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LIST OF IDENTICAL REVENUE PROVISIONS

Individual

- Child and dependent child care credit: deny eligibility for over-night camp expenses (sec. 10101 of House bill and sec. 4541 of Senate amendment)

Corporate

- Denial of graduated tax rates for personal service corporations (sec. 10135 of House bill and sec. 4522 of Senate amendment)

Excise Taxes

- 3-year extension of 3-percent telephone excise tax (sec. 10161 of House bill and sec. 4571 of Senate amendment)

FICA Taxes

- Expand employer share of FICA tax to include all cash tips (sec. 9012 of House bill and sec. 4587 of Senate amendment)
- Expand FICA tax to inactive duty reservists (sec. 9001 of House bill and sec. 4588 of Senate amendment)
- Expand FICA tax to certain agricultural employees (sec. 9002 of House bill and sec. 4589 of Senate amendment)
- FICA tax application to employer cost of group-term life insurance as under income tax (sec. 9003 of House bill and sec. 4590 of Senate amendment)
- FICA tax coverage of services performed by an individual in the employ of a parent (sec. 9004 of House bill and sec. 4592 of Senate amendment)
- FICA tax coverage of services performed by one spouse in the employ of another (sec. 9005 of House bill and sec. 4591 of Senate amendment)

User Fees

- IRS fees (sec. 10164 of House bill and sec. 4595 of Senate amendment)
- BATF occupational taxes (sec. 10165 of House bill and sec. 4596 of Senate amendment)

I. Individual Tax Provisions

A. Income Tax Provisions

1. Limitations on deduction for qualified residence interest (sec. 10102 of the House bill)

(a) General rule

(a) Qualified residence interest (i.e. interest on debt secured by a principal or second residence) is deductible, notwithstanding the general rule making personal interest nondeductible. Qualified residence interest is limited to interest on debt up to the amount of the original cost of the residence (including improvements), plus debt for educational and medical expenses (up to fair market value).

(a) Qualified residence interest is limited to:

(1) debt to acquire, or substantially improve, a principal or second residence (up to a debt of \$1 million), plus

(2) other debt (not in excess of \$100,000) secured by a principal or second residence.

(a) No provision.

(b) Boats and mobile homes

(b) Boats and mobile homes are not specifically excluded from the definition of a second residence.

(b) Mobile homes used on a transient basis and boats cannot qualify as second residences.

(b) No provision.

Effective date.--Taxable years beginning after December 31, 1987. Indebtedness incurred on or before October 13, 1987, (including refinancings of such debt up to the principal amount and duration of the old debt immediately before the refinancing) is grandfathered.

B. Employee Benefits

1. Limitation on taxable benefit option under cafeteria plans (sec. 10103 of the House bill)

Under present law, compensation generally is taxable to employees when actually or constructively received. Under one exception to the general principle of constructive receipt, no amount is included in the income of a participant in a cafeteria plan solely because, under the plan, the participant has an election to receive a taxable benefit (such as cash).

Under the bill, an employee is required to include in income for income tax, FICA, and FUTA purposes the excess of (1) the amount of cash or taxable benefits the employee could elect to receive under a cafeteria plan, over (2) \$500. For example, if an employee is eligible under a cafeteria plan to reduce his or her salary by \$1,500 to buy health coverage or to take \$1,500 in cash, the employee is taxed on \$1,000, the excess of \$1,500 over \$500. The provision does not affect any plan that does not provide an option for a taxable benefit in excess of \$500 even if the nontaxable benefits under the plan may exceed \$500.

No provision.

Effective date.--Taxable years beginning after December 31, 1987.

2. Definition of active participant for IRA deduction (sec. 10104 of the House bill)

A taxpayer is permitted to make deductible IRA contributions up to the lesser of \$2,000 or 100 percent of compensation if the taxpayer (1) has adjusted gross income that does not exceed an applicable dollar amount or (2) is not an active participant in an employer-maintained retirement plan, including a plan maintained by the United States for its employees. A recent tax court decision held that Article III judges are not employees of the United States and, therefore, are not active participants in an employer-maintained plan for purposes of the IRA rules. Whether or not an individual is an employee is also relevant for other purposes under the Code.

Judges are treated as employees for purposes of the Code and as active participants for purposes of the IRA deduction limit.

No provision.

Effective date.--Years beginning after December 31, 1987.

C. Limitation on nonrecognition for like-kind exchanges of real property (sec. 10105 of the House bill)

Gain or loss is not recognized on the exchange of business or investment property for property of a like-kind. In general, any kind of real estate is treated as of like-kind with all other real estate.

The amount of gain that a taxpayer can defer from the exchange of real property under this provision will be limited to \$100,000 per year.

No provision.

Effective date.--Exchanges after October 13, 1987, unless pursuant to a binding contract in effect on that date.

Item

Present Law

House Bill

Senate Amendment

II. Business Tax Provisions

A. Accounting Provisions

1. Repeal of vacation pay reserve (sec. 10121 of the House bill and sec. 4501 of the Senate amendment)

An accrual method taxpayer may elect to deduct an amount representing a reasonable addition to a reserve for vacation pay earned during a year if the amount is paid during the year or within 8-1/2 months after the end of the year.

The special election that allows taxpayers a deduction for additions to a reserve for vacation pay would be repealed. The amount allowed as a deduction for vacation pay for any taxable year generally would be limited to amounts paid or funded during the year plus vested amounts paid or funded within 2-1/2 months after the end of the year.

Same as House bill.

Effective date.--Taxable years beginning after December 31, 1987. The adjustment required by the change in method of accounting generally would be taken into account ratably over four taxable years.

Effective date.--Taxable years beginning after December 31, 1987. The adjustment required by the change in method of accounting generally would be taken into account as follows: (1) 10 percent for the taxable year of change; (2) 50 percent for the first taxable year beginning after the taxable year of change; (3) 15 percent for the second taxable year beginning after the taxable year of change; and (4) 25 percent for the third taxable year beginning after the taxable year of change.

2. Repeal of completed contract method (sec. 10115 of the House bill)

Taxpayers engaged in the production of property under a long-term contract must compute income from the contract under either the percentage of completion method or the percentage of completion-capitalized cost method. Under the percentage of completion method, income is reported based on the percentage of a contract completed during the year. Under the percentage of completion-capitalized cost method, 40 percent of a contract is reported according to the percentage of completion method, and 60 percent according to the completed contract method, under which income is reported in the year the contract is completed.

Certain small businesses may use the completed contract method fully with respect to contracts to be completed within two years.

The percentage of completion-capitalized cost method of accounting would be repealed. Thus, the full amount of all long-term contracts (other than contracts of small businesses exempted under present law) would be reported on the (100 percent) percentage of completion method.

No provision.

The percentage of completion-capitalized cost method of accounting for long-term contracts would be continued as under present law in the case of contracts for the construction of not more than 5 ships, providing the ships are not constructed directly or indirectly for the Federal government and the taxpayer reasonably expects to complete the contract within 5 years.

Effective date.--Contracts entered into after October 13, 1987.

3. Treatment of past service pension costs under uniform capitalization rules (sec. 4503 of the Senate amendment)

Uniform capitalization rules govern the inclusion in inventory or capital accounts of costs incurred in manufacturing, construction, and other types of production, or incurred in acquiring or holding property for resale. Under these rules, contributions to a pension or annuity plan are not subject to capitalization to the extent they relate to past services of employees under the Code's actuarial funding rules. Such past service costs are currently deductible by the employer.

No provision.

Provides that past service costs are subject to the uniform capitalization rules to the same extent as current service costs. Thus, an allocable portion of all otherwise deductible pension costs, whether relating to current or past services, must be included in the basis of property produced or held for resale.

Effective date.--Taxable years beginning after December 31, 1987. The amount of any section 481 adjustment required by the amendment must be included in income over a period not exceeding four years.

4. Interest on debt used to purchase or carry tax-exempt installment obligations (sec. 10116 of the House bill)

(a) Tax-exempt installment obligations

(a) No deduction is allowed for interest on debt incurred or continued to purchase or carry tax-exempt obligations. A nonnegotiable tax-exempt obligation that is received as payment for services performed for, or goods provided to, a State or local government is not considered a tax-exempt obligation for purposes of the interest disallowance rule.

(a) No deduction is allowed for interest that is allocable to tax-exempt installment obligations acquired after December 31, 1987. The amount of interest allocable to these tax-exempt installment obligations is based on the ratio of (1) the face amount of the tax-exempt installment obligations, to (2) the sum of the face amount of all installment obligations and the adjusted basis of all other assets.

(a) No provision.

(b) De minimis rule

(b) Interest on debt generally is not disallowed if during any taxable year the average adjusted basis of tax-exempt obligations of a taxpayer does not exceed 2 percent of the average adjusted basis of the trade or business and investment assets of the taxpayer.

(b) The de minimis rule is limited to the lesser of (1) \$1 million or (2) 2 percent of the average adjusted basis of the assets of the taxpayer. Only tax-exempt installment obligations acquired after 1987 are taken into account for purposes of the \$1 million limitation.

(b) No provision.

Effective date.--Taxable years ending after December 31, 1987.

Effective date.--Taxable years ending after December 31, 1987.

5. Installment sale rules for dealers (sec. 4502 of the Senate amendment)

A dealer in personal or real property who sells property of that type in exchange for deferred payments generally may report income from sales on the installment method. Under the installment method, gain generally is reported as payments are received under the installment obligation.

Use of the installment method is not allowed for sales pursuant to a revolving credit plan. In addition, use of the installment method by dealers generally is limited under the proportionate disallowance rule, which treats a portion of a dealer's debt as a payment on the outstanding installment obligations of the taxpayer.

At the election of the dealer, installment obligations from certain sales of residential lots and "timeshares" are not subject to the proportionate disallowance rule. Rather, the dealer may compute tax under the installment method and pay interest on the amount of deferred tax that is attributable to the use of the installment method.

The installment method is repealed for sales of property by dealers. Generally, all payments to be received from the sale of property are treated as received in the year of sale.

No change is made to the rules relating to installment sales of residential lots or "timeshares" or farm property.

Effective date.--Generally, sales occurring after December 31, 1987. Any unrecognized gain on a sale occurring after February 28, 1986, and before January 1, 1988, is taken into account as a section 481(a) adjustment over a period that does not exceed four taxable years.

6. Continuing-care facilities (sec. 10117 of the House bill)

Certain loans that bear interest at below-market rates are treated as loans that bear interest at a market rate accompanied by a payment from the lender to the borrower that is characterized in accordance with the substance of the particular transaction (e.g., gift, compensation, dividend, etc.). An exception from the below-market loan rule is provided for certain loans to certain "continuing care facilities."

Current accrual of market discount by the holder of a bond generally is not required. Thus, a taxpayer who purchases a bond after original issue for an amount less than its face amount (or adjusted issue price in the case of a bond originally issued at a discount) does not include in income any portion of the discount prior to the redemption or other disposition of the bond.

The exception to the below-market loan rules for loans to certain continuing-care facilities is repealed.

Effective date.--Loans made after October 13, 1987, except for loans to certain facilities which were grandfathered from the below-market loan provisions.

7. Current accrual of market discount on bonds (sec. 10118 of the House bill)

Requires a holder of a market discount bond to include the discount in income as it accrues.

Effective date.--Bonds acquired after October 13, 1987.

8. Accrual accounting for certain farm corporations (sec. 10119 of the House bill and sec. 4504 of the Senate amendment)

C corporations engaged in a farming business (other than family-owned corporations or certain closely held corporations) are required to use the accrual method of accounting if they had gross receipts in excess of \$1 million for any taxable year beginning after 1975. Partnerships engaged in a farming business also are required to use the accrual method of accounting if they have a corporate partner, if such corporate partner would be required to use the accrual method of accounting in connection with a farming business.

Those family-owned and closely held farming corporations (family corporations) excepted from the \$1 million gross receipts test of present law are required to use the accrual method of accounting if they had gross receipts in excess of \$25 million for any taxable year beginning after 1985. The attribution rules of Code section 1563 apply in determining if gross receipts exceed \$25 million.

A portion of the adjustment required by the change in accounting method, not to exceed the amount of such adjustment determined as of the close of the most recent quarter ending before October 13, 1987, is placed in a suspense account. The balance of the suspense account is taken into income in the taxable year the entity ceases to be a family corporation. A portion of the suspense account also is taken into income if the gross receipts of the entity decline from present levels.

Effective date.--Taxable years beginning after December 31, 1987.

9. Amortization of customer base intangibles (sec. 10120 of the House bill)

No depreciation or amortization deductions are allowed with respect to property that is not a wasting asset or whose useful life cannot be estimated with reasonable accuracy. Such assets include goodwill and going concern value.

(a) In general

(a) A substantial portion of the purchase price of a business is frequently allocated to assets that represent the value of the existing customer base and amortized over the time it is estimated that those particular customers may be lost. As the customer base is replaced, the costs of replacement are not capitalized but are deducted currently.

(a) No amortization or depreciation.

deductions are allowed for intangible assets that are renewing or for any intangible assets with an indeterminate useful life. Deductions for intangible assets representing the value of the existing customer base or market share are denied.

Effective date.--Acquisitions after October 13, 1987, unless pursuant to a binding written contract in effect on that date.

Same as House bill, except that attribution of gross receipts from another corporation or entity is limited to the corporation's proportionate share of such gross receipts. Also, the portion of the adjustment placed in the suspense account is limited to the amount of such adjustment determined as of the close of the second taxable year preceding the year of change.

(b) Certain transfers of franchises, trademarks, or trade names

(b) If the transferor of a franchise, trademark, or trade name retains certain significant rights and therefore is treated under section 1253(a) as not having sold a capital asset, section 1253(d)(2) of the Code permits the transferee to deduct a lump sum payment to the transferor over a period of not more than 10 years. Such transfers are often for periods longer than 10 years or for indeterminate periods. Internal Revenue Service private letter rulings have interpreted this provision to permit taxpayers to deduct over 10 years payments for franchises, trademarks or tradenames made to transferors who do not themselves retain rights with respect to the assets.

(b) No provision.

(b) The existing Code provision (sec. 1253(d)(2)) dealing with the deduction of certain lump-sum payments to a franchisor or trade mark or trade name transferor who retains certain rights shall not apply to payments for intangible assets for which no deduction is allowed under (a) above. Also, the provision does not apply to payments to a transferor who does not retain rights specified in section 1253(a).

Effective date.--Acquisitions after October 13, 1987, unless pursuant to a binding written contract in effect on that date.

B. Partnership Provisions

1. Certain publicly traded partnerships treated as corporations (sec. 10122 of the House bill)

A partnership is treated as a conduit for tax purposes. Income and loss of the partnership are subject to tax at the partner level, rather than at the partnership level. Regulations under present law, applying a corporate "resemblance" test for determining whether an entity is a partnership or a corporation for Federal tax purposes, generally classify an entity as a partnership if it lacks any 2 of 4 specified corporate characteristics, without weighting the characteristics. If an entity is classified as a partnership, income and loss are subject to tax at the partner level without regard to whether the partnership is engaged in active business activities.

No provision.

Publicly traded partnerships are treated as corporations for Federal income tax purposes, with an exception for partnerships, 90 percent or more of whose gross income is passive-type income (as defined for purposes of the provision). Passive-type income is defined as certain interest, dividends, real property rents, gains from the sale or other disposition of real property, income and gains from natural resource activities, income of typical commodity pools, and gain from the sale or disposition of a capital asset (or certain non-inventory type business property) that is held for the production of income of the type described above.

A partnership is publicly traded if its interests are (a) traded on an established securities market, (b) offered with the expectation that there will be a secondary market, or (c) readily tradeable on a secondary market (or the substantial equivalent thereof).

Effective date.--Effective for periods after October 13, 1987.

1. Certain publicly traded partnerships treated as corporations (Cont.)

The provision becomes effective for taxable years beginning after December 31, 1994 in the case of partnerships existing on October 13, 1987 (and partnerships that had filed a registration statement with the Securities and Exchange Commission on or before October 13, 1987, stating that the partnership will be publicly traded). A partnership is not treated as an existing partnership when it is substantially expanded or its activities substantially changed.

2. Treatment of publicly traded partnerships under the passive loss rule (sec. 10123 of the House bill and sec. 4531 of the Senate amendment)

Deductions from passive trade or business activities (within the meaning of the passive loss rule), to the extent they exceed income from such passive activities (exclusive of portfolio income), generally may not be deducted against other income. Except to the extent that the Treasury Department may provide in regulations, income (other than portfolio income) from limited partnerships, including publicly traded limited partnerships, may be offset by passive losses from other sources.

(a) Net income from publicly traded partnerships (that are not treated as corporations) is treated as portfolio income rather than as passive income for purposes of the passive loss rule. Each partner in a publicly traded partnership treats loss (if any) from the partnership as separate from income and loss from any other publicly traded partnership, and also as separate from any income or loss from passive activities. Portfolio income within the partnership may not be offset against losses from passive activities within the partnership. Net losses from an interest in the partnership that have not previously been allowed are allowed in full on a complete disposition of the interest in the partnership. The \$25,000 allowance of deduction equivalent credits from certain rental real estate activities does not apply; thus, partners may use partnership credits to offset only tax liability attributable to income from the partnership.

(a) Same as the House bill, except that the \$25,000 allowance of deduction equivalent credits from certain rental real estate activities applies; thus, partners may use partnership credits to the extent of their unused \$25,000 allowance as under present law.

(b) A partnership is publicly traded if its interests are (1) traded on an established securities market, (2) offered with the expectation that there will be a secondary market, or (3) readily tradeable on a secondary market (or the substantial equivalent thereof).

(b) A partnership is publicly traded if its interests are (1) traded on an established securities market, or (2) readily tradeable on a secondary market (or the substantial equivalent thereof).

Effective date.--Effective as if included in the amendments made by sec. 501 of the Tax Reform Act of 1986 (i.e., for taxable years beginning after December 31, 1986).

Effective date.--Same as the House bill.

3. Treatment of publicly traded partnerships for unrelated business income tax (sec. 10124 of the House bill)

Tax-exempt organizations are subject to tax on income from unrelated businesses. Certain income (such as interest and certain rental income) is not treated as unrelated business income, however. Such income received by a partnership generally retains its character (i.e., is not taxable unrelated business income) in the hands of a tax-exempt organization that is a partner in a partnership.

No provision.

4. Treatment of certain partnership allocations (sec. 10125 of the House bill)

Unrelated business income of tax-exempt organizations generally includes income from debt-financed property. An exception is provided in the case of debt-financed real property, without imposing any requirement with respect to allocations so long as there is no tax avoidance motive.

No provision.

Effective date.--Applies to partnership interests acquired after October 13, 1987.

The exception from treatment of income from debt-financed real property as unrelated business income is available only if the allocations among the partners meet certain requirements to prevent the disproportionate allocation of income to tax-exempt partners and losses (or other tax benefits) to taxable partners.

5. Collection of tax from partnerships (sec. 10126 of the House bill)

A partnership is required to file a partnership return. In general, each partner is required to treat items on his return consistently with the treatment on the partnership return. The proper tax treatment of partnership items generally is administratively and judicially determined at the partnership level, but upon a determination of a shortfall in partnership reported income, collection proceedings with respect to any additional income tax owed by any partner take place at the partner level.

No provision.

Effective date.--Applies to property acquired after October 13, 1987, with an exception for property acquired pursuant to a binding contract in effect on that date.

The Internal Revenue Service may collect underpayments of tax resulting from administrative or judicial determinations from the partnership itself, as well as from the partners. The payment by the partnership of a partnership shortfall is treated as a payment by each partner of his share, and to the extent the payment results in an overpayment of tax by the partner, he may file a claim for credit or refund. The provision applies to partnerships with interests required to be registered under Federal or State securities rules, or sold pursuant to an exemption from registration requiring the filing of a notice with a Federal or State agency regulating the offering or sale of securities.

Effective date.--Effective for taxable years beginning after December 31, 1987.

Item

Present Law

House Bill

Senate Amendment

6. Study of tax treatment of publicly traded partnerships (sec. 10127 of the House bill and sec. 4531(b) of the Senate amendment)

Under present law, partnerships generally are treated as conduits for tax purposes. Income and loss of a partnership is subject to tax at the partner's level rather than at the partnership level. A partner's share of partnership income is generally determined without regard to whether he receives any corresponding cash distributions.

The Secretary of the Treasury shall conduct a study of the issue of treating publicly traded limited partnerships (and other partnerships which significantly resemble corporations) as corporations for Federal income tax purposes, including the issues of reincorporation and opportunities for avoidance of the corporate tax.

The Secretary of the Treasury shall conduct a study of compliance and administrative issues relating to the tax treatment of publicly traded partnerships and other large partnerships.

Effective date.--Same as the House bill.

Effective date.--The Secretary is required to submit a report on the study, with such recommendations as the Secretary deems appropriate, to the House Committee on Ways and Means and the Senate Committee on Finance no later than January 1, 1989.

C. Corporate Provisions

1. Computation of earnings and profits for purposes of intercorporate dividends and stock basis adjustments (overruling of result in Woods Investment Co. case) (sec. 10133 of the House bill and sec. 4521 of the Senate amendment)

(a) Consolidated returns

(a) Treasury regulations require a parent corporation to increase its basis in the stock of a consolidated subsidiary by the amount of the undistributed net earnings and profits of the subsidiary for the taxable year, and to reduce its basis in such stock by any deficit in earnings and profits. As a result of statutory changes to the definition of earnings and profits enacted since these regulations were issued, basis adjustments under the consolidated return regulations no longer properly reflect the tax benefits realized by the group during the subsidiary's affiliation. In addition, the effect on a parent's basis in a subsidiary of certain cancellation of indebtedness income is unclear.

(a) Solely for purposes of determining gain or loss on disposition, a parent corporation's basis in the stock of a subsidiary with which it has been filing a consolidated return is determined by computing the subsidiary's earnings and profits without regard to the special adjustments otherwise required by sections 312(k) (depreciation) and 312(n) (including installment gain, completed contract method income, construction period carrying charges, intangible drilling costs, amortization of circulation and organizational expenditures and LIFO inventory adjustments) and without regard to cancellation of indebtedness income that has not reduced tax attributes or basis. Earnings and profits for purposes of determining basis in stock is determined by applying the amendment for all prior periods during which the shareholder held the stock.

(a) Same as the House bill.

Effective date.--Stock disposed of after October 13, 1987.

Effective date.--Stock disposed of after October 15, 1987, unless the disposition is pursuant to a written contract binding on October 16, 1987 and the disposition is completed before January 1, 1989.

(b) Nonconsolidated 20-percent or more shareholders

(b) If a 20-percent or more corporate shareholder receives a distribution from another corporation that would otherwise qualify for the dividends received deduction, certain adjustments to earnings and profits of a distributing corporation that would otherwise be required are disregarded for purposes of determining the taxable income of the shareholder and its adjusted basis in the stock of the distributing corporation. The disregarded adjustments include those relating to installment gain, completed contract method income, and others set forth in section 312(n), but not the adjustment relating to depreciation (sec. 312(k)).

(b) Same as the House bill.

(b) Expands the provision modifying the definition of earnings and profits in the case of 20-percent or more corporate shareholders to include the adjustments for depreciation. Earnings and profits for purposes of determining basis in stock is determined by applying the amendment for all prior periods during which the shareholder held the stock.

Effective date.--Distributions after October 13, 1987.

Effective date.--Distributions after October 15, 1987; except the provision does not apply for purposes of determining gain or loss on a disposition of stock pursuant to a written contract binding on October 16, 1987, provided the disposition is completed before January 1, 1989.

2. Limitation on consolidated return pass-through (sec. 10134 of the House bill)

Corporations may file a consolidated return if they are members of an affiliated group of corporations. Generally, a parent must own 80 percent of the stock of the subsidiary, disregarding certain nonvoting preferred stock. Under the consolidated tax return regulations, the consolidated tax return of a parent corporation and an affiliated subsidiary generally allows 100 percent of the subsidiary's losses to offset the parent's income, or, conversely, allows 100 percent of a subsidiary's income to be offset by the parent's losses, even though the parent may own less than 100 percent of the subsidiary's stock.

If the affiliated group owns less than 100 percent of the stock of a subsidiary, consolidation is not permitted for the portion of the subsidiary's income or loss attributable to stock owned by nonmembers. All classes of stock, including nonvoting preferred stock, are counted for this purpose.

No provision.

Effective date.-- Taxable years beginning after December 31, 1987.

3. Tax benefited transfers through intercorporate dividends received deduction; preferred stock loss transfers (secs. 10131 and 10132 of the House bill)

(a) In general

(a) Corporations owning less than 80 percent of the stock of a corporation are entitled to a deduction equal to 80 percent of the dividends received from a domestic corporation. (A 100-percent deduction may apply to dividends received by an 80-percent or more corporate parent)

(a) The 80-percent dividends received deduction for any corporation owning less than 80 percent of the stock of the distributing corporation is reduced to 75 percent of the amount of the dividend.

(a) No provision.

(b) Certain types of stock

(b) Under certain circumstances an instrument designated as stock may be reclassified as debt. However, it is frequently difficult to distinguish debt from equity. For tax purposes, equity classification is desirable for certain instruments that are marketed largely to corporate shareholders eligible for the dividends received deduction, particularly if the issuing corporation cannot fully use an interest deduction. Debt classification tends to be desirable for tax purposes if the issuing corporation can make full use of an interest deduction.

(b) No provision.

Effective date.--Dividends received or accrued after December 31, 1987.

(b) The 80-percent dividends received deduction is eliminated for dividends on stock that has certain non-stock characteristics--for example, nonvoting preferred or other stock that is not treated as stock for purposes of the consolidated return or net operating loss limitation provisions of the Code; or stock where the holder in substance (through any mechanism, arrangement, practice, or otherwise) has an enhanced likelihood of recovering the principal amount or a dividend level (whether from the issuer or on resale or otherwise), including but not limited to adjustable rate stock, auction rate stock, and stock where the holder in substance may have certain redemption rights or secured interest or similar aspects.

Effective date.--Stock issued after October 13, 1987.

4. Deduction of interest for corporate acquisition indebtedness (sec. 10138 of the House bill)

In general, interest paid on corporate indebtedness is deductible; thus, earnings distributed in the form of interest are not taxed to the distributing corporation. By contrast, dividends paid with respect to corporate stock are not deductible by the distributing corporation and are subject to the corporate tax. In limited circumstances that generally are readily avoided, a deduction is denied for interest in excess of \$5 million on certain corporate acquisition indebtedness.

No provision.

4. Deduction of interest for corporation acquisition indebtedness (Cont.)

Effective date. Interest on debt incurred in connection with acquisitions or redemptions after October 13, 1987, unless pursuant to a binding contract in effect on that date, or there was action by the board of directors, shareholder approval, a letter of intent, a tender offer, or public announcement to shareholders with respect to the transaction on or before that date, provided the transaction is completed before January 1, 1989.

5. Reduction of tax avoidance in certain corporate dispositions (including provisions for liquidations of subsidiaries) (secs. 10139 and 10140 of the House bill)

(a) Subsidiary liquidations

(a) Gains on certain liquidating distributions to a controlling U.S. corporate shareholder (an 80-percent distributee) are not taxed to the distributing corporation. The recipient corporation recognizes no gain or loss on the transfer. By contrast, the distributing corporation recognizes gain on a nonliquidating distribution, though if the two corporations are filing a consolidated tax return such gain may be deferred until a disposition of the property or certain other events. The recipient corporation in a nonliquidating distribution generally has dividend income (eligible for the 80-percent or 100-percent deduction) to the extent of the earnings and profits distributed.

(a) No provision.

(b) Certain distributions of stock in a subsidiary

(b) Certain divisive distributions of corporate stock are tax-free to the distributing corporation if specified requirements are met, including a requirement that the distributed and distributing corporation conduct an active business and a requirement that the business was not acquired in a taxable transaction within 5 years, either directly or through the acquisition of a corporation conducting the business. Under an IRS Revenue Ruling, however, if the corporation receiving the distribution acquired the distributing corporation within 5 years prior to the distribution, such distribution to the corporation may qualify for tax-free treatment.

(b) No provision.

(a) Liquidating distributions to a corporate 80-percent distributee are generally treated in the same manner as nonliquidating distributions, so that the distributing corporation recognizes gain on the distributed property as if the property had been sold for fair market value. The gain may be deferred if the two corporations are filing a consolidated tax return until the disposition of the property or certain other events. The liquidation of the subsidiary is not itself such an event under the provision. The recipient treats the distribution as a dividend to the extent of earnings and profits distributed.

(b) A distribution of stock will not qualify for nonrecognition if control of a corporation which was conducting the distributed business was acquired in a taxable transaction within 5 years prior to the distribution through one or more corporations, including the corporation receiving the distribution. In addition, any distribution within a controlled group is treated as a nonliquidating distribution.

(c) Sales of stock within a controlled group of corporations

(c) A sale of stock of a subsidiary to a related corporation is generally "deemed" to be a dividend to the extent of earnings and profits of the two corporations. The attribution rules that apply to determine whether corporations are related can result in a corporation being deemed to receive a dividend from a related corporation in which it owns no stock.

(c) No provision.

6. Special rules for hostile corporate acquisitions (sec. 10142 of the House bill)

(a) Greenmail

(a) Gain on the sale or exchange of corporate stock is taxed at regular tax rates.

(a) No provision.

(b) Mandatory 338 election for hostile tender offers

(b) A corporate purchaser of 80 percent or more of the stock of another corporation may (but is not required to) treat the "qualified stock purchase" as a taxable purchase of the corporation's assets.

(b) No provision.

(c) Interest on debt incurred in connection with a hostile tender offer

(c) A deduction is generally allowed for interest paid or incurred by a corporation during the taxable year.

(c) No provision.

(c) A sale of stock between related corporations controlled by a common parent corporation is treated as if the stock had been distributed to the common parent and contributed to the recipient buyer and as if the cash or other property given in exchange had likewise been distributed to the common parent and contributed to the recipient seller.

Effective date.--Distributions after October 13, 1987.

(a) A person who receives a greenmail payment is subject to a nondeductible 50-percent excise tax on any gain realized on such receipt. Greenmail is defined as any amount paid by a corporation in redemption of its stock if such stock has been held by the shareholder for less than two years and the shareholder made or threatened a public tender offer for stock in the corporation during the two years prior to the redemption.

Effective date.--Payments received after date of enactment.

(b) If a corporation makes a qualified stock purchase and any significant portion of the stock is acquired pursuant to an offer disapproved by a majority of the independent director of such corporation, the purchasing corporation is deemed to have made an election to treat the transaction as a taxable purchase of assets.

Effective date.--Acquisitions after date of enactment.

(c) No deduction is allowed for interest on indebtedness incurred or continued by a corporation to purchase 20 percent or more of the stock of another corporation pursuant to a hostile tender offer.

Effective date.--Debt incurred after date of enactment.

7. Limitation on NOL carryforwards of corporation following worthless stock deduction by shareholders (sec. 10136 of the House bill)

A deduction is allowed for a loss sustained during the taxable year as a result of stock held by the taxpayer becoming worthless. The net operating losses of a corporation may survive notwithstanding a worthless stock deduction has been claimed by its shareholders.

Loss carryforwards of a corporation are limited if there is a more-than-50 percent change in ownership of its stock during the relevant testing period.

For purposes of the special rules limiting net operating losses carryforwards, if a worthless stock deduction is claimed with respect to stock of a loss company, the shareholder is treated as having acquired the stock as of the first day of the shareholder's succeeding taxable year and as not owning such stock in prior years. Thus, such stock is counted toward an ownership change for purposes of the loss carryforward limitation rule.

No provision.

8. Tax loss mergers and acquisitions (secs. 10136 and 10137 of the House bill)

(a) Net operating loss limitations

(a) Special limitations on the use of net operating loss carryforwards and other items apply if there is an ownership change of a loss corporation. The limitations apply to built-in losses on the disposition of the loss property but do not apply to built-in depreciation if the property is retained.

(a) The special limitations on the use of built in losses following an ownership change applies to built-in depreciation.

(a) No provision

Effective date.--Ownership changes after October 13, 1987, unless pursuant to a binding written contract in effect on that date and at all times thereafter.

(b) Bankrupt corporations

(b) Following an ownership change in a bankruptcy proceeding, the loss carryforwards of the bankrupt corporation are generally reduced by 50 percent of the excess of the debt cancelled in the proceeding over the fair market value of the stock given to creditors in exchange for such debt.

(b) Following an ownership change in a bankruptcy proceeding, the loss carryforwards of the bankrupt corporation are reduced by 100 percent of the excess of the debt cancelled in the proceeding over the fair market value of the stock given to creditors in exchange for such debt.

(b) No provision

Effective date.--Ownership changes after October 13, 1987, unless pursuant to a binding written contract in effect on that date and at all times thereafter.

(c) Built in gains

(c) Loss corporations may generally use their losses to shelter built-in gains of an acquired company recognized after an acquisition.

(c) Loss corporations are precluded from using their losses to shelter built in gains of an acquired company recognized within 5 years following the acquisition.

(c) No provision

Effective date.--Acquisitions after October 13, 1987, unless pursuant to a binding written contract in effect on that date and at all times thereafter.

9. LIFO recapture on conversion from C corporation to S corporation (sec. 10141 of the House bill)

In general, gain realized when a C corporation liquidates is subject to corporate-level tax. If a C corporation that holds assets with built-in gain (value in excess of basis) converts to S corporation status, the built-in gain is subject to a separate corporate-level tax if realized within ten years of the conversion. A taxpayer using the last-in, first-out (LIFO) method of inventory accounting that converts to S status is not taxed on the built-in gain to the extent that, during the ten-year recognition period, it does not invade LIFO layers existing at the time of conversion.

If a LIFO-method corporation converts to S status, it must include in income the excess of the inventory's value using a first-in, first-out (FIFO) flow assumption over its LIFO value as of the close of its last taxable year as a C corporation.

No provision.

Effective date.--S elections made after October 13, 1987.

D. Corporate Minimum Tax (sec. 10145 of the House bill)

Corporations are subject to a minimum tax at a 20-percent rate. One-half of the excess of pre-tax book income over other alternative minimum taxable income is a preference for taxable years beginning before 1990. For taxable years beginning after 1989, three-fourths of the excess of adjusted current earnings over other alternative minimum taxable income is a preference.

100 percent of the excess of pre-tax book income (for taxable years beginning before 1990) and 100 percent of adjusted current earnings (for taxable years beginning after 1989) over other alternative minimum taxable income will be a preference.

No provision.

Effective date.--Taxable years beginning after December 31, 1987.

E. Pensions: Modify Full-Funding Limitation (sec. 10154 of the House bill and sec. 6551 of the Senate amendment)

An employer may not deduct contributions to a defined benefit pension plan in excess of the full-funding limitation. The full-funding limitation generally is the excess of the plan's projected liability over the value of the plan's assets.

The full-funding limitation is defined to mean the lesser of (1) the present-law amount or (2) the excess of 150 percent of the plan's termination liability over the value of the plan's assets. The Secretary is authorized to adjust the 150-percent figure, in a budget-neutral manner, to reflect the age and service of the plan participants.

Same as the House bill, except that (1) the new limitation is based on 150 percent of current liability rather than 150 percent of termination liability, and (2) there is no authority for the Secretary to adjust the 150-percent figure.

Effective date.--Years beginning after December 31, 1987.

Effective date.--Same as the House bill.

F. Foreign Tax Provisions

1. Treatment of South African income (sec. 10146 of the House bill).

Foreign tax credits are denied, and deferral of U.S. tax on income of controlled foreign corporations is denied, with respect to operations in countries (i) designated by the Secretary of State as repeatedly providing support for acts of international terrorism; (ii) with which the U.S. does not have diplomatic relations, or (iii) the government of which the U. S. does not recognize (with certain exceptions).

Denies foreign tax credits and deferral of U.S. tax on income of a controlled foreign corporation with respect to South African income attributable to the period from January 1, 1988 to the date on which the Secretary of State certifies that South Africa meets certain requirements of the Comprehensive Anti-Apartheid Act of 1986.

No provision.

Effective date.--Taxable years beginning after December 31, 1987.

2. Imported property income (sec. 10147 of the House bill)

The United States generally defers tax on income earned by foreign subsidiaries of U.S. companies until it comes home to America, but currently taxes some types of their income (such as passive, shipping, financial, and oil-related income). Separate foreign tax credit limitations prevent cross-crediting, i.e., the use of foreign tax credits imposed on one stream of income to reduce U.S. tax on an unrelated stream of income.

Places imported property income in a separate foreign tax credit limitation and currently taxes imported property income of U.S.-controlled foreign corporations. Defines imported property income to include income from goods, services, or intangibles destined for U.S. use or consumption. Generally excludes (1) income from property that is exported from the United States, (2) income from financial instruments, and (3) oil income.

No provision.

Effective date.--Taxable years beginning after 1987.

G. Insurance Provisions

1. Interest rate on tax reserves of life insurance companies (sec. 10148 of the House bill)

The interest rate used to compute life insurance reserves for any contract is the prevailing State assumed rate. Generally, this is the highest assumed interest rate permitted to be used in at least 26 States in computing life insurance reserves for insurance or annuity contracts of that type, as of the beginning of the calendar year in which the contract is issued.

The interest rate to be used in determining the amount of the deduction for increases in life insurance reserves for any contract is the greater of the applicable Federal rate or the prevailing State assumed rate. The applicable Federal rate is the interest rate determined under the discounting rules for property and casualty reserves for the calendar year in which the contract is issued.

No provision.

Effective date.--Contracts issued in taxable years beginning after December 31, 1987.

2. Treatment of investment income of foreign insurance companies (sec. 10149 of the House bill)

a. Determination of income effectively connected

(a) A foreign life insurance company, but not a property and casualty company, that is carrying on an insurance business in the United States generally is subject to tax on all U.S. source income and on foreign source income that is attributable to its U.S. business.

b. Amount of investment income

(b) If the surplus of a foreign life insurance company held in the United States is less than a statutorily defined required surplus, then the investment income of the company that is subject to U.S. tax is increased by an imputed amount.

3. Treatment of mutual life insurance company policyholder dividends for the alternative minimum tax book preference (sec. 10150 of the House bill)

Under the corporate alternative minimum tax, 50 percent of the excess of the taxpayer's adjusted net book income over the taxpayer's alternative minimum taxable income (computed without regard to book income) is treated as a preference item (the "book income" preference), for taxable years beginning in 1987, 1988, and 1989. Adjusted net book income is taken from the taxpayer's applicable financial statement. Normally, this is the financial statement required to be filed with the Securities and Exchange Commission, and such statements normally reflect generally accepted accounting principles. If the taxpayer does not file such statements (as is generally the case with respect to a mutual life insurance company), then other regulatory statements are to be used for this purpose. Mutual life insurance company annual statements filed pursuant to State insurance rules generally reflect statutory accounting principles that are more conservative than generally accepted accounting principles. Also, such statements do not reflect tax accounting principles limiting mutual life insurance companies' deduction for policyholder dividends.

(a) No provision.

(a) The rules for determining whether income of a foreign life insurance company is effectively connected and subject to U.S. tax are extended to foreign property and casualty insurance companies.

(b) No provision.

(b) The imputation rules are strengthened, and are extended to property and casualty companies; to prevent foreign insurance companies from artificially decreasing the amount of investment income subject to tax in the United States.

Effective date.--Taxable years beginning after December 31, 1987.

No provision.

For purposes of the book income preference, mutual life insurance companies may not reduce book income for policyholder dividends paid or accrued during the year by more than the amount allowable in computing life insurance company taxable income. In addition, regulatory authority is provided to require such adjustments as may be necessary to make the calculation of adjusted net book income of a mutual life insurance company more consistent with the calculation of adjusted net book income of stock life insurance companies.

Effective date.--Taxable years beginning after December 31, 1987.

4. Treatment of certain insurance syndicates (sec. 10152 of the House bill)

An insurance company engaged in a U.S. business generally is taxed as a separate entity and is required to include in income the amount of premiums and other consideration received during any taxable year. Pursuant to a closing agreement between the Internal Revenue Service and members of various insurance syndicates organized in the United Kingdom, the members of the syndicates are taxed as individuals, and premiums received in any taxable year are not taken into account by the members until the third taxable year after the year of receipt.

The closing agreement will be terminated, and each syndicate engaged in a U.S. business will be taxed as a domestic insurance company.

No provision.

Effective date.--Syndicate taxable years beginning after December 31, 1987.

H. Treatment of Net Investment Income of Trade Associations (sec. 10153 of the House bill)

In general, present law imposes a tax (the UBIT) on the unrelated business taxable income of otherwise tax-exempt organizations, including trade associations, chambers of commerce, and other organizations described in section 501(c)(6). Under special rules, the UBIT generally does not apply to certain investment income, such as dividends, interest, royalties, rental income, and income on certain dispositions of property. However, in the case of tax-exempt social clubs, voluntary employees' beneficiary associations (VEBAs), and certain other mutual benefit organizations, the UBIT generally applies under present law to all income--including investment income--other than "exempt function income," such as membership receipts.

In the case of section 501(c)(6) organizations ("trade associations"), dividends, interest, royalties, rental income, income on certain dispositions of property, and certain other types of investment income are treated as income subject to the UBIT, as reduced by deductions directly connected with earning such income. However, the UBIT will not apply to any such income that is set aside to be used exclusively for charitable purposes, or to certain "rollover" gain on disposition of property used directly in performing the association's exempt functions.

No provision.

Effective date.--Taxable years beginning after December 31, 1987.

III. Estimated Tax Provisions

1. Corporate estimated tax reform (sec. 10172 of the House bill and sec. 4511 of the Senate amendment)

A corporation that fails to pay an installment of estimated income tax on or before the due date generally is subject to a penalty. The penalty applies to the difference between the payments made on or before the due date of each installment and 90 percent of the total tax shown on the return for the year, divided by the number of installments that should have been made.

There are three exceptions to the penalty. No penalty is imposed if total tax payments for the year equal or exceed installments based on (1) the preceding year's tax liability, if a return showing a liability for tax was filed for the preceding year; (2) the tax computed by using the facts shown on the prior year's return under the current year's tax rates; or (3) 90 percent of the taxes which would be due if certain income already received during the current year was annualized. Large corporations may not use exceptions (1) and (2) described above.

2. Revised withholding certificates required to be put into effect more promptly (sec. 10171 of the House bill and sec. 4512 of the Senate amendment)

Requires employers to put these certificates into effect within 30 days of the date the revised certificate is furnished by the employee.

Same as the House bill.

3. Estimated tax penalties for 1987 (sec. 10170 of the House bill and sec. 4513 of the Senate amendment)

a. Individuals

(a) To avoid an estimated tax penalty, individuals must make quarterly estimated tax payments (including withholding) that equal at least the lesser of 100 percent of the prior year's tax liability or 90 percent (raised from 80 percent by the 1986 Act) of the current year's tax liability.

(a) Delays the increase from 80 to 90 percent from taxable years beginning after December 31, 1986 to taxable years beginning after December 31, 1987.

(a) Same as the House bill.

b. Corporations

(b) Treasury regulations provide that corporations may base estimated tax payments due before July 1, 1987, on 120 percent of 1986 taxable income with certain modifications.

(b) Provides two safe harbors for corporate estimated tax payments due before July 1, 1987: (1) 100 percent of 1986 tax liability; and (2) statutorily authorizes Treasury's safe harbor.

(b) Same as the House bill.

Consolidates and makes technical changes to existing corporate estimated tax rules. Provides that all corporations may base the first quarterly estimated tax payment of any year on 100 percent of the tax shown on the previous year's return.

Same as House bill, except provides transition rule for taxable years beginning in 1988 permitting all corporations to base the first and second quarterly payments for that year on 100 percent of tax shown on the previous year's return.

Effective date.--Taxable years beginning after December 31, 1987.

Effective date.--Same as the House bill.

Effective date.--Certificates furnished after 30 days after enactment.

Effective date.--Same as the House bill.

IV. Estate and Gift Taxes

1. Extension of 1987 tax rates (sec. 10106 of the House bill and sec. 4561 of the Senate amendment)	For 1987, estate and gift tax rates begin at 18 percent on the first \$10,000 of taxable transfers and reach 55 percent on taxable transfers over \$3 million. For transfers occurring after 1987, the maximum estate and gift tax rates are scheduled to decline to 50 percent for taxable transfers over \$2.5 million.	The 1987 estate and gift tax rates are made permanent.	The scheduled decline in estate and gift tax rates is deferred for two years (i.e., until after 1989).
2. Graduated rates and unified credit (sec. 10106 of the House bill)	Estate and gift taxes are computed with a graduated rate schedule. A unified credit of \$192,800 is deducted from the gross gift or estate tax in arriving at the net tax payable. This credit, in effect, exempts the first \$600,000 of transfers from tax.	The benefit of the graduated rates and the unified credit is phased out at a rate of five percent on cumulative transfers between \$5,000,000 and \$16,040,000.	No provision.
3. State death tax credit (sec. 10107 of the House bill)	A limited credit is allowable against the Federal estate tax for certain death taxes paid to a State.	The credit for State death taxes is repealed. A deduction is allowed for all State death taxes in determining the amount of the taxable estate.	No provision.
4. Special valuation rules (sec. 10108 of the House bill)			
a. Minority discounts	(a) Minority interests in property may be found to be worth less than a proportionate share of the whole property. Such finding may be made even for transfers among related persons who together own a controlling interest in the property.	(a) The value of stock is deemed to be its pro rata share of the stock of the same class of the corporation unless a different value is established by clear and convincing evidence. In determining whether clear and convincing evidence exists, all stock held by an individual or by members of such individual's family is treated as held by one person. Similar rules are applied to interests in other entities and property.	(a) No provision.
b. Estate freezes	(b) A decedent's estate generally includes the value of transferred property if the decedent retains the possession or enjoyment or right to income from that property. The estate does not, however, include the full value of a corporation when the decedent gives his heirs common stock in the corporation while retaining for himself preferred stock in the corporation.	(b) If a person holds a substantial interest in an enterprise, and effectively transfers a disproportionate share of the potential appreciation in the enterprise, then the transferred property is included in his gross estate. Transfers for full and adequate consideration to persons other than family members are exempted from this rule.	(b) No provision.

(Cont.)
b. Estate freezes

5. Estate tax deduction for sales of stock to an ESOP (secs. 10109 and 10110 of the House bill and secs. 4611-4613 of the Senate amendment)

The Tax Reform Act of 1986 adopted a special provision allowing partial relief from estate taxes through an estate tax deduction for sales of employer securities to an employee stock ownership plan (ESOP) or an eligible worker-owned cooperative. The provision permits a deduction from the gross estate of a decedent equal to 50 percent of the proceeds received from a qualified sale of employer securities. IRS Notice 87-13 provided that the estate tax deduction for transfers to an ESOP is not available unless (1) the decedent directly owned the employer securities immediately before death, and (2) after the sale, the employer securities are allocated to plan participants or are held for future allocation in connection with an exempt loan under section 4975 or in connection with a transfer of assets from a defined benefit plan (sec. 4980(c)(3)).

Effective date.--Transfers occurring and decedents dying after December 31, 1987, except that the rules applicable to estate freezes do not apply to estate freezes completed before October 13, 1987.

The bill confirms the positions taken in IRS Notice 87-13 and further clarifies and restricts the availability of the deduction. Thus, the bill (1) provides that the deduction is available in the case of sales of employer securities to tax-credit ESOPs, (2) limits the deduction to sales of nonpublicly traded securities, (3) permits the sale of any assets listed as securities on the estate tax return, (4) limits the deduction to 50 percent of the taxable estate and the maximum reduction in estate taxes to \$750,000, (5) imposes holding period requirements for the decedent and the ESOP, (6) prohibits the deduction in the case of securities acquired with assets transferred from another plan of the employer, and (7) imposes certain excise taxes on an ESOP or worker-owned cooperative for a failure to satisfy the allocation and holding period requirements.

Effective dates.--The confirmation of the IRS Notice is effective as if included in the Tax Reform Act of 1986. The other provisions generally are effective with respect to sales of securities to ESOPs after February 26, 1987, except that the ESOP holding period requirement generally applies to dispositions of securities by the ESOP after February 26, 1987. Securities subject to the ESOP holding period requirement are qualified employer securities, which for this purpose includes employer securities sold before February 27, 1987, for which a deduction was allowed.

Effective dates.--The confirmation of the IRS Notice is effective as if included in the Tax Reform Act of 1986. The other provisions generally are effective with respect to sales of securities to ESOPs after February 27, 1987, except that the ESOP holding period requirement generally applies to dispositions of securities by the ESOP after February 27, 1987. Securities subject to the ESOP holding period requirement are qualified employer securities, which for this purpose includes employer securities sold before February 27, 1987, for which a deduction was allowed.

Same as the House bill.

V. Excise Taxes

1. Highway excise tax exemptions for private buses (sec. 10162 of the House bill)

Exemptions (either partial or in full) are provided for private local and intercity buses from the Highway Trust fund excise taxes on tires and motor fuels.

Repeals the fuel and tire exemptions from the excise taxes on motor fuels and tires for private local buses (e.g., private mass transit and school buses) and for intercity buses. (Does not affect the exemptions for States and local governments.)

No provision.

2. Collection of excise tax on nongasoline fuels (sec. the House bill and sec. 6572 of the Senate amendment)

Excise taxes are imposed at the retail level on nongasoline motor fuels (e.g., diesel fuel, special motor fuels, and nongasoline aviation fuels).

The retail excise taxes on taxable nongasoline motor fuels are imposed at the wholesale level. Present-law provisions allowing certain tax-free sales are replaced by a refund mechanism to realize all exemptions from the taxes.

Same as the House bill, except Treasury is authorized to require information reporting and registration of all persons in the distribution chain of these fuels, as is necessary to prevent tax evasion.

Floor stocks of taxable fuels held for sale on January 1, 1988, are subject to tax.

Same as the House bill, but also requires that the respective floor stocks tax receipts be deposited in Highway Trust Fund and Leaking Underground Storage Tank Trust Fund.

Effective date.--January 1, 1988.

Effective date.--January 1, 1988.

3. Extension of termination date for coal excise tax rate (sec. 4573 of the Senate amendment)

A manufacturer's excise tax is imposed on the sale or use of domestically mined coal by the producer (sec. 4121). Effective April 1, 1986, the tax rate was increased (by 10 percent) to \$1.10 per ton of coal from underground mines, and 55 cents per ton of coal from surface mines, but not to exceed 4.4 percent of the sales price.

The termination date for the present-law coal excise tax rate is extended from January 1, 1996 to the earlier of (1) January 1, 2014 or (2) the date the Trust Fund achieves solvency (as defined under the present-law termination provision).

Under present law, the tax rate is scheduled to revert to the pre-1982 rate of 50 cents per ton on underground coal and 25 cents per ton on surface coal (but not to exceed two percent of price) on the earlier of January 1, 1996 or the first January 1 as of which there is (1) no balance of repayable advances from the general fund to the Black Lung Disability Trust Fund, and (2) no unpaid interest on such advances.

Effective date.--The extension of the termination date for the present-law coal excise tax rate is effective from January 1, 1996 to January 1, 2014, subject to earlier termination under the solvency provision described above.

Amounts equal to the revenues collected from the coal excise tax are appropriated automatically to the Trust Fund. Present law also authorizes repayable advances from the general fund to the Trust Fund. The Trust Fund pays certain black lung disability benefits to coal miners (or their survivors) who have been disabled by black lung disease in cases where no coal mine operator is found specifically responsible for the individual miner's disease.

VI. Employment Taxes

1. Railroad retirement tax provisions (secs. 9031-33 of the House bill and secs. 6582-85 of the Senate amendment)

The Railroad Retirement Program consists of a Tier I benefit structure which is generally equivalent in benefits and financing to the Social Security Program and a separately-financed Tier II benefit structure. Under present law, the Tier II program is financed primarily by a payroll tax of 14.75 percent for employers and 4.25 percent for employees. This tax is applied to wages up to \$33,600 in 1988. (This limitation on the amount of wages is increased annually by the increase in average annual wages in the general economy.)

Tier II benefits are includible in income for income tax purposes in the same manner as benefits received under a qualified pension plan. The 1983 Railroad Retirement Solvency Act provides for the transfer to the Railroad Retirement Account of an amount equal to the income received from the taxation of Tier II benefits. This transfer to the Railroad Retirement Account is limited to an aggregate total of \$877 million, and applies only to the taxation of benefits which are received prior to October 1, 1988.

2. FUTA tax extension (secs. 9243-9246 of the House bill and secs. 4585-4586 of the Senate amendment)

The Federal Unemployment Tax Act (FUTA) imposes a gross employer tax of 6.2 percent on the first \$7,000 paid annually to each employee. Employers in States with no overdue Federal loans are eligible for a full 5.4-percent-point credit, making the basic net FUTA tax rate 0.8 percent. The 0.8-percent-tax rate has a permanent component of 0.6 and a temporary component of 0.2. The 0.2-percent-point surtax expires at the end of the year in which the Unemployment Trust Fund pays off an \$8.7-billion debt incurred in the 1970s. Since this debt was repaid in May 1987, the 0.2-percent-point surtax is scheduled to expire at the end of 1987.

a) Railroad retirement tax.--The provision increases the employer Tier II tax by 1.35 percentage points to 16.1 percent. The employee rate is increased by 0.65 percentage points to 4.9 percent. This overall 2-percent-point increase in the Tier II tax is effective January 1, 1988.

b) Commission on Railroad Retirement Reform.--The provision establishes a seven-member Commission on Railroad Retirement Reform to perform a comprehensive study of alternative methods of financing the railroad retirement system. The Commission would submit its report and recommendations to Congress by October 1, 1989.

c) Extension of transfer to the Railroad Retirement Account of Tier II taxes.--No provision.

Effective date.--The railroad retirement tax increase is effective January 1, 1988.

The 0.2-percent-point surtax is extended for 3 years. Half of the additional revenue collected during the extension flows into the Extended Unemployment Compensation Account and the other half goes into the Federal Unemployment Account.

In the Extended Unemployment Compensation and Federal Unemployment Accounts to help avoid future debt to the general fund, the ceilings in these accounts are tripled from 0.125 percent to 0.375 percent of total covered wages.

a) Railroad retirement tax.--Same as House bill.

b) Commission on Railroad Retirement Reform.--Same as House bill, except that the provision establishes an eight-member Commission.

c) Extension of transfer to the Railroad Retirement Account of Tier II taxes.--The provision eliminates the \$877-million limit on the amount of general funds that are transferred to the Railroad Retirement Account on the basis of income taxes on Tier II benefits. It also provides that such transfers will be made for two additional years based on Tier II benefits paid prior to October 1, 1990.

Effective date.--The railroad retirement tax increase is effective January 1, 1988.

Same as House bill, except that the ceiling on the Federal Unemployment Account is increased from 0.125 percent to 0.625 percent of total covered wages and no provision is made for interest payments on loans from the general fund.

2. FUTA tax extension (Cont.)

If these accounts were to obtain new loans from the general fund, interest is charged on the new loans. Currently, these loans are interest free. The interest rate is the same rate that is used to calculate interest on balances in the Unemployment Trust Fund. Interest payments by states on the basis of borrowing from the Federal Unemployment Account would be paid to that Account. Under present law, such interest is paid into the general fund.

Effective date.--Wages paid on or after January 1, 1988.

Effective date.--Wages paid on or after January 1, 1988.

3. Treatment of corporate directors as employees for FICA tax purposes (sec. 3022 of the House bill)

Income from wages or self employment causes a reduction in social security benefits for recipients under age 70, if the income exceeds certain exempt amounts. Income from self employment for work performed after a person becomes entitled to social security benefits is counted in the year it is received. The wages of an employee, on the other hand, are counted in the year they are earned, regardless of when they are received.

The provision amends the Social Security Act to treat directors of corporations as employees solely for FICA tax and Social Security earnings test purposes. This change is intended to be narrowly construed, and is not to be applied for other purposes.

No provision.

Effective date.--This proposal is effective for services performed on or after January 1, 1988.

A corporate director is able to avoid benefit reductions from the earnings test by declaring his directorship earnings as self-employment income and deferring receipt of them until reaching age 70. Since the earnings test does not apply to recipients age 70 and older, the deferred directorship earnings do not cause a reduction in benefits. In addition, since the earnings are deferred, the payment of taxes is delayed; and the corporation is not responsible for either payment or withholding of FICA taxes on any remuneration paid to such individuals.

VII. Other Revenue-Increase Provisions

A. Application of Targeted Jobs Tax Credit (sec. 10166 of the House bill)

A tax credit is available to employers of individuals from one or more of nine targeted groups. The nine groups consist of individuals who are recipients of payments under means-tested transfer programs, economically disadvantaged (as measured by family income), or disabled. The credit equals 40 percent of the first \$6,000 of qualified first-year wages (85 percent of up to \$3,000 of wages in the case of disadvantaged summer youth employees). The employer's deduction for wages must be reduced by the amount of the credit.

There is no provision in present law specifically disallowing the targeted jobs tax credit to an employer when members of a targeted group, whose wages otherwise qualify for the credit, are hired to perform employment services in a labor dispute situation.

The credit is scheduled to expire after December 31, 1988.

No provision.

An employer is not entitled to the targeted jobs tax credit with respect to certain wages if the employer's plant or facility is involved in a strike or lockout. Specifically, the credit is not available for wages paid to a targeted-group individual who performs the same or substantially similar services as those of employees participating in or affected by the strike or lockout.

Effective date.--Amounts paid or incurred on or after January 1, 1987, for services rendered on or after such date.

B. Illegal Federal Irrigation Subsidies (sec. 10167 of the House bill)

No provision.

No provision.

Gross income includes an amount equal to any illegal Federal irrigation subsidy received by a taxpayer during the taxable year. No deduction is allowed with respect to any amount included in gross income by reason of this provision.

An illegal Federal irrigation subsidy is the excess (if any) of the amount required to be paid for Federal irrigation water delivered to the taxpayer over the amount paid for such water.

Effective date.--Water delivered to the taxpayer in months beginning after the date of enactment.

C. Compliance

1. Escheat of refunds (sec. 10168 of the House bill)	Provides that unclaimed Federal tax refunds do not escheat to the State, but remain in the General Fund of the Treasury.	No provision.
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2. Sense of Congress as to increased IRS funding for taxpayer assistance and enforcement (sec. 10169 of the House bill)

Although unclaimed tax refunds remain in the General Fund of the Treasury, no statutory provision requires that unclaimed refunds escheat to the Federal Government. Some States have sued the Federal Government, asserting that unclaimed Federal tax refunds escheat to the State.

During the 1986 filing season, the IRS processed 110 million Federal tax returns. Gross revenue receipts amounted to \$782.3 billion, including \$497 billion of individual and corporate income tax receipts.

Almost 55 million requests for assistance were handled under the IRS program of taxpayer assistance. Also, more than one million returns were examined by IRS personnel as part of its enforcement efforts.

Effective date.--Date of enactment.

States that it is the sense of the Congress that:

No provision.

(1) Increased appropriations in fiscal years 1989 and 1990 should be provided to the IRS in the areas of taxpayer assistance and enforcement;

(2) These additional funds should be used consistent with the recommendations of the "Dorgan Task Force Report";

(3) An experimental multi-year authorization and two-year appropriation should be utilized for the IRS; and

(4) Increased funding should be provided for compilation and analysis of statistics of income and research.

The IRS must issue a report to the Congress on the extent of the "tax gap" and efforts to reduce it (due by April 15, 1989). Also, the IRS must report annually on improvements to the audit rate, taxpayer assistance, and enforcement efforts.

D. Tax-Exempt Bond Provisions

1. Purchase of existing output facilities (sec. 10173 of the House bill)	Treats bonds to purchase interests in existing output facilities (e.g., bonds to finance the takeover of private utilities) as private activity bonds subject to State volume caps.	No provision.
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Effective date.--Bonds issued after October 13, 1987. Exceptions provided for purchases pursuant to binding contracts entered before October 13, 1987, and for a project-specific acquisition.

<u>Item</u>	<u>Present Law</u>	<u>House Bill</u>	<u>Senate Amendment</u>
2. Indian tribal government bonds (sec. 10174 of the House bill)	<p>Indian tribal governments may issue tax-exempt bonds to finance "essential governmental functions." Tribal governments may not issue tax-exempt private activity bonds. Treasury Department regulations have defined "essential governmental function" to include commercial and industrial activities not generally financed by States and local governments as such governmental functions.</p>	<p>Provides that tribal government tax-exempt financing for essential governmental functions includes only those activities customarily financed as such by States and local governments.</p> <p><u>Effective date.</u>--Bonds issued after October 13, 1987.</p>	<p>No provision.</p>

