SUMMARY OF PROVISIONS CONTAINED IN H.R. 5542, THE "TAXPAYER RELIEF ACT OF 2000," AS INCORPORATED BY REFERENCE IN THE CONFERENCE AGREEMENT FOR H.R. 2614

Prepared by the Staff
of the
Joint Committee on Taxation

October 31, 2000
JCX-110-00

CONTENTS

Page

INTRODUCTION 1

TITLE I. REPEAL OF FOREIGN SALES CORPORATION PROVISIONS AND EXCLUSION FOR EXTRATERRITORIAL INCOME 2

TITLE II. SMALL BUSINESS TAX RELIEF PROVISIONS 3

A. Extension of the Work Opportunity Tax Credit ("WOTC") 3

B. Increase the Maximum Dollar Amount of Reforestation Expenditures Eligible for Amortization and Credit 3

C. Capital Gains Treatment Under Section 631(b) to Apply to Outright Sales of Timber 3

D. Increase Section 179 Expensing 3

E. Increase Deduction for Business Meals 3

F. Increased Deduction for Business Meals While Operating Under Department of Transportation Hours of Service Limitations 3

G. Repeal of Modification of Installment Method 4

H. Coordinate Farmers and Fisherman Income Averaging and the Alternative Minimum Tax 4

I. Repeal Special Occupational Taxes on Producers and Marketers of Alcoholic Beverages 4

J. Exclusion from Gross Income for Certain Forgiven Mortgage Obligations . . . 4

K. Clarification of Cash Accounting Rules for Small Businesses 5

L. Authorize Payment of Interest on Business Checking Accounts 5

TITLE III. HEALTH INSURANCE AND LONG-TERM CARE INSURANCE PROVISIONS 6

A. Accelerate 100-Percent Self-Employed Health Insurance Deduction 6

B. Above-the-Line Deduction for Health Insurance Expenses 6

C. Provisions Relating to Long-Term Care 6

Above-the-line deduction for long-term care insurance 6
Revision of consumer protection provisions applicable to long-term care insurance 6
Deduction for providing long-term care to household members 6

D. Medical Savings Accounts (“MSAs”) 7

TITLE IV. PENSIONS AND INDIVIDUAL RETIREMENT ARRANGEMENT PROVISIONS 8

Subtitle A. Individual Retirement Arrangements ("IRAs") 8

Increase in IRA contribution limit 8
Catch-up contributions 8
Increase AGI limits for deductible IRA contributions 8
Roth IRAs 8
Deemed IRAs under employer plans 8
Tax-free withdrawals for charitable purposes 8

Subtitle B. Expanding Coverage 8

Increase in benefit and contribution limits 8
Plans loans for S corporation shareholders, partners, and sole proprietors 9
Modification of top-heavy rules 9
Elective deferrals not taken into account for purposes of deduction limits 9
Repeal of coordination requirements for deferred compensation plans of State and local governments and tax-exempt organizations 9
Eliminate IRS user fees for certain determine letter requests regarding employer plans 9
Deduction limits 9
Option to treat elective deferrals as after-tax contributions 9

Subtitle C. Enhancing Fairness for Women 10

Additional salary reduction catch-up contributions 10
Equitable treatment for contributions of employees to defined contribution plans 10
Faster vesting of employer matching contributions 10
Simplify and update the minimum distribution rules 10
Clarification of tax treatment of division of section 457 plan benefits upon divorce 10
Modifications of safe harbor relief for hardship withdrawals from 401(k) plans 10
Pension coverage for domestic and similar workers 11

Subtitle D. Increasing Portability for Participants 11

Rollovers of retirement plan and IRA distributions 11
Waiver of 60-day rule 11
Treatment of forms of distribution 11
Rationalization of restrictions on distributions 11
Purchase of service credit under governmental pension plans 11
Employers may disregard rollovers for purposes of cash-out rules 11

Subtitle E. Strengthening Pension Security and Enforcement 12

Phase in repeal of 155 percent of current liability funding limit; deduction for contributions to fund termination liability 12
Excise tax relief for sound pension funding 12
Notice of significant reduction in plan benefit accruals 12
Modification to section 415 limits for multiemployer plans 12
Investment of employee contributions in 401(k) plans 12
Periodic pension benefit statements 12
Prohibited allocation of stock in an S corporation ESOP 12

Subtitle F. Reducing Regulatory Burdens 13

Modification of timing of plan valuations 13
ESOP dividends may be reinvested without loss of dividend deduction 13
Repeal transition rule relating to certain highly compensated employees 13
Employees of tax-exempt entities 13
Treatment of employer-provided retirement advice 13
Reporting simplification 13
Improvement to employee plans compliance resolution system 13
Repeal of the multiple use test 13

Flexibility in nondiscrimination, coverage, and line of business rules 13
Extension to all governmental plans of moratorium on application of certain . nondiscrimination rules applicable to state and local government plans 14
Notice and consent period regarding distributions; disclosure of optional forms of benefits 14
Annual report dissemination 14
Modifications to the SAVER Act 14
Studies 14

Subtitle G: Other ERISA Provisions 14

Extension of PBGC missing participants program 14
Reduce PBGC premiums for small and new plans 14
Authorization for PBGC to pay interest on premium overpayment refunds 14
Rules for substantial owner benefits in terminated plans 14
Multiemployer plan benefits guarantee 15
Civil penalties for breach of fiduciary responsibility 15
Benefit suspension notice 15

Subtitle H: Provisions Relating to Plan Amendments 15

TITLE V. INCENTIVES FOR PUBLIC SCHOOL CONSTRUCTION AND MODERNIZATION 16

TITLE VI. COMMUNITY RENEWAL PROVISIONS 17

A. Renewal Community Provisions 17

B. Empowerment Zone Provisions 17

C. New Markets Tax Credit 18

D. Increase the Low-Income Housing Tax Credit Cap and Make Other Modifications 19

E. Accelerate Scheduled Increase in State Volume Limits on Tax-Exempt Private Activity Bonds 19

F. Extension and Modification to Expensing of Environmental Remediation Costs 19

G. Extension of District of Columbia Homebuyer Tax Credit 19

TITLE VII. ADMINISTRATIVE, MISCELLANEOUS, AND TECHNICAL CORRECTIONS PROVISIONS 20

Subtitle A. Administrative Provisions 20

A. Exempt Certain Reports From Elimination Under the Federal Reports Elimination and Sunset Act of 1995 20

B. Extension of Deadlines for IRS Compliance with Certain Notice Requirements 20

C. Extension of Authority for Undercover Operations 20

D. Competent Authority and Pre-Filing Agreements 20

E. Increase in Joint Committee on Taxation Refund Review Threshold 20

F. Clarify the Allowance of Certain Tax Benefits With Respect to Kidnapped Children 21

G. Conforming Changes to Accommodate Reduced Issuances of 52-Week Treasury Bills 21

H. Authorization of Agencies to Use Corrected Consumer Price Index (“CPI”) . . 21

I. Prevent Duplication or Acceleration of Loss Through Assumption of Certain Liabilities 21

Subtitle B. Miscellaneous Provisions 22

A. Repeal Certain Excise Taxes on Rail Diesel Fuel and Inland Waterway Barge Fuels 22

B. Repeal of Reduction of Deductions for Mutual Life Insurance Companies and of Policyholder Surplus Accounts of Life Insurance Companies 22

C. Tax-Credit Bonds for the National Railroad Passenger Corporation ("Amtrak") and the Alaska Railroad 22

D. Farm, Fish, and Ranch Risk Management Accounts (“FFARRM Accounts”) . 22

E. Extension and Modification of Enhanced Deduction for Corporate Donations of Computer Technology 23

F. Settlement of Certain Discrimination Claims Brought by Farmers Against the Department of Agriculture 23

G. Extension of the Adoption Tax Credit 23

H. Study of Tax Treatment With Respect to Certain Offshore Insurance Companies 24

I. Treatment of Indian Tribes as Non-Profit Organizations and State and Local Governments for Purposes of the Federal Unemployment Tax ("FUTA") 24

Subtitle C. Technical Corrections Provisions 24

Subtitle D. Exclusion From PAYGO Scorecard 24

INTRODUCTION

This document,[1] prepared by the staff of the Joint Committee on Taxation, contains a summary of the provisions in H.R. 5542, the Taxpayer Relief Act of 2000. The provisions of H.R. 5542 have been incorporated by reference in the conference agreement for H.R. 2614, the Certified Development Company Program Improvements Act of 2000.

---

[1] This document may be cited as follows: Joint Committee on Taxation, *Summary of Provisions Contained in H.R. 5542, the "Taxpayer Relief Act of 2000," As Incorporated by Reference in the Conference Agreement for H.R. 2614* (JCX-110-00), October 31, 2000.

TITLE I. REPEAL OF FOREIGN SALES CORPORATION PROVISIONS AND EXCLUSION FOR EXTRATERRITORIAL INCOME

The bill repeals the present-law rules for foreign sales corporations and replaces them with an exclusion for certain extraterritorial income. The bill generally is effective for transactions entered into after September 30, 2000. No corporation may elect to be a foreign sales corporation after September 30, 2000. The bill provides certain transition rules for existing foreign sales corporations and for binding contractual agreements, and for certain corporations electing to be treated as a domestic corporation under the bill.

TITLE II. SMALL BUSINESS TAX RELIEF PROVISIONS

A. Extension of the Work Opportunity Tax Credit ("WOTC")

The bill extends the WOTC for 30 months (through June 30, 2004). The provision is effective for wages paid to, or incurred with respect to, qualified individuals who begin work for the employer on or after January 1, 2002, and before July 1, 2004.

B. Increase the Maximum Dollar Amount of Reforestation Expenditures Eligible for Amortization and Credit

The bill increases the amount of reforestation expenditures eligible for seven-year amortization and the reforestation credit from $10,000 to $25,000 per taxable year. For taxable years beginning in 2001 through 2003, the bill removes the limitation on the amount of expenditures eligible for seven-year amortization. The provision is effective for expenditures paid or incurred in taxable years beginning after December 31, 2000. For taxable years beginning in 2001, 2002, and 2003, the amount of reforestation expenditures eligible for the credit is limited to $25,000 and no limit applies to the amount of expenditures eligible for seven-year amortization. For taxable years beginning after 2003, the amount of reforestation expenditures eligible for seven-year amortization and for the credit is limited to $25,000.

C. Capital Gains Treatment Under Section 631(b) to Apply to Outright Sales of Timber

The bill provides that outright sales of timber by the landowner will qualify for capital gains treatment. The provision is effective for sales of timber after the date of enactment.

D. Increase Section 179 Expensing

Present law provides that, in lieu of depreciation, a taxpayer with a sufficiently small amount of annual investment may elect to deduct up to $20,000 (for taxable years beginning in 2000) of the cost of qualifying property placed in service for the taxable year (sec. 179). Under the bill, the maximum dollar amount that may be deducted under section 179 is increased to $35,000 for taxable years beginning in 2001 and thereafter.

E. Increased Deduction for Business Meals

The bill increases the percentage of the cost of business meals that is deductible from the present-law 50 percent to 70 percent for taxable years beginning after December 31, 2000.

F. Increased Deduction for Business Meals While Operating under Department of Transportation Hours of Service Limitations

The bill accelerates the scheduled phased-in increase in the deduction for the cost of food

and beverages consumed while away from home by an individual during, or incident to, a period of duty subject to the hours of service limitations of the Department of Transportation so that it becomes 80 percent in 2001 and thereafter.

G. Repeal of Modification of Installment Method

Present law prohibits the use of the installment method of accounting for a transaction that would otherwise be required to be reported using the accrual method of accounting, effective for dispositions on or after December 17, 1999. The pledge rule of present law generally provides that if an installment obligation is pledged as security for any debt, the net proceeds of the debt are treated as a payment on the obligation, triggering the recognition of income. A 1999 modification to the pledge rule provides that the right to satisfy a loan with an installment obligation is treated as a pledge of the installment obligation, effective for dispositions on or after December 17, 1999. The bill repeals the prohibition on the use of the installment method of accounting for disposition of property that would otherwise be reported using the accrual method of accounting. The provision of the bill is effective for sales or dispositions on or after December 17, 1999. The bill leaves unchanged the 1999 modification to the pledge rule.

H. Coordinate Farmers and Fisherman Income Averaging and the Alternative Minimum Tax

The bill extends to individuals engaged in the trade or business of fishing the same election to income average that is available to farmers. The bill also coordinates farmers and fishermen income averaging with the alternative minimum tax. Under the bill, a farmer or fisherman owes alternative minimum tax only to the extent he or she would owe alternative minimum tax had averaging not been elected. The provision is effective for taxable years beginning after December 31, 2000.

I. Repeal Special Occupational Taxes on Producers and Marketers of Alcoholic Beverages

The bill repeals the special occupational taxes on producers and marketers of alcoholic beverages, effective on July 1, 2001.

J. Exclusion from Gross Income for Certain Forgiven Mortgage Obligations

The bill permits eligible individuals to elect to exclude income from the discharge of indebtedness to the extent such income is attributable to the sale of real property securing qualified residential indebtedness. Qualified residential indebtedness is defined as indebtedness incurred or assumed by the taxpayer for the acquisition, construction, reconstruction, or substantial improvement of the taxpayer's principal residence (within the meaning of section 121) and which is secured by such residence. Refinanced indebtedness qualifies for the exclusion only to the extent that the principal amount of the refinanced indebtedness does not exceed the principal amount of the indebtedness before the refinancing. The exclusion does not

apply to qualified farm indebtedness or qualified real property business indebtedness. The provision is effective for discharges of indebtedness after December 31, 2000.

K. Clarification of Cash Accounting Rules for Small Businesses

The bill provides that, notwithstanding any other provision of the Code, a taxpayer is not required to use an accrual method of accounting if the average annual gross receipts of the taxpayer (or any predecessor) do not exceed $2.5 million for all prior taxable years beginning after October 31, 1999 (including the prior taxable years of any predecessor). The bill also provides that a taxpayer meeting the average annual gross receipts test is not required to account for inventories under section 471. Under the bill, if a taxpayer elects not to treat inventory under section 471, the taxpayer is required to treat such property as a material or supply that is not incidental. The provision is effective for taxable years beginning after the date of enactment.

L. Authorize Payment of Interest on Business Checking Accounts

The bill eliminates the Federal prohibition on depository institutions paying interest on demand deposits, effective two years after the date of enactment. A transition rule allows depository institutions to offer business customers checking accounts that allow the funds in the account to be swept into an interest-bearing account on a daily basis.

TITLE III. HEALTH INSURANCE AND LONG-TERM CARE INSURANCE PROVISIONS

A. Accelerate 100-Percent Self-Employed Health Insurance Deduction

Beginning in 2000, the bill increases the deduction for health insurance expenses (and qualified long-term care insurance expenses) of self-employed individuals to 100 percent. The bill also provides that the deduction is not available in any month in which the taxpayer participates in an employer-subsidized health plan.

B. Above-the-Line Deduction for Health Insurance Expenses

The bill provides an above-the-line deduction for a percentage of the amount paid during the year for health insurance for the taxpayer and his or her spouse or dependents. The deduction is not available to an individual unless the individual pays for at least 50 percent of the cost of the insurance. The deduction is not available with respect to certain limited types of coverage, such as dental and vision coverage. The deductible percentage is 25 percent in 2001-2003, 35 percent in 2004, 65 percent in 2005, and 100 percent in 2006 and thereafter.

C. Provisions Relating to Long-Term Care

Above-the-line deduction for long-term care insurance.--The bill provides an above-the-line deduction for a percentage of the amount paid during the year for long-term care insurance which constitutes medical care (as defined in sec. 213) for the taxpayer and his or her spouse or dependents. The deduction is not available to an individual unless the individual pays for at least 50 percent of the cost of the insurance. The deductible percentage is 25 percent in 2001-2003, 35 percent in 2004, 65 percent in 2005, and 100 percent in 2006 and thereafter.

Revision of consumer protection provisions applicable to long-tem care insurance.--The bill adopts additional consumer protection requirements that must be satisfied in order for long-term care insurance to qualified for purposes of the Code. Under the bill, a qualified long-term care insurance contract must satisfy the NAIC model act and regulation provisions relating to contingent nonforfeiture benefits. In addition, issuers of qualified long-term care contracts must satisfy the NAIC requirements regarding suitability and disclosure of rating practices. The bill also updates present-law references to the NAIC model regulations to reflect current provisions. The provisions are effective with respect to policies issued more than 1 year after the date of enactment.

Deduction for providing long-term care to household members.--The bill provides taxpayers with a deduction for each qualifying individual with long-term care needs who lives for the entire year in a household maintained by the taxpayer. The deduction is available regardless of the amount of long-term care expenses incurred by the taxpayer in the care of the qualifying individual. The deduction does not reduce adjusted gross income, but is available regardless of whether the taxpayer itemizes deductions. The deductible amount is reduced by amounts received under a long-term care contract covering the qualifying individual. The deduction is

phased out for higher income taxpayers in the same manner as the personal exemption amount. The maximum deductible amount is $3,000 in 2001, and increases by $1,000 each year thereafter until the maximum deductible amount is $10,000 in 2008 and thereafter.

D. Extension of Medical Savings Account Program

The bill extends the present-law medical savings account program for two years, through 2002. The provision is effective on the date of enactment.

TITLE IV. PENSION AND INDIVIDUAL RETIREMENT ARRANGEMENT PROVISIONS

Subtitle A. Individual Retirement Arrangements ("IRAs")

Increase in IRA contribution limit.—The bill increases the annual dollar IRA contribution limit from $2,000 to $3,000 in 2001, $4,000 in 2002, and $5,000 in 2003, with indexing thereafter.

Catch-up contributions.--The bill provides that individuals age 50 and over may make additional IRA contributions of $500 in 2001, $1,000 in 2002, and $1,500 in 2003. In 2004 and thereafter, the $1,500 amount is indexed for inflation in $500 increments.

Increase AGI limits for deductible IRA contributions.--The bill evens out the scheduled increases in the AGI limits for deductible IRA contributions. The bill also conforms the phase-out range for married taxpayers filing separately to the phase-out range for single taxpayers. The provisions are effective for taxable years beginning after December 31, 2000.

Roth IRAs.--The bill increases the income phase-out range for Roth IRA contributions to $190,000-$220,000 for married couples filing a joint return and applies to married taxpayers filing a separate return the same phase-out range that applies to single taxpayers. The income limit for conversions of traditional IRAs to Roth IRAs is $200,000 for married couples filing a joint return. For all other taxpayers, the limit is $100,000. The provisions are effective for taxable years beginning after December 31, 2000.

Deemed IRAs under employer plans.--Beginning in 2001, the bill provides that, if an eligible retirement plan permits employees to make voluntary employee contributions to a separate account or annuity that (1) is established under the plan and (2) meets the requirements applicable to traditional or Roth IRAs, then the separate account or annuity is deemed to be a traditional or Roth IRA, as applicable.

Tax-free withdrawals for charitable purposes.--Effective for taxable years after December 31, 2000, the bill provides an exclusion from gross income for qualified charitable distributions made from an IRA to an organization to which deductible contributions can be made.

Subtitle B. Expanding Coverage

Increase in benefit and contribution limits.—Beginning in 2001, the bill increases the dollar limit on annual elective deferrals under section 401(k) plans, section 403(b) annuities and salary reduction SEPs in $1,000 annual increments until the limits reach $15,000 in 2005. Beginning in 2001, the bill increases the maximum annual elective deferrals that may be made to a SIMPLE plan in $1,000 annual increments until the limit reaches $10,000 in 2004. The $15,000 and $10,000 dollar limits are indexed in $500 increments, as under present law. The bill increases the dollar limit on deferrals under a section 457 plan to $11,000 in 2001, $12,000 in 2002, $13,000 in 2003, $14,000 in 2004, and $15,000 in 2005. After 2005, the limit is indexed in $500 increments. The limit is twice the otherwise applicable dollar limit in the three years prior to retirement. Effective in 2001, the bill: increases the $135,000 annual benefit limit for defined benefit plans to $160,000 (indexed in $5,000 increments) and lowers the early retirement age to 62 and the normal retirement age to 65 for purposes of applying the limit; increases the

$30,000 annual contribution limit for defined contribution plans to $40,000 (indexed in $1,000 increments); and increases the limit on compensation that may be taken into account under a plan to $200,000 (indexed in $5,000 increments).

Plan loans for S corporation shareholders, partners, and sole proprietors.—The bill generally eliminates the special present-law rules relating to plan loans made to an owner-employee. Thus, the general statutory exemption applies to such transactions. Present law applies with respect to IRAs. The provision is effective for years beginning after December 31, 2000.

Modification of top-heavy rules.—The bill provides that a safe-harbor section 401(k) plan is not a top-heavy plan and that matching contributions may be taken into account in satisfying the minimum contribution requirements. In addition, the bill simplifies the definition of key employee and the determination of top-heavy and status and repeals the family attribution rule used to determine whether an individual is a key employee by reason of being a 5-percent owner of the employer. The provision is effective for years beginning after December 31, 2000.

Elective deferrals not taken into account for purposes of deduction limits.—The bill provides that the elective deferral contributions are not subject to the qualified plan deduction limits, and the application of a deduction limitation to any other employer contribution to a qualified retirement plan does not take into account elective deferral contributions. The provision is effective for years beginning after December 31, 2000.

Repeal of coordination requirements for deferred compensation plans of State and local governments and tax-exempt organizations.—For years beginning after December 31, 2000, the bill repeals the rules coordinating the section 457 dollar limit with contributions under other types of plans.

Eliminate IRS user fees for certain determination letter requests regarding employer plans.—Under the bill, an employer with no more than 100 employees is not required to pay a user fee for any determination letter request made during the first 5 plan years or prior to the end of a remedial amendment period beginning within the first 5 plan years with respect to the qualified status of a retirement plan that the employer maintains. The provision is effective for determination letter requests made after December 31, 2000.

Deduction limits.—The bill provides that for purposes of the qualified plan deduction limit the compensation otherwise paid or accrued during the employer's taxable year to the beneficiaries under the plan includes elective deferrals under a section 401(k) plan or a section 403(b) annuity, elective contributions under a section 457 plan, and salary reductions under a section 125 plan. In addition, the bill increases the limit on deductible contributions under a profit-sharing or stock bonus plan from 15 percent to 25 percent of the compensation of the employees covered by the plan. Also, except to the extent provided in regulations, a money purchase pension plan is treated like a profit-sharing or stock bonus plan for purposes of the deduction rules. The provision is effective for years beginning after December 31, 2000.

Option to treat elective deferrals as after-tax contributions.—The bill provides that a section 401(k) plan or a section 403(b) annuity may permit a participant to elect to have all or a portion of the participant's elective deferrals under the plan treated as designated Roth contributions, which are not excludable from the participant's gross income. A qualified distribution from a participant's designated Roth contributions account is not includible in the participant's gross income. Designated Roth contributions are generally otherwise treated the same as elective deferrals for purposes of the qualified plan rules. The provision is effective for taxable years beginning after December 31, 2000.

Subtitle C. Enhancing Fairness for Women

Additional salary reduction catch-up contributions.—The bill permits individuals who are age 50 or older to make additional contributions to a section 401(k) (or similar plan). The maximum permitted additional contribution is $5,000 (indexed in 2006 and thereafter). Catch-up contributions to a section 401(k) (or similar) plan are not subject to any other contribution limits and are not taken into account in applying other contribution limits. Catch-up contributions are subject to nondiscrimination rules, but a plan will not be treated as failing to provide benefits, rights, and features in a nondiscriminatory manner if the plan allows all eligible participants to make the same election with respect to catch-up contributions. The provision is effective for taxable years beginning after December 31, 2000.

Equitable treatment for contributions of employees to defined contribution plans.—The bill (1) increases the 25 percent of compensation limitation on annual additions under a defined contribution plan to 100 percent, (2) conforms the limits on contributions to a tax-sheltered annuity to the limits applicable to tax-qualified plans, and (3) increases the 33-1/3 percent of compensation limitation on deferrals under a section 457 plan to 100 percent of compensation. The provision is effective for years beginning after December 31, 2000.

Faster vesting of employer matching contributions.—Under the bill, employer matching contributions have to vest at least as rapidly as under 3-year cliff vesting or under 6-year graded vesting that provides for a nonforfeitable right to 20 percent of employer matching contributions for each year of service beginning with the participant's second year of service and ending with 100 percent after 6 years of service. The provision is effective for plan years beginning after December 31, 2000, with a delayed effective date for plans maintained pursuant to a collective bargaining agreement.

Simplify and update the minimum distribution rules.—The bill generally applies the present-law rules applicable if the participant dies before distribution of minimum benefits has begun to all post-death distributions. The bill reduces the excise tax on failures to satisfy the minimum distribution rules to 10 percent of the amount that was required to be distributed but was not distributed. The Treasury is directed to update, simplify, and finalize the regulations relating to the minimum distribution rules. The bill repeals the special minimum distribution rules applicable to section 457 plans. The provision is effective for years beginning after December 31, 2000.

Clarification of tax treatment of division of section 457 plan benefits upon divorce.—The bill applies the taxation rules for qualified plan distributions pursuant to a QDRO to distributions made pursuant to a domestic relations order from a section 457 plan. In addition, a section 457 plan is not treated as violating the restrictions on distributions from such plans due to payments to an alternate payee under a QDRO. The provision is effective for transfers, distributions and payments made after December 31, 2000.

Modification of safe harbor relief for hardship withdrawals from 401(k) plans.—The bill directs the Secretary of the Treasury to revise the applicable regulations, effective for years beginning after December 31, 2000, to reduce from 12 months to 6 months the period during which an employee must be prohibited from making elective contributions and employee contributions in order for a distribution to be deemed necessary to satisfy an immediate and heavy financial need. The bill also provides that any hardship distribution made pursuant to the terms of a plan is not an eligible rollover distribution, effective for distributions after December 31, 2000.

Pension coverage for domestic and similar workers.–The bill provides that the 10-percent excise tax on nondeductible contributions does not apply to contributions to a SIMPLE IRA or plan, SEP, or qualified plan which are not deductible solely because the contributions are not made in connection with a trade or business of the taxpayer, e.g., contributions on behalf of household workers. The provision is effective for taxable years beginning after December 31, 2000.

Subtitle D. Increasing Portability for Participants

Rollovers of retirement plan and IRA distributions.—The bill provides that eligible rollover distributions from qualified retirement plans, section 403(b) annuities, IRAs and governmental section 457 plans generally can be rolled over to any of such plans or arrangements. The direct rollover and withholding rules are extended to distributions from a section 457 plan. The bill provides that employee after-tax contributions can be rolled over into another qualified plan or a traditional IRA. In the case of a rollover from a qualified plan to another qualified plan, the rollover can be accomplished only through a direct rollover. The bill provides that surviving spouses can roll over distributions to a qualified plan, section 403(b) annuity, or governmental section 457 plan in which the spouse participates. The provision is effective for distributions made after December 31, 2000, except that the provisions allowing after-tax contributions to be rolled over is effective for distributions after December 31, 2001.

Waiver of 60-day rule.—The bill provides that the Secretary may waive the 60-day rollover period if the failure to waive such requirement would be against equity or good conscience, including cases of casualty, disaster, or other events beyond the reasonable control of the individual subject to such requirement. The provision applies to distributions made after December 31, 2000.

Treatment of forms of distribution.—Under the bill, if certain requirements are satisfied, a defined contribution plan may eliminate optional forms of benefit (1) in connection with certain transfers of benefits, or (2) if a single sum distribution is offered. In addition, the Secretary is to provide for circumstances under which early retirement benefits, retirement-type subsidies, or an optional form of benefit may be reduced or eliminated if the rights of participants are not adversely affected in more than a de minimis manner. The provision is effective for years beginning after December 31, 2000.

Rationalization of restrictions on distributions.—The bill modifies the distribution restrictions applicable to section 401(k) plans, section 403(b) annuities, and section 457 plans to provide that distribution may occur upon severance from employment rather than separation from service. The provision is effective for distributions after December 31, 2000.

Purchase of service credit under governmental pension plans.—Under the bill a participant in a State or local governmental plan is not required to include in gross income a direct trustee-to-trustee transfer to a governmental defined benefit plan from a section 403(b) annuity or a section 457 plan if the transferred amount is used (1) to purchase permissive service credits under the plan, or (2) to repay certain contributions. The provision is effective for transfers after December 31, 2000.

Employers may disregard rollovers for purposes of cash-out rules.—Under the bill a plan is permitted to disregard benefits attributable to rollover contributions for purposes of the cash-out rules. The provision is effective for distributions after December 31, 2000.

Subtitle E. Strengthening Pension Security And Enforcement

Phase in repeal of 155-percent of current liability full funding limit; deduction for contributions to fund termination liability.—Under the bill, the current liability full funding limit is 160 percent of current liability for plan years beginning in 2001, 165 percent for plan years beginning in 2002, and 170 percent for plan years beginning in 2003. The current liability full funding limit is repealed for plan years beginning in 2004 and thereafter. The special rule allowing a deduction for unfunded current liability generally is extended to all defined benefit pension plans covered by the PBGC. The provision is effective for years beginning after December 31, 2000.

Excise tax relief for sound pension funding.—Under the bill if an employer elects, contributions in excess of the current liability full funding limit are not subject to the excise tax on nondeductible contributions. The provision is effective for years beginning after December 31, 2000.

Notice of significant reduction in plan benefit accruals.— The bill generally requires the plan administrator of a pension plan (other than governmental plans and certain church plans) to notify plan participants in advance of an amendment that significantly reduces the rate of future benefit accruals or eliminates or reduces an early retirement benefit or retirement-type subsidy. The notice must include sufficient information to allow participants to understand the effect of the amendment. An excise tax applies if the required notice is not provided. The bill also directs the Secretary of the Treasury to report on the effects of conversions of traditional defined benefit plans to cash balance or hybrid formula plans. The provision generally is effective for plan amendments taking effect on or after the date of enactment.

Modifications to section 415 limits for multiemployer plans.—The bill modifies the section 415 limits for multiemployer plans. The provision is effective for years beginning after December 31, 2000.

Investment of employee contributions in 401(k) Plans.–The bill modifies the effective date of the rule excluding certain elective deferrals (and earnings thereon) from the definition of individual account plan. The provision is effective as if included in the Taxpayer Relief Act of 1997.

Periodic pension benefit statements.–The bill generally requires defined contribution plans and defined benefit plans to furnish benefit statement to each participant periodically rather only upon written request. The provision is effective for plan years beginning after December 31, 2000.

Prohibited allocations of stock in an S Corporation ESOP.--Under the bill, if there is a nonallocation year with respect to an ESOP of an S corporation: (1) the amount allocated in a prohibited allocation to an individual who is a disqualified person is treated as distributed to such individual (i.e., the value of the prohibited allocation is includible in gross income); (2) an excise tax is imposed on the S corporation equal to 50 percent of the amount involved in a prohibited allocation; and (3) an excise tax is imposed on the S corporation with respect to any synthetic equity owned by a disqualified person. The provision is generally effective with respect to plan years beginning after December 31, 2001.

Subtitle F. Reducing Regulatory Burdens

Modification of timing of plan valuations.—The bill permits a defined benefit plan with assets of at least 125 percent of current liability to use a valuation date within the prior plan year. The provision is effective for plan years beginning after December 31, 2000.

ESOP dividends may be reinvested without loss of dividend deduction.—Under the bill, an employer is entitled to deduct dividends that, at the election of plan participants or their beneficiaries, are paid to the plan and reinvested in employer securities. The provision is effective for taxable years beginning after December 31, 2000.

Repeal transition rule relating to certain highly compensated employees.—The bill repeals the special definition of highly compensated employee under the Tax Reform Act of 1986. The provision is effective for plan years beginning after December 31, 2000.

Employees of tax-exempt entities.—The bill directs the Treasury Department to revise its regulations under section 410(b) to provide that, if certain requirements are satisfied, employees of a tax-exempt charitable organization who are eligible to make salary reduction contributions under a section 403(b) annuity may be treated as excludable employees for purposes of testing a section 401(k) plan.

Treatment of employer-provided retirement advice.— Under the bill, qualified retirement planning services provided to an employee and his or her spouse by an employer maintaining a qualified plan are generally excludable from income and wages. The provision is effective with respect to taxable years beginning after December 31, 2000.

Reporting simplification.—Effective January 1, 2001, the bill directs the Secretary of the Treasury to provide for an exemption from the annual return requirement for a plan that covers only the sole owner of a business that maintains the plan (and such owner's spouse), or partners in a partnership that maintains the plan (and such partners' spouses), if the total value of the plan assets as of the end of the plan year and all prior plan years does not exceed $250,000 and the plan meets certain other requirements. In addition, the Secretary of the Treasury is directed to provide simplified reporting requirements for plan years beginning after December 31, 2001, for certain plans with fewer than 25 employees.

Improvement to Employee Plans Compliance Resolution System.—The bill directs the Secretary of the Treasury to continue to update and improve EPCRS, giving special attention to (1) increasing the awareness and knowledge of small employers concerning the availability and use of EPCRS, (2) taking into account special concerns and circumstances that small employers face with respect to compliance and correction of compliance failures, (3) extending the duration of the self-correction period under APRSC for significant compliance failures, (4) expanding the availability to correct insignificant compliance failures under APRSC during audit, and (5) assuring that any tax, penalty, or sanction that is imposed by reason of a compliance failure is not excessive and bears a reasonable relationship to the nature, extent, and severity of the failure. The provision is effective on the date of enactment.

Repeal of the multiple use test.—The bill repeals the multiple use test, effective for years beginning after December 31, 2000.

Flexibility in nondiscrimination, coverage, and line of business rules.—The bill directs the Secretary of the Treasury to provide by regulation circumstances under which plans can use the prior-law facts and circumstances test to satisfy the nondiscrimination, coverage, and line of business rules. used to determine compliance. The provision is effective on the date of enactment.

Extension to all governmental plans of moratorium on application of certain nondiscrimination rules applicable to State and local government plans.—Under the bill, a plan maintained by any governmental entity is exempt from the nondiscrimination and minimum participation rules. The provision is effective for plan years beginning after December 31, 2000.

Notice and consent period regarding distributions.—Under the bill, a qualified retirement plan is required to provide the applicable distribution notice no less than 30 days and no more than six months before the date distribution commences. The Secretary of the Treasury is directed to modify the applicable regulations to reflect the extension of the notice period to six months and to provide that the description of a participant's right, if any, to defer receipt of a distribution shall also describe the consequences of failing to defer such receipt. In addition, the bill directs the Secretary to provide for additional disclosure requirements for a plan that offers both a qualified joint and survivor annuity and a single sum option form of benefit if the distributable amount under the single sum option is less than the present value of the qualified joint and survivor annuity option. The provision is effective for years beginning after December 31, 2000.

Annual report dissemination.–The bill provides that the requirement that a summary annual report be provided to participants and beneficiaries is satisfied if the report is reasonably available through electronic means or other new technology. The provision is effective for reports for years beginning after December 31, 1999.

Modifications to the SAVER Act.–The bill makes certain modifications to future National Summits on Retirement Savings required by the Savings Are Vital to Everyone's Retirement ("SAVER") Act.

Studies.–The bill directs the Secretary of the Treasury to report to the Senate Committees on Finance Health, Education, Labor, and Pensions and the House Committees on Ways and Means and Education and the Workforce regarding the effect of the bill on pension coverage.

Subtitle G. Other ERISA Provisions

Extension of PBGC missing participants program.–The bill extends the PBGC missing participant program to multiemployer plans, defined contribution plans, and defined benefit plans that are not covered by the PBGC. The provision is effective for distributions from terminating plans that occur after the PBGC adopts final regulations implementing the provision.

Reduce PBGC premiums for small and new plans.–Under the bill, for the first five plan years of a new single-employer plan of a small employer, the flat-rate Pension Benefit Guaranty Corporation ("PBGC") premium is $5 per plan participant. The provision also provides that the variable premium is phased in for new defined benefit plans over a six-year period starting with the plan's first plan year. In addition, the bill provides that, in the case of any plan (not just a new plan) of an employer with 25 or fewer employees, the variable-rate premium is no more than $5 multiplied by the number of plan participants. The provisions relating to new plans is effective for plans established after December 31, 2000. The provision reducing the PBGC premium for small plans is effective for years beginning after December 31, 2000.

Authorization for PBGC to pay interest on premium overpayment refunds.–The bill allows the PBGC to pay interest on overpayments by premium payors. The provision is effective with respect to interest accruing for periods beginning not earlier than the date of enactment.

Rules for substantial owner benefits in terminated plans.–The bill increases the PBGC guarantee for certain substantial owners. The provision is effective for plan terminations with

respect to which notices of intent to terminate are provided, or for which proceedings for termination are instituted by the PBGC after December 31, 2000.

Multiemployer plan benefits guarantee.–The bill adjusts the amount guaranteed in multiemployer plans to account for changes in the social security wage index since 1980. The provision generally applies to benefits payable after the date of enactment.

Civil penalties for breach of fiduciary responsibility.–The bill makes the assessment of the penalty for breach of fiduciary responsibility under ERISA discretionary with the Secretary of Labor. The provision generally applies to a breach occurring on or after the date of enactment.

Benefit suspension notice.–The bill directs the Secretary of Labor to revise the regulations relating to the benefit suspension notice required under ERISA to generally permit the required notice contents to be included in the summary plan description. The provision applies to plan years beginning after December 31, 2000.

Subtitle H. Provisions Relating to Plan Amendments

If certain requirements are satisfied, any amendments to a plan or annuity contract required to be made by the bill (or made pursuant to the bill) are not required to be made before the last day of the first plan year beginning on or after January 1, 2003. In the case of a governmental plan, the date for amendments is extended to the first plan year beginning on or after January 1, 2004. The provision is effective on the date of enactment.

TITLE V. INCENTIVES FOR PUBLIC SCHOOL CONSTRUCTION AND MODERNIZATION

The bill extends authority to issue qualified zone academy bonds ("QZABs") for two additional years, through December 31, 2003, with certain modifications. The bill also extends authority to issue QZABs, with certain modifications, for public school construction. The bill authorizes up to $5 billion per year of school construction QZABs in 2001, 2002 and 2003, allocated among the States on the following basis: 50 percent based on population and 50 percent based on population that lives in poverty. The State allocations are subject to a "small State floor" of $25 million per state. For school districts with school age populations in excess of 40,000, the bill provides a minimum allocation in an amount equal to the percentage of the State's total population that resides in the school district. An additional one-time authorization of $200 million of school construction QZABs is provided for public schools operated by or for the benefit of Indian tribes. Under the bill, QZABs issued after December 31, 2000, and school construction QZABs are subject to certain modified administrative rules. These provisions apply to bonds issued in calendar years beginning after December 31, 2000.

The bill expands the small governmental unit exception to the tax-exempt bond arbitrage rebate requirements to allow small governmental units to issue up to $15 million of governmental bonds in a calendar year without rebating arbitrage profits provided that at least $10 million of the bonds are used to finance public school construction expenditures. This provision apples to bonds issued in calendar years beginning after December 31, 2000.

To take into account recent State constitutional amendments, the bill conforms the Tax Reform Act 1984 exception to the arbitrage restrictions for the pledge of income from investments in a fund established under a provision of a State constitution adopted in 1876 as security for a limited amount of tax-exempt bonds. The bill permits the continued applicability of the 1984 exception. This provision takes effect on January 1, 2001.

The bill liberalizes the arbitrage rebate requirement for certain public school bonds if the proceeds are spent within 48 months and intermediate spending levels are met. The provision applies to bonds issued after December 31, 2000.

The bill expands the private activities for which tax-exempt bonds may be issued to include elementary and secondary public schools that are owned by private, for-profit corporations pursuant to public-private partnership agreements with a State or local educational agency. These provisions are effective for bonds issued after December 31, 2000.

TITLE VI. COMMUNITY RENEWAL PROVISIONS

A. Renewal Communities Provisions

The bill authorizes the Secretary of HUD to designate up to 40 "renewal communities" from areas nominated by States and local governments. At least 12 of the designated renewal communities must be in rural areas. In general, nominated areas are ranked based on a formula that takes into account the area's poverty rate, median income, and unemployment rate. One nominated area within the District of Columbia will be treated as having the highest ranking for purposes of renewal community designation, which would take effect on January 1, 2003.

A nominated area that is designated as a renewal community is eligible for the following tax incentives: (1) a zero-percent rate for capital gain from the sale of qualifying assets; (2) a 15-percent wage credit to employers for the first $10,000 of qualified wages; (3) a "commercial revitalization deduction" that allows taxpayers (to the extent allocated by the appropriate State agency for the period after December 31, 2001) to deduct either (i) 50 percent of qualifying expenditures for the taxable year in which a qualified building is placed in service, or (ii) all of the qualifying expenditures ratably over a 10-year period beginning with the month in which such building is placed in service; (4) an additional $35,000 of section 179 expensing for qualified property; and (5) an expansion of the WOTC with respect to individuals who live in a renewal community.

The 40 renewal communities must be designated by January 1, 2002, and the resulting tax benefits will be available for the period beginning on January 1, 2002, and ending December 31, 2009.

B. Empowerment Zone Provisions

The bill extends the designation of empowerment zone status for existing empowerment zones (other than the D.C. Enterprise Zone) through December 31, 2009. The 20-percent wage credit is made available to all existing empowerment zones beginning in 2002 (and remains at the 20-percent rate). Under the bill, $35,000 (rather than $20,000) of additional section 179 expensing is available for qualified zone property placed in service in taxable years beginning after December 31, 2001, by a qualified zone business. Also beginning in 2002, certain businesses in existing empowerment zones (other than the D.C. Enterprise Zone) become eligible for more generous tax-exempt bond rules.

The bill authorizes Secretaries of HUD and Agriculture to designate nine additional empowerment zones (seven to be located in urban areas and two in rural areas) by January 1, 2002. Businesses in the new empowerment zones are eligible for the same tax incentives that, under the bill, are available to existing zones (i.e., a 20-percent wage credit, $35,000 of additional section 179 expensing, and the enhanced tax-exempt financing benefits). The new empowerment zones must be designated by January 1, 2002, and the tax incentives with respect to the new empowerment zones generally are available during the period beginning on January 1, 2002, and ending on December 31, 2009.

The bill permits a taxpayer to roll over gain from the sale or exchange of any qualified empowerment zone asset held for more than 1 year if the taxpayer uses the proceeds to purchase other qualifying empowerment zone assets (in the same zone) within 60 days of the sale of the original asset. In general, a qualifying empowerment zone asset refers to a stock or partnership investment in, or assets acquired by, a qualifying business within an empowerment zone that is purchased by a taxpayer after the date of enactment of the bill.

The bill increases to 60 percent (from 50 percent) the exclusion of gain from the sale of qualifying small business stock held more than five years if such stock also satisfies the requirements of a qualifying business under the empowerment zone rules. The provision is effective for qualifying stock that is purchased after the date of enactment of the bill.

C. New Markets Tax Credit

The bill creates a new tax credit for qualified equity investments made after December 31, 2000, to acquire stock in a community development entity ("CDE"). The maximum annual amount of qualifying equity investments is capped as follows:

Calendar Year	Maximum Qualifying Equity Investment
2001	$1.0 billion
2002-2003	$1.5 billion per year
2004-2005	$2.0 billion per year
2006-2007	$3.5 billion per year

The amount of the credit allowed to the investor is (1) a five-percent credit for the year in which the equity interest is purchased from the CDE and for the first two anniversary dates after the purchase from the CDE, and (2) a six-percent credit on each anniversary date thereafter for the following four years. The credit is recaptured if the entity fails to continue to be a CDE or the interest is redeemed within seven years.

A CDE is any domestic corporation or partnership (1) whose primary mission is serving or providing investment capital for low-income communities or low-income persons, (2) that maintains accountability to residents of low-income communities through representation on governing or advisory boards of the CDE, and (3) is certified by the Treasury Department as an eligible CDE. A qualified equity investment means stock or a similar equity interest acquired directly from a CDE for cash. Substantially all of the cash must be used by the CDE to make investments in, or loans to, qualified active businesses located in low-income communities, or certain financial services to businesses and residents in low-income communities. A "low-income community" generally is defined as census tracts with either (1) poverty rates of at least 20 percent or (2) median family income which does not exceed 80 percent of the greater of metropolitan area income or statewide median family income. The Secretary may designate any area within any census tract as a low-income community provided that (1) the boundary is continuous, (2) the area would otherwise satisfy the poverty rate and median income requirements, and (3) an inadequate access to capital exists in the area.

D. Increase the Low-Income Housing Tax Credit Cap and Make Other Modifications

The bill increases the per-capita low-income housing credit cap from $1.25 per capita to $1.50 per capita in calendar year 2001 and to $1.75 per capita in calendar year 2002. Beginning in calendar year 2003, the per-capita portion of the credit cap will be adjusted annually for inflation. For small States, a minimum annual cap of $2 million is provided for calendar years 2001 and 2002. Beginning in calendar year 2003, the small State minimum is adjusted for inflation. The bill also makes programmatic changes to the credit. The provisions are generally effective for calendar years beginning after December 31, 2000, and buildings placed-in-service after such date in the case of projects that also receive financing with proceeds of tax-exempt bonds subject to the private activity bond volume limit which are issued after such date.

E. Accelerate Scheduled Increase in State Volume Limits on Tax-Exempt Private Activity Bonds

The bill increases the State volume limits on tax-exempt private activity bonds from the greater of $50 per resident or $150 million to the greater of $75 per resident or $225 million beginning in calendar year 2002. Under the bill, the volume limit is the greater of $62.50 per resident or $187.5 million in calendar year 2001. Beginning in calendar year 2003, the volume limit will be adjusted annually for inflation.

F. Extension and Modification to Expensing of Environmental Remediation Costs

The bill extends the expiration date for expenditures for environmental remediation to be eligible for a current deduction in lieu of capitalization to include those expenditures paid or incurred before January 1, 2004. The bill eliminates the targeted area requirement, thereby expanding eligible sites to include any site, other than a site identified on the national priorities list, containing (or potentially containing) a hazardous substance that is certified by the appropriate State environmental agency. The provision to expand the class of eligible sites is effective for expenditures paid or incurred after the date of enactment.

G. Extension of the District of Columbia Homebuyer Tax Credit

The bill extends the $5,000 tax credit that is available to first-time homebuyers of a principal residence in the District of Columbia for two years (through December 31, 2003).

TITLE VII. ADMINISTRATIVE, MISCELLANEOUS, AND TECHNICAL CORRECTIONS PROVISIONS

Subtitle A. Administrative Provisions

A. Exempt Certain Reports From Elimination Under the Federal Reports Elimination and Sunset Act of 1995

The bill exempts certain reports from elimination and sunset pursuant to the Federal Reports Elimination and Sunset Act of 1995, effective on the date of enactment.

B. Extension of Deadlines for IRS Compliance with Certain Notice Requirements

The Internal Revenue Service Restructuring and Reform Act of 1998 requires the IRS to include the following information in each notice imposing a penalty: (1) the name of the penalty, (2) the Code section under which the penalty is imposed, and (3) a computation of the penalty. The Act also requires the IRS to include in notices requiring an amount of interest to be paid by the taxpayer a detailed computation of the interest charged and a citation to the Code section under which such interest is imposed. The bill extends the deadlines for the IRS to comply with the penalty and interest notice requirements from December 31, 2000, to June 30, 2001. For every taxpayer in an installment agreement, the IRS is required to send an annual statement of (1) the initial balance owed, (2) the payments made during the year, and (3) the remaining balance. The bill extends the deadline for the IRS to comply with this requirement from July 1, 2001, to September 1, 2001.

C. Extension of Authority for Undercover Operations

The bill extends for five years (through December 31, 2005) the authority of the IRS to "churn" the income earned from undercover operations to pay additional expenses incurred in the undercover operation, effective on the date of enactment.

D. Competent Authority and Pre-Filing Agreements

The bill affirms that closing agreements, similar agreements, and related background information, are confidential return information. Closing agreements and similar agreements includes pre-filing agreements. The bill also clarifies that information exchanged and agreements reached pursuant to tax treaties are confidential. The provision is effective for documents in existence on or created after the date of enactment.

E. Increase in Joint Committee on Taxation Refund Review Threshold

The bill increases the threshold above which refunds must be submitted to the Joint Committee on Taxation for review from $1,000,000 to $2,000,000, effective on the date of enactment, except that the higher threshold does not apply to a refund or credit with respect to which a report was made before the date of enactment.

F. Clarify the Allowance of Certain Tax Benefits with Respect to Kidnapped Children

The bill clarifies that the dependency exemption, the child credit, the surviving spouse filing status, the head of household filing status, and the earned income credit are available to an otherwise qualifying taxpayer with respect to a child who is presumed by law enforcement authorities to have been kidnapped by someone who is not a member of the family of such child or the taxpayer. Generally, this treatment continues for all taxable years ending during the period that the child is kidnapped. However, this treatment ends for the taxable year ending after the calender year in which it is determined that the child is dead (or, if earlier, the year in which the child would have attained age 18). The provision is effective for taxable years ending after the date of enactment.

G. Conforming Changes to Accommodate Reduced Issuances of 52-Week Treasury Bills

The bill changes references to "52-week Treasury bills" in the Code and in certain other provisions of Federal law to refer instead to "the weekly average one-year constant maturity Treasury yield, as published by the Board of Governors of the Federal Reserve System." The provision is effective on the date of enactment.

H. Authorization of Agencies to Use Corrected Consumer Price Index ("CPI")

The bill authorizes the Secretary of the Treasury to use the corrected levels of the CPI for 1999 and 2000 for all purposes of the Code to which they might apply. The bill directs the Secretary to prescribe new tables reflecting the correct levels of the 1999 CPI for the 2000 tax year. In addition, the bill provides that the Director of the Office of Management and Budget ("OMB") shall assess Federal benefit programs to ascertain the extent to which the CPI error has or will result in a shortfall in program payments to individuals for 2000 and future years and instruct the head of any Federal agency which administers an affected program to make a payment or payments to compensate for the shortfall and that such payments are targeted to the amount of the shortfall experienced by individual beneficiaries. The provision is effective on the date of enactment.

I. Prevent Duplication or Acceleration of Loss Through Assumption of Certain Liabilities

The bill requires that the basis of stock received in a tax-free incorporation be reduced (but not below the stock's fair market value) by the amount of any liability that (1) is assumed in the exchange for such stock and (2) did not otherwise reduce the transferor's basis of the stock by reason of the assumption. Except as provided by the Treasury Department, the provision does not apply if the trade or business with which the liability associated is transferred to the corporation as part of the exchange, or if substantially all of the assets with which the liability is associated are transferred to the corporation as part of the exchange. The Secretary of the Treasury will prescribe similar rules for transactions involving partnerships. The provision is effective for assumptions of liabilities on or after October 19, 1999.

Subtitle B. Miscellaneous Provisions

A. Repeal Certain Excise Taxes on Rail Diesel Fuel and Inland Waterway Barge Fuels

The bill repeals the 4.3-cents-per-gallon General Fund excise tax rates on diesel fuel used in trains and fuels used in barges operating on the designated inland waterways system. The provision takes effect on January 1, 2001.

B. Repeal of Reduction of Deductions for Mutual Life Insurance Companies and of Policyholder Surplus Accounts of Life Insurance Companies

Under present law, a mutual life insurance company is required to reduce its deduction for policyholder dividends (or for the change in reserves) by the company's differential earnings amount (which is intended to represent returns of mutual life insurance companies to policyholders as customers) (sec. 809). Present law also provides that a life insurance company must include in income certain tax-deferred amounts that arose under pre-1984 law, if the amounts are treated as distributed to shareholders and subtracted from the company's policyholders surplus account (sec. 815). The bill repeals these rules (secs. 809 and 815), effective for taxable years beginning after December 31, 2000.

C. Tax-Credit Bonds for the National Railroad Passenger Corporation ("Amtrak") and the Alaska Railroad

The bill authorizes Amtrak to issue up to $1 billion per year of tax-credit bonds for new capital improvements during the period October 1, 2000 - September 30, 2010. The Secretary of Transportation may allocate a portion of this bond authority to the Alaska Railroad. In general, tax-credit bonds may only be issued to finance projects with respect to which the State in which the property will be located has made a matching contribution equal to at least 20 percent of the project cost. Tax credits on the bonds will be set by reference to a daily corporate interest rate index prescribed by the Treasury Department to result in Amtrak (or the Alaska Railroad) bearing no additional interest cost beyond the amount of the credits.

D. Farm, Fish, and Ranch Risk Management Accounts ("FFARRM Accounts")

The bill allows taxpayers engaged in an eligible business to establish FFARRM accounts. An eligible business is any trade or business of farming in which the taxpayer actively participates, including the operation of a nursery or sod farm or the raising or harvesting of crop-bearing or ornamental trees. An eligible business also is the trade or business of commercial fishing as that term is defined under section (3) of the Magnuson-Stevens Fishery Conservation and Management Act (16 U.S.C. 1802) and includes the trade or business of catching, taking or harvesting fish that are intended to enter commerce through sale, barter or trade.

Contributions to a FFARRM account are deductible and are limited to 20 percent of the taxable income that is attributable to the eligible business. The deduction is taken into account in determining adjusted gross income and reduces the income attributable to the eligible business for all income tax purposes other than the determination of the 20 percent of eligible income

limitation on contributions to a FFARRM account. Contributions to a FFARRM account do not reduce earnings from self-employment. Accordingly, distributions are not included in self-employment income.

A FFARRM account is taxed as a grantor trust and any earnings are required to be distributed currently. Thus, any income earned in the FFARRM account is taxed currently to the farmer or fisherman who established the account. Amounts can remain on deposit in a FFARRM account for up to five years. Any amount that has not been distributed by the close of the fourth year following the year of deposit is deemed to be distributed and includible in the gross income of the account owner.

The provision is effective for taxable years beginning after December 31, 2000.

E. Extension and Modification of Enhanced Deduction for Corporate Donations of Computer Technology

The bill extends the current enhanced deduction for donations of computer technology and equipment for two years (through December 31, 2003). In addition, the bill expands the enhanced deduction to include donations to public libraries and to apply to property donated no later than three years (instead of two years) after the date the taxpayer acquired or substantially completed the construction of the donated property. The provision is effective for contributions made after December 31, 2000.

F. Settlement of Certain Discrimination Claims Brought by Farmers Against the Department of Agriculture

The bill excludes from gross income any cash received by or on behalf of certain taxpayers or cancellation of indebtedness income of those taxpayers as a result of the settlement of certain claims brought by certain farmers against the Department of Agriculture for discrimination in farm credit and benefit programs. The bill is limited to certified members of the plaintiff class in the settlement of two consolidated class action suits. The two suits are *Pigford, et al. v. Glickman* No. 97-1978 (D.D.C.)(PLF) and *Brewington, et al. v. Glickman* No. 98-1693 (D.D.C.)(PLF).

G. Extension of the Adoption Tax Credit

The bill extends the credit for nonspecial needs adoptions for four years (through December 31, 2005) and increases the maximum credit by $1,000 per year beginning for taxable years beginning after December 31, 2000, until the maximum credit reaches $10,000 per year for taxable years beginning after December 31, 2004. In the case of special needs adoptions, the maximum credit is increased by $2,000 per year for taxable years beginning after December 31, 2000, until the maximum credit reaches $12,000 per year for taxable years beginning after December 31, 2002. For taxable years beginning after December 31, 2000, the income limitation for the credit is increased to $150,000 of modified adjusted gross income, and is phased out ratably for taxpayers with modified AGI between $150,000 and $190,000.

H. Study of Tax Treatment with Respect to Certain Offshore Insurance Companies

The bill provides that the Secretary of the Treasury (the "Secretary") is to conduct a study on the extent to which U. S. tax on investment income of U.S. insurance companies is being avoided through the use of affiliated corporations in Bermuda or other offshore locations. In conducting the study, the Secretary is to address issues concerning the application of current U.S. tax law in preventing such avoidance, and changes to U.S. tax law that may be needed to prevent such avoidance, and is to make appropriate recommendations. The Secretary is to submit the study and recommendations to the House Committee on Ways and Means and the Senate Committee on Finance no later than December 31, 2001.

I. Treatment of Indian Tribes as Non-profit Organizations and State or Local Governments for Purposes of the Federal Unemployment Tax ("FUTA")

The bill provides that an Indian tribe (including any subdivision, subsidiary, or business enterprise chartered and wholly owned by an Indian tribe) is treated like a non-profit organization or State or local government for FUTA purposes (i.e., given an election to choose the reimbursement treatment).

The provision generally is effective with respect to service performed beginning on or after the date of enactment. Under a transition rule, service performed in the employ of an Indian tribe is not treated as employment for FUTA purposes if: (1) it is service which is performed before the date of enactment and with respect to which FUTA tax has not been paid; and (2) such Indian tribe reimburses a State unemployment fund for unemployment benefits paid for service attributable to such tribe for such period.

Subtitle C. Technical Corrections

The bill contains technical corrections to recent tax legislation.

Subtitle D. Exclusion From PAYGO Scorecard

The bill provides that, upon enactment, the Director of the Office of Management and Budget shall not make any estimate of the changes in direct spending outlays and receipts under section 252(d) of the Balanced Budget and Emergency Deficit Control Act of 1985 resulting from the enactment of the bill.