a domestic corporation.>>

<<"(2) EXCEPTIONS.-->>

<<"(A) CERTAIN REVOCABLE AND IRREVOCABLE TRUSTS.--Paragraph (1) shall not apply to any portion of a trust if-->>

<<"(i) the power to revest absolutely in the grantor title to the trust property to which such portion is attributable is exercisable solely by the grantor without the approval or consent of any other person or with the consent of a related or subordinate party who is subservient to the grantor, or>>

<<"(ii) the only amounts distributable from such portion (whether income or corpus) during the lifetime of the grantor are amounts distributable to the grantor or the spouse of the grantor.>>

<<"(B) COMPENSATORY TRUSTS.--Except as provided in regulations, paragraph (1) shall not apply to any portion of a trust distributions from which are taxable as compensation for services rendered.>>

<<"(3) SPECIAL RULES.--Except as otherwise provided in regulations prescribed by the Secretary-->>

<<"(A) a controlled foreign corporation (as defined in section 957) shall be treated as a domestic corporation for purposes of paragraph (1), and>>

<<"(B) paragraph (1) shall not apply for purposes of applying section 1296.>>

<<"(4) RECHARACTERIZATION OF PURPORTED GIFTS.--In the case of any transfer directly or indirectly from a partnership or foreign corporation which the transferee treats as a gift or bequest, the Secretary may recharacterize such transfer in such circumstances as the Secretary determines to be appropriate to prevent the avoidance of the purposes of this subsection.>>

<<"(5) SPECIAL RULE WHERE GRANTOR IS FOREIGN PERSON.--If->>

<<"(A) but for this subsection, a foreign person would be treated as the owner of any portion of a trust, and>>

<<"(B) such trust has a beneficiary who is a United States person,>>

<<such beneficiary shall be treated as the grantor of such portion to the extent such beneficiary or any member of such beneficiary's family (within the meaning of section 267(c)(4)) has made (directly or indirectly) transfers of property (other than in a sale for full and adequate consideration) to such foreign person. For purposes of the preceding sentence, any gift shall not be taken into account to the extent such gift would be excluded from taxable gifts under section 2503(b).>>

<<"(6) REGULATIONS.--The Secretary shall prescribe such regulations as may be necessary or appropriate to carry out the purposes of this subsection, including regulations providing that paragraph (1) shall not apply in appropriate cases.".>>

<<(2) The last sentence of subsection (c) of section 672 of such Code is amended by inserting "subsection (f) and" before "sections 674".>>

<<(b) CREDIT FOR CERTAIN TAXES.-->>

<<(1) Paragraph (2) of section 665(d) is amended by adding at the end the following new sentence: "Under rules or regulations prescribed by the Secretary, in the case of any foreign trust of which the settlor or another person would be treated as owner of any portion of the trust under subpart E but for section 672(f), the term `taxes imposed on the trust' includes the allocable amount of any income, war profits, and excess profits taxes imposed by any foreign country or possession of the United States on the settlor or such other person in respect of trust income.".>>

<<(2) Paragraph (5) of section 901(b) is amended by adding at the end the following new sentence: "Under rules or regulations prescribed by the Secretary, in the case of any foreign trust of which the settlor or another person would be treated as owner of any portion of the trust under subpart E but for section 672(f), the allocable amount of any income, war profits, and excess profits taxes imposed by any foreign country or possession of the United States on the settlor or such other person in respect of trust income.".>>

<<(c) DISTRIBUTIONS BY CERTAIN FOREIGN TRUSTS THROUGH NOMINEES.->>

<<(1) Section 643 is amended by adding at the end the following new subsection:>>

<<"(h) DISTRIBUTIONS BY CERTAIN FOREIGN TRUSTS THROUGH NOMINEES.--For purposes of this part, any amount paid to a United States person which is derived directly or indirectly from a foreign trust of which the payor is not the grantor shall be deemed in the year of payment to have been directly paid by the foreign trust to such United States person.".>>

<<(2) Section 665 is amended by striking subsection (c).>>

<<(d) EFFECTIVE DATE.-->>

<<(1) IN GENERAL.--Except as provided by paragraph (2), the amendments made by this section shall take effect on the date of the enactment of this Act.>>

<<(2) EXCEPTION FOR CERTAIN TRUSTS.--The amendments made by this section shall not apply to any trust-->>

<<(A) which is treated as owned by the grantor under section 676 or 677 (other than subsection (a)(3) thereof) of the Internal Revenue Code of 1986, and>>

<<(B) which is in existence on September 19, 1995.>>

<<The preceding sentence shall not apply to the portion of any such trust attributable to any transfer to such trust after September 19, 1995.>>

<<(e) TRANSITIONAL RULE.--If-->>

<<(1) by reason of the amendments made by this section, any person other than a United States person ceases to be treated as the owner of a portion of a domestic trust, and>>

<<(2) before January 1, 1997, such trust becomes a foreign trust, or the assets of such trust are transferred to a foreign trust,>>

<<no tax shall be imposed by section 1491 of the Internal Revenue Code of 1986 by reason of such trust becoming a foreign trust or the assets of such trust being transferred to a foreign trust.>>

<!SEC. 415. INFORMATION REPORTING REGARDING FOREIGN GIFTS.!>

<<(a) IN GENERAL.--Subpart A of part III of subchapter A of chapter 61 is amended by inserting after section 6039E the following new section:>>

<!"SEC. 6039F. NOTICE OF LARGE GIFTS RECEIVED FROM FOREIGN PERSONS.!>

<<"(a) IN GENERAL.--If the value of the aggregate foreign gifts received by a United States person (other than an organization described in section 501(c) and exempt from tax under section 501(a)) during any taxable year exceeds $10,000, such United States person shall furnish (at such time and in such manner as the Secretary shall prescribe) such information as the Secretary may prescribe regarding each foreign gift received during such year.>>

<<"(b) FOREIGN GIFT.--For purposes of this section, the term `foreign gift' means any amount received from a person other than a United States person which the recipient treats as a gift or bequest. Such term shall not include any qualified transfer (within the meaning of section 2503(e)(2)) or any distribution properly disclosed in a return under section 6048(c).>>

<<"(c) PENALTY FOR FAILURE TO FILE INFORMATION.-->>

<<"(1) IN GENERAL.--If a United States person fails to furnish the information required by subsection (a) with respect to any foreign gift within the time prescribed therefor (including extensions)-->>

<<"(A) the tax consequences of the receipt of such gift shall be determined by the Secretary, and>>

<<"(B) such United States person shall pay (upon notice and demand by the Secretary and in the same manner as tax) an amount equal to 5 percent of the amount of such foreign gift for each month for which the failure continues (not to exceed 25 percent of such amount in the aggregate).>>

<<"(2) REASONABLE CAUSE EXCEPTION.--Paragraph (1) shall not apply to any failure to report a foreign gift if the United States person shows that the failure is due to reasonable cause and not due to willful neglect.>>

<<"(d) COST-OF-LIVING ADJUSTMENT.--In the case of any taxable year beginning after December 31, 1996, the $10,000 amount under subsection (a) shall be increased by an amount equal to the product of such amount and the cost-of-living adjustment for such taxable year under section 1(f)(3), except that subparagraph (B) thereof shall be applied by substituting `1995' for `1992'.>>

<<"(e) REGULATIONS.--The Secretary shall prescribe such regulations as may be necessary or appropriate to carry out the purposes of this section.".>>

<<(b) CLERICAL AMENDMENT.--The table of sections for such subpart is amended by inserting after the item relating to section 6039E the following new item:>>

<<"Sec. 6039F. Notice of large gifts received from foreign persons.".>>

<<(c) EFFECTIVE DATE.--The amendments made by this section shall apply to amounts received after the date of the enactment of this Act in taxable years ending after such date.>>

<!SEC. 416. MODIFICATION OF RULES RELATING TO FOREIGN TRUSTS WHICH ARE NOT GRANTOR TRUSTS.!>

<<(a) MODIFICATION OF INTEREST CHARGE ON ACCUMULATION DISTRIBUTIONS.--Subsection (a) of section 668 (relating to interest charge on accumulation distributions from foreign trusts) is amended to read as follows:>>

<<"(a) GENERAL RULE.--For purposes of the tax determined under section 667(a)-->>

<<"(1) INTEREST DETERMINED USING UNDERPAYMENT RATES.--The interest charge determined under this section with respect to any distribution is the amount of interest which would be determined on the partial tax computed under section 667(b) for the period described in paragraph (2) using the rates and the method under section 6621 applicable to underpayments of tax.>>

<<"(2) PERIOD.--For purposes of paragraph (1), the period described in this paragraph is the period which begins on the date which is the applicable number of years before the date of the distribution and which ends on the date of the distribution.>>

<<"(3) APPLICABLE NUMBER OF YEARS.--For purposes of paragraph (2)-->>

<<"(A) IN GENERAL.--The applicable number of years with respect to a distribution is the number determined by dividing-->>

<<"(i) the sum of the products described in subparagraph (B) with respect to each undistributed income year, by>>

<<"(ii) the aggregate undistributed net income.>>

<<The quotient determined under the preceding sentence shall be rounded under procedures prescribed by the Secretary.>>

<<"(B) PRODUCT DESCRIBED.--For purposes of subparagraph (A), the product described in this subparagraph with respect to any undistributed income year is the product of-->>

<<"(i) the undistributed net income for such year, and>>

<<"(ii) the sum of the number of taxable years between such year and the taxable year of the distribution (counting in each case the undistributed income year but not counting the taxable year of the distribution).>>

<<"(4) UNDISTRIBUTED INCOME YEAR.--For purposes of this subsection, the term `undistributed income year' means any prior taxable year of the trust for which there is undistributed net income, other than a taxable year during all of which the beneficiary receiving the distribution was not a citizen or resident of the United States.>>

<<"(5) DETERMINATION OF UNDISTRIBUTED NET INCOME.--Notwithstanding section 666, for purposes of this subsection, an accumulation distribution from the trust shall be treated as reducing proportionately the undistributed net income for undistributed income years.>>

<<"(6) PERIODS BEFORE 1996.--Interest for the portion of the period described in paragraph (2) which occurs before January 1, 1996, shall be determined-->>

<<"(A) by using an interest rate of 6 percent, and>>

<<"(B) without compounding until January 1, 1996.".>>

<<(b) ABUSIVE TRANSACTIONS.--Section 643(a) is amended by inserting after paragraph (6) the following new paragraph:>>

<<"(7) ABUSIVE TRANSACTIONS.--The Secretary shall prescribe such regulations as may be necessary or appropriate to carry out the purposes of this part, including regulations to prevent avoidance of such purposes.".>>

<<(c) TREATMENT OF LOANS FROM TRUSTS.-->>

<<(1) IN GENERAL.--Section 643 (relating to definitions applicable to subparts A, B, C, and D) is amended by adding at the end the following new subsection:>>

<<"(i) LOANS FROM FOREIGN TRUSTS.--For purposes of subparts B,

C, and D-->>

<<"(1) GENERAL RULE.--Except as provided in regulations, if a foreign trust makes a loan of cash or marketable securities directly or indirectly to-->>

<<"(A) any grantor or beneficiary of such trust who is a United States person, or>>

<<"(B) any United States person not described in subparagraph (A) who is related to such grantor or beneficiary,>>

<<the amount of such loan shall be treated as a distribution by such trust to such grantor or beneficiary (as the case may be).>>

<<"(2) DEFINITIONS AND SPECIAL RULES.--For purposes of this subsection-->>

<<"(A) CASH.--The term `cash' includes foreign currencies and cash equivalents.>>

<<"(B) RELATED PERSON.-->>

<<"(i) IN GENERAL.--A person is related to another person if the relationship between such persons would result in a disallowance of losses under section 267 or 707(b). In applying section 267 for purposes of the preceding sentence, section 267(c)(4) shall be applied as if the family of an individual includes the spouses of the members of the family.>>

<<"(ii) ALLOCATION.--If any person described in paragraph (1)(B) is related to more than one person, the grantor or beneficiary to whom the treatment under this subsection applies shall be determined under regulations prescribed by the Secretary.>>

<<"(C) EXCLUSION OF TAX-EXEMPTS.--The term `United States person' does not include any entity exempt from tax under this chapter.>>

<<"(D) TRUST NOT TREATED AS SIMPLE TRUST.--Any trust which is treated under this subsection as making a distribution shall be treated as not described in section 651.>>

<<"(3) SUBSEQUENT TRANSACTIONS REGARDING LOAN PRINCIPAL.--If any loan is taken into account under paragraph (1), any subsequent transaction between the trust and the original borrower regarding the principal of the loan (by way of complete or partial repayment, satisfaction, cancellation, discharge, or otherwise) shall be disregarded for purposes of this title.".>>

<<(2) TECHNICAL AMENDMENT.--Paragraph (8) of section 7872(f) is amended by inserting ", 643(i)," before "or 1274" each place it appears.>>

<<(d) EFFECTIVE DATES.-->>

<<(1) INTEREST CHARGE.--The amendment made by subsection (a) shall apply to distributions after the date of the enactment of this Act.>>

<<(2) ABUSIVE TRANSACTIONS.--The amendment made by subsection (b) shall take effect on the date of the enactment of this Act.>>

<<(3) LOANS FROM TRUSTS.--The amendment made by subsection (c) shall apply to loans of cash or marketable securities made after September 19, 1995.>>

<!SEC. 417. RESIDENCE OF TRUSTS, ETC.!>

<<(a) TREATMENT AS UNITED STATES PERSON.-->>

<<(1) IN GENERAL.--Paragraph (30) of section 7701(a) is amended by striking "and" at the end of subparagraph (C) and by striking subparagraph (D) and by inserting the following new subparagraphs:>>

<<"(D) any estate (other than a foreign estate, within the meaning of paragraph (31)), and>>

<<"(E) any trust if-->>

<<"(i) a court within the United States is able to exercise primary supervision over the administration of the trust, and>>

<<"(ii) one or more United States fiduciaries have the authority to control all substantial decisions of the trust.".>>

<<(2) CONFORMING AMENDMENT.--Paragraph (31) of section 7701(a) is amended to read as follows:>>

<<"(31) FOREIGN ESTATE OR TRUST.-->>

<<"(A) FOREIGN ESTATE.--The term `foreign estate' means an estate the income of which, from sources without the United States which is not effectively connected with the conduct of a trade or business within the United States, is not includible in gross income under subtitle A.>>

<<"(B) FOREIGN TRUST.--The term `foreign trust' means any trust other than a trust described in subparagraph (E) of paragraph (30).".>>

<<(3) EFFECTIVE DATE.--The amendments made by this subsection shall apply-->>

<<(A) to taxable years beginning after December 31, 1996, or>>

<<(B) at the election of the trustee of a trust, to taxable years ending after the date of the enactment of this Act.>>

<<Such an election, once made, shall be irrevocable.>>

<<(b) DOMESTIC TRUSTS WHICH BECOME FOREIGN TRUSTS.-->>

<<(1) IN GENERAL.--Section 1491 (relating to imposition of tax on transfers to avoid income tax) is amended by adding at the end the following new flush sentence:>>

<<"If a trust which is not a foreign trust becomes a foreign trust, such trust shall be treated for purposes of this section as having transferred, immediately before becoming a foreign trust, all of its assets to a foreign trust.".>>

<<(2) EFFECTIVE DATE.--The amendment made by this subsection shall take effect on the date of the enactment of this Act.>>

/!SEC. 401. REPEAL OF BAD DEBT RESERVE METHOD FOR THRIFT SAVINGS ASSOCIATIONS.!\

//(a) IN GENERAL.--Section 593 (relating to reserves for losses on loans) is amended by adding at the end the following new subsections:\\

//"(f) TERMINATION OF RESERVE METHOD.--Subsections (a), (b), (c), and (d) shall not apply to any taxable year beginning after December 31, 1995.\\

//"(g) 6-YEAR SPREAD OF ADJUSTMENTS.--\\

//"(1) IN GENERAL.--In the case of any taxpayer who is required by reason of subsection (f) to change its method of computing reserves for bad debts--\\

//"(A) such change shall be treated as a change in a method of accounting,\\

//"(B) such change shall be treated as initiated by the taxpayer and as having been made with the consent of the Secretary, and\\

//"(C) the net amount of the adjustments required to be taken into account by the taxpayer under section 481(a)--\\

//"(i) shall be determined by taking into account

only applicable excess reserves, and\\
//"(ii) as so determined, shall be taken into account ratably over the 6-taxable year period beginning with the first taxable year beginning after December 31, 1995.\\
//"(2) APPLICABLE EXCESS RESERVES.--\\
//"(A) IN GENERAL.--For purposes of paragraph (1), the term `applicable excess reserves' means the excess (if any) of--\\
//"(i) the balance of the reserves described in subsection (c)(1) (other than the supplemental reserve) as of the close of the taxpayer's last taxable year beginning before January 1, 1996, over\\
//"(ii) the lesser of--\\
//"(I) the balance of such reserves as of the close of the taxpayer's last taxable year beginning before January 1, 1988, or\\
//"(II) the balance of the reserves described in subclause (I), reduced in the same manner as under section 585(b)(2)(B)(ii) on the basis of the taxable years described in clause (i) and this clause.\\
//"(B) SPECIAL RULE FOR THRIFTS WHICH BECOME SMALL BANKS.--In the case of a bank (as defined in section 581) which was not a large bank (as defined in section 585(c)(2)) for its first taxable year beginning after December 31, 1995-\\
//"(i) the balance taken into account under subparagraph (A)(ii) shall not be less than the amount which would be the balance of such reserves as of the close of its last taxable year beginning before such date if the additions to such reserves for all taxable years had been determined under section 585(b)(2)(A), and\\
//"(ii) the opening balance of the reserve for bad debts as of the beginning of such first taxable year shall be the balance taken into account under subparagraph (A)(ii) (determined after the application of clause (i) of this subparagraph).\\
//The preceding sentence shall not apply for purposes of paragraphs (5) and (6) or subsection (e)(1).\\
//"(3) RECAPTURE OF PRE-1988 RESERVES WHERE TAXPAYER CEASES TO BE BANK.--If, during any taxable year beginning after December 31, 1995, a taxpayer to which paragraph (1) applied is not a bank (as defined in section 581), paragraph (1) shall apply to the reserves described in paragraph (2)(A)(ii) and \\ //the supplemental reserve; except that such reserves shall be taken into account ratably over the 6-taxable year period beginning with such taxable year.\\
//"(4) SUSPENSION OF RECAPTURE IF RESIDENTIAL LOAN REQUIREMENT MET.--\\
//"(A) IN GENERAL.--In the case of a bank which meets the residential loan requirement of subparagraph (B) for the first taxable year beginning after December 31, 1995, or for the following taxable year--\\
//"(i) no adjustment shall be taken into account under paragraph (1) for such taxable year, and\\
//"(ii) such taxable year shall be disregarded in determining--\\
//"(I) whether any other taxable year is a taxable year for which an adjustment is required to be taken into account under paragraph (1), and\\
//"(II) the amount of such adjustment.\\
//"(B) RESIDENTIAL LOAN REQUIREMENT.--A taxpayer meets the residential loan requirement of this subparagraph for

any taxable year if the principal amount of the residential loans made by the taxpayer during such year is not less than the base amount for such year.\\

//"(C) RESIDENTIAL LOAN.--For purposes of this paragraph, the term `residential loan' means any loan described in clause (v) of section 7701(a)(19)(C) but only if such loan is incurred in acquiring, constructing, or improving the property described in such clause.\\

//"(D) BASE AMOUNT.--For purposes of subparagraph (B), the base amount is the average of the principal amounts of the residential loans made by the taxpayer during the 6 most recent taxable years beginning on or before December 31, 1995. At the election of the taxpayer who made such loans during each of such 6 taxable years, the preceding sentence shall be applied without regard to the taxable year in which such principal amount was the highest and the taxable year in such principal amount was the lowest. Such an election may be made only for the first taxable year beginning after such date, and, if made for such taxable year, shall apply to the succeeding taxable year unless revoked with the consent of the Secretary.\\

//"(E) CONTROLLED GROUPS.--In the case of a taxpayer which is a member of any controlled group of corporations described in section 1563(a)(1), subparagraph (B) shall be applied with respect to such group.\\

//"(5) CONTINUED APPLICATION OF FRESH START UNDER SECTION 585 TRANSITIONAL RULES.--In the case of a taxpayer to which paragraph (1) applied and which was not a large bank (as defined in section 585(c)(2)) for its first taxable year beginning after December 31, 1995:\\

//"(A) IN GENERAL.--For purposes of determining the net amount of adjustments referred to in section 585(c)(3)(A)(iii), there shall be taken into account only the excess (if any) of the reserve for bad debts as of the close of the last taxable year before the disqualification year over the balance taken into account by such taxpayer under paragraph (2)(A)(ii) of this subsection.\\

//"(B) TREATMENT UNDER ELECTIVE CUT-OFF METHOD.--For purposes of applying section 585(c)(4)--\\

//"(i) the balance of the reserve taken into account under subparagraph (B) thereof shall be reduced by the balance taken into\\ //account by such taxpayer under paragraph (2)(A)(ii) of this subsection, and\\

//"(ii) no amount shall be includible in gross income by reason of such reduction.\\

//"(6) SUSPENDED RESERVE INCLUDED AS SECTION 381(c) ITEMS.--The balance taken into account by a taxpayer under paragraph (2)(A)(ii) of this subsection and the supplemental reserve shall be treated as items described in section 381(c).\\

//"(7) CONVERSIONS TO CREDIT UNIONS.--In the case of a taxpayer to which paragraph (1) applied which becomes a credit union described in section 501(c) and exempt from taxation under section 501(a)--\\

//"(A) any amount required to be included in the gross income of the credit union by reason of this subsection shall be treated as derived from an unrelated trade or business (as defined in section 513), and\\

//"(B) for purposes of paragraph (3), the credit union shall not be treated as if it were a bank.\\

//"(8) REGULATIONS.--The Secretary shall prescribe such regulations as may be necessary to carry out this subsection and subsection (e), including regulations providing for the application of such subsections in the case of acquisitions, mergers, spin-offs, and other reorganizations."\\

//(b) CONFORMING AMENDMENTS.--\\
//(1) Subsection (d) of section 50 is amended by adding at the end the following new sentence:\\

//"Paragraphs (1)(A), (2)(A), and (4) of the section 46(e) referred to in paragraph (1) of this subsection shall not apply to any taxable year beginning after December 31, 1995."\\
//(2) Subsection (e) of section 52 is amended by striking paragraph (1) and by redesignating paragraphs (2) and (3) as paragraphs (1) and (2), respectively.\\
//(3) Subsection (a) of section 57 is amended by striking paragraph (4).\\
//(4) Section 246 is amended by striking subsection (f).\\
//(5) Clause (i) of section 291(e)(1)(B) is amended by striking "or to which section 593 applies".\\
//(6) Subparagraph (A) of section 585(a)(2) is amended by striking "other than an organization to which section 593 applies".\\
//(7)(A) The material preceding subparagraph (A) of section 593(e)(1) is amended by striking "by a domestic building and loan association or an institution that is treated as a mutual savings bank under section 591(b)" and inserting "by a taxpayer having a balance described in subsection (g)(2)(A)(ii)".\\
//(B) Subparagraph (B) of section 593(e)(1) is amended to read as follows:\\
//"(B) then out of the balance taken into account under subsection (g)(2)(A)(ii) (properly adjusted for amounts charged against such reserves for taxable years beginning after December 31, 1987),".\\
//(C) The second sentence of section 593(e)(1) is amended by striking "the association or an institution that is treated as a mutual savings bank under section 591(b)" and inserting "a taxpayer having a balance described in subsection (g)(2)(A)(ii)".\\
//(D) The third sentence of section 593(e)(1) is amended by striking "an association" and inserting "a taxpayer having a balance described in subsection (g)(2)(A)(ii)".\\
//(E) Paragraph (1) of section 593(e) is amended by adding at the end the following new sentence: "This paragraph shall not apply to any distribution of all of the stock of a bank (as defined in section 581) to another corporation if, immediately after the distribution, such bank and such other corporation are members of the same affiliated group (as defined in section 1504) and the provisions of section 5(e) of the Federal Deposit Insurance Act (as in effect on December 31, 1995) or similar provisions are in effect."\\
//(8) Section 595 is hereby repealed.\\
//(9) Section 596 is hereby repealed.\\
//(10) Subsection (a) of section 860E is amended--\\
//(A) by striking "Except as provided in paragraph (2), the" in paragraph (1) and inserting "The",\\
//(B) by striking paragraphs (2) and (4) and redesignating paragraphs (3) and (5) as paragraphs (2) and (3), respectively, and\\
//(C) by striking in paragraph (2) (as so redesignated) all that follows "subsection" and inserting a period.\\
//(11) Paragraph (3) of section 992(d) is amended by striking "or 593".\\
//(12) Section 1038 is amended by striking subsection (f).\\
//(13) Clause (ii) of section 1042(c)(4)(B) is amended by striking "or 593".\\
//(14) Subsection (c) of section 1277 is amended by striking "or to which section 593 applies".\\
//(15) Subparagraph (B) of section 1361(b)(2) is amended by

striking "or to which section 593 applies".\\
//(16) The table of sections for part II of subchapter H of chapter 1 is amended by striking the items relating to sections 595 and 596.\\

//(c) EFFECTIVE DATES.--\\
//(1) IN GENERAL.--Except as otherwise provided in this subsection, the amendments made by this section shall apply to taxable years beginning after December 31, 1995.\\
//(2) SUBSECTION (b)(7)(B).--The amendments made by subsection (b)(7)(B) shall not apply to any distribution with respect to preferred stock if--\\
//(A) such stock is outstanding at all times after October 31, 1995, and before the distribution, and\\
//(B) such distribution is made before the date which is 1 year after the date of the enactment of this Act (or, in the case of stock which may be redeemed, if later, the date which is 30 days after the earliest date that such stock may be redeemed).\\
//(3) SUBSECTION (b)(8).--The amendment made by subsection (b)(8) shall apply to property acquired in taxable years beginning after December 31, 1995.\\
//(4) SUBSECTION (b)(10).--The amendments made by subsection (b)(10) shall not apply to any residual interest held by a taxpayer if such interest has been held by such taxpayer at all times after October 31, 1995.\\

/!SEC. 402. DEPRECIATION UNDER INCOME FORECAST METHOD.!\

//(a) GENERAL RULE.--Section 167 (relating to depreciation) is amended by redesignating subsection (g) as subsection (h) and by inserting after subsection (f) the following new subsection:\\

//"(g) DEPRECIATION UNDER INCOME FORECAST METHOD.--\\
//"(1) IN GENERAL.--If the depreciation deduction allowable under this section to any taxpayer with respect to any property is determined under the income forecast method or any similar method--\\
//"(A) the income from the property to be taken into account in determining the depreciation deduction under such method shall be equal to the amount of income earned in connection with the property before the close of the 10th taxable year following the taxable year in which the property was placed in service,\\
//"(B) the adjusted basis of the property shall only include amounts with respect to which the requirements of section 461(h) are satisfied,\\
//"(C) the depreciation deduction under such method for the 10th taxable year beginning after the taxable year in which the property was placed in service shall be equal to the adjusted basis of such property as of the beginning of such 10th taxable year, and\\
//"(D) such taxpayer shall pay (or be entitled to receive) interest computed under the look-back method of paragraph (2) for any recomputation year.\\
//"(2) LOOK-BACK METHOD.--The interest computed under the look-back method of this paragraph for any recomputation year shall be determined by--\\
//"(A) first determining the depreciation deductions under this section with respect to such property which would have been allowable for prior taxable years if the determination of the amounts so allowable had been made on the basis of the sum of the following (instead of the estimated income from such property)--\\
//"(i) the actual income earned in connection with

such property for periods before the close of the recomputation year, and\\
//"(ii) an estimate of the future income to be earned in connection with such property for periods after the recomputation year and before the close of the 10th taxable year following the taxable year in which the property was placed in service,\\
//"(B) second, determining (solely for purposes of computing such interest) the overpayment or underpayment of tax for each such prior taxable year which would result solely from the application of subparagraph (A), and\\
//"(C) then using the adjusted overpayment rate (as defined in section 460(b)(7)), compounded daily, on the overpayment or underpayment determined under subparagraph (B).\\
//For purposes of the preceding sentence, any cost incurred after the property is placed in service (which is not treated as a separate property under paragraph (5)) shall be taken into account by discounting (using the Federal mid-term rate determined under section 1274(d) as of the time such cost is incurred) such cost to its value as of the date the property is placed in service. The taxpayer may elect with respect to any property to have the preceding sentence not apply to such property.\\
//"(3) EXCEPTION FROM LOOK-BACK METHOD.--Paragraph (1)(D) shall not apply with respect to any property which had a cost basis of $100,000 or less. \\
//"(4) RECOMPUTATION YEAR.--For purposes of this subsection, except as provided in regulations, the term `recomputation year' means, with respect to any property, the 3d and the 10th taxable years beginning after the taxable year in which the property was placed in service, unless the actual income earned in connection with the property for the period before the close of such 3d or 10th taxable year is within 10 percent of the income earned in connection with the property for such period which was taken into account under paragraph (1)(A).\\
//"(5) SPECIAL RULES.--\\
//"(A) CERTAIN COSTS TREATED AS SEPARATE PROPERTY.--For purposes of this subsection, the following costs shall be treated as separate properties:\\
//"(i) Any costs incurred with respect to any property after the 10th taxable year beginning after the taxable year in which the property was placed in service. \\
//"(ii) Any costs incurred after the property is placed in service and before the close of such 10th taxable year if such costs are significant and give rise to a significant increase in the income from the property which was not included in the estimated income from the property. \\
//"(B) SYNDICATION INCOME FROM TELEVISION SERIES.--In the case of property which is 1 or more episodes in a television series, income from syndicating such series shall not be required to be taken into account under this subsection before the earlier of--\\
//"(i) the 4th taxable year beginning after the date the first episode in such series is placed in service, or\\
//"(ii) the earliest taxable year in which the taxpayer has an arrangement relating to the future syndication of such series.\\
//"(C) SPECIAL RULES FOR FINANCIAL EXPLOITATION OF CHARACTERS, ETC.--For purposes of this subsection, in the case of television and motion picture films, the income from the\\ //property shall include income from the exploitation

of characters, designs, scripts, scores, and other incidental income associated with such films, but only to the extent that such income is earned in connection with the ultimate use of such items by, or the ultimate sale of merchandise to, persons who are not related persons (within the meaning of section 267(b)) to the taxpayer.\\

//"(D) COLLECTION OF INTEREST.--For purposes of subtitle F (other than sections 6654 and 6655), any interest required to be paid by the taxpayer under paragraph (1) for any recomputation year shall be treated as an increase in the tax imposed by this chapter for such year.\\

//"(E) DETERMINATIONS.--For purposes of paragraph (2), determinations of the amount of income earned in connection with any property shall be made in the same manner as for purposes of applying the income forecast method; except that any income from the disposition of such property shall be taken into account.\\

//"(F) TREATMENT OF PASS-THRU ENTITIES.--Rules similar to the rules of section 460(b)(4) shall apply for purposes of this subsection."\\

//(b) EFFECTIVE DATE.--\\

//(1) IN GENERAL.--The amendment made by subsection (a) shall apply to property placed in service after September 13, 1995.\\

//(2) BINDING CONTRACTS.--The amendment made by subsection (a) shall not apply to any property produced or acquired by the taxpayer pursuant to a written contract which was binding on September 13, 1995, and at all times thereafter before such production or acquisition.\\

//(3) UNDERPAYMENTS OF INCOME TAX.--No addition to tax shall be made under--\\

//(A) section 6654 or 6655 of the Internal Revenue Code of 1986 (relating to failure to pay estimated tax) with respect to any underpayment of an installment required to be paid before the date of the enactment of this Act, or\\

//(B) section 6662 of such Code as a result of the application of subsection (d) of that section (relating to substantial understatements of income tax) with respect to any underpayment of income tax for any taxable year ending before such date of enactment,\\

//to the extent such underpayment was created or increased by the amendments made by subsection (a).\\

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