COMPARISON OF REVENUE RECONCILIATION PROVISIONS OF H.R. 2491 AS PASSED BY THE HOUSE AND THE SENATE

Prepared for Use of the House and Senate Conferees

By the Staff

of the

JOINT COMMITTEE ON TAXATION

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(House and Senate Revenue Reconciliation Provisions)

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INTRODUCTION

This document,[1] prepared by the staff of the Joint Committee on Taxation, provides a comparison of the revenue provisions contained in H.R. 2491 as passed by the House on October 26, 1995 and by the Senate (as amended) on October 27, 1995.[2]

H.R. 2491 ("Seven-Year Balanced Budget Reconciliation Act of 1995") was reported by the House Committee on the Budget on October 17, 1995 (H. Rept. 104-280, Vols. I and II). Titles XIII and XIV contain the revenue reconciliation and tax simplification provisions, respectively, with certain modifications, as approved by the House Committee on Ways and Means on September 19, 1995; Title XIX incorporates by references the revenue provisions of H.R. 1215 ("Tax Fairness and Deficit Reduction Act of 1995") as passed by the House on April 5, 1995, with certain modifications.[3]

The Senate Committee on the Budget ordered favorably reported its budget reconciliation provisions (S. 1357, the "Balanced Budget Reconciliation Act of 1995") on October 23, 1995 (no written committee report), which include the revenue reconciliation provisions (Title XII) as approved by the Senate Committee on Finance on October 19, 1995.[4] Also, Title VII includes revisions of the earned income tax credit (subtitle H) and an increase in the public debt limit (subtitle I) as approved by the Committee on Finance on

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[1] This document may be cited as follows: Joint Committee on Taxation, Comparison of Revenue Reconciliation Provisions of H.R. 2491 as Passed by the House and the Senate (JCS-22-95), October 31, 1995.

[2] For an explanation of the tax simplification provisions of H.R. 2491 as passed by the House and the Senate, see Joint Committee on Taxation, Comparison of Tax Simplification Provisions of H.R. 2491 as Passed by the House and the Senate (JCS-23-95), October 31, 1995.

[3] For an explanation of the revenue provisions of H.R. 1215 as reported by the House Committee on Ways and Means, see H. Rept. 104-84, March 21, 1995.

[4] For an explanation of the revenue reconciliation provisions approved by the Committee on Finance, see S. Prt. 104-35, October 1995.

September 29, 1995.[5]

The Senate considered the budget reconciliation provisions on October 25-27, 1995, and approved a Senate amendment as a substitute to the provisions of the House-passed H.R. 2491 on October 27, 1995.

[5] For an explanation of the earned income tax credit and public debt limit provisions as approved by the Committee on Finance, see S. Prt. 104-34, October 1995, pp. 137-143.

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LIST OF IDENTICAL PROVISIONS

The following revenue provisions of H.R. 2491 as passed by the House and the Senate are identical (including effective dates). These provisions are not described in the comparison of revenue provisions.

Taxpayer Bill of Rights 2 Provisions

- Expansion of authority to abate interest (sec. 13311 of the House bill and sec. 12501 of the Senate amendment)
- Review of IRS failure to abate interest (sec. 13312 of the House bill and sec. 12502 of the Senate amendment)
- Joint return may be made after separate returns without full payment of tax (sec. 13317 of the House bill and sec. 12503 of the Senate amendment)
- Modifications to certain levy exemption amounts for final and inflation adjustment (sec. 13321(c) of the House bill and sec. 12504(a) and (c) of the Senate amendment)
- Award of litigation costs permitted in declaratory judgment proceedings (sec. 13334 of the House bill and sec. 12506 of the Senate amendment)
- Court discretion to reduce award for litigation costs for failure to exhaust administrative remedies (sec. 13337 of the House bill and sec. 12507 of the Senate amendment)
- Enrolled agents included as third-party recordkeepers (sec. 13346 of the House bill and sec. 12508 of the Senate amendment)
- Limitation on persons to whom designated summons may be issued (sec. 13347(b) of the House bill and sec. 12509 of the Senate amendment)
- Annual reminders to taxpayers with outstanding delinquent accounts (sec. 13360 of the House bill and sec. 12510 of the Senate amendment)

Casualty and Involuntary Conversion Provisions

- Modify the basis adjustment rules under section 1033 (sec. 13626 of the House bill and sec. 12601 of the Senate amendment)

- Modify the exception to the related party rule of section 1033 for individuals to only provide an exception for *de minimis* amounts (sec. 13627 of the House bill and sec. 12602 of the Senate amendment)

Exempt Organizations and Charitable Reforms

- Treatment of dues paid to agricultural or horticultural organizations (sec. 14584 of the House bill and sec. 12703 of the Senate amendment)

- Repeal tax credit for contributions to special community development corporations (sec. 13637 of the House bill and sec. 12704 of the Senate amendment)

Corporate and Other Reforms and Miscellaneous Provisions

- Phase out preferential tax deferral for certain large farm corporations required to use accrual accounting (sec. 14584 of the House bill and sec. 12804 of the Senate amendment)

- Reporting of certain payments made to attorneys (sec. 13612 of the House bill and sec. 12812 of the Senate amendment)

- Disallow rollover under section 1034 to extent of previously claimed depreciation for home office or other depreciable use of residence (sec. 13628 of the House bill and sec.12821 of the Senate amendment)

- Provide that rollover of gain on sale of a principal residence cannot be elected unless the replacement property purchased is located within the United States (sec. 13629 of the House bill and sec. 12822 of the Senate amendment)

- Repeal advance refunds of diesel fuel tax for diesel cars and light trucks (sec. 13638 of the House bill and sec 12831 of the Senate amendment)

- Repeal exemption for withholding on gambling winnings from bingo and keno where proceeds exceed $5,000 (sec. 13633 of the House bill and sec. 12872 of the Senate amendment).

- Application of failure-to-pay penalty to substitute returns (sec. 13639 of the House bill and sec. 12871 of the Senate amendment)

Public Debt Provisions

- Increase in the public debt limit (sec. 13801 of the House bill and sec. 7471 of the Senate amendment)

TECHNICAL CORRECTIONS PROVISIONS

H.R. 1215, as passed by the House, contains various provisions that make technical corrections to previously enacted tax legislation. In addition, H.R. 2491, as passed by the House, contains certain technical corrections provisions, as well as technical corrections provisions (by reference) from H.R. 1215. Many of these corrections are clerical in nature (e.g., correcting section references), and are not described below. The following is a description of the non-clerical technical corrections contained in H.R. 1215 and H.R. 2491 respectively, as passed by the House.

H.R. 1215

Technical Corrections to the Revenue Reconciliation Act of 1990 ("1990 Act")

1. Application of the 2.5-cents-per-gallon tax on fuel used in rail transportation to States and local governments (sec. 6602(b)(2))

The House bill clarifies that the 2.5-cents-per-gallon tax on fuel used in rail transportation does not apply to such uses by States and local governments.

2. Small winery production credit and bonding requirements (secs. 6602(b)(5), (6), and (7))

The House bill clarifies that wine produced by eligible small wineries may be transferred without payment of tax to bonded warehouses that become liable for payment of the wine excise tax without losing credit eligibility.

3. Deposits of Railroad Retirement Tax Act taxes (sec. 6602(c)(3))

The House bill conforms the Internal Revenue Code to the provision in the Railroad Retirement Solvency Act of 1993 that applies the deposit rules for income taxes withheld from employees' wages and FICA taxes to Railroad Retirement Tax Act taxes.

4. Treatment of salvage and subrogation of property and casualty insurance companies (sec. 6602(c)(4))

The House bill makes adjustments to the calculation of a property and casualty insurance company's earnings and profits, so as to equalize the treatment of companies that did, and those that did not, take into account estimated salvage and subrogation recoverable in determining losses incurred prior to 1990.

5. Information with respect to certain foreign-owned or foreign corporations: Suspension of statute of limitations during certain judicial proceedings (sec. 6602(c)(5))

The House bill modifies the provisions in sections 6038A and 6038C that suspend the statute of limitations to clarify that the suspension applies to any taxable year the determination of the amount of tax imposed for which is affected by the transaction or item to which the summons relates.

6. Rate of interest for large corporate underpayments (secs. 6602(c)(6) and (7))

The House bill provides that an IRS notice that is later withdrawn because it was issued in error does not trigger the higher rate of interest applicable to certain corporate underpayments.

7. Research credit provision: Effective date for repeal of special proration rule (sec. 6602(d)(1))

The bill repeals for all taxable years ending after December 31, 1989, the special proration rule for certain qualified research provided for by the 1989 Act.

8. Energy tax provision: Alternative minimum tax adjustment based on energy preferences (secs. 6602(e)(1) and (4))

The House bill clarifies that the amount of alternative tax net operating loss that is utilized in any taxable year is to be appropriately adjusted to take into account the amount of special energy deduction claimed for that year.

The House bill also provides that the ACE adjustment for taxable years beginning in 1991 and 1992 is to be computed without regard to the special energy deduction.

9. Estate tax freezes (sec. 6602(f))

Chapter 14 of the Code contains rules that supersede the willing buyer, willing seller standard for valuation of preferred interest in corporations and partnerships, property held in trust, and term interests in property .

The House bill provides that an applicable retained interest conferring a distribution right to qualified payments with respect to which there is no liquidation, put, call, or conversion right is valued without regard to section 2701. The House bill also provides that the retention of such right gives rise to potential inclusion in the transfer tax base.

The House bill modifies the definition of junior equity interest by granting regulatory authority to treat a partnership interest with rights that are junior with respect to either income or capital as a junior equity interest. The House bill also modifies the definition of distribution right by replacing the junior equity interest exception with an exception for a right under an interest that is junior to the rights of the transferred interest.

The House bill modifies the rules for electing into or out of qualified payment treatment. A dividend payable on a periodic basis and at a fixed rate under a cumulative preferred stock held by the transferor is treated as a qualified payment unless the transferor elects otherwise. If held by an applicable family member, such stock is not treated as a qualified payment unless the holder so elects. In addition, a transferor or applicable family member holding any other distribution right may treat such right as a qualified payment to be paid in the amounts and at the times specified in the election.

The House bill grants the Treasury Department regulatory authority to make subsequent transfer tax adjustments to reflect the inclusion of unpaid amounts with respect to a qualified payment. The House bill treats a transfer to a spouse falling under the annual exclusion the same as a transfer qualifying for the marital deduction. The bill also clarifies that the inclusion continues to apply if an applicable family member transfers a right to qualified payments to the transferor. Under the House bill, the election to treat a distribution as giving rise to an inclusion results in an inclusion only with respect to the payment for which the election is made.

The House bill conforms section 2702 to existing regulatory terminology by substituting the term "incomplete gift" for

"incomplete transfer." In addition, the House bill limits the exception for incomplete gifts to instances in which the entire gift is incomplete. The Treasury Department is granted regulatory authority, however, to create additional exceptions not inconsistent with the purposes of the section.

10. Conforming amendments to the repeal of the General Utilities doctrine (secs. 6602(g)(1) and (2))

The House bill makes three conforming changes to the Code with respect to the repeal of the General Utilities doctrine. Two of the changes affect section 1248: the first includes a reference to section 355(c)(1) and the second clarifies that, with respect to any transaction in which a U.S. person is treated as realizing gain from the sale or exchange of stock of a controlled foreign corporation, the U.S. person shall be treated as having sold or exchanged the stock for purposes of applying section 1248. The third change repeals section 897(f) as deadwood.

11. Prohibited transaction rules (sec. 6602(g)(3))

The House bill conforms the statutory language to legislative intent by providing that transactions that are exempt from the prohibited transaction rules of the Employee Retirement Income Security Act of 1974 ("ERISA") by reason of ERISA section 408(b)(12) are also exempt from the prohibited transaction rules of the Code.

12. Effective date of LIFO adjustment for purposes of computing adjusted current earnings (sec. 6602(g)(4))

The House bill clarifies that the calculation of the LIFO adjustment of the adjusted current earnings component of the corporate alternative minimum tax would be effective with respect to adjustments occurring in taxable years beginning after December 31, 1989.

13. Low-income housing tax credit (sec. 6602(g)(5))

The House bill repeals a 1990 technical correction regarding treatment of low-income housing buildings financed with tax-exempt bonds. The House bill provides, however, that pre-1989 Act law will apply to a bond-financed building if the owner of the building establishes to the satisfaction of the Secretary of the Treasury reasonable reliance upon the 1990 technical correction.

Technical Corrections to the Revenue Reconciliation Act of 1993 ("1993 Act")

1. **Treatment of full-time students under the low-income housing credit (sec. 6603(b))**

The House bill provides that the full-time student provision is effective on the date of enactment of the 1993 Act.

2. **Indexation of threshold applicable to excise tax on luxury automobiles (sec. 6603(c))**

The House bill corrects the application of the indexing adjustment applicable to the threshold above which the excise tax on luxury automobiles is to apply so that the adjustment calculated for a given calendar year applies for that calendar year rather than in the subsequent calendar year.

3. **Indexation of the limitation based on modified adjusted gross income for income from United States savings bonds used to pay higher education tuition and fees (sec. 6603(d))**

The House bill corrects the indexing of the $60,000 ($40,000 for taxpayers filing as single) threshold to provide that the thresholds be indexed for inflation after 1989.

4. **Reporting and notification requirements for lobbying and political expenditures of tax-exempt organizations (sec. 6603(g))**

Tax-exempt organizations that incur political expenditures are subject to tax under section 527(f). Section 6033(e) requires tax-exempt organizations (other than charities) to (1) report on their annual information returns both the total amount of their lobbying and political expenditures, and the total amount of dues payments allocable to such expenditures, and (2) provide notice to their members of the portion of dues allocable to lobbying and political expenditures (so that such amounts are not deductible to members), or the organization may elect to pay a proxy tax on its lobbying and political expenditures, up to the amount of its dues receipts. The House bill amends section 6033(e) to clarify that any political expenditures on which tax is paid pursuant to section 527(f) are not subject to the reporting and notification requirements of section 6033(e). In addition, the House bill clarifies that the reporting and notification

requirements of section 6033(e) apply to organizations exempt from tax under section 501(a), other than charities described in section 501(c)(3).

5. Estimated tax rules for certain tax-exempt organizations (sec. 6603(h))

The House bill clarifies that the Revenue Reconciliation Act of 1993 did not change the method by which a tax-exempt organization annualizes its current year tax liability for purposes of avoiding an underpayment of estimated tax.

6. Current taxation of certain earnings of controlled foreign corporations -- application of foreign tax credit limitation (sec. 6603(i)(l))

The House bill clarifies that a U.S. shareholder's inclusion of a controlled foreign corporation's earnings invested in excess passive assets is treated like a dividend for purposes of the foreign tax credit limitation.

7. Current taxation of certain earnings of controlled foreign corporations-- . measurement of accumulated earnings (sec. 6603(i)(2))

The House bill clarifies that the accumulated earnings and profits of a controlled foreign corporation taken into account for purposes of determining the foreign corporation's earnings invested in excess passive assets do not include any deficit in accumulated earnings and profits, and do not include current earnings (which are taken into account separately).

8. Current taxation of certain earnings of controlled foreign corporations-- . aggregation and look-through rules (sec. 6603(i)(3))

The House bill clarifies that, within the regulatory authority provided to the Secretary of the Treasury under the 1993 Act, regulations are specifically authorized to coordinate the CFC group treatment and look-through treatment applicable for purposes of determining a foreign corporation's earnings invested in excess passive assets. Pending the promulgation of guidance by the Secretary, it is intended that taxpayers be permitted to coordinate such treatment using any reasonable method for taking assets into account only once, so long as the method is consistently applied to all controlled foreign corporations (whether or not members of any CFC group) in all taxable years.

9. Treatment of certain leased assets for PFIC purposes (sec. 6603(i)(5))

The House bill clarifies that, in the case of any item of property leased by a foreign corporation and treated as an asset actually owned by the foreign corporation in measuring the assets of the foreign corporation for purposes of the PFIC asset test, the amount taken into account with respect to the leased property is the amount determined under the 1993 Act's special measurement rule, which is based on the unamortized portion of the present value of the payments under the lease for the use of the property.

10. Amortization of goodwill and certain other intangibles (sec. 6603(k))

The House bill clarifies the antichurning rules of the 1993 Act amortization of intangibles provision. It is clarified that when a taxpayer and its related parties have made an election to apply the 1993 Act to all acquisitions after July 25, 1991, the antichurning rules will not apply when property acquired from an unrelated party after July 25, 1991 (and not subject to the antichurning rules in the hands of the acquirer) is transferred to a taxpayer related to the acquirer after the date of enactment of the 1993 Act.

11. Empowerment zones and eligibility of small farms for tax incentives (sec.6603(l))

The bill provides that the $500,000 asset test for determining whether a farm is eligible for section 179 expensing in an empowerment zone and expanded tax-exempt financing benefits in an empowerment zone or enterprise community is applied based on assets of the farm at the end of the current taxable year.

Other Tax Technical Corrections

1. Hedge bonds (sec. 6604(b))

The House bill clarifies that the 30-day exception for temporary investments of investment earnings applies to amounts (i.e., principal and earnings thereon) temporarily invested during the 30-day period immediately preceding redemption of the bonds as well as such periods preceding reinvestment of the proceeds.

2. Withholding on distributions from U.S. real property holding companies (sec. 6604(c))

The House bill clarifies that withholding requirements under section 1445 apply to any section 301 distribution to a foreign person by a domestic corporation that is or was a U.S. real property holding corporation which distribution is not made out of the corporation's earnings and profits and is therefore treated as an amount received in a sale or exchange of a U.S. real property interest. The provision is effective for distributions made after the date of enactment of the bill.

3. Treatment of credits attributable to working interests in oil and gas properties (sec. 6604(d))

A working interest in an oil and gas property which does not limit the liability of the taxpayer is not a "passive activity" for purposes of the passive loss rules (sec. 469). However, if any loss from an activity is treated as not being a passive loss by reason of being from a working interest, any net income from the activity in subsequent years is not treated as income from a passive activity, notwithstanding that the activity may otherwise have become passive with respect to the taxpayer.

The House bill clarifies that any credit attributable to a working interest in an oil and gas property, in a taxable year in which the activity is no longer treated as not being passive activity, will not be treated as attributable to a passive activity to the extent of any tax allocable to the net income from the activity for the taxable year.

4. Clarification of passive loss disposition rule (sec. 6604(e))

The House bill clarifies the rule relating to the computation of the overall loss allowed upon the disposition of a passive activity under the passive loss rules.

5. Estate tax unified credit allowed nonresident aliens under treaty (sec. 6604(f)(1))

The House bill clarifies that in determining the pro rata unified credit required by treaty, property exempted by the treaty from U.S. estate tax is not treated as situated in the United States. The provision is effective on the date of enactment.

6. Limitation on deduction for certain interest paid by corporation to related person (sec. 6604(f)(2))

The House bill clarifies that, under the earnings stripping provision, excess interest carried forward from a year in which the debt-equity ratio threshold is exceeded may be deducted in a subsequent year in which that threshold is not exceeded, but only to the extent that such interest would not otherwise be treated as excess interest expense in the carryforward year. The provision is effective as if included in the amendments made by section 7210(a) of the1989 Act.

7. Branch-level interest tax (sec. 6604(f)(3))

The House bill clarifies that where an interest expense of a foreign corporation is allocable to U.S. effectively connected income, but that interest expense would not have been fully deductible for tax purposes under another Code provision had it been paid by a U.S. corporation, such interest is nonetheless treated for branch level interest tax purposes like a payment by a U.S. corporation to a foreign corporate parent. Similarly, with regard to the Treasury's regulatory authority to treat an interest payment by a foreign corporation's U.S. branch as though not paid by a U.S. person for source and withholding purposes, the bill clarifies that the authority extends to interest payments in excess of those reasonably expected to be allocable to U.S. effectively connected income of the foreign corporation. These provisions are effective as if they were made by the Tax Reform Act of 1986 ("1986 Act").

8. Determination of source in case of sales of inventory property (sec. 6604(f)(4))

The House bill clarifies that, to the extent that the Secretary of the Treasury had general regulatory authority to provide rules for the sourcing of income from the sales of personal property prior to the 1986 Act, the Secretary of the Treasury retains that authority under present law with respect to inventory property. The provision is effective as if it were included in the 1986 Act.

9. Repeal of obsolete provisions (sec. 6604(f)(5))

The House bill repeals as obsolete the information reporting requirements of sections 6038 and 6038A relating to section 453C.

10. Clarification of certain stadium bond transition rule in Tax Reform Act of 1986 (sec. 6604(g))

The House bill permits the residual interest in the stadium currently held by the City of Cleveland to be assigned to Cuyahoga County, Ohio (the county in which both Cleveland and the stadium are located) because of a change in Ohio State law prior to issuance of the bonds. The House bill does not extend the time for issuing the bonds or otherwise affect the amount of bonds or the location or design of the stadium.

11. Health care continuation rules (sec. 6604(h))

The1989 Act amended the health care continuation rules to provide that if a covered employee is entitled to Medicare and within 18 months of such entitlement separates from service or has a reduction in hours, the duration of continuation coverage for the spouse and dependents is 36 months from the date the covered employee became entitled to Medicare. One possible unintended interpretation of the statutory language, however, would permit continuation coverage for up to 54 months. The House bill amends the Code (sec. 4980B), title I of the Employee Retirement Income Security Act of 1974 (sec. 602), and the Public Health Service Act (sec. 2202(2)(A)), to limit the continuation coverage in such cases to no more than 36 months. The provision is effective for plan years beginning after December 31, 1989.

12. Taxation of excess inclusions of a residual interest in a REMIC for taxpayers subject to alternative minimum tax with net operating losses (sec. 6604(i))

The House bill provides the following three rules for determining the alternative minimum taxable income of a taxpayer that is not a thrift institution that holds residual interests in a REMIC: (1) the alternative minimum taxable income of such a taxpayer is computed without regard to the REMIC rule that taxable income cannot be less than the amount of excess inclusions; (2) the alternative minimum taxable income of such a taxpayer for a taxable year cannot be less than the excess inclusions of the residual interests for that year; and (3) the amount of any alternative minimum tax net operating loss deduction of such a taxpayer is computed without regard to any excess inclusions. The provision is effective for all taxable years beginning after December 31, 1986, unless the taxpayer elects to apply the rules of the bill only to taxable years beginning after the date of enactment.

13. Application of harbor maintenance tax to Alaska and Hawaii ship passengers (sec. 6604(j))

The House bill clarifies that the harbor maintenance tax does not apply to passenger fares where the passengers are transported on U.S. flag vessels operating solely within the State waters of Alaska or Hawaii and adjacent international waters (i.e., leaving and returning to a port in the same State without stopping elsewhere). The provision is effective as of April 1, 1987 (the effective date of the tax).

14. Modify effective date provision relating to the Energy Policy Act of 1992 (sec. 6604(k))

The House bill corrects several cross-references in the Energy Policy Act of 1992, and also clarifies the relationship between the basis adjustment rules for the electric vehicle credit (sec. 30(d)(1) and the alternative minimum tax.

15. Determination of unrecovered investment in annuity contract (sec. 6604(m))

In the case of an annuity contract with a refund feature, the House bill modifies the definition of the unrecovered investment in the contract, so that the entire investment in the contract can be recovered tax-free.

16. Election by parent to claim unearned income of certain children on parent's return (sec. 6604(n))

The House bill provides for adjustments for inflation, effective for taxable years beginning after December 31, 1994.

17. Exclusion from income for combat zone compensation (sec. 6604(o)(4))

The House bill changes obsolete references to "combat pay" to references to "combat zone compensation."

H.R. 2491

1. Reporting of real estate transactions (sec. 13401)

The House bill clarifies that real estate reporting persons may take into account the cost of complying with the reporting requirements of Code section 6045 in establishing charges for their services, so long as a separately listed charge for such costs is not made.

2. Clarification of denial of deduction for stock redemption expenses (sec. 13402)

The House bill clarifies that amounts properly allocable to indebtedness on which interest is deductible and properly amortized over the term of that indebtedness are not subject to the provision of section 162(k) denying a deduction for any amount paid or incurred by a corporation in connection with the redemption of its stock. This clarification is effective as if included in the 1986 Act.

In addition, the House bill clarifies that the rules of section 162(k) apply to any acquisition of its stock by a corporation or by a party that has a relationship to the corporation described in section 465(b)(3)(C)(which applies a more than 10-percent relationship test in certain cases). These clarifications apply to amounts paid or incurred after September 13, 1995.

3. Clarification of depreciation class for certain energy property (sec. 13403)

The House bill clarifies that solar or wind property owned by a public utility may qualify as 5-year MACRS property.

4. Treatment of certain veterans' reemployment rights (sec. 13405)

The House bill conforms the Internal Revenue Code provisions relating to tax-qualified retirement plans to the Uniformed Services Employment and Reemployment Rights Act of 1994 ("USERRA"), which provides for the rights of reemployed veterans. Thus, under the House bill, the tax-qualified status of a plan will not be affected merely because the plan provides benefits to a reemployed veteran as required or authorized by USERRA. The provision is effective as of December 12, 1994, the effective date of the benefits-related provisions of USERRA.

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Item	*Present Law*	*House Bill*	*Senate Amendment*
COMPARISON OF REVENUE RECONCILIATION PROVISIONS			
I. Family Tax Relief			
A. Child Tax Credit for Children Under Age 18 (sec. 6101 of H.R. 1215 and sec. 12001 of the Senate amendment)	Present law does not provide tax credits based solely on the taxpayer's number of dependent children. Taxpayers with dependent children, however, generally are able to claim a personal exemption for each of these dependents.	The House bill allows taxpayers a nonrefundable tax credit of $500 for each qualifying child under the age of 18.	The Senate amendment allows taxpayers a nonrefundable tax credit of $500 for each qualifying child under the age of 18.
		The credit amount is indexed for inflation after 1996.	The credit amount is not indexed for inflation.
		The credit is phased out ratably for taxpayers with modified AGI over $200,000, and is fully phased out at modified AGI of $250,000. After 1996, the beginning point of the phaseout range ($200,000) is indexed for inflation. The size of the phaseout range will change as needed so as to remain 100 times the maximum amount of	For taxpayers with AGI in excess of certain thresholds, the allowable child credit is reduced by $25 for each $1,000 of AGI (or fraction thereof) in excess of the threshold. For married taxpayers filing joint returns, the threshold is $110,000. For taxpayers filing single or head of household returns, the threshold is $75,000. For married

Item	*Present Law*	*House Bill*	*Senate Amendment*
		the credit per child.	taxpayers filing separate returns, the threshold is $55,000. These thresholds are not indexed for inflation.
		Married taxpayers filing separate returns generally may not claim the credit.	Married taxpayers filing separate returns may claim the credit, subject to the AGI phaseout described above.
		Effective date.--Taxable years beginning after December 31, 1995.	**Effective date**.--Taxable years beginning after December 31, 1995.

Item	*Present Law*	*House Bill*	*Senate Amendment*
B. Marriage Penalty Relief: Tax Credit; Increase in Standard Deduction for Joint Returns (sec. 6102 of H.R. 1215 and sec. 12002 of the Senate amendment)	A married couple generally is treated as one tax unit that must pay tax on the unit's total taxable income. A "marriage penalty" exists when the sum of the tax liabilities of two unmarried individuals filing their own tax returns (either single or head of household returns) is less than their tax liability under a joint return (if the two individuals were to marry). A "marriage bonus" exists when the sum of the tax liabilities of the individuals is greater than their combined tax liability under a joint return. The size of the standard deduction and the tax bracket breakpoints follow certain customary ratios across filing statuses. The standard deduction and tax bracket breakpoints for single filers are roughly 60 percent of those for joint filers, so unmarried individuals have standard deductions whose sum exceeds the standard deduction they	Married couples who file a joint return may be eligible for a credit against their income tax liability. The amount of the credit is determined based on the earned income of each of the spouses. If the hypothetical tax liability of the married couple (filing a joint return based on their combined earned income) exceeds the sum of the hypothetical tax liabilities of the individual spouses (each filing single returns based on their own earned income), the married couple is allowed a nonrefundable tax credit equal to the lesser of that excess or $145, with amounts less than the maximum credit rounded to the nearest multiple of $25. **Effective date**.--Taxable years beginning after December 31, 1995.	The Senate amendment increases the standard deduction for married taxpayers filing a joint return according to a schedule designed to make the standard deduction for joint filers twice that for single filers by the year 2005. **Effective date**.--Taxable years beginning after December 31, 1995.

Item	*Present Law*	*House Bill*	*Senate Amendment*
	would receive as a married couple filing a joint return. Thus, their taxable income as joint filers may exceed the sum of their taxable incomes as unmarried individuals.		

Item	*Present Law*	*House Bill*	*Senate Amendment*
C. Tax Credit for Adoption Expenses; Exclusion for Certain Adoption Expenses (sec. 6401 of H.R. 1215 and sec. 12003 of the Senate amendment)	Present law does not provide a tax credit for adoption expenses. Present law also does not provide an exclusion from gross income for employer-provided adoption assistance.	The House bill provides a nonrefundable tax credit of up to $5,000 per child for qualified adoption expenses paid or incurred by the taxpayer. The credit is denied for any expense to the extent that such expenses are also funded by any Federal, State or local grant program. An exception from this rule is provided solely in the case of certain special-needs adoptions. The credit is phased out ratably between $60,000 and $100,000 of modified adjusted gross income (AGI). The House bill does not include an exclusion for employer-provided adoption assistance. **Effective date**.--Taxable years beginning after December 31, 1995.	The Senate amendment differs from the House bill in five respects. Unlike the House bill, the Senate amendment: (1) Allows the credit to be carried forward for up to five taxable years; (2) Phases out the credit based on taxable income, not modified AGI; (3) Does not allow a credit in the case of special-needs adoptions to the extent funded by Federal, State or local grant programs; (4) Requires a finalized adoption for credit eligibility; and (5) Provides an exclusion from income for employer-provided adoption assistance. **Effective date**.--Same as the House bill.

Item	*Present Law*	*House Bill*	*Senate Amendment*
D. Tax Credit for Interest on Student Loans (sec. 12004 of the Senate amendment)	No provision.	No provision.	The Senate amendment allows individuals who have paid interest on qualified education loans a nonrefundable credit against income tax liability equal to 20 percent of such interest. The maximum credit allowed is $500 ($1,000 in the case of a taxpayer paying interest on loans for two or more students). The credit is phased out ratably over the following modified adjusted gross income ranges: joint filers ($60,000-$75,000) and unmarried individuals ($40,000-$55,000). The beginning of the phaseout ranges (but not the size of the phaseout range) is indexed for inflation for taxable years beginning after 1996. For loans used to pay the qualified higher education expenses of the taxpayer or the taxpayer's spouse, the credit is only allowed during the first 60 months in which interest payments are required.

Item	*Present Law*	*House Bill*	*Senate Amendment*
			For loans used to pay the qualified higher education expenses of the taxpayer's dependent, the credit is only allowed if the dependent is at least a half-time student during that taxable year. **Effective date**.--The provision is effective for payments of interest due after December 31, 1995, on any qualified education loan. Thus, in the case of already existing qualified education loans used to pay the qualified higher education expenses of the taxpayer or the taxpayer's spouse, interest payments will qualify for the credit to the extent that the 60-month period has not expired.

Item	*Present Law*	*House Bill*	*Senate Amendment*
E. Tax Credit for Custodial Care of Certain Elderly Family Members in Taxpayer's Home (sec. 6402 of H.R. 1215)	Generally, present law does not provide for tax credits based on custodial care of parents and grandparents.	The House bill provides a nonrefundable income tax credit of $500 for each qualified family member. Generally, a qualified family member is a parent or grandparent who lives with the taxpayer and is physically or mentally incapable of caring for himself or herself. **Effective Date.**--Taxable years beginning after December 31, 1995.	No provision.

Item	*Present Law*	*House Bill*	*Senate Amendment*
F. Inclusion in Income of Social Security Benefits (sec. 6201 of H.R. 1215)	Under present law, taxpayers receiving Social Security and Railroad Retirement Tier 1 benefits are not required to include any such benefits in gross income if their "provisional income" does not exceed $25,000 in the case of unmarried taxpayers or $32,000 in the case of married taxpayers filling joint returns. For purposes of these computations, a taxpayer's provisional income is defined as adjusted gross income plus tax-exempt interest plus certain foreign source income plus one-half of the taxpayer's Social Security or Railroad Retirement Tier 1 benefit. Certain taxpayers with provisional income in excess of those thresholds are required to include in gross income up to 50 percent of their social Security or Railroad Retirement Tier 1 benefit. Under a provision added by the Revenue Reconciliation Act of 1993 ("1993 Act"), taxpayers with	The House bill phases in a repeal of the higher rate of income inclusion for taxpayers with provisional incomes in excess of the second-tier threshold. For taxable years beginning after December 31, 1999, Social Security and Railroad Retirement Tier 1 benefits will be treated as under the law prior to the 1993 Act. For taxable years beginning in calendar years 1996 through 1999, if the amount of provisional income exceeds the second-tier threshold, then the amount of the inclusion is calculated as under present law, except that the following rates are substituted for "85 percent": 75 percent in 1996, 65 percent in 1997, 60 percent in 1998, and 55 percent in 1999. **Effective date**.--Taxable years beginning after December 31, 1995.	No provision.

Item	*Present Law*	*House Bill*	*Senate Amendment*
	provisional income in excess of a second-tier threshold ($34,000 in the case of unmarried taxpayers or $44,000 in the case of married taxpayers filing joint returns) are required to include in gross income up to 85 percent of their Social Security or Railroad Retirement Tier 1 benefit.		

Item	*Present Law*	*House Bill*	*Senate Amendment*
II. Savings and Investment Incentives			
A. Provisions Relating to Individual Retirement Arrangements (secs. 6103-6104 of H.R. 1215, secs. 19002(d)-(e) of the House bill and secs. 12101-12104, 12111, and 12121 of the Senate amendment)			
Deductible IRA contributions	In general.-.-An individual may make deductible contributions to an individual retirement arrangement ("IRA") up to the lesser of $2,000 or the amount of the individual's compensation if the individual is not an active participant in an employer-sponsored qualified retirement plan (and, if married, the individual's spouse also is not an active participant).	In general.--No provision.	In general.--The Senate amendment provides that an individual is not considered an active participant for purpose of the IRA deduction rules merely because his or her spouse is an active participant in an employer-sponsored retirement plan.
	Income phase-out range.-- If the	Income phase-out range.--No	Income phase-out range.--

Item	*Present Law*	*House Bill*	*Senate Amendment*
	individual (or his or her spouse, if married) is an active participant, the $2,000 limit is phased out between $40,000 and $50,000 of adjusted gross income ("AGI") for married couples and between $25,000 and $35,000 of AGI for single individuals .	provision.	Beginning in 1996, for single individuals, the Senate amendment phases up the income limits on deductible IRA contributions in $5,000 increments until the phaseout range is $85,000 to $95,000 of AGI (in 2007). Also beginning in 1996, for married couples, the deduction is phased out over a $20,000 income range (rather than $10,000) and the phase-out range is increased in $5,000 increment until the phase-out range is $100,000 to $120,000 of AGI (in 2007). After these new ranges are reached, the income limits are indexed for inflation in $5,000 increments. **Effective date**.--Taxable years beginning after December 31, 1995.
Inflation adjustment for IRA contribution limit	The $2,000 limit on IRA contributions is not indexed for inflation.	No provision.	The Senate amendment indexes the $2,000 limit on IRA contributions in $500 increments. **Effective date**.--The provision is effective for years beginning

Item	*Present Law*	*House Bill*	*Senate Amendment*
			after December 31, 1995.
Spousal IRAs	In the case of a married individual whose spouse has no compensation (or elects to be treated as having no compensation) the $2,000 limit on IRA contributions is increased to the lesser of $2,250 or the individual's compensation.	The House bill permits annual contributions of up to $2,000 for each spouse in a married couple. The aggregate contributions for both spouses cannot exceed the combined compensation of both spouses.	Same as the House bill.
		Effective date.--Taxable years beginning after December 31, 1995.	**Effective date**.--Same as the House bill.
IRA investments in coins and bullion	IRAs are not permitted to invest in certain collectibles.	No provision.	No provision. [A provision that would have permitted IRAs to invest in certain coins and bullion was deleted from the Senate amendment pursuant to a point of order.]
Nondeductible tax-free IRAs	No provision. (However, present law does permit individuals to make nondeductible contributions to an IRA to the extent an individual is not permitted to (or does not) make deductible contributions. Earnings on such	In general.--The House bill permits individuals to make nondeductible contributions to an American Dream Savings Account ("ADSA").	In general.--The Senate amendment replaces the present-law rules relating to nondeductible contributions with new provisions that permit individuals to make nondeductible contributions to an IRA Plus.

Item	*Present Law*	*House Bill*	*Senate Amendment*
	contributions are includible in gross income when withdrawn.)		
		Contribution limit.--The maximum annual contribution that can be made to an ADSA is the lesser of $2,000 or the individual's compensation. This amount is in addition to any contributions that may be made to present-law IRAs. The $2,000 limit is indexed annually for inflation beginning in 1996. Inflation adjustments are rounded to the nearest $50.	Contribution limit.--An individual can make contributions to an IRA Plus to the extent they do not make deductible contributions to an IRA. For this purpose, the active participant rule is disregarded in determining the maximum deductible IRA contribution the individual is permitted to make. That is, the income limits applicable to deductible IRAs do not apply to an IRA Plus.
		Contributions for nonworking spouse.--The compensation of both spouses is taken into account in determining the contribution limit for each spouse.	Contributions for nonworking spouse.--The Senate amendment is the same as the House bill.
		Miscellaneous.--The House bill permits contributions to be made to an ADSA after age 70-1/2. In addition, ADSAs are not subject to the pre-death minimum distribution rules	Miscellaneous.--The Senate amendment retains present law IRA rules. Thus, contributions cannot be made to an IRA Plus after age 70-1/2, IRA Plus accounts are subject to the

Item	*Present Law*	*House Bill*	*Senate Amendment*
		applicable to IRAs and tax-qualified plans and are not subject to the excess distribution tax applicable to distributions from IRAs and qualified plans. Taxation of distributions.--Distributions are not includible in income if the distribution (1) is made at least 5 years after the individual first made a contribution to any ADSA and (2) is (a) made on or after the date on which the individual attains age 59-1/2, (b) made to a beneficiary after the death of the individual, (c) attributable to the individual's being disabled, or (d) is for a special purpose (i.e., the purchase of a first home, higher education expenses, medical expenses, or long-term care insurance premiums). Other distributions are includible in income (to the extent of earnings on contributions) and subject to the 10-percent tax on early withdrawals unless an exception applies (see item 6, below).	minimum distribution rules, and the excise tax on excess distributions applies to distributions from an IRA Plus. Taxation of distributions.--The Senate amendment is the same as the house bill, except that the 5-year holding period is calculated differently, and the definition of special purpose withdrawals differs. (See item 6, below.) Under the Senate amendment, the 5-year holding period is satisfied if the contribution to which the distribution relates has been in the IRA Plus for at least 5 years. All contributions for a year are treated as made on January 1 of the year

Item	*Present Law*	*House Bill*	*Senate Amendment*
		Rollover contributions.--The House bill permits amounts in IRAs to be rolled over to an ADSA if the rollover occurs before January 1, 1998. The amount otherwise includible in income due to the IRA withdrawal is included in income ratably over a 4-year period. The 10-percent early withdrawal tax does not apply to such rollovers.	Rollover contributions.--The Senate amendment permits amounts withdrawn from IRAs to be rolled over into an IRA Plus. The amount rolled over is includible in gross income in the year the withdrawal was made, except that amounts rolled over to an IRA Plus before January 1, 1998, are includible in income ratably over a 4-year period. The 10-percent early withdrawal tax does not apply to amounts rolled over from an IRA to an IRA Plus.
		Effective date.--The provision is effective for taxable years beginning after December 31, 1995.	**Effective date.**--Same as the House bill.
Special purpose withdrawals	A 10-percent additional tax applies to distributions from IRAs and tax-qualified retirement plans made before age 59-1/2, unless the distribution is on account of death or disability or is made in the form of periodic payments. In the case of tax-qualified retirement plans, the 10-percent	In general.--Under the House bill, special purpose withdrawals from an ADSA are not subject to the 10-percent early withdrawal tax. In addition, as described above, special purpose withdrawals are not includible in income if the ADSA account from which the withdrawal is made has been in	In general.--Under the Senate amendment, special purpose withdrawals from a deductible IRA are not subject to the 10-percent early withdrawal tax. In addition, as described above, special purpose withdrawals from an IRA Plus are not includible in income (or subject to the 10-percent early

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Item	Present Law	House Bill	Senate Amendment
	additional tax also does not apply to distributions made to an employee after separation from service after age 55 or to distributions used to pay medical expenses of the employee and his or her dependents that exceed 7.5 percent of AGI.	effect for at least 5 years. In general, special purpose withdrawals include first-time homebuyer expenses, higher education expenses, and medical expenses. First-time homebuyer expenses.--First-time homebuyer expenses of the individual are expenses used within 60 days to pay the costs of acquiring, contracting, or reconstructing the principal residence of the individual. An individual is considered a first-time homebuyer if the individual (and, if married, his or her spouse) did not own an interest in a principal residence during the prior 3 years.	withdrawal tax) if made after the 5-year holding requirement is satisfied. In general, special purpose withdrawals include withdrawals for first-time homebuyer expenses (up to $10,000), higher education expenses, medical expenses in excess of 7.5 percent of AGI, and distributions to unemployed individuals. First-time homebuyer expenses.--Same as the House bill, with the following modifications. The maximum amount that can be treated as first-time homebuyer expenses is limited to $10,000. First-time homebuyer expenses include not only the expenses of the individual account holder, but also of the individual's spouse, or a child, grandchild, or ancestor of the individual or his or her spouse (as long as that person is a first-time homebuyer). A person is considered a first-time homebuyer if the individual (and, if married, his or her

Item	Present Law	House Bill	Senate Amendment
			spouse) did not own an interest in a principal residence during the prior 2 years and the period for tax-free rollover of the gain on a personal residence has not been extended.
		Higher education expenses.--Higher education expenses are tuition, fees, books, supplies, and equipment required for the enrollment or attendance of the individual, the individual's spouse, or a child or grandchild of the individual at an eligible educational institution. The amount of higher education expenses is reduced by any amount excludable form income under the rules relating to education savings bonds.	Higher education expenses.--Same as the House bill, except that higher education expenses include expenses of the individual's ancestors and any child, grandchild, or ancestor of the individual's spouse.
		Medical expenses.--Medical expenses are defined as under the itemized deduction for medical expenses, and include the expenses of the individual and his or her spouse or dependents.	Medical expenses.--Same as the House bill, except that only medical expenses in excess of 7.5 percent of AGI are treated a special purpose withdrawals. In addition, medical expenses include the expenses of a child, grandchild, or ancestor of the individual and his or her spouse,

Item	Present Law	House Bill	Senate Amendment
			whether or not a dependent for tax purposes.
		Distributions to unemployed individuals.--No provision.	Distributions to unemployed individuals.--Distributions are treated as a special purpose distribution if the individual has received unemployment compensation for 12 weeks under Federal or State law and the distribution is made during any taxable year during which such unemployment compensation is paid or the next taxable year. A self-employed individual is treated as meeting the requirements for unemployment compensation if the individual would have received such compensation if he or she had not been self employed.
		Effective date.--Taxable years beginning after December 31, 1995.	**Effective date**.--Same as the House bill.

Item	*Present Law*	*House Bill*	*Senate Amendment*
B. Establish SIMPLE Retirement Plans (secs. 12131-12132 of the Senate amendment)	Present law does not contain rules relating to SIMPLE retirement plans. However, present law does provide a number of ways in which individuals can save for retirement on a tax-favored basis. These include employer-sponsored retirement plans that meet the requirements of the Internal Revenue Code (a "qualified plan") and individual retirement arrangements ("IRAs"). Employees can earn significant retirement benefits under employer-sponsored retirement plans. However, in order to receive tax-favored treatment, such plans must comply with a variety of rules, including complex nondiscrimination and administrative rules (including top-heavy rules). Such plans are also subject to requirements under the labor law provisions of the Employee Retirement Income Security Act of 1974 ("ERISA"). Under one type of qualified plan, called a qualified cash or deferred arrangement (or	No provision.	In general.--The Senate amendment creates a simplified retirement plan for small business called the savings incentive match plan for employees ("SIMPLE") retirement plan. SIMPLE plans can be adopted by employers with 100 or fewer employees who do not maintain another employer-sponsored retirement plan. A SIMPLE plan can be either an IRA for each employee or part of a 401(k) plan. If established in IRA form, a SIMPLE plan is not subject to the nondiscrimination rules generally applicable to qualified plans (including the top-heavy rules). In addition, simplified reporting requirements apply. Within limits, contributions to a SIMPLE plan are not taxable until withdrawn. If a SIMPLE plan is adopted as part of a 401(k) plan, the plan does not have to satisfy the special nondiscrimination tests applicable to 401(k) plans and is not subject to the top-heavy rules. The other qualified plan

Item	Present Law	House Bill	Senate Amendment
	"401(k) plan"), employees can elect to make elective deferrals from their compensation to the plan. Amounts contributed to the plan (within certain limits) are not includible in the employee's income. The maximum annual amount of elective deferrals that can be made by an employee is $9,240 for 1995. This amount is indexed annually for inflation in $500 increments. A special nondiscrimination test applies to elective deferrals as well as any matching contributions made by the employer.		rules continue to apply. (A provision that would have exempted SIMPLE plans from the labor law provisions of ERISA was stricken pursuant to a point of order.) **SIMPLE plans in IRA form** Contributions.--A SIMPLE plan allows employees to make elective contributions to an IRA. Employee contributions cannot exceed $6,000 per year. The $6,000 dollar limit is indexed for inflation in $500 increments. The employer generally is required to match employee elective contributions on a dollar-for-dollar basis up to 3 percent of the employee's compensation. Under a special rule, the employer can elect a lower percentage matching contribution for all employees (but not less than 1 percent of each employee's compensation), provided employees are notified of the lower percentage. The lower percentage cannot be

Item	*Present Law*	*House Bill*	*Senate Amendment*
			elected for more than 2 out of any 5 years. No contributions other than employee elective contributions and employer matching contributions can be made to a SIMPLE account. All contributions to an employee's SIMPLE account must be fully vested. Eligibility.--Only employers who normally employ 100 or fewer employees on any day during the year and who do not currently maintain a qualified plan can establish SIMPLE plan for their employees. Each employee of the employer who received at least $5,000 in compensation from the employer during each of the 2 preceding years and who is reasonably expected to receive at least $5,000 in compensation during the year must be eligible to participate in the SIMPLE plan. Self-employed individuals can participate in a SIMPLE plan. Taxation.--Contributions to a

Item	*Present Law*	*House Bill*	*Senate Amendment*
			SIMPLE account are generally deductible by the employer and are excludable from the employee's income. SIMPLE accounts, like IRAs, are not subject to tax. Distributions from a SIMPLE plan generally are taxed as under the rules relating to IRAs (i.e., includible in income when withdrawn), except that an increased additional tax on early withdrawals (25 percent) applies to distributions within 2 years of the employee first participating in the SIMPLE plan. Tax-free rollovers can be made from one SIMPLE account to another. Administrative requirements.--A SIMPLE plan is subject to specific administrative requirements. Each eligible employee can elect, within the 60-day period before the beginning of the year, to participate in the SIMPLE plan, and to modify any previous elections regarding the amount of contributions. An employer is required to contribute

Item	*Present Law*	*House Bill*	*Senate Amendment*
			employees' contributions to the employee's SIMPLE account within 30 days after the end of the month to which the contributions relate. Employees must be allowed to terminate participation in the SIMPLE plan at any time during the year. In addition, no investment fee can be imposed on the employee with respect to the employee's initial investment decision with respect to any contributions. Reporting.--A SIMPLE plan is also subject to simplified reporting requirements. The trustee of a SIMPLE account is required each year to prepare, and provide to the employer maintaining the SIMPLE plan, a summary description containing the following basic information about the plan: the name and address of the employer and the trustee; the requirements for eligibility; the benefits provided under the plan; the time and method of making salary reduction elections; and the procedures for and effects of,

Item	*Present Law*	*House Bill*	*Senate Amendment*
			SIMPLE 401(k) plans In general, under the Senate amendment, a 401(k) plan is deemed to satisfy the special nondiscrimination tests applicable to employee elective deferrals and employer matching contributions if the plan satisfies the contribution requirements applicable to SIMPLE plans. In addition, the plan is not subject to the top-heavy rules for any year for which this safe harbor is satisfied. The plan is subject to the other qualified plan rules. The safe harbor is satisfied if, for the year, the employer does not maintain another qualified plan and (1) employee's elective deferrals are limited to no more than $6,000, (2) the employer matches employees' elective deferrals up to 3 percent of compensation, and (3) no other contributions are made to the arrangement. Contributions under the safe harbor must be 100 percent vested. The employer cannot reduce the

Item	*Present Law*	*House Bill*	*Senate Amendment*
			matching percentage below 3 percent of compensation. **Effective date.**--The provision relating to SIMPLE plans is effective for years beginning after December 31, 1995.

Item	*Present Law*	*House Bill*	*Senate Amendment*
C. Capital Gains Provisions			
1. Individual capital gains (sec. 6301 of H.R. 1215 and sec. 12141 of the Senate amendment)	In general.--Net capital gain of an individual is taxed at the same rates applicable to ordinary income, subject to a maximum marginal rate of 28 percent.	In general.--Individuals are allowed a deduction equal of 50 percent of the net capital gain. The 28-percent maximum rate is not applicable, resulting in a 19.8 percent maximum rate.	In general.--Same as House bill.
	Collectibles.--Collectibles are treated in the same manner as other capital assets.	Collectibles.--Gain from the sale or exchange of a collectible is not eligible for the 50-percent deduction; a 28 percent maximum rate applies if the individual forgoes indexing (discussed below).	Collectibles.--Same as House bill (except Senate amendment does not contain any indexing provisions)
	AMT.--Individuals pay a minimum tax at a rate up to 28 percent on alternative minimum taxable income (AMTI) which is taxable income plus tax preferences. Capital gains are included in AMTI.	AMT.--Capital gains deduction is not a minimum tax preference.	AMT.--One-half of capital gains deduction is a minimum tax preference.
	Losses.--Capital losses are deductible by an individual against ordinary income, up to a maximum of $3,000.	Losses.--Two dollars of long-term capital loss are required to offset one dollar of ordinary income, up to $3,000 maximum.	Losses.--Same as House bill.

Item	*Present Law*	*House Bill*	*Senate Amendment*
		Effective date.--January 1, 1995.	**Effective date**.--October 14, 1995.
2. Small business stock (sec. 6301 of H.R. 1215 and secs. 12142-12143 of the Senate amendment)	Individuals who hold qualified small business stock for more than five years can exclude 50 percent of the gain from the sale or exchange of such stock.	Repeals exclusion for small business stock. **Effective date**.--Date of enactment. An individual may elect present law for small business stock issued before the date of enactment.	Retains exclusion; increases size of eligible corporation to $100 million gross assets (from $50 million); no limitation on amount of gain from any eligible corporation that an individual may exclude; working capital may be held for five years (rather than two years) without limitation as to amount; business purpose redemptions allowed; gain eligible for exclusion may be rolled over to stock in another eligible small business corporation. **Effective date**.--Stock issued after August 10, 1993, except that increase in gross asset test applies to stock issued after date of enactment. The rollover provision is effective for stock sold after date of enactment.
3. Indexing of	The adjusted basis of property	Individuals are allowed to index	No provision.

Item	*Present Law*	*House Bill*	*Senate Amendment*
capital gains (sec. 6302 of H.R. 1215)	taken into account in computing gains or loss in not adjusted to reflect inflation.	for inflation the basis of certain assets held more than three years for purposes of determining gain (but not loss). Assets eligible for inflation adjustment generally include common stock of C corporations and tangible property which is a capital asset or business asset. **Effective date**.--Assets purchased after December 31, 1994, and principal residences held on that date. An individual may elect to treat as having sold and repurchased at fair market value an indexed asset held on January 1, 1995.	
4. Corporate capital gains (sec. 6311 of H.R. 1215 and sec. 12151 of the Senate amendment)	Corporate capital gains are taxed the same as ordinary income.	Alternative rate of 25 percent. **Effective date**.--January 1, 1995.	Alternative rate of 28 percent. Alternative rate of 21 percent on sale or exchange of qualified small business stock held more than five years. **Effective date**.--The general provision is effective October 14, 1995. The provision regarding small business stock is effective for stock issued after

Item	*Present Law*	*House Bill*	*Senate Amendment*
			date of enactment.
5. Capital loss deduction allowed with respect to the sale or exchange of a principal residence (sec. 6316 of H.R. 1215)	A loss on the sale or exchange of a principal residence is treated as a nondeductible personal loss.	The loss from the sale or exchange of a principal residence will be treated as a deductible capital loss. **Effective date**.--Sales or exchanges after December 31, 1994.	No provision.

Item	*Present Law*	*House Bill*	*Senate Amendment*
D. Alternative Minimum Tax (AMT) Provisions (sec. 19002(f) of the House bill and secs. 12161 and 12162 of the Senate amendment)	An individual or corporate taxpayer is subject to an alternative minimum tax ("AMT") to the extent the taxpayer's tentative minimum tax exceeds its regular tax liability. The individual AMT is imposed at graduated rates of 26 and 28 percent on alternative minimum taxable income ("AMTI") in excess of a phased-out exemption amount. The corporate AMT is imposed at a rate of 20 percent. A taxpayer's AMTI is its taxable income increased by certain preference items and adjusted by determining the tax treatment of certain items in a manner that negates the deferral of income from the regular tax treatment of such items. One such adjustment relates to depreciation. Under the AMT, depreciation is determined using the generally longer recovery periods prescribed by the alternative depreciation system and either (1) the straight-line method for property subject to such method under the regular	The House bill eliminates the depreciation adjustment of the individual AMT. In addition, the House bill reduces the corporate AMT rate to zero. **Effective date**.--Effective for taxable years beginning after 1994. The effects of the two modifications are suspended for taxable years beginning in 1995 and 1996. These suspended amounts are refunded ratably as credits for the first three taxable	The Senate amendment conforms the AMT depreciation method to the regular tax method for property placed in service after 1995. Thus, property allowed the 200-percent declining balance method under the regular tax would be allowed that method under the AMT. In addition, the Senate amendment allows a corporation to offset its AMT liability by the least of: (a) the amount of its AMT credits that are at least five years old, (b) 50 percent of its tentative minimum tax, or (c) the amount by which the taxpayer's tentative minimum tax exceeds its regular tax. **Effective date**.--The depreciation provision is effective for property placed in service after 1995. The AMT credit provision is effective for taxable years beginning after 1995.

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Item	*Present Law*	*House Bill*	*Senate Amendment*
	tax or (2) the 150 percent declining balance method for other property. If a taxpayer is subject to the AMT in one taxable year, such amount of tax is allowed as credit in a subsequent taxable year to the extent the taxpayer's regular tax exceeds its tentative minimum tax in such subsequent year. In the case of an individual, this AMT credit is allowed only with respect to those adjustments that are timing in nature.	years beginning after 1996.	

Item	*Present Law*	*House Bill*	*Senate Amendment*
E. Cost Recovery Provisions			
1. Treatment of leasehold improvements (sec. 6322 of H.R. 1215)	An improvement made by a lessor or lessee with respect to leased property generally is depreciated in the same manner as the underlying leased property regardless of the term of the lease. If a leasehold improvement is disposed of by a lessor at the end of the term of the lease, proposed Treasury regulations generally require the cost of the improvement to continue to be depreciated rather than taken into account for purposes of determining gain or loss with respect to such disposition.	A lessor of leased property may take the adjusted basis of a leasehold improvement into account for purposes of determining gain or loss when the improvement is irrevocably disposed of or abandoned at the termination of the lease. **Effective date.**--Effective for leasehold improvements disposed of after March 13, 1995.	No provision.
2. Increase in expensing for small businesses (sec. 6352 of H.R. 1215)	In lieu of depreciation, a taxpayer with a sufficiently small amount of annual investment may elect to deduct up to $17,500 of the cost of depreciable tangible personal property purchased for use in the active conduct of a trade or business placed in service for the taxable year. The $17,500	The House bill increases the amount allowed to be expensed to $35,000. The increase is phased in as follows: *Taxable year beginning in-- / Maximum expensing* 1996 $22,500 1997 27,500 1998 32,500	No provision.

Item	*Present Law*	*House Bill*	*Senate Amendment*
	amount is reduced (but not below zero) by the amount by which the cost of qualifying property placed in service during the taxable year exceeds $200,000. In addition, the amount eligible to be expensed may not exceed the taxable income of the taxpayer for the year derived from the conduct of a trade or business.	1999 and thereafter 35,000 **Effective date**.--The provision is effective for property placed in service after December 31, 1995, subject to the above phase-in schedule.	

Item	*Present Law*	*House Bill*	*Senate Amendment*
F. Home Office Deduction			
1. Clarification of definition of principal place of business (sec. 6353 of H.R. 1215)	A taxpayer's business use of his or her home may give rise to a deduction for the business portion of expenses of operating the home. One way such a deduction is available is if a portion of the home is used exclusively and regularly as the "principal place of business" for a trade or business of the taxpayer (sec. 280A(c)(1)(A)). The Supreme Court has upheld the IRS position that a home office did not qualify as the "principal place of business" in a case involving an anesthesiologist who used a room in his home exclusively to perform administrative and management activities for his profession but who practiced at several hospitals.	The House bill amends section 280A to provide that a home office qualifies as the "principal place of business" if (1) the office is used by the taxpayer to conduct administrative or management activities of a trade or business, and (2) there is no other fixed location of the trade or business where the taxpayer conducts substantial administrative or management activities of the trade or business. As under present law, deductions will be allowed for a home office meeting the House bill's two-part test only if the office is exclusively used on a regular basis as a place of business by the taxpayer and, in the case of an employee, only if such exclusive use is for the convenience of the employer. **Effective date**.--Taxable years beginning after December 31,	No provision.

Item	*Present Law*	*House Bill*	*Senate Amendment*
		1995.	
2. Treatment of storage of product samples (sec. 6354 of H.R. 1215)	Present-law section 280(c)(2) contains a special rule that allows a home office deduction for business expenses related to a space within a home that is used on a regular (even if not exclusive) basis as a storage unit for inventory of the taxpayer's trade or business of selling products at retail or wholesale, provided that the home is the sole fixed location of such trade or business.	The House bill clarifies that the special rule contained in present-law section 280(c)(2) applies to expenses related to a storage unit in a taxpayer's home regularly used for inventory or product samples (or both) of the taxpayer's trade or business of selling products at retail or wholesale, provided that the home is the sole fixed location of such trade or business. **Effective date**.--Taxable years beginning after December 31, 1995.	No provision.

Item	*Present Law*	*House Bill*	*Senate Amendment*
III. Health Care-Related Provisions			
A. Treatment of Long-Term Care Insurance and Services (secs. 6211-6214 and 6231-6232 of H.R. 1215 and secs. 12201-12204 and 12211-12212 of the Senate amendment)			
Tax treatment of long-term care insurance	The Federal income tax treatment of long-term care insurance contracts and services is not clear under present law.	A long-term care insurance contract generally is treated as an accident and health insurance contract.	Same as House bill.
	Amounts received by a taxpayer under accident and health insurance generally are excludable from income.	Amounts received under a long-term care insurance contract generally are excludable, subject to a cap on the amount excludable of $200 per day, or $73,000 annually. Both "per diem" and "reimbursement" type contracts are permitted, and are subject to the cap on excludable amounts. The cap is indexed by the medical care cost component	Same as House bill, except that the cap on excludable amounts is $150 per day and the cap applies only to "per diem" type contracts. The cap is indexed by the lesser of (1) 5 percent, or (2) increases in the CPI. After 1998, a cost index based on cost increases in nursing homes and similar facilities is to be substituted for the CPI.

Item	*Present Law*	*House Bill*	*Senate Amendment*
		of the Consumer Price Index (CPI). A payor of long-term care benefits is required to report the amount of such benefits.	
	Contributions by an employer, and amounts received by an employee, under an accident or health plan, are excludable from the employee's income. A cafeteria plan is an employer-sponsored arrangement under which employees can elect among cash and certain employer-provided qualified benefits. A flexible spending account (FSA) is an arrangement under which an employee is reimbursed for medical expenses.	A plan of an employer providing coverage under a long-term care insurance contract generally is treated as an accident or health plan, but coverage under a long-term care insurance contract is not excludable by an employee if provided through a cafeteria plan, and expenses for a long-term care services cannot be reimbursed under an FSA.	Same as House bill.
Itemized deduction for medical expenses	An itemized deduction is allowed for unreimbursed medical expenses of the taxpayer, his or her spouse or dependent, to the extent that the medical expenses exceed 7.5 percent of the taxpayer's adjusted gross income for the year.	Unreimbursed expenses for long-term care services (including amounts received under a long-term care insurance contract) are treated as medical expenses, for purposes of the itemized deduction for medical expenses. The services may not be	Same as House bill, but without the dollar limits, and without the limitation on services provided by relatives or related corporations.

Item	*Present Law*	*House Bill*	*Senate Amendment*
		provided by a relative or a related corporation. Also, long-term care insurance premiums that do not exceed specified annual dollar limits (determined by the insured's age) are treated as medical expenses. The annual dollar limits are: (1) through age 40, $200; (2) 41 through 50, $375; (3) 51 through 60, $750; (4) 61 though 70, $2,000; (5) over 70, $2,500. The dollar limits are indexed by the medical care cost component of the CPI.	
Deduction for medical insurance of self-employed individuals	Self-employed individuals are allowed to deduct 30 percent of their expenses for medical insurance for the individual and his or her spouse or dependents. This deduction is not available if the individual is eligible to participate in an employer-subsidized health plan. Amounts that cannot be deducted under this provision may be taken into account for purposes of the itemized deduction for medical expenses.	Because long-term care premiums are treated as medical insurance under the House bill, the 30-percent deduction for medical expenses of self-employed individuals applies to long-term care insurance premiums.	Same as the House bill, except that the deduction for self-employed health insurance is increased to 55 percent.

Item	*Present Law*	*House Bill*	*Senate Amendment*
Definition of long-term care insurance contract	No definition.	A long-term care insurance contract is any insurance contract that provides only coverage of long-term care services, and meets the following additional requirements: (1) the contract is guaranteed renewable; (2) the contract has no cash surrender value; (3) no value or money can be paid (other than as a refund), assigned, pledged as collateral, or borrowed under the contract; (4) refunds and dividends generally may be used only to reduce future premiums or increase future benefits; (5) the contract generally cannot pay or reimburse expenses reimbursable under Medicare, except (a) where Medicare is a secondary payor, or (b) the contract makes per diem or other periodic payments without regard to expenses; and (6) no provision.	Same as House bill, except as follows with respect to the additional requirements: (1) the contract must meet a 1993 NAIC Model Act requirement that the contract cannot be cancelled on the grounds of age or deterioration of mental or physical health of the insured; (2) no provision; (3) same as House bill; (4) same as House bill; (5) same as House bill; (a) same as House bill; (b) no provision; and (6) premiums are level annual payments over the life of the contract (or 20 years, if shorter).
Medicare	Medicare rules prohibit sales of	No provision of law shall be	Same as House bill.

Item	*Present Law*	*House Bill*	*Senate Amendment*
duplication rules	certain insurance contracts that duplicate benefits provided under Medicare.	construed or applied so as to prohibit the offering of a long-term care contract on the basis that it coordinates its benefits with those provided under Medicare.	
Definition of long-term care services	No definition.	Long-term care services means specified types of services that are required by a chronically ill individual and that are provided pursuant to a plan of care prescribed by a licensed health care practitioner. A chronically ill individual is one who has been certified within the previous 12 months by a licensed health care practitioner as (1) to perform (without substantial assistance) at least 2 activities of daily living for a period of 90 days due to a loss of (a) functional capacity or (b) cognitive impairment, or (2) having a similar level of disability as	A functionally impaired individual is one who has been certified within the previous 12 months by a licensed health care practitioner as (1) unable to perform (without substantial assistance) at least 2 activities of daily living, or (2) requiring substantial supervision to protect the individual from threats to health and safety due to substantial cognitive

Item	*Present Law*	*House Bill*	*Senate Amendment*
		determined in regulations.	impairment.
		A licensed health care practitioner is a physician, registered professional nurse, licensed social worker, or other individual meeting requirements prescribed in Treasury regulations.	Same as House bill, but excluding a licensed social worker, and including a community care case manager (an individual or entity with specified experience and training).
Long-term care riders to life insurance contracts	No provision.	The requirements for long-term care insurance contracts are applied to riders to life insurance contracts as if they were a separate contract.	Same as House bill.
Life insurance company reserves	Long-term care insurance reserves are treated like noncancellable accident and health reserves, and are determined under the two-year full preliminary term method.	Long-term care insurance reserves are determined under the method prescribed by the National Association of Insurance Commissioners (NAIC), which is currently the one-year full preliminary term method.	Same as House bill.
Health care continuation rules	The employer must provide qualified beneficiaries the opportunity to continue participation for a specified period in the employer's health plan following certain events	The health care continuation rules do not apply to coverage under a long-term care insurance contract.	Same as House bill.

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	which would otherwise result in a loss of coverage (such as termination of employment).		
Exchanges of life insurance and other contracts for long-term care contracts	The exchange of a life insurance, endowment or annuity contract for a long-term care insurance contract is not specified as a tax-free exchange.	The exchange of a life insurance, endowment or annuity contract for a long-term care insurance contract is included as a tax-free exchange.	No provision.
Certain distributions from IRAs and retirement plans for long-term care insurance excludable from income	No exclusion provided.	An exclusion is provided for amounts used to pay long-term care insurance premiums for the taxpayer or his or her spouse, in the case of distributions from IRAs and distributions attributable to elective deferrals under 401(k) plans, tax-sheltered annuities, non-qualified deferred compensation plans of governmental or tax-exempt employers, and section 501(c)(18) plans. Such distributions are also not subject to the 10-percent tax on early withdrawals.	No provision.
Consumer protection provisions	No provision.	No provision.	Long-term care insurance contracts, and issuers of contracts, are required to satisfy certain provisions of the long-

Item	*Present Law*	*House Bill*	*Senate Amendment*
			term care insurance model Act and model regulations promulgated by the NAIC (as adopted as of January 1993).
		Effective dates.--	**Effective dates**.--
		The provisions defining long-term care insurance contracts and long-term care services apply to contracts issued after December 31, 1995, with a grandfather rule for contracts issued before January 1, 1996 that met the long-term care insurance requirements in the State in which the policy was sitused.	Same as House bill, but without the grandfather rule for pre-1996 contracts.
		A contract providing for long-term care insurance may be exchanged for a long-term care insurance contract that meets the House bill requirements, tax-free, between the date of enactment and January 1, 1996.	Same as House bill, except that the exchange may be made tax-free until June 30, 1997.
		The provision relating to treatment of long-term care insurance premiums and expenses as a medical expense	Same as House bill.

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		is effective for taxable years beginning after December 31, 1995.	
		The change in treatment of reserves for long-term care insurance contracts is effective for contracts issued after December 31, 1995.	Same as House bill.
		The provision relating to reporting of long-term care benefits is effective for benefits paid after December 31, 1995.	Same as House bill.
		The provision relating to tax-free exchanges of life insurance, endowment and annuity contracts for long-term care insurance contracts is effective for taxable years beginning after December 31, 1995.	No provision.
		The provision relating to certain distributions from IRAs and elective deferrals used to pay long-term care insurance premiums is effective for payments and distributions after December 31, 1995.	No provision.

Item	*Present Law*	*House Bill*	*Senate Amendment*
		No provision.	The provisions relating to coordination with insurance duplication rules under Medicare are effective as if included with OBRA 1990, on November 5, 1990.
		No provision.	The provisions relating to consumer protections apply to contracts issued after December 31, 1995 and actions taken after December 31, 1995.

Item	*Present Law*	*House Bill*	*Senate Amendment*
B. Treatment of Accelerated Death Benefits Under Life Insurance Contracts (secs. 6221-6222 of H.R. 1215 and secs. 12221-12222 of the Senate amendment)	Payments under a life insurance contract.--Any amount paid under a life insurance contract by reason of the death of the insured is excludable from the recipient's income. Proposed Treasury regulations on accelerated death benefits (proposed in 1992 but not effective until they become final, which they have not) would provide an exclusion, in addition to what the statute provides, for amounts paid before the death of the insured under a life insurance contract, if the insured is terminally ill.	Payments under a life insurance contract.-- An exclusion is provided for amounts received under a life insurance contract if the insured is terminally ill or chronically ill. The exclusion for chronically ill individuals is subject to all requirements and limitations that apply under the House bill to long-term care insurance (including the cap on excludable amounts of $200 per day ($73,000 annually). The exclusion does not apply in the case of an amount paid to any taxpayer other than the insured, if such taxpayer has an insurable interest by reason of the insured being a director, officer, employee, or financially interested in the taxpayer. Terminally ill.--A terminally ill individual is defined as one who has been certified by a physician as having an illness or physical condition that reasonably can be expected to result in death within 24 months of the date of certification.	Payments under a life insurance contract.--Same as House bill, except that the amendment applies only if the insured is terminally ill. Terminally ill.--Same as House bill, except the period is 12 months.

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Item	*Present Law*	*House Bill*	*Senate Amendment*
		Chronically ill.--A chronically ill individual is defined the same as under the House bill provisions on long-term care insurance, i.e., as an individual who has been certified with the previous 12 months by a licensed health care practitioner as being unable to perform (without substantial assistance) at least 2 activities of daily living for at least 90 days due to a loss of functional capacity or cognitive impairment, or having a similar level of disability as determined in regulations.	Chronically ill.--The Senate amendment does not apply to chronically ill individuals.
		Discounting.--No provision.	Discounting.--Two requirements must be met. First, under a present value test, the amount received must equal or exceed the present value of the reduction in the death benefit otherwise payable under the life insurance contract. Second, under a ratio test, the payment of the amount must not reduce the cash surrender value of the contract proportionately more than the death benefit payable under the contract. In

Item	Present Law	House Bill	Senate Amendment
			calculating present value, the maximum permissible discount rate is the highest of the following three interest rates: (1) the 90-day Treasury bill yield; (2) Moody's Corporate Bond Yield Average-Monthly Average Corporates (or any successor rate) for the month ending two months previously; or (3) the rate used to determine cash surrender value plus 1 percent.
		Riders.--For life insurance company tax purposes, a life insurance contract is treated as including a reference to a qualified accelerated death benefit rider to a life insurance contract.	Riders.--Same as House bill.
		Viatical settlements.--An exclusion is provided for the amount paid for the sale or assignment to a viatical settlement provider of a life insurance contract on the life of an insured individual who is terminally ill or chronically ill. A qualified viatical settlement	Viatical settlements.--Same as House bill, except that the provision does not apply to chronically ill individuals, and in addition, any such sale or assignment of a life insurance contract is required to satisfy the requirements of the section of the Viatical Settlements Model

Item	*Present Law*	*House Bill*	*Senate Amendment*
		provider is any person that regularly purchases or takes assignments of life insurance contracts on the lives of terminally ill or chronically ill individuals and either (1) is licensed for such purposes in the State in which the insured resides, or (2) if the person is not required to be licensed by that State, meets the requirements of sections 8 and 9 of the Viatical Settlements Model Act issued by the National Association of Insurance Commissioners (relating to disclosure requirements and general rules for a viatical settlement contract).	Regulation issued by the NAIC relating to standards for evaluation of reasonable payments, including discount rates.
		Effective date.--Amounts received after December 31, 1995.	**Effective date**.--Same as House bill. The discount rules applicable to payments under life insurance contracts do not apply to any amount received before July 1, 1996.
C. Medical Savings Accounts (sec. 13201 of the House	The tax treatment of health expenses depends on whether the individual is an employee or	In general.--Within limits, contributions to a medical savings account ("MSA") are	In general.--Generally the same as the House bill, except that earnings on amounts in an MSA

Item	*Present Law*	*House Bill*	*Senate Amendment*
bill and secs. 12231-12233 of the Senate amendment)	self employed, and whether the individual is covered under an employer-sponsored health plan. Employer contributions to a health plan for coverage for the employee and the employee's spouse and dependents is excludable from the employee's income and wages for social security tax purposes. Self-employed individuals are entitled to deduct 30 percent of the amount paid for health insurance for a self-employed individual and his or her spouse or dependents. Individuals who itemize their tax deductions may deduct unreimbursed medical expenses (including expenses for medical insurance) paid during the year to the extent that the total of such expenses exceeds 7.5 percent of the individuals adjusted gross income ("AGI"). Present law does not contain any special rules for medical savings accounts.	deductible if made by an eligible individual and are excludable from income (and wages for social security purposes) if made by the employer of an eligible individual. Earnings on amounts in an MSA are currently taxable. Distributions from an MSA for medical expenses are not taxable. Eligible individuals.--An individual is eligible to make a	are not currently taxable (i.e., "inside buildup" is tax free) and the amount of contributions that receive favorable tax treatment differs. Eligible individuals.--An individual is eligible to make

Item	*Present Law*	*House Bill*	*Senate Amendment*
		deductible contribution to an MSA (or to have employer contributions made on his or her behalf) if the individual is covered under a catastrophic health plan and is not covered under another health plan (other than a plan that provides certain permitted coverage). An individual with other coverage in addition to a catastrophic plan is still eligible for an MSA if such other coverage is certain permitted insurance or is coverage (whether provided through insurance to otherwise) for accidents, dental care, vision care, or long-term care. Permitted insurance is (1) Medicare supplemental insurance; (2) insurance if substantially all of the coverage provided under such insurance relates to (a) liabilities incurred under worker's compensation law, (b) tort liabilities, (c) liabilities relating to ownership or use of property (e.g., auto insurance), (d) credit insurance, or (e) such other similar liabilities as the Secretary may	deductible contributions to an MSA if the individual is covered under a high deductible health plan and is not eligible to participate in an employer-subsidized health plan maintained by the employer of the individual or his or her spouse or to receive any employer contribution to a MSA. An employer contribution to an MSA is excludable from gross income (and wages for employment tax purposes) if made on behalf of an individual in a high deductible health plan. An individual is eligible to receive employer contributions to an MSA if the individual is covered under a high deductible health plan.

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		prescribe by regulations, and (3) insurance for a specified disease or illness, and (4) insurance that provides a fixed payment for hospitalization. An individual is not eligible to make deductible contributions to an MSA for a year if any employer contributions are made to an MSA on behalf of the individual for the year.	
		Tax treatment of and limits on contributions.--Individual contributions to an MSA are deductible (within limits) in determining adjusted gross income. Employer contributions are excludable (within the same limits) from gross income and wages for employment tax purposes, except that this exclusion does not apply to contributions made through a cafeteria plan. The maximum amount of contributions that can be deducted or excluded for a year is equal to the lesser of (1) the deductible under the catastrophic health plan or (2)	Tax treatment of and limits on contributions.--The tax treatment of MSA contributions follows the present-law tax treatment of health insurance expenses (as modified by the Senate amendment). Thus, a self-employed individual may deduct 55 percent of MSA contributions. Other individuals may deduct MSA contributions to the extent the contributions and other medical expenses exceed 7.5 percent of AGI. Employer contributions to an MSA are excludable from income and wages for employment tax purposes, except that this exclusion does

Item	*Present Law*	*House Bill*	*Senate Amendment*
		$2,500 in the case of single coverage and $5,000 if the catastrophic plan covers the individual and a spouse or dependent. The annual limit is the sum of the limits determined separately for each month, based on the individual's status as of the first day of the month. The maximum contribution limit to an MSA is determined separately for each spouse in a married couple. In no event can the maximum contribution limit exceed $5,000 for a family. The dollar limits are indexed for medical inflation and rounded to the nearest multiple of $50.	not apply to employer contributions made through a cafeteria plan. Only one MSA per family is permitted. The maximum amount of contributions that can be made to a MSA is the lesser of (1) the deductible under the high deductible plan or (2) $2,000 in the case of single coverage and $4,000 if the high deductible plan covers the individual and a spouse or dependent. The annual limit is the sum of the limits determined separately for each month, based on the individual's status as of the first day of the month. The dollar limits are indexed for medical inflation and rounded to the next lowest multiple of $50.
		Definition of catastrophic health plan.--A catastrophic health plan is a health plan with a deductible of at least $1,500 in the case of single coverage and $3,000 in the case of coverage of more than one individual. These dollar limits are indexed for medical inflation, rounded to	Definition of high deductible health plan.--Same as the House bill definition of catastrophic health plan, except that indexed amounts are rounded to the next lowest multiple of $50.

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		the nearest multiple of $50.	
		Tax treatment of MSAs.--Earnings on amounts in an MSA are currently includible in income under the rules relating to grantor trusts. Any net capital losses cannot offset other income.	Tax treatment of MSAs.--MSAs are exempt from tax. An MSA ceases to be an MSA if, within 2 years after the MSA is established the individual is no longer covered under a high deductible health plan other than by reason of separation from employment.
		Taxation of distributions.--Distributions from an MSA for the medical expenses of the individual and his or her spouse or dependents are excludable from income. For this purpose, medical expenses do not include expenses for insurance other than long-term care insurance.	Taxation of distributions.--Same as the House bill, except that medical expenses also include premiums for health care continuation coverage and premiums for health care coverage while an individual is receiving unemployment compensation under Federal or State law.
		Distributions that are not for medical expenses are includible in income (to the extent attributable to tax-favored contributions) and are subject to an additional 10-percent tax unless made after age 59-1/2, death, or disability.	Distributions that are not for medical expenses are includible in income (to the extent not attributable to nondeductible contributions) and are subject to an additional 10-percent tax unless made after age 59-1/2, death, or disability.

Item	*Present Law*	*House Bill*	*Senate Amendment*
		Upon death, if the beneficiary is the individual's spouse, the spouse may keep the MSA as his or her own. Otherwise, amounts in the MSA must be distributed within 5 years, and are includible in income (to the extent attributable to tax-favored contributions).	Upon death, if the beneficiary is the individual's surviving spouse, the spouse may continue the MSA as his or her own. Otherwise, the beneficiary must include the MSA balance (to the extent not attributable to nondeductible contributions) in income in the year of death. If there is no beneficiary, the MSA balance (to the extent not attributable to nondeductible contributions) is includible on the final return of the decedent. In any case, no estate tax applies.
		Definition of MSAs.--In general, an MSA is a trust or custodial account created exclusively for the benefit of the account holder and is subject to rules similar to those applicable to individual retirement arrangements. An MSA trustee (or custodian) can be a bank, insurance company, or other person who demonstrates to the satisfaction of the Secretary that the manner in which such person will administer the trust	Definition of MSAs.--Same as the House bill, except that the Senate amendment provides that the acquisition expenses of an insurance company relating to the establishment of an MSA are not subject to the rules relating to the capitalization of policy acquisition costs.

Item	*Present Law*	*House Bill*	*Senate Amendment*
		will be consistent with applicable requirements. The MSA trustee (or custodian) is required to make such reports as required by the Secretary. **Effective date**.--Taxable years beginning after December 31, 1995.	**Effective date**.--Same as the House bill.

Item	*Present Law*	*House Bill*	*Senate Amendment*
D. Increase Dollar Limits for Burial Insurance (sec. 12241 of the Senate amendment)	To qualify as a life insurance contract for Federal income tax purposes, a contract must satisfy a statutory test under which the death benefit is generally deemed not to increase. A special rule applies with respect to a contract that is purchased to cover payment of burial expenses or in connection with prearranged funeral expenses. Death benefit increases may be taken into account if such a contract (1) has an initial death benefit of $5,000 or less and a maximum death benefit of $25,000 or less, and (2) provides for a fixed predetermined annual increase.	No provision.	The dollar limits under the special rule for an insurance contract to cover payment of burial expenses or in connection with prearranged funeral expenses are increased to: an initial death benefit of $7,000 or less and a maximum death benefit of $30,000 or less, indexed after 1995 by the consumer price index. **Effective date**.--Contracts entered into after December 31, 1995.

Item	*Present Law*	*House Bill*	*Senate Amendment*
E. Health Insurance Organizations Eligible for Benefits of Section 833 (sec. 12242 of the Senate amendment)	Special rules under section 833 apply to Blue Cross or Blue Shield organizations existing on August 16, 1986, which have not experienced a material change in structure or operations since that date. These special rules provide for: (1) a special deduction equal to 25 percent of the claims and expenses incurred during the year, less the adjusted surplus at the beginning of the year, and (2) elimination of the 20-percent reduction in unearned premium reserves that applies generally to all property and casualty insurance companies.	No provision.	The special rules under section 833 apply to the same extent they apply to certain existing Blue Cross or Blue Shield organizations, in the case of any organization that (1) is not a Blue Cross or Blue Shield organization existing on August 16, 1986, and (2) otherwise meets the requirements of section 833 (including the requirement of no material change in operations or structure since August 16, 1986). An organization qualifies for this treatment only if (1) it is not a health maintenance organization, and (2) it is organized under and governed by State laws which are specifically and exclusively applicable to not-for-profit health insurance or health service type organizations. **Effective date**.--Taxable years ending after October 13, 1995.

Item	*Present Law*	*House Bill*	*Senate Amendment*
F. Deduction for Health Insurance Expenses of Self-Employed Individuals (sec. _____ of the Senate amendment)	Under present law, self-employed individuals are entitled to deduct 30 percent of the amount paid for health insurance for a self-employed individual and the individual's spouse and dependents. The deduction is not available for any month if the taxpayer was eligible to participate in a subsidized health plan maintained by the employer of the taxpayer or the taxpayer's spouse.	No provision.	Under the Senate amendment, the deduction for health insurance expenses of self-employed individuals and their spouses and dependents is increased to 55 percent. **Effective date.**--Taxable years beginning after December 31, 1995. [Floor amendment by Senators Bond and Pryor, adopted by a vote of 99-0.]

Item	*Present Law*	*House Bill*	*Senate Amendment*
IV. Estate and Gift Tax Provisions			
A. Increase in Unified Estate and Gift Tax Credit; Indexing of Certain Provisions			
1. Increase in unified credit (sec. 6351(a) of H.R. 1215 and sec. 12302 of the Senate amendment)	The unified credit effectively exempts a total of $600,000 in cumulative taxable transfers from the estate and gift tax (sec. 2010).	The House bill increases the unified credit from an effective exemption of $600,000 to an effective exemption of $750,000 over a three-year period from 1996 to 1998 (i.e., it is increased by $50,000 per year). After 1998, the $750,000 exemption amount is indexed for inflation. **Effective date**.--Effective for decedents dying, and gifts made, after December 31, 1995.	The Senate amendment increases the unified credit from an effective exemption of $600,000 to an effective exemption of $750,000 over a six-year period from 1996 to 2001 (i.e., it is increased by $25,000 per year). For 2001 and thereafter, the exemption amount is fixed at $750,000. **Effective date**.--Same as the House bill.
2. Indexing of other provisions (sec. 6351(b)-(e) of H.R. 1215)	Annual exclusion for gifts.--A taxpayer may exclude $10,000 of gifts made to each donee during a calendar year (sec. 2503). Special use valuation.--An	The $10,000 annual exclusion for gifts, the $750,000 ceiling on special use valuation, the $1,000,000 generation-skipping transfer tax exemption, and the $1,000,000 ceiling on the value of a closely-held business eligible	No provision.

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	executor may elect for estate tax purposes to value certain qualified real property used in farming or a closely-held trade or business at its current use value, rather than its highest and best use value (sec. 2032A). The maximum reduction in value under such an election is $750,000. Generation-skipping transfer tax.--An individual is allowed an exemption from the GST tax of up to $1,000,000 for generation-skipping transfers made during life or at death (sec. 2631). Installment payment of estate tax.--An executor may elect to pay the Federal estate tax attributable to an interest in a closely held business in installments over, at most, a 14-year period (sec. 6166). The first $1,000,000 in value of a closely-held business is eligible for a special 4-percent interest rate (sec. 6601(j)).	for the special 4-percent interest rate, are all indexed for inflation beginning after 1998. **Effective date**.--Effective for decedents dying, and gifts made, after December 31, 1998.	

Item	*Present Law*	*House Bill*	*Senate Amendment*
B. Reduction in Estate Tax for Qualified Family-Owned Businesses (sec. 12301 of the Senate amendment)	There are no special estate tax rules for qualified family-owned businesses. However, an executor may elect for estate tax purposes to value certain qualified real property used in farming or another qualifying closely-held trade or business at its current use value, rather than its highest and best use value (up to a maximum reduction of $750,000). In addition, an executor may elect to pay the Federal estate tax attributable to a qualified closely-held business in installments over, at most, a 14-year period.	No provision.	The Senate amendment provides special estate tax treatment for qualified "family-owned business interests" if such interests comprise more than 50 percent of a decedent's estate. Subject to certain requirements, the bill excludes the first $1.5 million of value in qualified family-owned business interests from the decedent's estate, and also excludes from the estate 50 percent of the value of qualified family-owned business interests between $1.5 million and $5 million. Thus, the total amount of exclusion available per decedent for qualified family-owned business interests is equal to $3.25 million (i.e., $1.5 million plus 50 percent of $3.5 million). A qualified family-owned business interest is defined as any interest in a trade or business (regardless of the form in which it is held) with a principal place of business in the United States if ownership of the

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Item	*Present Law*	*House Bill*	*Senate Amendment*
			trade or business is held at least 50 percent by one family, 70 percent by two families, or 90 percent by three families, as long as the decedent's family owns at least 30 percent of the trade or business. An interest in a trade or business does not qualify if the business's (or a related entity's) stock or securities were publicly-traded at any time within three years of the decedent's death. An interest in a trade or business also does not qualify if more than 35 percent of the adjusted ordinary gross income of the business for the year of the decedent's death was personal holding company income (as defined in section 543). In the case of a trade or business that owns an interest in another trade or business (i.e., "tiered entities"), special look-through rules apply. The value of a trade or business qualifying as a family-owned business interest is reduced to

Item	*Present Law*	*House Bill*	*Senate Amendment*
			the extent the business holds passive assets or excess cash or marketable securities. To qualify for the beneficial treatment provided under the bill, the decedent (or a member of the decedent's family) must have owned and materially participated in the trade or business for at least five of the eight years preceding the decedent's date of death. In addition, each qualified heir (or a member of the qualified heir's family) is required to materially participate in the trade or business for at least five years of any 8-year period within ten years following the decedent's death. The benefit of the exclusions for qualified family-owned business interests are subject to recapture if, within 10 years of the decedent's death and before the qualified heir's death, one of the following "recapture events" occurs: (1) the qualified heir

Item	*Present Law*	*House Bill*	*Senate Amendment*
			ceases to meet the material participation requirements; (2) the qualified heir disposes of any portion of his or her interest in the family-owned business, other than by a disposition to a member of the qualified heir's family or through a qualified conservation contribution; (3) the principal place of business of the trade or business ceases to be located in the United States; or (4) the qualified heir loses U.S. citizenship. **Effective date**.--Effective with respect to the estates of decedents dying after December 31, 1995.

Item	*Present Law*	*House Bill*	*Senate Amendment*
C. Reduction in Estate Tax for Certain Land Subject to Permanent Conservation Easement (sec. 12303 of the Senate amendment)	A deduction is allowed for estate and gift tax purposes for a contribution of a qualified real property interest to a charity (or other qualified organization) exclusively for conservation purposes (secs. 2055(f), 2522(d)). For this purpose, a qualified real property interest means the entire interest of the transferor in real property (other than certain mineral interests), a remainder interest in real property, or a perpetual restriction on the use of real property (sec. 170(h)). A "conservation purpose" is (1) preservation of land for outdoor recreation by, or the education of, the general public, (2) preservation of natural habitat, (3) preservation of open space for scenic enjoyment of the general public or pursuant to a governmental conservation policy, and (4) preservation of historically important land or certified historic structures. A contribution is treated as "exclusively for conservation	No provision.	The Senate amendment provides that an executor may elect to exclude from the taxable estate 50 percent of the value of any land subject to a qualified conservation easement that meets the following requirements: (1) the land must be located within 25 miles of a metropolitan area or a national park or wilderness area; (2) the land must have been owned by the decedent or a member of the decedent's family at all times during the three-year period ending on the date of the decedent's death; and (3) a qualified conservation contribution of a qualified real property interest had been granted by the transferor or a member of his or her family. For this purpose, preservation of a historically important land area or a certified historic structure does not qualify as a conservation purpose. To the extent that the value of such land is excluded from the taxable estate, the basis of such land

Item	Present Law	House Bill	Senate Amendment
	purposes" only if the conservation purpose is protected in perpetuity.		acquired at death is a carryover basis (i.e., the basis is not stepped-up to its fair market value at death). Debt-financed property is not eligible for the exclusion. The exclusion amount is calculated based on the value of the property after the conservation easement has been placed on the property. The exclusion from estate taxes does not extend to the value of any development rights retained by the decedent or donor, although payment for estate taxes on retained development rights may be deferred for up to two years, or until the disposition of the property, whichever is earlier. The 50-percent exclusion from estate taxes for land subject to a qualified conservation easement may only be taken to the extent that the value of such land, plus the value of qualified family-owned business interests that qualify for the reduction in estate

Item	*Present Law*	*House Bill*	*Senate Amendment*
			taxes does not exceed $5 million. If the value of the conservation easement is less than 30 percent of (a) the value of the land without the easement, reduced by (b) the value of any retained development rights, then the exclusion percentage is reduced. The reduction in the exclusion percentage is equal to two percentage points for each point that the above ratio falls below 30 percent. The Senate amendment also provides that the granting of a qualified conservation easement (as defined above) is not treated as a disposition triggering the recapture provisions of section 2032A. **Effective date**.--Effective for decedents dying after December 31, 1995.

Item	*Present Law*	*House Bill*	*Senate Amendment*
D. Modification of Generation-Skipping Transfer Tax for Transfers to Individuals With Decreased Parents (sec. 14634 of the House Bill and sec. 12304 of the Senate amendment)	Under the "predeceased parent exception", a direct skip transfer to a transferor's grandchild is not subject to the generation skipping transfer ("GST") tax if the child of the transferor who was the grandchild's parent is deceased at the time of the transfer (sec. 2612(c)(2)). This "predeceased parent exception" to the GST tax is not applicable to (1) transfers to collateral heirs, e.g., grandnieces or grandnephews, or (2) taxable terminations or taxable distributions.	The House bill extends the predeceased parent exception to transfers to collateral heirs, provided that the decedent has no living lineal descendants at the time of the transfer. In addition, the House bill extends the predeceased parent exception to taxable terminations and taxable distributions, provided that the parent of the relevant beneficiary was dead at the earliest time that the transfer (from which the beneficiary's interest in the property was established) was subject to estate or gift tax. **Effective date**.--Effective for generation skipping transfers occurring after the date of enactment.	Same as House bill. **Effective date**.--Effective for generation skipping transfers occurring after December 31, 1994.

Item	*Present Law*	*House Bill*	*Senate Amendment*
E. Estate Tax Recapture From Cash Leases of Specially-Valued Property (sec. 12305 of the Senate amendment)	An executor may elect to value certain "qualified real property" used in farming or other qualifying trade or business at its current use value rather than its highest and best use. If, after the special-use valuation election is made, the heir who acquired the real property ceases to use it in its qualified use within 10 years (15 years for individuals dying before 1982) of the decedent's death, an additional estate tax is imposed in order to "recapture" the benefit of the special-use valuation (sec. 2032A(c)). Some courts have held that the cash rental of specially-valued property after the death of the decedent is not a qualified use and, therefore, results in the imposition of the recapture tax. A decedent's surviving spouse, however, is not treated as failing to use the property in a qualified use solely because the spouse rents the property to a member of the spouse's family on a net	No provision.	The Senate amendment provides that the cash lease of specially-valued real property by a lineal descendant of the decedent to a member of the lineal descendant's family, who continues to operate the farm or closely held business, does not cause the qualified use of such property to cease for purposes of imposing the additional estate tax under section 2032A(c). **Effective date**.--Effective for cash rentals after December 31, 1995.

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	cash basis (sec. 2032A(b)(5)).		

Item	*Present Law*	*House Bill*	*Senate Amendment*
V. Expiring Tax Provisions			
A. Temporary Extension of Certain Provisions			
1. Work opportunity tax credit (sec. 13101 of the House bill and sec. 12401 of the Senate amendment)	General rules.--Prior to January 1, 1995, the targeted jobs tax credit was available on an elective basis for employers hiring individuals from one or more of nine targeted groups. The credit generally was equal to 40 percent of qualified first-year wages.	General rules.--The House bill replaces the targeted jobs tax credit with the "work opportunity tax credit." The work opportunity tax credit is available on an elective basis for employers hiring individuals from one or more of five targeted groups. The credit generally is equal to 35 percent of qualified wages.	General rules.--Same as House bill, with the addition of a sixth targeted group "qualified veterans." Unlike the House bill, the Senate amendment extends eligibility to certain veterans certified as receiving assistance under a food stamp program.
	Certification of members of targeted groups.--In general, an individual was not treated as a member of a targeted group unless certification that the individual was a member of such a group was received or requested in writing by the employer from the designated local agency on or before the day on which the individual began work for the employer.	Certification of members of targeted groups.--In general, an individual is not treated as a member of a targeted group unless: (1) on or before the day the individual begins work for the employer, the employer received in writing a certification from the designated local agency that the individual is a member of a specific targeted group, or (2) on or	Certification of members of targeted groups.--Same as House bill.

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		before the day the individual is offered work with the employer, a pre-screening notice is completed with respect to that individual and within 14 days after the individual begins work for the employer, the employer submits such notice to the designated local agency as part of a written request for certificating. The per-screening notice will contain the information provided to the employer by the individual that forms the basis of the employer's belief that the individual is a member of a targeted group.	
	Targeted groups eligible for the credit.--The nine groups eligible for the credit were either recipients of payments under means-tested transfer programs, economically disadvantaged (as measured by family income), or disabled individuals. (1) Vocational rehabilitation referrals (2) Economically disadvantaged	Targeted groups eligible for the credit.--There are five groups eligible for the credit: (1) Vocational rehabilitation referral (2) High-risk youth (3) Qualified ex-felon (4) Qualified summer youth employee (5) Aid to Families with Dependent Children	Targeted groups eligible for the credit.--Same as House bill, with the addition of a sixth targeted group "qualified veterans." Unlike the House bill, the Senate amendment extends eligibility to certain veterans certified as receiving assistance under a food stamp program.

Item	*Present Law*	*House Bill*	*Senate Amendment*
	youths (3) Economically disadvantaged former convicts (4) Economically disadvantaged summer youth employees (5) AFDC recipients (6) Economically disadvantaged Vietnam-era veterans (7) Economically disadvantaged cooperative education students (8) SSI recipients (9) General assistance recipients	("AFDC")	
	Other rules.--No credit was available for wages paid to replacement employees during strikes or lockouts.	Other rules.--The House bill does not include the prior-law rule denying the credit in the case of strikes or lockouts.	Other rules.--Retains the prior-law rule denying the credit in the case of strikes or lockouts.
	Minimum employment period.--No credit was allowed for wages paid unless the eligible individual was either (1) employed by the employer for at least 90 days (14 days in the case of economically disadvantaged summer youth employees) or (2) had completed at least 120 hours (20 hours for summer youth) of services performed for the	Minimum employment period.--No credit is allowed for wages paid unless the eligible individual is employed by the employer for at least 180 days (20 days in the case of a qualified summer youth employee) or 500 hours (120 hours in the case of a qualified summer youth employee).	Minimum employment period.--Same as House bill except 500 hours reduced to 400 hours.

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	employer. Length of extension.--Expired January 1, 1995.	Length of extension.--January 1, 1996 through December 31, 1997 (2 years).	Length of extension.--January 1, 1996 through February 28, 1997 (14 months).
2. Employer-provided educational assistance (sec. 13102 of the House bill and sec. 12402 of the Senate amendment)	For taxable years beginning before January 1, 1995, an employees's gross income and wages did not include amounts paid or incurred by the employer for educational assistance provided to the employee if such amounts were paid or incurred pursuant to an educational assistance program that met certain requirements. This exclusion, which expired for taxable years beginning after December 31, 1994, was limited to $5,250 of educational assistance with respect to an individual during a calendar year. The exclusion applied whether or not the education was job related. In the absence of the exclusion, educational assistance is excludable from income only if it is related to the employee's current job.	The House bill extends the exclusion for employer-provided educational assistance to taxable years beginning after December 31, 1994, and before January 1, 1998. In years beginning after December 31, 1995, the exclusion does not apply with respect to graduate-level courses. **Effective date.**--The provision is effective with respect to taxable years beginning after December 31, 1994, and before January 1, 1998, and the restriction of the exclusion to undergraduate education is effective for taxable years beginning after December 31, 1995.	The Senate amendment extends the exclusion for educational assistance for taxable years beginning after December 31, 1994, and before March 1, 1997. In the case of a taxable year beginning in 1997, the maximum amount that can be excluded is one-sixth of $5,250, or $875, and only amounts paid by the employer before March 1, 1997, are taken into account. **Effective date.**--The provision is effective with respect to taxable years beginning after December 31, 1994, and before March 1, 1997.

Item	*Present Law*	*House Bill*	*Senate Amendment*
3. Research and experimentation tax credit (sec. 13103 of the House bill and sec. 12403 of the Senate amendment)	Prior to July 1, 1995, section 41 provided for a research tax credit equal to 20 percent of the amount by which a taxpayer's qualified research expenses for a taxable year exceeded it base amount for that year. The base amount for the current year generally was computed by multiplying the taxpayer's "fixed-base percentage" (generally meaning the ratio that a taxpayer's total qualified research expenses for the 1984-1988 period bears to its total gross receipts for that period) by the average amount of the taxpayer's gross receipts for the four preceding years. Certain "start-up firms" were assigned a fixed-base percentage of 3 percent. "Qualified research expenses" included certain in-house research expenses, as well as 65 percent of amounts paid by the taxpayer to a third party for qualified research conducted on the taxpayer's behalf.	The House bill extends the research tax credit for the period July 1, 1995, through December 31, 1997. The House bill also (1) expands the definition of "start-up firms" to include any firm if the first taxable year in which it had both gross receipts and qualified research expenses began after 1983, (2) provides that 75 percent of amounts paid to a qualified research consortium for qualified research are treated as qualified research expenses, and (3) allows taxpayers to elect an alternative incremental research credit regime, under which the taxpayer is assigned a three-tiered fixed-base percentage (i.e., 1 percent, 1.5 percent, and 2 percent) and the credit rate also is reduced (i.e., credit rates of 1.65 percent, 2.2 percent, and 2.75 percent apply at the three tiers). **Effective date**.--Extension of	The Senate amendment extends the research tax credit for the period July 1, 1995, through February 28, 1997. The Senate amendment also expands the definition of "start-up firms" to include any firm if the first taxable year in which it had both gross receipts and qualified research expenses began after 1983. **Effective date**.--Extension of

Item	*Present Law*	*House Bill*	*Senate Amendment*
		the research tax credit is effective for expenses paid or incurred during the period July 1, 1995, through December 31, 1997. The modification to the definition of "start-up firms" is effective for taxable years ending after June 30, 1995. The provision that treats 75 percent of qualified research consortium payments as qualified research expenses is effective for taxable years beginning after June 30, 1995. Taxpayers may elect the alternative incremental research credit regime for taxable years beginning after June 30, 1995.	the research tax credit is effective for expenses paid or incurred during the period July 1, 1995, through February 28, 1997. The modification to the definition of "start-up firms" is effective for taxable years ending after June 30, 1995.
4. Exclusion for employer-provided group legal services; tax exemption for qualified group legal services organizations (sec. 12404 of the Senate amendment)	Under prior law, employees were not subject to income or employment tax on amounts contributed by an employer to a qualified group legal services plan. The exclusion did not apply to the extent that the value of insurance against legal costs incurred by the individual (or spouse or dependents) provided under the plan for a year exceeded $70. The exclusion	No provision.	The Senate amendment extends the exclusion from income for contributions to employer-provided group legal services plans and the exemption from tax for certain group legal services organizations from January 1, 1996, through February 28, 1997. The exclusion is available with respect to contributions to employer-provided group legal

Item	*Present Law*	*House Bill*	*Senate Amendment*
	for group legal services benefits expired after June 30, 1992. In addition, prior law provided tax-exempt status for an organization the exclusive function of which was to provide legal services or indemnification against the cost of legal services provided through a qualified group services plan. The tax exemption for such an organization expired for taxable years beginning after June 30, 1992.		services plans through February 28, 1997, but the limit on the value of insurance provided under the plan for taxable years beginning in 1997 is one-sixth of $70 or $12. **Effective date**.--The provision is effective for taxable years beginning after December 31, 1995, and before February 28, 1997.
5. Orphan drug tax credit (sec. 13105 of the House bill and sec. 12405 of the Senate amendment)	Prior to January 1, 1995, a 50-percent tax credit was allowed for qualified clinical testing expenses incurred in the testing of certain drugs for rare diseases or conditions, generally referred to as "orphan drugs." The credit was nonrefundable. Unused credits could not be carried back	The House bill extends the orphan drug tax credit for the period January 1, 1995, through December 31, 1997.	The Senate amendment extends the orphan drug tax credit for the period January 1, 1995, through February 28, 1997. The Senate amendment also allows taxpayers to carry back unused credits to three years preceding the year the credit is

Item	*Present Law*	*House Bill*	*Senate Amendment*
	or carried forward to reduce taxes in other years.		earned and to carry forward unused credits to 15 years following the year the credit is earned.
		Effective date.--Qualified clinical testing expenses paid or incurred during the period January 1, 1995, through December 31, 1997.	**Effective date**.--Qualified clinical testing expenses paid or incurred during the period January 1, 1995, through February 28, 1997. The provision allowing for the carry back and carry forward of unused credits applies to taxable years ending after December 31, 1994, except that credits may not be carried back to a taxable year beginning before January 1, 1995.
6. Contributions of appreciated stock to private foundations (sec. 13104 of the House bill and sec. 12406 of the Senate amendment)	In computing taxable income, a taxpayer who itemizes deductions generally is allowed to deduct the fair market value of property contributed to a charitable organization. However, in cases involving contributions to a private foundation, the amount of the deduction generally is limited to the taxpayer's basis in the	The House bill extends the special rule contained in section 170(e)(5) for contributions of qualified appreciated stock made to private foundations during the period January 1, 1995, through December 31, 1997. **Effective date**.--The provision	The Senate amendment extends the special rule contained in section 170(e)(5) for contributions of appreciated stock made to private foundations during the period January 1, 1995, through February 28, 1997. **Effective date**.--The provision is effective for contributions of

Item	*Present Law*	*House Bill*	*Senate Amendment*
	property. Under a special rule contained in section 170(e)(5), taxpayers were allowed a deduction equal to the fair market value of "qualified appreciated stock" contributed to a private foundation prior to January 1, 1995.	is effective for contributions of qualified appreciated stock to private foundations made during the period January 1, 1995, through December 31, 1997.	qualified appreciated stock to private foundations made during the period January 1, 1995, through February 28, 1997.
7. Transportation fuels tax exemption for fuel used in commercial aviation (sec. 13111 of the House bill and sec. 12407 of the Senate amendment)	A 4.3-cents-per-gallon excise tax is imposed on fuel used in most transportation modes. Fuel used in commercial aviation was exempt before October 1, 1995.	Extends the commercial aviation fuel tax exemption for two years, through September 30, 1997. Provides for refunds of excise taxes paid between October 1, 1995 and date of enactment. Requires Treasury Department to study and report on relative excise tax burdens, and Federal benefits financed with those taxes, for different transportation sectors. **Effective date**.--October 1, 1995.	Same as House bill, except extension is through February 28, 1997, and Treasury Department study is only requested in legislative history. **Effective date**.--Same as House bill.
8. Airport and	Excise taxes are imposed on the	The House bill extends the	No provision.

Item	*Present Law*	*House Bill*	*Senate Amendment*
Airway Trust Fund excise taxes (sec. 13116 of the House bill)	following to fund the Airport and Airway Trust Fund program: (1) Domestic passenger tickets; (2) Domestic freight waybills; (3) International departures; and (4) Noncommercial aviation fuel. These taxes are scheduled to expire after December 31, 1995.	Airport and Airway Trust Fund excise taxes through September 30, 1996. **Effective date**.--January 1, 1996.	
9. Extension of Internal Revenue Service user fees (sec. 12943 of the Senate amendment)	The IRS generally charges a fee for requests for a letter ruling, determination letter, opinion letter, or other similar ruling or determination. GATT extended the IRS user fee program for 5 years (until October 1, 2000).	No provision.	The Senate amendment extends the IRS user fee program for 2 additional years (to October 1, 2002). **Effective date**.--Date of enactment.

Item	*Present Law*	*House Bill*	*Senate Amendment*
B. Termination of Certain Tax Credits			
1. Tax credit for electricity produced from certain renewable sources (sec. 13621 of the House bill)	A tax credit is allowed for electricity produced from wind and closed loop biomass facilities. The credit applies to production from property placed in service before July 1, 1999.	The House bill limits the credit to production from property placed in service (a) before September 14, 1995, or (b) before September 14, 1996, pursuant to a binding contract in existence on September 13, 1995. **Effective date**.--Taxable years ending after September 13, 1995.	No provision.
2. Low-income housing tax credit (sec. 13636 of the House bill)	A tax credit, claimed over a 10-year period is allowed for rental housing occupied by tenants having incomes below specified levels. The credit generally has a present value of 70 percent (new construction) or 30 percent (existing housing and most housing also receiving other Federal subsidies). Tax credit is subject to annual per-state caps of $1.25 per	The House bill sunsets the credit generally for housing placed in service after December 31, 1997. The House bill sunsets the "national pool" after December 31, 1995. **Effective date**.--Date of enactment.	No provision.

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	residents. Credits that remain unallocated by States after prescribed periods are reallocated to other States through a "national pool."		

Item	*Present Law*	*House Bill*	*Senate Amendment*
C. Superfund and Oil Spill Liability Taxes			
1. Extend Superfund excise taxes and corporate environmental income tax (sec. 12411 of the Senate amendment)	Four taxes are imposed to fund the Hazardous Substance Superfund Trust Fund program: (1) An excise tax on petroleum and imported refined products; (2) An excise tax on certain hazardous chemicals; (3) An excise tax on imported substances made with the chemicals subject to the tax in (2), above; and (4) An income tax on corporations calculated using the alternative minimum tax rules. These taxes are scheduled to expire after December 31, 1995.	No provision.	The Senate amendment extends the three Superfund excise taxes through September 30, 2002, and the corporate environmental income tax through taxable years beginning before January 1, 1998. **Effective date**.-- Date of enactment.
2. Reinstate Oil Spill Liability Trust	A 5-cents-per-barrel excise tax was imposed before January 1,	No provision.	The Senate amendment extends the Oil Spill Liability Trust

Item	*Present Law*	*House Bill*	*Senate Amendment*
Fund excise tax (sec. 12412 of the Senate amendment)	1995, to fund the Oil Spill Trust Fund program.		Fund tax through September 30, 2002. **Effective date**.--January 1, 1996.

Item	*Present Law*	*House Bill*	*Senate Amendment*
D. Other Fuels Tax Provisions			
1. Extend expired ethanol blender refund provision (sec. 12421 of the Senate amendment)	Before October 1, 1995, persons who blended tax-paid gasoline and ethanol for use as a highway fuel could claim an expedited refund equal to the 54-cents-per-gallon subsidy for ethanol.	No provision.	Reinstates the expedited refund provision through September 30, 1999, and provides a special interest accrual rule for the period October 1, 1995, to the date of enactment. **Effective date**.--Date of enactment.
2. Tax credit for producing fuel from a nonconventional source (sec. 12422 of the Senate amendment)	A tax credit is allowed for fuel produced from certain "nonconventional sources." (the "section 29 credit"). In the case of synthetic fuel produced from coal and gas produced from biomass, the credit is available only for fuel from facilities placed in service before January 1, 1997, pursuant to a binding contract entered into before January 1, 1996.	No provision.	The Senate amendment extends the binding contract and placed-in-service sunset dates for coal and biomass facilities for one year. **Effective date**.--Date of enactment.
3. Exempt Alaska from diesel dyeing requirement while	An excise tax totaling 24.4 cents per gallon is imposed on diesel fuel. The diesel fuel tax is	The House bill exempts diesel fuel sold in the State of Alaska from the excise tax diesel	No provision. [Provision that was the same as the House bill (except with respect to the

Item	*Present Law*	*House Bill*	*Senate Amendment*
requirement while Alaska is exempt from Clean Air Act dyeing requirements (sec. 14733 of the House bill)	fuel. The diesel fuel tax is imposed on removal of the fuel from a terminal facility. Present law provides that tax is imposed on all diesel fuel removed from terminal facilities unless the fuel is destined for a nontaxable use and is indelibly dyed pursuant to Treasury Department regulations. A similar dyeing regime exists for diesel fuel under the Clean Air Act. Urban areas in the State of Alaska were exempted from the Clean Air Act, but not the excise tax, dyeing regime for 3 years (until October 1, 1996); the exemption for more remote areas is permanent.	from the excise tax diesel dyeing requirement during the period when that State is exempt from the Clean Air Act dyeing requirement. **Effective date**.--First day of the first calendar quarter beginning after enactment.	(except with respect to the effective date) was stricken pursuant to a point of order.] **Effective date**.--As if included in the Omnibus Budget Reconciliation Act of 1993.
4. Suspend imposition of diesel fuel tax on recreational motorboats (sec. 12432 of the Senate amendment)	Diesel used in recreational motorboats is taxed at 24.4 cents per gallon. Fuel used in commercial vessels is not taxed. All diesel fuel is either taxed or dyed when it is removed from pipeline terminals. Dyed diesel	No provision.	The Senate amendment suspends imposition of tax on diesel fuel used in recreational boats for the period January 1, 1996 - February 28, 1997. The Senate amendment requests (in legislative history) the

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	fuel may not be used in a taxable use (i.e., recreational boats). Nontaxable users of undyed diesel fuel may claim refunds of tax paid on the fuel they use.		Treasury Department to study alternative tax regimes for the marine sector. **Effective date**.--January 1, 1996.

Item	*Present Law*	*House Bill*	*Senate Amendment*
E. Permanent Extensions of Certain Provisions			
1. Permanent extension of FUTA exemption for alien agricultural workers (sec. 13106 of the House bill)	Generally, Federal Unemployment Tax ("FUTA") is imposed on farm operators who (1) employ 10 or more agricultural workers for some portion of each of 20 different days, each day being in a different calendar week or (2) have a quarterly payroll for agricultural services of at least $20,000. An exclusion from FUTA was provided, however, for labor performed by an alien admitted to the United States to perform agricultural labor under section 214(c) and 101(a)(15)(H) of the Immigration and Nationality Act. This exclusion was effective for labor performed before January 1, 1995.	The House bill permanently extends the exemption. **Effective date.**--Effective for labor performed on or after January 1, 1995.	No provision.
2. Tax information sharing: Extend access to tax information for the	The Internal Revenue Code prohibits disclosure of tax returns and return information, except to the extent specifically	The House bill permanently extends the authority to disclose tax information to the DVA.	No provision.

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Department of Veterans Affairs (sec. 13501 of the House bill)	authorized by Code section 6103. Among the disclosures permitted under the code is disclosure to the Department of Veterans Affairs (DVA) of self-employment tax information and certain tax information supplied to the Internal Revenue Service and Social Security Administration by third parties. Disclosure is permitted to assist DVA in determining eligibility for, and establishing correct benefit amounts under, certain of its needs-based pension, health care, and other programs (sec. 6103(1)(7)(D)(viii). The DVA disclosure provision is scheduled to expire after September 30, 1998.	**Effective date**.--The provision is effective on the date of enactment.	

Item	*Present Law*	*House Bill*	*Senate Amendment*
VI. Taxpayer Bill of Rights 2 Provisions **1. Taxpayer advocate** **a. Establishment of position of Taxpayer Advocate within Internal Revenue Service (sec. 13301 of the House bill)**	The Office of the Taxpayer Ombudsman was created by the Internal Revenue Service (IRS) in 1979. The Taxpayer Ombudsman's duties are to serve as the primary advocate, within the IRS, for taxpayers.	The House bill establishes a new position, Taxpayer Advocate, within the IRS. This replaces the position of Taxpayer Ombudsman. The Taxpayer Advocate is appointed by and reports directly to the Commissioner. Compensation of the Taxpayer Advocate is at a level equal to that of the highest level official reporting directly to the Deputy Commissioner of the IRS. The House bill also establishes the Office of Taxpayer Advocate within the IRS. The Taxpayer Advocate is required to make two annual reports to the tax-writing committees. **Effective date**.--The provision is effective on the date of enactment. The first annual reports of the Taxpayer Advocate are due in June and	No provision.

Item	*Present Law*	*House Bill*	*Senate Amendment*
		December, 1996.	
b. Expansion of authority to issue Taxpayer Assistance Orders (sec. 13302 of the House bill)	Section 7811(a) authorizes the Taxpayer Ombudsman to issue a Taxpayer Assistance Order (TAO). TAOs may order the release of taxpayer property levied upon by the IRS and may require the IRS to cease any action, or refrain from taking any action if, in the determination of the Taxpayer Ombudsman, the taxpayer is suffering or about to suffer a significant hardship as a result of the manner in which the internal revenue laws are being administered.	The House bill provides the Taxpayer Advocate with broader authority to affirmatively take any action as permitted by law with respect to taxpayers who would otherwise suffer a significant hardship as a result of the manner in which the IRS is administering the tax laws. In addition, the bill provides that a TAO may specify a time period within which the TAO must be followed. Finally, the bill provides that only the Taxpayer Advocate, the Commissioner of the IRS, the Deputy Commissioner, or a regional problem resolution officer, may modify or rescind a TAO. **Effective date**.--The provision is effective on the date of enactment.	No provision.
2. Modifications to installment agreement provisions			

Item	*Present Law*	*House Bill*	*Senate Amendment*
a. Notification of reasons for termination of installment agreements (sec. 13306 of the House bill)	Section 6159 authorizes the IRS to enter into written installment agreements with taxpayers to facilitate the collection of tax liabilities.	The House bill requires the IRS to notify taxpayers 30 days before altering, modifying, or terminating any installment agreement for any reason other than that the collection of tax is determined to be in jeopardy. **Effective date**.--The provision is effective six months after the date of enactment.	No provision.
b. Administrative review of termination of installment agreements (sec. 13307 of the House bill)	The IRS is currently testing an appeal process for various collection actions, including installment agreements, that will permit taxpayers to appeal these collection actions to Appeals Division personnel.	The House bill requires the IRS to establish additional procedures for an independent administrative review of terminations of installment agreements for taxpayers who request a review. **Effective date**.--The provision is effective on January 1, 1996.	No provision.
3. Extension of interest-free period for payment of tax after notice and demand (sec. 13313 of the House bill)	In general, a taxpayer must pay interest on late payments of tax. An interest-free period of 10 calendar days is provided to taxpayers who pay the tax due within 10 calendar days of notice and demand.	The House bill extends the interest-free period provided to taxpayers for the payment of the tax liability reflected in the notice from 10 calendar days to 10 business days (21 calendar days, provided that the total tax liability shown on the notice of	No provision.

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		deficiency is less than $100,000). **Effective date**.--The provision applies in the case of any notice and demand given after June 30, 1996.	
4. Joint returns			
a. Studies of joint and several liability for married persons filing joint tax returns and other joint return-related issues (sec. 13316 of the House bill)	Spouses who file a joint tax return are each fully responsible for the accuracy of the return and for the full tax liability. This is true even though only one spouse may have earned the wages or income which is shown on the return. This is "joint and several" liability. Spouses who wish to avoid joint liability may file as a "married person filing separately."	The House bill directs the Treasury Department and the General Accounting Office (GAO) to conduct separate studies analyzing several joint return-related issues. **Effective date**.--The studies are due six months after the date of enactment.	No provision.
b. Disclosure of collection activities with respect to joint returns (sec. 13318 of the House bill)	The IRS does not routinely disclose collection information to a former spouse that relates to tax liabilities attributable to a joint return that was filed when married.	If a tax deficiency with respect to a joint return is assessed, and the individuals filing the return are no longer married or no longer reside in the same household, the House bill requires the IRS to disclose in writing to that individual whether the IRS has attempted	No provision.

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Item	*Present Law*	*House Bill*	*Senate Amendment*
		to collect the deficiency from the other individual, the general nature of the collection activities, and the amount (if any) collected. **Effective date**--The provision is effective on the date of enactment.	
5. Collection activities **a. Modifications to lien and levy provisions** **i. Withdrawal of public notice of lien (sec. 13321(a) of the House bill)**	The IRS must file a notice of lien in the public record, in order to protect the priority of a tax lien. A notice of tax lien provides public notice that a taxpayer owes the Government money. The IRS has discretion in filing such a notice, but may withdraw a filed notice only if the notice (and the underlying lien) was erroneously filed or if the underlying lien has been paid, bonded, or become unenforceable.	The House bill allows the IRS to withdraw a public notice of tax lien prior to payment in full by the indebted taxpayer without prejudice in additional specified circumstances. **Effective date**.--The provision is effective on the date of enactment.	No provision.

Item	*Present Law*	*House Bill*	*Senate Amendment*
ii. Return of levied property (sec. 13321(b) of the House bill)	The IRS is authorized to levy on the property of a taxpayer as a means of collecting unpaid taxes. The IRS is able to return levied property to a taxpayer only when the taxpayer has overpaid its liability with respect to tax, interest, and penalty for which the property as levied.	The House bill allows the IRS to return property that has been levied upon in additional specified circumstances. **Effective date**.--The provision is effective on the date of enactment.	No provision.
iii. Modifications in certain levy exemption amounts (sec. 13321(c) of the House bill and sec. 12504(b) of the Senate amendment)	Property exempt from levy includes books and tools of a trade with a value of up to $1,100.	No provision.	The Senate amendment increases the exemption amount to $1,250 for books and tools of a trade. **Effective date**.--The provision is effective with respect to levies issued after December 31, 1995.
b. Offers-in-compromise (sec. 13322 of the House bill and sec. 12505 of the Senate amendment)	The IRS has the authority to settle a tax debt pursuant to an offer-in-compromise. Amounts over $500 can only be accepted if the reasons for the acceptance are documented in detail and supported by an opinion of the IRS Chief Counsel.	The House bill increases from $500 to $100,000 the amount requiring a written opinion from the Office of Chief Counsel. **Effective date**.--The provision is effective on the date of enactment.	Same as House bill, except the threshold is $50,000.
6. Information returns			

Item	*Present Law*	*House Bill*	*Senate Amendment*
a. Civil damages for fraudulent filing of information returns (sec. 13326 of the House bill)	Federal law provides no private cause of action to a taxpayer who is injured because a fraudulent information return has been filed with the IRS asserting that payments have been made to the taxpayer.	The House bill provides that, if any person willfully files a fraudulent information return with respect to payments purported to have been made to another person, the other person may bring a civil action for damages against the person filing that return. Recoverable damages are the greater of (1) $5,000 or (2) the amount of actual damages (including the costs of the action) and, in the court's discretion, reasonable attorney's fees. **Effective date**.--The provision applies to fraudulent information returns filed after the date of enactment.	No provision.
b. Requirement to conduct reasonable investigations of information returns (sec. 13327 of the House bill)	Deficiencies determined by the IRS are generally afforded a presumption of correctness.	The House bill provides that, in a court proceeding, if a taxpayer asserts a reasonable dispute with respect to any item of income reported on an information return (Form 1099 or Form W-2) filed by a third party and the taxpayer has fully cooperated with the IRS, the Government has the burden of producing	No provision.

Item	*Present Law*	*House Bill*	*Senate Amendment*
		reasonable and probative information concerning the deficiency (in addition to the information return itself). **Effective date**.--The provision is effective on the date of enactment.	
7. Awarding of costs and certain fees **a. United States must establish that its position in a proceeding was substantially justified (sec. 13331 of the House bill)**	Under section 7430, a taxpayer who successfully challenges a determination of deficiency by the IRS may recover attorney's fees and other administrative and litigation costs if the taxpayer qualifies as a "prevailing party." A taxpayer qualifies as a prevailing party if it: (1) establishes that the position of the United States was not substantially justified; (2) substantially prevails with respect to the amount in controversy or with respect to the most significant issue or set of issues presented; and (3) meets certain net worth and (if the taxpayer is a business) size	The House bill provides that, once a taxpayer substantially prevails over the IRS in a tax dispute, the IRS has the burden of proof to establish that it was substantially justified in maintaining its position against the taxpayer. **Effective date**.--The provision is effective for proceedings commenced after the date of enactment.	No provision.

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	requirements.		
b. Increased limit on attorney fees (sec. 13332 of the House bill)	Attorney's fees recoverable by prevailing parties as litigation or administrative costs was originally set at $75 per hour.	The House bill raises the statutory rate to $110 per hour, indexed for inflation beginning after 1996. **Effective date**.--The provision applies to proceedings commenced after the date of enactment.	No provision.
c. Failure to agree to extension not taken into account (sec. 13333 of the House bill)	To qualify for an award of attorney's fees, the taxpayer must have exhausted the administrative remedies available within the IRS.	The House bill provides that any failure to agree to an extension of the statute of limitations cannot be taken into account for purposes of determining whether a taxpayer has exhausted the administrative remedies for purposes of determining eligibility for an award of attorney's fees. **Effective date**.--The provision applies to proceedings commenced after the date of enactment.	No provision.

Item	*Present Law*	*House Bill*	*Senate Amendment*
8. Increase in limit on recovery of civil damages for unauthorized collection actions (sec. 13336 of the House bill)	A taxpayer may sue the United States for up to $100,000 of damages caused by an officer or employee of the IRS who recklessly or intentionally disregards provisions of the Internal Revenue Code or the Treasury regulations promulgated thereunder in connection with the collection of Federal tax with respect to the taxpayer.	The House bill increases the cap from $100,000 to $1 million. **Effective date**.--The provision applies to unauthorized collection actions by IRS employees that occur after the date of enactment.	No provision.
9. Modification to penalty for failure to collect and pay over tax			
a. Preliminary notice requirement (sec. 13341 of the House bill)	Under section 6672, a "responsible person" is subject to a penalty equal to the amount of trust fund taxes that are not collected or paid to the government on a timely basis.	The House bill generally requires the IRS to issue a notice to an individual the IRS had determined to be a responsible person with respect to unpaid trust fund taxes at least 60 days prior to issuing a notice and demand for the penalty. **Effective date**.--The provision applies to assessments made after June 30, 1996.	No provision.

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b. Disclosure of certain information where more than one person subject to penalty (sec. 13342 of the House bill)	The IRS may not disclose to a responsible person the IRS's efforts to collect unpaid trust fund taxes from other responsible persons, who may also be liable for the same tax liability.	The House bill requires the IRS, if requested in writing by a person considered by the IRS to be a responsible person, to disclose in writing to that person the name of any other person the IRS has determined to be a responsible person with respect to the tax liability. The IRS is required to disclose in writing whether it has attempted to collect this penalty from other responsible persons, the general nature of those collection activities, and the amount (if any) collected. **Effective date**.--The provision is effective on the date of enactment.	No provision.
c. Right of contribution from multiple responsible parties (sec. 13343 of the House bill)	A responsible person may seek to recover part of the amount which he has paid to the IRS from other individuals who also may have the obligations of a responsible person but who have not yet contributed their proportionate share of their liability under section 6672. Taxpayers must pursue such	If more than one person is liable for this penalty, each person who paid the penalty is entitled to recover from other persons who are liable for the penalty an amount equal to the excess of the amount paid by such person over such person's proportionate share of the penalty.	No provision.

Item	*Present Law*	*House Bill*	*Senate Amendment*
	claims for contribution under state law (to the extent state law permits such claims).	**Effective date**.--The provision applies to penalties assessed after the date of enactment.	
d. Board members of tax-exempt organizations (sec. 13344 of the House bill)	Under section 6672, "responsible persons" of tax-exempt organizations are subject to a penalty equal to the amount of trust fund taxes that are not collected and paid to the Government on a timely basis.	The House bill clarifies that the section 6672 responsible person penalty is not to be imposed on volunteer, unpaid members of any board of trustees or directors of a tax-exempt organization to the extent such members are solely serving in an honorary capacity, do not participate in the day-to-day or financial activities of the organization, and do not have actual knowledge of the failure. The House bill requires the IRS to develop materials to better inform board members of tax-exempt organizations (including voluntary or honorary members) that they may be treated as responsible persons. **Effective date**.--The provision is effective on the date of enactment.	No provision.

Item	*Present Law*	*House Bill*	*Senate Amendment*
10. Safeguards relating to designated summonses; annual report to Congress on designated summonses (secs. 13347(a) and 13348 of the House bill)	A suspension of the statute of limitations can occur with respect to a corporate tax return if a summons is issued at least 60 days before the day on which the assessment period (as extended) is scheduled to expire. Suspension is only permitted if the summons clearly states that it is a "designated summons" for this purpose and only occurs during the judicial enforcement period. Under current internal procedures of the IRS, no designated summons is issued unless first reviewed by the Office of Chief Counsel to the IRS, including review by an IRS Deputy Regional Counsel for the Region in which the examination of the corporation's return is being conducted.	The House bill requires that issuance of any designated summons with respect to a corporation's tax return must be preceded by the review of such issuance by the Regional Counsel, Office of Chief Counsel to the IRS, for the Region in which the examination of the corporation's return is being conducted. The House bill also requires that the Treasury report annually to the Congress on the number of designated summonses issued in the preceding 12 months. **Effective date**.--The provision applies to summonses issued after date of enactment.	No provision.
11. Relief from retroactive application of Treasury Department regulations (sec. 13351 of the House	Under section 7805(b), Treasury may prescribe the extent (if any) to which regulations shall be applied without retroactive effect.	The House bill provides that in general, subject to specified conditions, temporary and proposed regulations must have an effective date no earlier than the date of publication in the	No provision.

Item	*Present Law*	*House Bill*	*Senate Amendment*
bill)		Federal Register or the date on which any notice substantially describing the expected contents of such regulation is issued to the public. **Effective date**.--The provision applies with respect to regulations that relate to statutory provisions enacted on or after the date of enactment.	
12. Miscellaneous provisions			
a. Report on pilot program for appeal of enforcement actions (sec. 13356 of the House bill)	The IRS recently conducted a pilot program to evaluate the merits of allowing an independent appeal, by the taxpayer, to the Appeals Division of enforcement actions (including lien, levy, and seizure actions).	The House bill requires the Secretary to report to the tax-writing committees on the effectiveness of the pilot program, together with any recommendations he may deem advisable. **Effective date**.--The report is due by March 1, 1996.	No provision.

Item	*Present Law*	*House Bill*	*Senate Amendment*
b. Phone numbers of person providing payee statement required to be shown on such statement (sec. 13357 of the House bill)	Information returns must contain the name and address of the payor.	The House bill requires that information returns contain the name, address, and phone number of the information contact of the person required to make the information return. **Effective date**.--The provision applies to statements required to be furnished after December 31, 1996 (determined without regard to any extension).	No provision.
c. Required notice to taxpayers of certain payments (sec. 13358 of the House bill)	If the IRS receives a payment without sufficient information to properly credit it to a taxpayer's account, the IRS may attempt to contact the taxpayer. If contact cannot be made, the IRS places the payment in an unidentified remittance file.	The House bill requires the IRS to make reasonable efforts to notify, within 60 days, those taxpayers who have made payments which the IRS cannot associate with the taxpayer. **Effective date**.--The provision is effective on the date of enactment.	No provision.
d. Unauthorized enticement of information disclosure (sec. 13359 of the House bill)	No statutory disincentive applies to IRS employees who entice a tax professional to disclose information about clients in exchange for the favorable treatment of the taxes of the professional.	If any officer or employee of the United States intentionally compromises the determination or collection of any tax due from an attorney, certified public accountant, or enrolled agent representing a taxpayer in	No provision.

Item	*Present Law*	*House Bill*	*Senate Amendment*
		exchange for information conveyed by the taxpayer to the attorney, certified public accountant or enrolled agent for purposes of obtaining advice concerning the taxpayer's tax liability, the taxpayer may bring a civil action for damages against the United States in a district court of the United States. **Effective date**.--The provision applies to actions taken after the date of enactment.	
e. Five-year extension of authority for undercover operations (sec. 13361 of the House bill)	The Anti-Drug Abuse Act of 1988 exempted IRS undercover operations from the otherwise applicable statutory restrictions controlling the use of Government funds (which generally provide that all receipts be deposited in the general fund of the Treasury and all expenses be paid out of appropriated funds). In general, the exemption permits the IRS to "churn" the income earned by an undercover operation to pay additional expenses incurred in	The House bill reinstates the IRS's offset authority from the date of enactment until January 1, 2001. The bill specifies additional information to be provided in the IRS annual report. **Effective date**.--The provision is effective on the date of enactment.	No provision.

Item	*Present Law*	*House Bill*	*Senate Amendment*
	the undercover operation.		
f. Disclosure of returns on cash transactions (sec. 13362 of the House bill)	The Internal Revenue Code prohibits disclosure of tax returns and return information, except to the extent specifically authorized by the Internal Revenue Code (sec. 6103). Under section 6050I, any person who receives more than $10,000 in cash in one transactions (or two or more related transactions) in the course of a trade or business generally must file an information return (Form 8300) with the IRS specifying the name, address, and taxpayer identification number of the person from whom the cash was received and the amount of cash received. The Anti-Drug Abuse Act of 1988 provided a special rule permitting the IRS to disclose these information returns to other Federal agencies for the purpose of administering Federal criminal statutes. The special rule expired November 18,	The House bill permanently extends the special rule for disclosing Form 8300 information. Moreover, the bill permits disclosures not only to Federal agencies but also to State, local and foreign agencies and for civil, criminal and regulatory purposes (i.e., generally in the same manner as CTRs filed by financial institutions under the Bank Secrecy Act.) Disclosure, however, is not permitted to any such agency for purposes of tax administration. The bill also (1) extends the dissemination policies and guidelines under section 6103 to people having access to Form 8300 information, and (2) applies section 6103 sanctions to persons having access to Form 8300 information that disclose this information without proper authorization. **Effective date**.--The provision is effective on the date of	No provision.

Item	*Present Law*	*House Bill*	*Senate Amendment*
	1992.	enactment.	
g. Disclosure of returns and return information to designee of taxpayer (sec. 13363 of the House bill)	Under present law, the IRS is authorized to disclose the return of any taxpayer, or return information pertaining to a taxpayer, to such person(s) as the taxpayer has designated in a written request.	The House bill deletes the word "written" from the requirement that "written consent" from the taxpayer is necessary for the disclosure of taxpayer information to a designated third party. **Effective date**.--The provision is effective on the date of enactment.	No provision.
h. Report on netting of interest on overpayments and liabilities (sec. 13364 of the House bill)	If a portion of a tax is satisfied through crediting of an overpayment of tax, no interest is imposed on that portion of the tax for any period during which, if the credit had not been made, interest would have been allowable.	The House bill requires the Secretary of the Treasury to conduct a study of the manner in which the IRS has implemented the netting of interest on overpayments and underpayments and the policy and administrative implications of global netting. **Effective date**.--The report is due six months after the date of enactment.	No provision.

Item	*Present Law*	*House Bill*	*Senate Amendment*
i. Tax credit for certain expenses incurred in connection with TCMP audits (sec. 13365 of the House bill)	The IRS has announced that it will not conduct taxpayer compliance measurement program (TCMP) audits of returns filed for taxable year 1994. The IRS had previously announced that it would soon begin these audits. Any expenses a taxpayer incurs in connection with the determination, collection or refund of any tax are deductible under either section 162 or section 212(3). However, there is no tax credit for expenses incurred in connection with TCMP audits.	The House bill provides a refundable tax credit to individuals (not including estates, trusts, partnerships, or S corporations) for up to $3,000 of expenses otherwise deductible under either section 162 or section 212(3) incurred in connection with a TCMP audit of the taxpayer for taxable year 1994. **Effective date**.--The provision is effective with respect to amounts paid or incurred after December 31, 1994, in taxable years ending after that date. The credit is allowable with respect to the taxable year in which the expenses are incurred.	No provision.
j. Expenses of detection of underpayments and fraud (sec. 13366 of the House bill)	The Secretary may, pursuant to regulations, pay rewards for information leading to the detection and punishment of violations of the internal revenue laws.	The House bill clarifies that rewards may be paid for information relating to civil violations, as well as criminal violations. The bill also provides that the rewards are to be paid out of the proceeds of amounts (other than interest) collected by reason of the information provided.	No provision.

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		Effective date.--The provision is effective six months after the date of enactment.	

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Item	*Present Law*	*House Bill*	*Senate Amendment*
VII. Casualty and Involuntary Conversion Provisions **A. Treatment of Certain Crop Insurance Proceeds and Disaster Assistance Payments (sec. 14555 of the House bill and sec. 12603 of the Senate amendment)**	A farmer using the cash receipts and disbursements method of accounting may elect to defer the recognition of the receipt of crop insurance or disaster assistance proceeds until the taxable year following the year of the destruction or damage to crops if the farmer establishes that under his practice, income from such crops normally would have been reported in a later taxable year.	A farmer using the cash receipts and disbursements method of accounting may also elect to accelerate the recognition of the receipt of crop insurance or disaster assistance proceeds into the taxable year of the destruction or damage to crops if the farmer establishes that under his practice, income from such crops normally would have been reported in that earlier taxable year. **Effective date**.--Effective for payments received after December 31, 1995, as result of destruction or damage occurring after such date.	Same provision as the House bill. **Effective date**.--Effective for payments received after December 31, 1992, as result of destruction or damage occurring after such date.

Item	*Present Law*	*House Bill*	*Senate Amendment*
B. Application of Involuntary Conversion Rules to Property Damaged as a Result of Presidentially Declared Disasters (sec. 12604 of the Senate amendment)	A taxpayer may elect not to recognize gain with respect to property that is involuntarily converted if the taxpayer acquires within an applicable period property similar or related in service or use.	No provision.	Any tangible property acquired and held for productive use in a business is treated as similar or related in service or use to property that (1) was held for investment or for productive use in a business and (2) was involuntarily converted as a result of a Presidentially declared disaster. **Effective date**.--For disasters for which a Presidential declaration is made after December 31, 1994.

Item	*Present Law*	*House Bill*	*Senate Amendment*
VIII. Exempt Organizations And Charitable Provisions			
A. Common Investment Fund for Private Foundations (sec. 12701 of the Senate amendment)	Organizations described in section 501(c)(3) must be organized and operated exclusively for a charitable purpose. Section 501(f) provides that a common investment fund that is comprised solely of members that are tax-exempt educational institutions and that meets certain other criteria is treated as organized and operated exclusively for a charitable purpose.	No provision.	A common investment fund that is comprised solely of members that are tax-exempt private foundations and community foundations will be treated as organized and operated exclusively for charitable purposes if the organization is operated solely to collectively invest in stocks and securities and certain other criteria are satisfied. **Effective date**.--Taxable years beginning after December 31, 1995.

Item	*Present Law*	*House Bill*	*Senate Amendment*
B. Exclusion From UBIT for Certain Corporate Sponsorship Payments (sec. 12702 of the Senate amendment)	Although generally exempt from Federal income tax, tax-exempt organizations are subject to the unrelated business income tax ("UBIT") on income derived from a trade or business regularly carried on that is not substantially related to the performance of the organization's tax-exempt functions. Contributions or gifts received by tax-exempt organizations generally are not subject to the UBIT. However, section 513(c) provides that an activity (such as advertising) does not lose its identity as a separate trade or business merely because it is carried on within a larger complex of other endeavors. If a tax-exempt organization receives sponsorship payments in connection with an event or other activity, the solicitation and receipt of such sponsorship payments may be treated as a separate activity. The IRS has taken the position that, under some circumstances, such sponsorship payments are	No provision.	Under the Senate amendment, qualified sponsorship payments received by a tax-exempt organization (including certain State colleges and universities) are exempt from the UBIT. "Qualified sponsorship payments" mean any payment made by a person engaged in a trade or business with respect to which the person will receive no substantial return benefit other than the use or acknowledgment of the name or logo (or product lines) of the person's trade or business in connection with the organization's activities. Such a use or acknowledgment does <u>not</u> include advertising of such person's products or services -- meaning qualitative or comparative language, price information or other indications of savings or value, or an endorsement or other inducement to purchase, sell, or use such products or services. A qualified sponsorship payment does not include any

Item	*Present Law*	*House Bill*	*Senate Amendment*
	subject to the UBIT.		payment where the amount of such payment is contingent upon the level of attendance at an event, broadcast ratings, or other factors indicating the degree of public exposure to an activity. The Senate amendment does not apply to the sale of advertising or acknowledgements in regularly scheduled and printed material that is not related to and primarily distributed in connection with a specific sponsored event. The Senate amendment specifically provides that, to the extent that a portion of a payment would (if made as a separate payment) be a qualified sponsorship payment, such portion of the payment will be treated as a separate payment. **Effective date**.--The provision applies to qualified sponsorship payments solicited or received after December 31, 1995.

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C. Tax Gambling Income of Indian Tribes; Repeal Targeted Exemption from UBIT for Gambling in Certain States (secs. 13631-13632 of the House bill)	There is no specific statutory provision governing the Federal income tax liability of Indian tribes. However, the IRS has long taken the position that Indian tribes, as well as wholly owned tribal corporations chartered under Federal law, are immune from Federal income taxes under the Internal Revenue Code and, thus, are not taxable entities. Tax-exempt, nonprofit organizations are subject to the unrelated business income tax (UBIT) on income from a trade or business regularly carried on that is not substantially related to the performance of the organization's tax-exempt functions. An exemption from the UBIT is provided for certain bingo games, certain entertainment activities conducted at agricultural and educational fairs, and games of chance conducted by nonprofit organizations in the State of North Dakota.	The House bill subjects to Federal income tax income earned by an Indian tribe, or any corporate entity that generally is tax-immune by reason of being owned or controlled by an Indian tribe, from the conduct of regularly carried on class II or class III gaming activities (as defined in the Indian Gaming Regulatory Act). Proceeds of Indian gaming activities that are required to be used for charitable or other specified purposes may be deducted as a charitable contribution in an amount up to 10 percent of the taxable income from the gaming activities. The House bill also repeals the special exemption from the UBIT for games of chance conducted in the State of North Dakota and directs the Treasury Department to conduct a study of gambling activities of nonprofit organizations. **Effective date**.--The provision is effective on and after January	No provision.

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		1, 1996. The Treasury Department is required to report the results of its study to Congress no later than July 1, 1996.	

Item	*Present Law*	*House Bill*	*Senate Amendment*
D. Intermediate Sanctions for Certain Tax-Exempt Organizations (secs. 13646-13651 of the House bill)	Private inurement.--No part of the net earnings of an organization described in section 501(c)(3) may inure to the benefit of any private shareholder or individual (the so-called "private inurement" prohibition). A tax-exempt social welfare organization described in section 501(c)(4) must be organized on a non-profit basis and must be operated exclusively for the promotion of social welfare. There is no specific statutory private inurement prohibition in section 501(c)(4). Sanctions for private inurement.--The Code generally does not provide for the imposition of penalty excise taxes in cases where a 501(c)(3) public charity or a section 501(c)(4) social welfare organization engages in a transaction that results in private inurement. In such cases, the only sanction that specifically is authorized under the Code is revocation of the organization's	Private inurement.--The House bill extends the private inurement prohibition to social welfare organizations described in section 501(c)(4). **Effective date.**--The provision generally would be effective on September 14, 1995, with a special transition rule for written contracts that were binding on September 13, 1995. Sanctions for excess benefit transactions.--The House bill imposes penalty excise taxes as an intermediate sanction in cases where 501(c)(3) or (4) organizations (other than private foundations) engage in an "excess benefit transaction" (generally, a non fair-market value transaction, as well as certain revenue-sharing transactions). In such cases, intermediate sanctions can be	No provision.

Item	*Present Law*	*House Bill*	*Senate Amendment*
	tax-exempt status.	imposed on certain disqualified persons (i.e., insiders) who improperly benefit from an excess benefit transaction and on organization managers who participate in such a transaction knowing that it is improper. A disqualified person who benefits from an excess benefit transaction would be subject to a first-tier penalty tax equal to 25 percent of the amount of the excess benefit. Organization managers who participate in an excess benefit transaction knowing that it is an improper transaction would be subject to a first-tier penalty tax of ten percent of the amount of the excess benefit (subject to a maximum penalty of $10,000). An additional, second-tier tax equal to 200 percent of the amount of excess benefit could be imposed on a disqualified person if there is no correction of the excess benefit transaction within a specified time period.	

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		The intermediate sanctions for "excess benefit transactions" could be imposed by the IRS in lieu of (or in addition to) revocation of an organization's tax-exempt status. **Effective date**.--The provision generally applies to excess benefit transactions occurring on or after September 14, 1995, with a special transition rule for written contracts for the performance of personal services which were binding on September 13, 1995.	
	Reporting requirements.--Tax-exempt organizations (other than churches and certain small organizations) are required to file an annual information return (Form 990) with the IRS, setting forth the organization's items of gross income and expenses attributable to such income, disbursements for tax-exempt purposes, plus certain other information for the taxable year.	Reporting requirements.--Under the House bill, tax-exempt organizations are required to disclose on their Form 990 the names of each disqualified person who received an economic benefit during the taxable year and other information as may be required by the Secretary of the Treasury with respect to such economic benefits and with respect to any other excise tax penalties paid during the year.	

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	Public inspection and furnishing copies of documents.--Private foundations are required to allow public inspection at the foundation's principal office of their current annual information return. Other tax-exempt organizations, including public charities, are required to allow public inspection at the organization's principal office (and certain regional or district offices) of their annual information returns for the three most recent taxable years (sec. 6104(e)). The Code also requires that tax-exempt organizations allow public inspection of the organization's application to the IRS for recognition of tax-exempt status, the IRS determination letter, and certain related documents.	Public inspection and furnishing copies of documents.--The House bill provides that tax-exempt organizations (other than private foundations) that file a Form 990 are required to comply with requests from individuals who seek a copy of the organization's Form 990 or the organization's application for recognition of tax-exempt status and certain related documents. The organization is required to supply copies (without charge other than a reasonable fee for copying and mailing costs) of the Forms 990 for any of the organization's three most recent taxable years. If the request for copies is made in person, then the organization must immediately provide such copies; if the request is made other than in person, copies generally must be provided within 30 days.	
	Dissemination of information--Upon written request to the IRS, members of the general public are permitted to inspect annual	Dissemination of information.--The House bill requires the Treasury Department to provide copies of annual returns and	

Item	Present Law	House Bill	Senate Amendment
	information returns of tax-exempt organizations and applications for recognition of tax-exempt status (and related documents) at the National Office of the IRS in Washington, D.C.	applications for recognition of tax-exempt status filed by tax-exempt organizations to any organization that agrees both to accept broad categories of such returns and applications and to provide electronic access to all such documents on an electronic network to the general public.	
	Advertisements and solicitations.--Organizations that have tax-exempt status but that are not eligible to receive tax-deductible charitable contributions are required expressly to state in certain fundraising solicitations that contributions or gifts to the organization are not deductible as charitable contributions for Federal income tax purposes (sec. 6113). Penalties may be imposed on such organizations for failure to comply with this requirement (sec. 6710).	Advertisements and solicitations.--The House bill requires that written advertisements or solicitations made by (or on behalf of) tax-exempt organizations (other than private foundations) that file a Form 990 must contain a conspicuous statement that the organization's Forms 990 are available to individuals upon request. Failure to make the required disclosure in an advertisement or solicitation would subject the organization to a penalty of $100 for each day on which the failure occurred, subject to waiver for reasonable cause. The House bill generally limits the maximum penalty to $10,000	

Item	*Present Law*	*House Bill*	*Senate Amendment*
		per organization during any calendar year. The House bill also requires entities that do not have Federal tax-exempt status but that describe themselves in advertisements or solicitations as "nonprofit" to disclose in an express statement that contributions to the entity are not deductible as charitable contributions for Federal income tax purposes.	
	Penalties for failure to file timely or complete return.--Section 6652(c)(1)(A) provides that a tax-exempt organization that fails to file a complete and accurate Form 990 is subject to a penalty of $10 for each day during which such failure continues (with a maximum penalty with respect to any one return of the lesser of $5,000 or five percent of the organization's gross receipts for the year).	Penalties for failure to file timely or complete return.--The section 6652(c)(1)(A) penalty is increased to $20 for each day the failure continues (with a maximum penalty with respect to any one return of the lesser of $10,000 or five percent of the organization's gross receipts). Organizations with annual gross receipts exceeding $1 million are subject to a penalty of $100 for each day the failure continues (with a maximum penalty with respect to any one return of $50,000).	

Item	Present Law	House Bill	Senate Amendment
	Penalties for failure to allow public inspection.--Section 6652(c)(1)(C) provides that tax-exempt organizations that fail to make certain annual returns and applications for exemption available for public inspection are subject to a penalty of $10 for each day the failure continues (with a maximum penalty with respect to any one return not to exceed $5,000, and without limitation with respect to applications). In addition, section 6685 provides a penalty for willfully failing to make an annual return or application available for public inspection of $1,000 per return or application.	Penalties for failure to allow public inspection.--The section 6652(c)(1)(C) penalty is increased to $20 per day (with a maximum of $10,000). In addition, the section 6685 penalty is increased to $5,000. Treasury Department studies.--The House bill directs the Treasury Department to: (1) study the application of an explicit statutory private inurement prohibition and intermediate sanctions to other tax-exempt organizations; (2) study whether certain State officers who oversee public	

Item	*Present Law*	*House Bill*	*Senate Amendment*
		charities should have additional access to Federal tax return information; and (3) review the Form 990 reporting requirements. **Effective dates.**--The filing and disclosure provisions governing tax-exempt organizations generally take effect on January 1, 1996 (or, if later, 90 days after enactment). However, the provision regarding the reporting of excise tax penalties and excess benefit transactions is effective for returns with respect to taxable years beginning on or after January 1, 1995. The electronic dissemination requirement imposed on the Treasury Department applies to returns and applications filed on or after January 1, 1996. The Treasury Department studies are required to be transmitted to Congress by January 1, 1997.	

Item	*Present Law*	*House Bill*	*Senate Amendment*
E. Treat Qualified Football Coaches Plan as Multiemployer Pension Plan for Purposes of the Internal Revenue Code (sec. 6604(l) of H.R. 1215 and sec. 12706 of the Senate amendment)	The American Football Coaches Association ("AFCA") maintains a cash or deferred arrangement (i.e., a "401(k) plan") on behalf of participating members. The Employee Retirement Income Security Act of 1974 ("ERISA"), provides that, for purposes of the labor law provisions of ERISA, a qualified football coaches plan generally is treated as a multiemployer plan and may include a 401(k) plan. However, the Internal Revenue Service has determined that the 401(k) plan maintained by the AFCA is not a qualified 401(k) plan under the Internal Revenue Code. The provision of ERISA permitting the AFCA to maintain a 401(k) plan was included in the Continuing Appropriations for Fiscal Year 1988.	In general.--The House bill makes a technical correction to clarify that, for purposes of the Internal Revenue Code, a qualified football coaches plan (as defined in ERISA) is treated as a multiemployer plan and can contain a 401(k) plan.	In general.--Same as the House bill.
		Excise tax.--No provision.	Excise tax.--The Senate amendment imposes a $25,000 excise tax on the football coaches plan in order to be reinstated as a qualified plan.

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		Effective date.--The provision is effective as if included in the Continuing Appropriations for Fiscal Year 1988 (i.e., years beginning after December 22, 1987).	**Effective date.**--Same as the House bill, except that the excise tax is payable in the first plan year beginning after the date of enactment.

Item	*Present Law*	*House Bill*	*Senate Amendment*
IX. Corporate and Other Reforms and Miscellaneous Provisions			
1. Reform the tax treatment of certain corporate stock redemptions and other extraordinary dividends (sec. 13601 of the House bill and sec. 12801 of the Senate amendment)	A corporate shareholder generally can deduct a portion (in some cases all) of a dividend received from another corporation. In general, a distribution in redemption of stock is treated as a dividend if it does not result in a meaningful reduction in the shareholder's interest in the distributing corporation. This determination includes reference to certain option attribution rules.		
	Section 1059 of the Code requires a corporate shareholder that receives an "extraordinary dividend" to reduce the basis of stock with respect to which the dividend was paid by the nontaxed portion of the dividend. If the reduction in basis of stock exceeds the basis in the stock with respect to which the dividend is paid, the	Except as provided in regulations, a corporate shareholder will recognize gain immediately with respect to any redemption treated as a dividend (in whole or in part) when the nontaxed portion of the dividend exceeds the basis of the shares surrendered, if the redemption is treated as a dividend due to options being counted as stock	Same as House bill.

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	excess is taxed as gain on the sale or disposition of the stock. Whether a dividend is "extraordinary" is determined, among other things, by reference to the size of the dividend in relation to the adjusted basis of the stock. Also, a dividend resulting from a non-pro rata redemption or a partial liquidation is an extraordinary dividend.	ownership. In addition, a corporate shareholder will recognize gain immediately when the basis of any stock with respect to which any extraordinary dividend is received is reduced below zero.	
		Effective date.-- Generally, the provision is effective for distributions after May 3, 1995, unless made pursuant to the terms of of written binding contract in effect on that date or a tender offer outstanding on that date. However, in applying the new gain recognition rules to any distribution that is not a partial liquidation, a non pro rata redemption, or a redemption that is treated as a dividend by reason of options, September 15, 1995 is substituted for May 3, 1995.	**Effective date.**-- Generally the same as House bill, except that there is no transition for distributions pursuant to tender offers outstanding on the relevant date.

Item	*Present Law*	*House Bill*	*Senate Amendment*
2. Require corporate tax shelter reporting (sec. 13602 of the House bill and sec. 12802 of the Senate amendment)	An organizer of a tax shelter is required to register the shelter with the IRS (sec. 6111).	The House bill requires an organizer of a corporate tax shelter to register the shelter with the Secretary. Registration is required not later than the next business day after the day when the tax shelter is first offered to potential users. If an organizer is not a U.S. person, or if a required registration is not otherwise made, then any U.S. participant is required to register the shelter. A corporate tax shelter is any investment, plan, arrangement or transaction: first, that has a significant purpose of tax avoidance or evasion by a corporate participant; second, that is offered to any potential participant under conditions of confidentiality; and third, for which the tax shelter organizers may receive total fees in excess of $100,000. The penalty for failing to timely register a corporate tax shelter is the greater of $10,000 or 50	The Senate amendment is the same as the House bill, except that the Senate amendment provides that registration is not required if the U.S. participant notifies the promoter in writing not later than the seventh day after discussions began that the U.S. participant will not (and in fact does not) participate in the shelter. The Senate amendment also clarifies that a significant purpose of the structure of the transaction must be tax avoidance or evasion. The Senate amendment also adds a definition of related parties.

Item	*Present Law*	*House Bill*	*Senate Amendment*
		percent of the fees payable to any promoter with respect to offerings prior to the date of late registration. **Effective date**.--The provision applies to any tax shelter offered to potential participants after the date of enactment. No filings are due, however, until the Treasury Department issues guidance with respect to the filing requirements.	**Effective date**.--Same as House bill.
3. Disallow interest deduction for corporate-owned life insurance policy loans (sec. 13603 of the House bill and sec. 12803 of the Senate amendment)	General rule.--No deduction is allowed for any interest paid or accrued on any indebtedness with respect to one or more life insurance policies owned by the taxpayer covering the life of any individual who (1) is an officer or employee of, or (2) is financially interested in, any trade or business carried on by the taxpayer to the extent that the aggregate amount of such debt with respect to policies covering the individual exceeds $50,000.	General rule.--No deduction is allowed for interest paid or accrued on any indebtedness with respect to one or more life insurance policies or annuity or endowment contracts owned by the taxpayer covering any individual who is (1) an officer or employee of, or (2) financially interested in any trade or business carried on by the taxpayer, regardless of the aggregate amount of debt with respect to policies or contracts covering the individual.	General rule.--Same as House bill.

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	Key person exception.--No provision.	Key person exception.--No provision.	Key person exception.--An exception is provided retaining present law for interest on debt with respect to life insurance policies on key persons. A key person is an individual who is either an officer or a 20-percent owner of the taxpayer. The number of individuals that can be treated as key persons may not exceed the greater of (1) five individuals, or (2) the lesser of 5 percent of the total number of officers and employees of the taxpayer, or 25 individuals. Interest paid or accrued on debt under a contract covering a key person is deductible only to the extent the rate of interest does not exceed Moody's Corporate Bond Yield Average-Monthly Average Corporates for each month interest is paid or accrued.
	Phase-in rule.--No provision.	Phase-in rule.--The interest deduction allowed under the phase-in rule is for interest on debt incurred before September 18, 1995, with respect to a life	Phase-in rule.--With respect to debt incurred on or before December 31, 1995, any otherwise deductible interest paid or accrued after October

Item	*Present Law*	*House Bill*	*Senate Amendment*
		insurance contract that was in effect on that date and that covers only the individual who was insured under that policy on that date. During the 4-year phase-in period, the percentage of the deduction for interest that is disallowed for periods in 1996 is 20 percent; in 1997, 40 percent; in 1998, 60 percent; and in 1999, 80 percent. No deduction for interest is allowed under the phase-in after 1999.	13, 1995, and before January 1, 2001, is allowed to the extent the rate of interest does not exceed the lesser of (1) the borrowing rate specified in the contract as of October 13, 1995, or (2) a percentage of Moody's Corporate Bond Yield Average-Monthly Average Corporates for each month the interest is paid or accrued. For interest paid or accrued after October 13, 1995, and before January 1, 1997, the percentage of the Moody's rate is 100 percent; for interest paid or accrued in 1997, the percentage is 95 percent; for 1998, the percentage is 90 percent; for 1999, the percentage is 85 percent; for 2000, the percentage is 80 percent; and for 2001 and thereafter, the percentage is 0 percent.
		Effective date.--Effective with respect to interest paid or accrued after December 31, 1995 (subject to the phase-in).	**Effective date**.--With respect to debt incurred after December 31, 1995, no deduction is allowed for interest paid or accrued after December 31,

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			1995, except with respect to policies that satisfy the key person exception. With respect to interest paid or accrued on debt incurred on or before December 31, 1995, the phase-in rule (above) applies.
		Under a special 4-year income spreading rule, any amount received on the complete surrender, redemption or maturity of certain contracts in 1996, or in full discharge of the obligation under such a contract that is in the nature of a refund of the consideration paid from the contract in 1996, is includable ratably over the first four taxable years beginning with the taxable year the amount would otherwise have been includable. Use of the 4-year income-spreading rule does not cause interest paid or accrued prior to 1996 to be nondeductible solely by reason of failure to meet the 4-out-of-7 rule of present law. The contracts to which the 4-year	Same as House bill, except the 4-year income-spreading rule applies to any amount included in income during 1996, 1997, 1998, 1999, 2000, or 2001 as a result of such a transaction. Further, use of the this 4-year income-spreading rule, or the lapse of a contract after October 13, 1995, due to nonpayment of premiums, does not cause interest paid or accrued prior to January 1, 2001, to be nondeductible solely by reason by of causing the contract to be treated as a single premium contract within the meaning of section 264(b)(1) or by reason of failure to meet the 4-out-of-7 rule. The contracts to which the 4-year income-spreading rule applies are those meeting the

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		income-spreading rule applies are those, interest on debt under which was allowed prior to December 31, 1995, but is disallowed under the House bill.	present-law $50,000 limit, interest on which is subject to the Senate amendment.
		No provision.	In the case of an insurance company, the unamortized balance of policy expenses attributable to a contract with respect to which the 4-year income-spreading treatment is allowed to the policyholder is deductible in the year in which the transaction giving rise to income-spreading occurs.
		The provision does not apply to interest on debt with respect to contracts purchased on or before June 20, 1986.	Same as House bill, except that interest on such contracts paid or accrued after October 13, 1995, is allowable only to the extent the rate of interest does not exceed Moody's Corporate Bond Yield Average-Monthly Average Corporates for the month the interest is paid or accrued.
4. Phased-in repeal	Certain corporations with	The House bill repeals the	The Senate amendment also

Item	*Present Law*	*House Bill*	*Senate Amendment*
of section 936 credit (sec. 13605 of the House bill and sec. 12805 of the Senate amendment)	operations in the U.S. possessions may elect the section 936 credit with respect to possession business income and qualified possession source investment income (QPSII). The amount of the credit attributable to possession business income is subject to the economic activity limit or, if the corporation elected, the applicable percentage limit.	section 936 credit for taxable years beginning after December 31, 1995, with a grandfather rule for existing credit claimants.	repeals the section 936 credit for taxable years beginning after December 31, 1995, with a different set of grandfather rules for existing credit claimants.
		Existing credit claimant.--Under the House bill, a corporation is an existing credit claimant if it claimed the section 936 credit for any of its base period years (as defined below). A corporation that adds a substantial new line of business after September 13, 1995, ceases to be an existing credit claimant as of the beginning of the taxable year in which it adds such new line of business. A corporation that is an existing credit claimant is eligible to claim credits under the grandfather rule with respect to operations in any possession.	Existing credit claimant.--Under the Senate amendment, a corporation is an existing credit claimant with respect to a particular possession if it is engaged in the active conduct of business in such possession on October 13, 1995, and elects the section 936 credit for its taxable year that includes such date. A corporation is treated as engaged in the active conduct of a business on such date if it is engaged in such active conduct before January 1, 1996, and it has a binding contract with respect to such business on

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			October 13, 1995. A corporation that adds a substantial new line of business after October 13, 1995, ceases to be an existing credit claimant with respect to such possession as of the beginning of the taxable year in which it adds such new line of business. A corporation that is an existing credit claimant with respect to a possession (or possessions) is eligible to claim credits under the grandfather rules only with respect to operations in such possession (or possessions).
		Grandfather period.--Under the House bill, the grandfather period is ten years, with no section 936 credit for taxable years beginning after December 31, 2005.	Grandfather period.--Under the Senate amendment, the length of the grandfather period depends upon the type of income. The grandfather period for the credit attributable to business income is six years, with no credit attributable to business income for taxable years beginning after December 31, 2001. The grandfather period for the credit attributable to QPSII is five years, with no credit attributable

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			to QPSII for taxable years beginning after December 31, 2000.
		Income cap.--Under the House bill, the income eligible for the section 936 credit for each year in the grandfather period is subject to a cap computed based on the corporation's business income and QPSII for the base period years. The income for each of the base period years is adjusted by (1) an inflation factor reflecting inflation from such year to the year to which the cap is being applied, and (2) 5 percentage points compounded for each year from such year to the corporation's first taxable year beginning on or after September 13, 1995. The cap is the average of such adjusted income amounts for 3 of the corporation's 5 most recent taxable years ending before September 13, 1995, determined by disregarding the years in which such adjusted income amounts are highest and	Income cap.--No provision.

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		lowest. Special rules apply in computing the cap in the case of corporations that do not have significant income in each of such 5 taxable years. A corporation may elect to use as its cap the adjusted income amount for its taxable year ending in 1992. The reduction in the corporation's income for a year during the grandfather period to the amount of the cap is made to its business income and its QPSII for such year on a pro rata basis. The economic activity limit or applicable percentage limit is applied to the corporation's business income as reduced to reflect the application of the cap. The cap is adjusted to reflect acquisitions (within the same line of business) and dispositions by a corporation prior to the close of the grandfather period. <u>Limitation on business income credit</u>.--No provision.	<u>Limitation on business income credit</u>.--The computation of the credit attributable to business income during the grandfather

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			period depends upon whether the corporation is using the economic activity limit or the applicable percentage limit. For corporations using the economic activity limit, present law continues to apply in computing the credit attributable to business income throughout the grandfather period. For corporations using the applicable percentage limit, present law continues to apply in computing the credit attributable to business income through its taxable year beginning in 1998. For taxable years beginning in 1999-2001, the credit attributable to business income (determined under the applicable percentage limit) is limited to the following percentage of the amount otherwise determined: for 1999, 75%; for 2000, 50%; and for 2001, 25%. A corporation that elected to use the applicable percentage limit is permitted to revoke such election, provided that the revocation is made not later than with respect to the

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			corporation's first taxable year beginning after December 31, 1996.
		Limitation on QPSII credit.--No provision.	Limitation on QPSII credit.--For taxable years during the grandfather period, the credit attributable to QPSII is available only for income derived from a qualifying asset. A qualifying asset is an asset held by the corporation on October 13, 1995 or an asset that was purchased through the rollover of the proceeds of such an asset or its successor assets. For taxable years beginning in 1996 through 2000, income derived from such an asset is eligible for the credit attributable to QPSII only through the date that the asset, if distributed, would be eligible for the maximum reduction in local taxes.
		Special grandfather rule.--No provision.	Special grandfather rule.--A special grandfather rule applies to corporations that are existing credit claimants with respect to Guam, American Samoa or the

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			Commonwealth of the Northern Mariana Islands. A corporation that is an existing credit claimant with respect to such a possession continues to determine its section 936 credit with respect to operations in such possession under present law for its taxable years beginning before January 1, 2006.
		Effective date.--The provision is effective for taxable years beginning after December 31, 1995.	**Effective date**.--The provision is effective on date of enactment.
5. Corporate accounting--reform of the income forecast method (sec. 13606 of the House bill and sec. 12806 of the Senate amendment)	The cost of certain types of property (generally, motion picture and television films, shows and video tapes; books; patents; sound recordings; and video games) may be depreciated under the income forecast method of accounting. Under the income forecast method, depreciation for a taxable year is calculated by multiplying the cost of the	The House bill makes several changes to the income forecast method, including: (1) requiring that all income earned with respect to the property be taken into account; (2) providing that the cost of property subject to depreciation only includes amounts that satisfy the economic performance standards of sec. 461(h); (3) providing a look-back method that requires	Same as the House bill, except that in applying the income forecast method (and the look-back method), income earned after the tenth year after the property was placed in service need not be taken into account.

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	property by a fraction, the numerator of which is the income from the property during the taxable year and the denominator of which is the total estimated income from the property. The IRS has ruled that in applying the income forecast method, certain types of income need not be taken into account.	taxpayers to pay (or receive) interest to the extend depreciation calculated using estimated rather than actual income had been too rapid (or slow). In applying these rules, income from syndicating a television series generally need not be taken into account with respect to the episodes of the first three years of the series. **Effective date**.--Effective for property placed in service after September 13, 1995, unless placed in service pursuant to a binding written contract.	**Effective date**.--Same as the House bill.
6. Corporate pension transfers (sec. 13607 of the House bill)	In general.--Under present law, defined benefit pension plan assets generally may not revert to an employer prior to the termination of the plan and the satisfaction of all plan liabilities. Any assets that revert to the employer upon such termination are includible in the gross income of the employer and		

Item	*Present Law*	*House Bill*	*Senate Amendment*
	subject to an excise tax. The rate of the excise tax generally is 20 percent and is increased to 50 percent unless the employer maintains a replacement plan or makes certain benefit increases in connection with the plan termination.		
	Transfers from ongoing plans.--Under section 420 of the Code, employers may transfer excess assets in an overfunded defined benefit pension plan (other than a multiemployer plan) to pay certain retiree health liabilities.	Transfers from ongoing plans.--Under the House bill, section 420 is expanded to permit a qualified transfer of excess assets from a defined benefit pension plan (other than a multiemployer plan) to the employer, without limitation on the use of the excess assets.	Transfers from ongoing plans.--No provision. [Senate floor amendment by Senators Kennedy and Kassebaum adopted by a vote of 94-5. Before the floor amendment, the Senate amendment provided that transfers of excess pension assets could be made to pay for qualified retirement benefits, accident and health benefits, disability benefits, educational assistance, and dependent care assistance. The amount transferred would have been includible in the gross income of the employer. No excise tax would have applied. The provision would have applied to amounts transferred on or after the date of enactment in taxable

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			years beginning before January 1, 2002.]
	The assets transferred are not includible in the gross income of the employer and are not subject to the excise tax on reversions. The employer is not entitled to deduct retiree health benefits paid with transferred assets. Any transferred amounts not used for retiree health benefits for the year of transfer are required to be returned to the pension plan (with earnings). Returned amounts are not includible in income and are subject to the 20-percent excise tax.	Amounts transferred are includible in the gross income of the employer and generally subject to a 6.5 percent excise tax. No excise tax applies in the case of transfers occurring before July 1, 1996.	
	Transfer requirements.--A section 420 transfer is subject to a vesting requirement, an asset cushion requirement, and a notice requirement.	Transfer requirements.--Generally same as present law.	
	Vesting requirement.--Under the vesting requirement, the accrued retirement benefits of plan participants (including	Vesting requirement.--Same as present law.	

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	participants who separated from service during the 1-year period ending on the date of transfer) must be nonforfeitable as if the plan terminated immediately before the transfer.		
	Asset cushion requirement.--Under the asset cushion requirement, excess assets are defined to be the excess of the value of plan assets over the greater of (1) the plan's full funding limit, or (2) 125 percent of current liability. Excess assets are determined as of the most recent plan valuation date preceding the transfer. Thus, a transfer can only be made from a plan that is at least at the full funding limit and to which deductible employer contributions can no longer be made.	Asset cushion requirement.--Same as present law, except that excess assets are determined as of whichever of the following dates results in a lower value of excess assets: (1) January 1, 1995, or the last plan valuation date preceding January 1, 1995, or (2) the most recent plan valuation date preceding the transfer.	
	Notice requirement.--An employer is required to notify plan participants 60 days before a transfer occurs.	Notice requirement.--Same as present law.	

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	Expiration of provision.--Section 420 was originally adopted for a 5-year period, through 1995. It was extended in the implementing legislation for the General Agreement on Tariffs and Trade ("GATT") for an additional 5 years, through 2000.	Expiration of provision.--Same as present law. **Effective date**.--January 1, 1995.	
7. Modify exclusion of damages received on account of personal injury or sickness (sec. 13611 of the House bill and sec. 12811 of the Senate amendment)	In general.--Under present law, gross income does not include any damages received (whether by suit or agreement and whether as lump sums or as periodic payments) on account of personal injury or sickness. Taxation of punitive damages.--The exclusion from gross income of damages received on account of personal injury or sickness does not apply to punitive damages received in	Taxation of punitive damages.--The House bill provides that the exclusion from gross income does not apply to any punitive damages received on account of personal injury or sickness	Taxation of punitive damages.--Same as the House bill, except that the exclusion from gross income applies to punitive damages received in a wrongful death action, provided that the

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	connection with a case not involving physical injury or sickness. Courts presently differ as to whether the exclusion applies to punitive damages received in connection with a case involving a physical injury or physical sickness. Certain states provide that, in the case of claims under a wrongful death statute, only punitive damages may be awarded.	whether or not related to a physical injury or physical sickness.	applicable State law (as in effect on September 13, 1995 without regard to subsequent modification) provides, or has been construed to provide by a court decision issued on or before such date, that only punitive damages may be awarded in a wrongful death action. [Floor amendment by Senators Heflin and Shelby, adopted by voice vote.]
	Nonphysical injury damages.--Courts have interpreted the exclusion from gross income of damages received on account of personal injury or sickness broadly in some cases to cover awards for personal injury that do not relate to a physical injury or sickness. For example, some courts have held that the exclusion applies to damages in cases involving certain forms of employment discrimination and injury to reputation where there is no physical injury or sickness. The damages received in these cases generally consist of back	Nonphysical injury damages.--The House bill provides that the exclusion from gross income only applies to damages received on account of a personal physical injury or physical sickness. If an action has its origin in a physical injury or physical sickness, then all damages (other than punitive damages) that flow therefrom are treated as payments received on account of physical injury or physical sickness whether or not the recipient of the damages is the injured party. For example, damages (other than punitive	Nonphysical injury damages.--Same as the House bill.

Item	Present Law	House Bill	Senate Amendment
	pay and other awards intended to compensate the claimant for lost wages or lost profits. The Supreme Court recently held that damages received based on a claim under the Age Discrimination in Employment Act could not be excluded from income. In light of the Supreme Court decision, the Internal Revenue Service has suspended existing guidance on the tax treatment of damages received on account of other forms of employment discrimination.	damages) received by an individual on account of a claim for loss of consortium due to the physical injury or physical sickness of such individual's spouse are excludable from gross income. In addition, damages (other than punitive damages) received on account of a claim of wrongful death continue to be excludable from taxable income as under present law. The House bill also specifically provides that emotional distress is not considered a physical injury or physical sickness. Thus, the exclusion from gross income does not apply to any damages received (other than for medical expenses as discussed below) based on a claim of employment discrimination or injury to reputation accompanied by a claim of emotional distress. Because all damages received on account of physical injury or physical sickness are excludable from gross income, the exclusion from gross income does apply to	

Item	*Present Law*	*House Bill*	*Senate Amendment*
		any damages received based on a claim of emotional distress that is attributable to a physical injury or physical sickness. In addition, the exclusion from gross income applies to the amount of damages received that is not in excess of the amount paid for medical care attributable to emotional distress. **Effective date**.--The provisions generally are effective with respect to amounts received after December 31, 1995. The provisions do not apply to amounts received under a written binding agreement, court decree, or mediation award in effect on (or issued on or before) September 13, 1995.	**Effective date**.--Same as the House bill.
8. Expatriation tax provisions (secs. 13616-13618 of the House bill and secs. 12441-12442 of the Senate amendment)	In general.--Individuals who relinquish U.S. citizenship with a principal purpose of avoiding U.S. taxes are subject to special tax provisions for 10 years after expatriation.	In general.--Certain U.S. citizens who relinquish citizenship and certain long-term residents who terminate residency are subject to special tax provisions for 10 years after expatriation.	In general.--Certain U.S. citizens who relinquish citizenship and certain long-term residents who terminate residency generally are subject to tax on the unrealized gain in their property upon expatriation.

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	Date of loss of citizenship.--The determination of who is a U.S. citizen for tax purposes, and when such citizenship is lost, is governed by the provisions of the Immigration and Nationality Act, 8 U.S.C. section 1401, et. seq.	No provision.	Date of loss of citizenship.--Under the Senate amendment, for tax purposes, a U.S. citizen who formally renounces his citizenship before a U.S. consular officer is treated as losing citizenship as of that date. A citizen who provides the State Department with a statement confirming performance of an expatriating act is treated as losing citizenship as of the date the statement is provided (and not as of the date of the expatriating act). If neither of these rules apply, the citizen is treated as losing citizenship as of date the State Department issues a CLN or a court cancels his certificate of naturalization. The date the citizen is treated as losing citizenship applies for all tax purposes.
	Individuals covered.-- The expatriation income tax applies to any U.S. citizen who relinquishes citizenship with a principal purpose of avoiding	Individuals covered.--Under the House bill, the expatriation income tax applies to U.S. citizens who relinquish citizenship with a principal	Individuals covered.--Under the Senate amendment, the expatriation income tax applies to U.S. citizens who relinquish citizenship and long-term

Item	*Present Law*	*House Bill*	*Senate Amendment*
	U.S. taxes.	purpose of avoiding U.S. taxes. The expatriation tax provisions also apply to long-term residents who terminate residency with a principal purpose of avoiding U.S. taxes; a long-term resident is an individual who was a lawful permanent resident for at least 8 of the 15 taxable years ending with the year in which the termination occurs. U.S. citizens and long-term residents are deemed to have relinquished citizenship or terminated residency for a principal purpose of tax avoidance if (1) the individual's average U.S. income tax liability for the 5 years before the expatriation date exceeds $100,000 or (2) the individual's net worth as of the expatriation date is $500,000 or more (with indexing for these dollar thresholds). A U.S. citizen who satisfies the tax liability test or the net worth test is not subject to the	residents whose residency is terminated if they meet certain income or net worth thresholds. A long-term resident is an individual who was a lawful permanent resident for at least 8 of the 15 taxable years ending with the year in which the termination occurs. U.S. citizens who relinquish citizenship and long-term residents who terminate residency are subject to the expatriation income tax if: (1) the individual's average U.S. income tax liability for the 5 years before the expatriation date exceeds $100,000 or (2) the individual's net worth as of the expatriation date is $500,000 or more (with indexing for these dollar thresholds). An exception is provided for an individual born with dual citizenship who retains the non-U.S. citizenship and who is resident in the other country as of the expatriation date,

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		expatriation tax provisions if he can demonstrate that he did not have a principal purpose of tax avoidance and he is in one of the following categories: (1) the individual was born with dual citizenship and retains only the non-U.S. citizenship, (2) the individual becomes a citizen of the country in which the individual, his spouse, or one of his parents was born, (3) the individual was present in the U.S. for no more than 30 days in any year of the 10 years preceding the expatriation date, (4) the individual relinquishes citizenship before age 18 1/2, or (5) the individual is in any other category prescribed by regulations. In order to qualify for one of these exceptions, the former U.S. citizen must submit within 1 year of the expatriation date a ruling request for a determination that tax avoidance was not a principal purpose for the expatriation. The foregoing exceptions are not applicable to long-term residents, but	provided that he was resident in U.S. for no more than 8 of the 15 years before the expatriation date. Another exception is provided for a citizen who renounces U.S. citizenship before age 18-1/2, provided that he was a U.S. resident for no more than 5 years before the expatriation date.

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		Treasury is authorized to prescribe regulations providing exemptions applicable to long-term residents.	
	Imposition of tax.--A covered expatriate is subject to tax on his U.S. source income at the rates applicable to U.S. citizens rather than the rates applicable to other non-resident aliens for 10 years after expatriation. In addition, the scope of items treated as U.S. source income for this purpose is broader than those items generally considered to be U.S. source income (e.g., gains on the sale of personal property located in the United States and gains on the sale or exchange of stock or securities issued by U.S. persons are treated as U.S. source income). This alternative method of income taxation applies only if it results in a higher U.S. tax liability.	Imposition of tax.--The House bill expands the reach of the expatriation income tax. An expatriate who exchanges U.S. source property for foreign source property in a transaction that would otherwise qualify for nonrecognition treatment is required to recognize immediately as U.S. source income any gain on such exchange. However, this gain recognition rule does not apply if the expatriate enters into an agreement to treat income or gains derived from the property received in the exchange during the 10 years after the expatriation date as U.S. source income. Such an agreement terminates if the property transferred in the exchange is disposed of by the acquirer, and any gain not recognized by reason of the agreement is	Imposition of tax.--Under the Senate amendment, a covered expatriate is subject to tax on the unrealized gain in property held on the expatriation date. Property is deemed to be sold upon expatriation, and any net gain or loss on such deemed sale is recognized for tax purposes, subject to an exclusion for the first $600,000 of net gain. The expatriation income tax applies to all property interests held by the expatriate on the expatriation date, provided that any gain on such an interest would be includible in the expatriate's gross income if such interest were sold. The expatriation income tax also applies to trust interests under rules described below. Exclusions are provided for U.S. real property, qualified

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		recognized as U.S. source on such date. Treasury is authorized to issue regulations providing similar treatment for nonrecognition transactions within 5 years before the expatriation date. In addition, Treasury is authorized to issue regulations treating the removal of tangible personal property from the United States, and other circumstances that result in the conversion of U.S. source income to foreign source income without recognition of unrealized gain, as exchanges to which the foregoing rules would apply. The House bill treats as U.S. source any income or gains derived from stock in a foreign corporation if the expatriate owns (directly or indirectly) more than 50 percent (by vote or by value) of the stock of such corporation on the expatriation date or at any time during the preceding 2 years. Such	retirement plans and certain foreign pension plans. Treasury is authorized to issue regulations exempting other property interests as appropriate. The expatriate is required to pay a tentative tax within 90 days after the expatriation date, which tax reflects the gain on the deemed sale as well as other items for the portion of the year that precedes the expatriation date. An expatriate may elect to defer payment of the expatriation income tax with respect to any property. This election is made on an asset-by-asset basis. Under this election, the deferred tax accrues interest through the payment date. The deferred tax is payable when the asset is disposed of (or immediately before death if the asset is held at such time). The expatriate must provide adequate security and must waive any treaty rights that would preclude collection of

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		recharacterization applies only to the extent of the earnings and profits attributable to such stock earned or accumulated prior to the expatriation date (and while the ownership requirement is satisfied). The House bill also suspends the running of the 10-year period for imposition of the expatriation income tax with respect to a property during any period in which the individual's risk of loss with respect to such property is substantially diminished.	the tax in order to elect to defer payment.
		No provision.	Special rules for trust interests.--The Senate amendment provides special rules with respect to the application of the expatriation income tax in the case of trust interests. The rules applicable to trust interests depend on whether the trust is a qualified trust. A qualified trust is a trust governed by U.S. law which is required at all times to have U.S. trustee.

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			The expatriation tax with respect to a qualified trust interest is imposed only when a distribution is received. The amount of the expatriation tax is calculated as of the expatriation date based on the gain in the maximum assets that could be allocable to the trust interest (determined by resolving contingencies and discretionary powers in the expatriate's favor). The amount so calculated plus interest is collected from subsequent distributions as received. If a qualified trust interest is disposed of, the expatriate dies, or the trust ceases to be qualified, the expatriation tax is imposed at such time in an amount equal to the lesser of the remainder of the expatriation tax calculated as of the expatriation date (and not yet collected) or the amount of tax calculated with respect to the gain in trust assets allocable to the interest at the time of such event.

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			The tax with respect to qualified trust interests generally is imposed on distributions and is collected through withholding, provided that the expatriate waives any treaty rights that would preclude collection of the tax. If the expatriate does not agree to a waiver of such treaty rights (and in the case of tax imposed in connection with the expatriate's disposition of a trust interest, the expatriate's death while holding the trust interest, or the expatriate's holding of a trust interest that ceases to be qualified), the tax is imposed on the trust with a right of contribution for other beneficiaries. In the case of a nonqualified trust interest, the expatriate's interest in the trust is determined based on the facts and circumstances on the expatriation date. The expatriation tax is imposed on the gain in the trust interest determined as if the trust assets

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			were sold for fair market value on expatriation date. Payment of the expatriation tax that is imposed with respect to a nonqualified trust interest could be deferred under the rules described above.
		No provision.	Election to be taxed as a U.S. citizen.--Instead of being subject to the expatriation tax on unrealized gain in his property at the time of expatriation, the expatriate may elect to continue to be taxed as a U.S. citizen with respect to all property that would otherwise be subject to the expatriation tax. This election covers all such property (and any property the basis of which is determined by reference to such property). The income, gift, estate, and generation-skipping transfer taxes continue to apply to such property; however, the transfer taxes imposed under this provision are limited to the amount of income tax that would be due if the property were sold for its fair

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			market value at the time of the transfer. The $600,000 exclusion is available to reduce taxes imposed by reason of this election. In order to make the election, the expatriate is required to provide security and waive any treaty rights that would preclude collection of the tax.
		Special basis rule for long-term residents.--The House bill provides that a long-term resident may elect to use the fair market value basis of property on the date the individual became a U.S. resident to determine the amount of gain subject to the expatriation tax provisions if the property is sold within the 10-year period after expatriation.	No provision.
	Special estate and gift tax provisions.--Rules applicable in the estate and gift tax contexts expand the categories of items that are subject to the gift and estate taxes in the case of a U.S.	Special estate and gift tax provisions.--Under the House bill, the special expatriation estate and gift tax provisions are applicable to the covered individuals described above.	Special estate and gift tax provisions.--Under the Senate amendment, the special estate and gift tax provisions with respect to citizens who expatriate with a principal

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	citizen who relinquished citizenship with a principal purpose of avoiding U.S. taxes within the 10-year period ending on the date of the transfer (e.g., U.S. property held through a foreign corporation controlled by the expatriate and related persons is included in his estate and gifts of U.S.-situs intangible property by the expatriate are subject to the gift tax).		purpose of avoiding U.S. tax continue to apply as under present law.
		Special tax credit provisions.--The House bill provides a credit against the tax imposed under the expatriation tax provisions for any foreign income, gift, estate or similar taxes paid with respect to the items subject to such taxation. While it is believed that the expatriation tax provisions of the House bill are generally consistent with income tax treaties, it is intended that the expatriation tax provisions not be defeated by any treaty provision. However, beginning	Special tax credit provisions.--A credit against the tax imposed solely by reason of the special estate and gift tax provisions is allowed for the expatriation income tax imposed with respect to the same property.

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		on the 10th anniversary of enactment, any conflicting treaty provision that remains in force takes precedence over the expatriation tax provisions.	
		No provision.	Treatment of gifts and inheritances from an expatriate.--Under the Senate amendment, the section 102 exclusion is not applicable to property received by gift or inheritance from an expatriate who was subject to the expatriation tax.
	Information reporting.--There is no special information reporting requirement with respect to U.S. citizens who lose U.S. citizenship or long-term residents who terminate U.S. residency.	Information reporting.--The House bill imposes an information reporting requirement on an individual who renounces citizenship or terminates residency. Statements are required to be provided to the State Department in the case of a former U.S. citizen and filed with the U.S. tax return for the year in which the termination of residency occurs in the case of a former long-term resident. Failure to provide the required	Information reporting.--Same as the provision in the House bill.

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		statement results in a penalty for each year the failure continues equal to the greater of (1) 5 percent of the individual's expatriation tax liability for such year or (2) $1,000. The State Department is required to provide Treasury with all statements received from former citizens and the names of those who refuse to provide the statement. The State Department is also required to provide Treasury with a copy of each CLN approved. The agency administering the immigration laws is required to provide Treasury with the names of individuals whose residency status is revoked or determined to have been abandoned. Treasury is required to publish in the *Federal Register* the names of all former citizens from whom it receives statements or whose names it receives under the information-sharing provisions.	

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		Treasury Department study.--Treasury is directed to undertake a study on the tax compliance of U.S. citizens and green-card holders residing abroad and to make recommendations regarding the improvement of such compliance.	No provision.
		Effective date.--The expatriation tax provisions of the House bill apply to individuals who relinquish citizenship on or after February 6, 1995 and to long-term residents whose residency is terminated on or after June 13, 1995. An individual who committed an expatriating act within one year prior to February 6, 1995, but who had not applied for a CLN as of February 6, 1995, is subject to the expatriation tax provisions of the House bill as of the date of application for CLN. Such individual is not subject retroactively to U.S. income taxes on his worldwide income. In order to qualify for one of the	**Effective date**.--The Senate amendment applies to individuals who terminate residency or who are treated as losing citizenship on or after February 6, 1995. An individual who committed an expatriating act before February 6, 1995 but who provided the confirming statement or had a CLN issued on or after such date is subject to the expatriation tax imposed under the Senate amendment. Such individual is not subject retroactively to tax as a U.S. citizen from the date of the expatriating act. The prior law expatriation income tax provisions of section 877 continue to apply to such individual through the date the

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		exceptions from the expatriation tax provisions, such individual must submit a ruling request within one year after the date of enactment.	new expatriation tax provisions are applicable. The tentative tax and required statement are due not earlier than 90 days after date of enactment of the Senate amendment.
9. Repeal 50-percent interest income exclusion for financial institution loans to ESOPs (sec. 12808 of the Senate amendment)	A bank, insurance company, regulated investment company, or a corporation actively engaged in the business of lending money may generally exclude from gross income 50 percent of interest received on an ESOP loan (sec. 133). The 50-percent interest exclusion only applies if: (1) immediately after the acquisition of securities with the loan proceeds, the ESOP owns more than 50 percent of the outstanding stock or more than 50 percent of the total value of all outstanding stock of the corporation; (2) the ESOP loan term will not exceed 15 years; and (3) the ESOP provides for full pass-through	No provision.	The Senate amendment repeals the 50-percent interest exclusion with respect to ESOP loans. **Effective date.**--The provision generally is effective with respect to loans made after October 13, 1995. The repeal of the 50-percent interest exclusion does not apply to the refinancing of an ESOP loan originally made on or before October 13, 1995, provided (1) such refinancing loan otherwise meets the requirements of section 133 in effect on or before October 13, 1995; (2) the outstanding principal amount of the loan is not increased; and (3) the term of the refinancing loan does not

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	voting to participants on all allocated shares acquired or transferred in connection with the loan.		extend beyond the term of the original ESOP loan.
10. Repeal wine and flavors tax credit (sec. 12832 of the Senate amendment)	Producers of distilled spirits are allowed a tax credit for the alcohol in these products that is (a) derived from fruit (i.e., "wine") or (b) attributable to certain flavorings.	No provision.	The Senate amendment repeals the wine and flavors tax credit (i.e., taxes all alcohol in distilled spirits products at the same rate). **Effective date**.--January 1, 1996.
11. Modifications to the excise tax on ozone-depleting chemicals (sec. 12833 of the Senate amendment)	An excise tax is imposed on the sale or use by the manufacturer or importer of certain ozone-depleting chemicals (Code sec. 4681). Taxable chemicals that are recovered and recycled within the United States are exempt from tax.	No provision.	The Senate amendment extends the exemption from tax for domestically recovered and recycled ozone-depleting chemicals to imported recycled halons. The exemption for imported recycled halons applies only to such chemicals imported from countries that are signatories to the Montreal Protocol. **Effective date**.--Date of enactment.

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12. Allow certain utilities to elect not to be eligible for future tax-exempt bond financing (sec. 12834 of the Senate amendment)	Tax-exempt bonds may be issued to benefit electric and gas utilities whose service area does not exceed (a) two contiguous counties or (b) a city and one contiguous county. These utilities are referred to as "local furnishers." If certain disqualifying events occur after bonds are issued, (a) interest on the bonds may become taxable, and (b) interest paid by the utilities on bond-financed loans becomes nondeductible. Expansion of a utility's service area is a disqualifying event.	No provision.	Allows local furnishers to expand their service areas without penalty if: (1) No additional bonds are issued after the amendment's enactment; (2) Outstanding bonds are redeemed on the earliest date allowed under the bond documents; and (3) No bonds are used to finance the service area expansion. Limits qualification as local furnishers to utilities these are qualified on the date of the amendment's enactment. **Effective date**.--Date of enactment.
13. Tax-exempt bonds for the sale of Alaska Power Administration	Tax-exempt bonds may be issued for the benefit of certain private electric utilities. If the bonds are used to finance	No provision.	The Senate amendment waives the rehabilitation requirement in the case of bonds to be issued as part of sale of the Snettisham

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facility (sec. 12835 of the Senate amendment)	acquisition of existing property, a rehabilitation requirement must be satisfied.		facility by the Alaska Power Administration. **Effective date**.--Bonds issued after date of enactment.
14. Modify treatment of foreign trusts (secs. 12841-12846 of the Senate amendment)	Inbound foreign grantor trust rules.--Under the grantor trust rules, a grantor generally is treated as the owner of the trust's assets without regard to whether the grantor is a domestic or foreign person. Under these rules, U.S. trust beneficiaries can avoid U.S. tax on distributions from a trust where a foreign grantor is treated as owner of the trust, even though no tax may be imposed on the trust income by any jurisdiction.	No provision.	Inbound foreign grantor trust rules.--The Senate amendment generally applies the grantor trust rules only to the extent that they result, directly or indirectly, in amounts being currently taken into account in computing the income of a U.S. citizen or resident or a domestic corporation. Certain exceptions apply to this general rule. Under the exceptions, the general rule does not apply in the case of revocable trusts and trusts where the only amounts distributed during the lifetime of the grantor are to the grantor or the grantor's spouse. These exceptions do not apply to the extent of gifts made by a U.S. beneficiary of the trust to the foreign grantor.

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			Effective date.--The provision is effective on the date of enactment.
	Foreign nongrantor trust rules.--Under the accumulated distribution rules (which generally apply to distributions from a trust in excess of the trust's distributable net income for the taxable year), a distribution by a foreign nongrantor trust of previously accumulated income generally is taxed at the U.S. beneficiary's average marginal rate for the prior 5 years, plus interest. Interest is computed at a fixed annual rate of 6 percent, with no compounding. If adequate records of the trust are not available to determine the proper application of the rules relating to accumulation distributions to any distribution from a trust, the distribution is treated as an accumulation distribution out of income earned during the first year of the trust.	No provision.	Foreign nongrantor trust rules.--Under the Senate amendment, the interest rate applicable to accumulation distributions from foreign nongrantor trusts is the interest imposed on underpayments of tax under section 6621(a)(2), with compounding. Simple interest continues to accrue at the rate of 6 percent through 1995. Beginning on January 1, 1996, compound interest based on the underpayment rate will be imposed on tax amounts determined under the accumulation distribution rules and the total simple interest for pre-1996 periods, if any. For purposes of computing the interest charge, the accumulation distribution is allocated proportionately to prior trust years in which the trust has undistributed net income (and the beneficiary receiving the

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			distribution was a U.S. citizen or resident), rather than to the earliest of such years. **Effective date.**--The provision applies to distributions after the date of enactment.
	If a foreign nongrantor trust makes a loan to one of its beneficiaries, the principal of such a loan is generally not taxable as income to the beneficiary.	No provision.	Under the Senate amendment, the full amount of a loan of cash or marketable securities by the foreign nongrantor trust to a U.S. grantor or a U.S. beneficiary (or a U.S. person related to such a grantor or beneficiary) is treated as distributed to the grantor or beneficiary, even if the loan bears interest at an adequate rate and is subsequently repaid. **Effective date.**--The provision applies to loans made after September 19, 1995.
	Outbound foreign grantor trust rules.--Under the grantor trust rules, a U.S. person who transfers property to a foreign trust generally is treated as the	No provision.	Outbound foreign grantor trust rules.--The Senate amendment treats a nonresident alien individual who transfers property to a foreign trust and

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	owner of the portion of the trust comprising that property for any taxable year in which there is a U.S. beneficiary of any portion of the trust. This treatment generally does not apply, however, to transfers by reason of death, to transfers made before the transferor became a U.S. person, or to sales or exchanges of property at fair market value where gain is recognized to the transferor.		then becomes a U.S. resident within 5 years after the transfer as making a transfer to the foreign trust on his residency starting date. Under the Senate amendment, in determining whether a foreign trust paid fair market value to the transferor for property transferred to the trust, obligations issued by the trust, by any grantor or beneficiary of the trust, or by any person related to any grantor or beneficiary generally are not taken into account except as provided in regulations. **Effective date**.--The provision applies to transfers of property after February 6, 1995.
	Residence of estates and trusts.--An estate or trust is treated as foreign if it is not subject to U.S. income taxation on its income that is neither derived from U.S. sources nor effectively connected with the conduct of a U.S. trade or business. Thus, if	No provision.	Residence of estates and trusts.--The Senate amendment establishes a two-part objective test for determining whether a trust is foreign or domestic for tax purposes. If both parts of the test are satisfied, the trust is treated as domestic. Only the

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	a trust is taxed in a manner similar to a nonresident alien individual, it is considered to be a foreign trust. Any other estate or trust is treated as domestic. Section 1491 generally imposes a 35-percent excise tax on a U.S. person that transfers appreciated property to certain foreign entities, including a foreign trust. In the case of a domestic trust that changes its situs and becomes a foreign trust, it is unclear whether property has been transferred from a U.S. person to a foreign entity, and, thus, whether the transfer is subject to the excise tax.		first part of the test applies to estates. First, if a U.S. court exercises primary supervision over the administration of the estate or trust, the estate or trust is treated as domestic. Second, if one or more U.S. fiduciaries have the authority to control all substantial decisions of the trust, the trust is treated as domestic. Under the Senate amendment, if a domestic trust changes its situs and becomes a foreign trust, the trust is treated as having made a transfer of its assets to the foreign trust and is subject to the 35-percent excise tax imposed by present-law section 1491 unless one of the exceptions to this excise tax is applicable. **Effective date**.--The provision modifying the rules to determine the residence of a trust or estate is effective for taxable years beginning after December 31, 1996. A trustee may elect to apply the provision to taxable years ending after the date of

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			enactment. The amendment to section 1491 is effective on the date of enactment.
	Information reporting requirements and associated penalties.--Any U.S. person who creates a foreign trust or transfers money or property to a foreign trust is required to report that event to the IRS without regard to whether the trust is a grantor or a nongrantor trust. Similarly, any U.S. person who transfers property to a foreign trust that has one or more U.S. beneficiaries is required to report annually to the IRS. In addition, if the transfer of any appreciated property by a U.S. person is subject to section 1491, the transferor is required to report the transfer to the IRS.	No provision.	Information reporting requirements and associated penalties.--Under the Senate amendment, the grantor, transferor or executor (the "responsible party") is required to notify the IRS upon the occurrence of certain reportable events, including the death of a U.S. citizen or resident if any portion of a foreign trust was included in the gross estate of the decedent. In addition, a U.S. owner of any portion of a foreign trust is required to ensure that the trust files an annual report with the IRS to provide full accounting of all the trust activities for the taxable year. Finally, any U.S. person who receives any distribution from a foreign trust is required to file a notice with the IRS to report the aggregate amount of the distributions received during the taxable year.

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			The Senate amendment requires a U.S. owner of any portion of a foreign trust to appoint a limited U.S. agent to accept service of process with respect to requests and summons by the IRS in connection with tax treatment of items related to the trust. If a U.S. owner fails to appoint such an agent, the IRS may determine, in its discretion, the amount to be taken into account by a U.S. person under the grantor trust rules. In cases where adequate records are not provided to the Secretary to determine the proper treatment of any distributions from a foreign trust, the distribution includible in the gross income of the distributee will be treated as an accumulated distribution from a foreign trust, unless the foreign trust elects to have a U.S. agent for the limited purpose of accepting service of process (as described above).
	Any person who fails to file a required report with respect to	No provision.	Under the Senate amendment, a person who fails to provide the

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	the creation of, or a transfer to, a foreign trust may be subjected to a penalty of 5 percent of the amount transferred to the foreign trust. Similarly, any person who fails to file a required annual report with respect to a foreign trust with U.S. beneficiaries may be subjected to a penalty of 5 percent of the value of the corpus of the trust at the close of the taxable year. The maximum amount of the penalty imposed under either case may not exceed $1,000. A reasonable cause exception is available.		required notice in cases involving the transfer of property to any foreign trust, or a distribution by a foreign trust to a U.S. person, is subject to an initial penalty equal to 35 percent of the "gross reportable amount" (generally the value of the property involved in the transaction). A failure to provide an annual reporting of trust activities will result in an initial penalty equal to 5 percent of the gross reportable amount. An additional $10,000 penalty is imposed for continued failure for each 30-day period beginning 90 days after the IRS notifies the responsible party of such failure. Such penalties are subject to a reasonable cause exception. In no event will the total amount of penalties exceed the gross reportable amount. **Effective date**.--The reporting requirements and applicable penalties generally apply to reportable events occurring or distributions received after the

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			date of enactment. The annual reporting requirement and penalties applicable to U.S. grantors apply to taxable years of such persons beginning after the date of enactment.
	Reporting of certain foreign gifts.--There is no requirement to report gifts or bequests from foreign sources.	No provision.	Reporting of certain foreign gifts.--The Senate amendment generally requires any U.S. person (other than certain tax-exempt organizations) that receives purported gifts or bequests from foreign sources totaling more than $10,000 during the taxable year to report them to the IRS. If the U.S. person fails, without reasonable cause, to report foreign gifts as required, the U.S. person will be subject to a penalty equal to 5 percent of the amount of the gift for each month that the failure continues, with the total penalty not to exceed 25 percent of such amount. In addition, certain IRS sanctions also may apply. **Effective date**.--This provision applies to amounts received after

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			the date of enactment.
15. Treatment of financial asset securitization investment trusts ("FASITs")(sec. 12851 of Senate amendment)	An individual can own income-producing assets directly, or indirectly through an entity (i.e., a corporation, partnership, or trust). Where an individual owns assets through an entity (e.g., a corporation), the nature of the interest in the entity (e.g., stock of a corporation) is different than the nature of the assets held by the entity (e.g., assets of the corporation). Securitization is the process of converting one type of asset into another and generally involves the use of an entity separate from the underlying assets. In the case of securitization of debt instruments, the instruments created in the securitization typically have different maturities and characteristics than the debt instruments that are securitized.	No provision.	The Senate amendment creates a new type of statutory entity called a "financial asset securitization investment trust" ("FASIT") that facilitates the securitization of debt obligations such as credit card receivables, home equity loans, and auto loans. A FASIT generally will not be taxable; the FASIT's taxable income or net loss will flow through to the owner of the FASIT. The ownership interest of a FASIT generally will be required to be entirely held by a single domestic C corporation. In addition, a FASIT generally may hold only qualified debt obligations, and certain other specified assets, and will be subject to certain restrictions on its activities. An entity that qualifies as a FASIT can issue instruments that meet certain specified requirements and treat

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	Entities used in securitization include entities that are subject to tax (e.g., a corporation), conduit entities that generally are not subject to tax (e.g., a partnership, grantor trust, or real estate mortgage investment conduit ("REMIC")), or partial-conduit entities that generally are subject to tax only to the extent its income is not distributed to its owners (e.g., a trust, real estate investment trust ("REIT"), or regulated investment company ("RIC")). There is no statutory entity that facilitates the securitization of revolving, non-mortgage debt obligations.		those instruments as debt for Federal income tax purposes. Instruments bearing yields to maturity over 5 percentage points above the yield to maturity on specified United States government obligations (i.e., "high-yield interests") may be held only by domestic C corporations that are not exempt from income tax. **Effective date**.--The provisions take effect on the date of enactment.
16. Treatment of contributions in aid of construction for water utilities (sec. 12861(a) of the Senate amendment)	Pursuant to a provision in the Tax Reform Act of 1986 ("1986 Act"), the receipt of a contribution in aid of construction by a utility must be included in its income. The utility takes a depreciable basis in the property received as a	No provision.	The Senate amendment restores the pre-1986 Act treatment of contributions in aid of construction for water utilities. **Effective date**.--Amounts received after the date of enactment.

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	contribution. Prior to the 1986 Act, a utility was not required to include in income a contribution in aid of construction, and was not allowed a depreciable basis in the property received as a contribution.		
17. Require water utility property to be depreciated over 25 years (sec. 12861(b) of the Senate amendment)	Property used by a water utility in the gathering, treatment, and commercial distribution of water and municipal sewers are depreciated over a 20-year period for regular tax purposes. The depreciation method generally applicable to property with a recovery period of 20 years is the 150-percent declining balance method (switching to the straight-line method in the year that maximizes the depreciation deduction). The straight-line method applies to property with a recovery period over 20 years.	No provision.	The Senate amendment provides that water utility property will be depreciated using a 25-year recovery period and the straight-line method for regular tax purposes. For this purpose, "water utility property" means (1) property that is an integral part of the gathering, treatment, or commercial distribution of water, and that, without regard to the proposal, would have had a recovery period of 20 years and (2) any municipal sewer. **Effective date**.--Effective for property placed in service after the date of enactment, other than property placed in service pursuant to a binding contract in effect on such date and at all

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			times thereafter before the property is placed in service.
18. Allow amortization for intrastate operating rights of motor carriers (sec. 12862 of the Senate amendment)	A taxpayer is allowed to write-off and deduct the adjusted basis of property used in trade or business when such property becomes worthless (sec. 165). A deduction is not allowed if the property merely loses value but does not become worthless. Effective January 1, 1995, section 601 of the Federal Aviation Administration Authorization Act of 1994 preempts and prohibits State regulation of the price, route, or service of intrastate operations of motor carriers.	No provision.	The Senate amendment allows a taxpayer who held, on January 1, 1995, one or more operating authorities that were preempted by section 601 of the Federal Aviation Administration Authorization Act of 1994, to amortize the aggregate adjusted bases of such authorities ratably (i.e., on straight-line basis) over the 36-month period beginning January 1, 1995. **Effective date**.--For taxable years ending on or after January 1, 1995.
19. Establish 15-year recovery period for retail motor fuel outlet stores (sec. 12863 of the Senate amendment)	Property used in the retail gasoline trade is depreciated under section 168 using a 15-year recovery period and the 150-percent declining balance method. Nonresidential real property (such as a convenience store) is depreciated using a 39-	No provision.	The Senate amendment provides that 15-year property includes any section 1250 property (generally, depreciable real property) that is a retail motor fuel outlet (whether or not food or other convenience items are sold at the outlet). A retail

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	year recovery period and the straight-line method. It is understood that taxpayers generally have taken the position that convenience stores and other structures installed at motor fuel retail outlets have a 15-year recovery period. The IRS, in a position described in a recent Coordinated Issues Paper, generally limits the application of the 15-year recovery period to instances where the structure (1) is 1,400 square feet or less or (2) meets a 50-percent test. The 50-percent test is met if : (1) 50 percent or more of the gross revenues that are generated from the building are derived from petroleum sales and (2) 50 percent or more of the floor space in the building is devoted to petroleum marketing sales.		motor fuel outlet does not include any facility related to petroleum or natural gas trunk pipelines or to any section 1250 property used only to an insubstantial extent in the retail marketing of petroleum or petroleum products. **Effective date.**--Effective for property placed in service before, on, or after the date of enactment and to which the amendments made by section 201 of the Tax Reform Act of 1986 apply (i.e., property subject to the modified Accelerated Cost Recovery System of sec. 168). The taxpayer may elect to forego the application of the provision for any property placed in service prior to the date of enactment.
20. Treatment of certain gains and losses of life insurance companies under	A special limitation on ordinary loss treatment applies in the case of a life insurance company, which provides that property used in the trade or business	No provision.	Capital loss treatment under present law does not apply to 85 percent of a life insurance company's losses from the sale or exchange of foreclosed real

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section 818(b) (sec. 12873 of the Senate amendment)	includes only property used in carrying on an insurance business. For example, a loss on the sale or exchange of real estate that is held by a life insurance company and that is not used in the insurance business is treated as a capital loss, and is allowed only to the extent of capital gain.		estate. The 85 percent of losses from such property is required to be treated as ordinary loss allowable in equal amounts over each of the first 10 taxable years following the year of disposition. Present-law capital loss treatment is retained for the remaining 15 percent of such losses. **Effective date**.--Taxable years beginning after December 31, 1994.
21. Clarify treatment of newspaper distributors and carriers as direct sellers (sec. 12875 of the Senate amendment)	For income and employment tax purposes, a "direct seller" is deemed to be an independent contractor. A direct seller is a person engaged in the trade or business of selling consumer products in the home or otherwise than in a permanent retail establishment, if substantially all the remuneration for the performance of the services is directly related to sales or other output rather than to the number of hours worked,	No provision.	The Senate amendment clarifies the treatment of qualifying newspaper distributors and carriers as direct sellers. A person engaged in the trade or business of the delivery or distribution of newspapers or shopping news (including any services that are directly related to such trade or business such as solicitation of customers or collection of receipts) qualifies as a direct seller, provided substantially all the remuneration

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	and the services performed by the person are performed pursuant to a written contract between such person and the service recipient and such contract provides that the person will not be treated as an employee for Federal tax purposes. There is presently some dispute as to whether newspaper distributors and carriers qualify as direct sellers under current law.		for the performance of the services is directly related to sales or other output rather than to the number of hours worked, and the services performed by the person are performed pursuant to a written contract between such person and the service recipient and such contract provides that the person will not be treated as an employee for Federal tax purposes. **Effective date.**--The provision is effective with respect to services performed after December 31, 1995.
22. Allow bank common trust funds to transfer assets to regulated investment companies without taxation (sec. 12876 of the Senate amendment)	The common trust fund of a bank is not subject to tax and is not treated as a corporation. Each participant in a common trust fund includes his proportional share of common trust fund income, whether or not the income is distributed or distributable. Participants generally treat their admission to	No provision.	Permits a common trust fund to transfer substantially all of its assets to one or more RICs without gain or loss being recognized by the fund or its participants. The fund must transfer its assets to the RICs solely in exchange for shares of the RICs, and the fund must then distribute the RIC shares to the

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	the fund as the purchase of an interest. Withdrawals from the fund generally are treated as the sale of an interest by the participant. A RIC also is treated as a conduit for Federal income tax purposes. Present law is unclear as to the tax consequences when a common trust fund transfers its assets to one or more RICs.		fund's participants in exchange for the participant's interests in the fund. The basis of any asset that is received by a RIC will be the basis of the asset in the hands of the fund prior to transfer. In addition, the basis of any RIC shares that are received by a fund participant will be an allocable portion of the participant's basis in the interests exchanged. **Effective date**.--Transfers after December 31, 1995.
23. Remove business exclusion for energy subsidies provided by public utilities (sec. 13622 of the House bill)	Present law provides a full exclusion from gross income for the value of any subsidy provided by a utility for the purchase or installation of an energy conservation measure with respect to a dwelling unit and a partial exclusion for subsidies provided with respect to property that is not a dwelling unit. The amount of the partial	The House bill repeals the partial exclusion for any subsidy provided by a utility for the purchase or installation of an energy conservation measure with respect to property that is not a dwelling unit. **Effective date**.--The provision is effective for subsidies received after September 13, 1995,	No provision.

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	exclusion is 40 percent of the value for subsidies received in 1995, 50 percent of the value for subsidies received in 1996, and 65 percent of the value for subsidies received after 1996. For this purpose, an energy conservation measure generally is any installation or modification primarily designed to reduce consumption of electricity or natural gas or to improve the management of energy demand with respect to property.	unless received pursuant to a binding written contract in effect on that date and all times thereafter.	
24. Require taxpayers to include rental value of residence in income without regard to period of rental (sec. 13640 of the House bill)	Gross income for purposes of the Internal Revenue Code generally includes all income from whatever source derived, including rents. The Code (sec. 280A(g)) provides a *de minimis* exception to this rule where a dwelling unit is used during the taxable year by the taxpayer as a residence and such dwelling unit is actually rented for less than 15 days during the taxable year. In	The House bill repeals the 15-day rules of section 280A(g). It also provides that no reduction in basis is required if the taxpayer: (1) rented the dwelling unit for less than 15 days during the taxable year and (2) did not claim depreciation on the dwelling unit for the period of rental. **Effective date.**--Taxable years	No provision.

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	this case, the income from such rental is not included in gross income and no deductions arising from such rental use are allowed as a deduction.	beginning after December 31, 1995.	
25. Allow conversion of scholarship funding corporation to taxable corporation (sec. 13641 of the House bill)	Qualified scholarship funding corporations are nonprofit corporations established and operated exclusively for the purpose of acquiring student loan notes incurred under the Higher Education Act of 1965 (sec. 150(d)). In addition, a qualified scholarship funding corporation must be required by its corporate charter and bylaws, or under State law, to devote any income (after payment of expenses, debt service and the creation of reserves for the same) to the purchase of additional student loan notes or to pay over any income to the United States. In general, State and local government bonds issued to finance private loans (e.g.,	In general.--The House bill provides that a nonprofit student loan funding corporation may elect to cease its status as a qualified scholarship funding corporation. If the corporation meets the requirements outlined below, such an election will not cause any bond outstanding as of the date of the issuer's election and any bond issued to refund such a bond to fail to be a qualified student loan bond. Once made, an election may be revoked only with the consent of the Secretary of Treasury. After making the election, the issuer is not authorized to issue any new bonds. Requirements.--First, upon making the election, the issuer is required to transfer all of the	No provision.

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	student loans) are taxable private activity bonds. However, interest on qualified student loan bonds is tax-exempt. Qualified scholarship funding corporations are eligible issuers of qualified student loan bonds. The Internal Revenue Code restricts the direct and indirect investment of bond proceeds in higher yielding investments and requires that profits on investments that are unrelated to the government purpose for which the bonds are issued be rebated to the United States. Special allowance payments (SAP) made by the Department of Education are treated as interest on notes and, therefore, are permitted arbitrage that need not be rebated to the United States. Generally, a private foundation and disqualified persons may, in the aggregate, own 20 percent of the voting stock of a functionally unrelated	student loan notes to another, taxable, corporation in exchange for senior stock of such corporation within a reasonable period of time after the election is made. Immediately after the transfer, the issuer, and any other issuer who made the election, is required to hold all of the senior stock of the corporation. Senior stock is stock whose rights to dividends, liquidation or redemption rights are not inferior to those of any other class of stock and that (1) participates pro rata and fully in the equity value of any other common stock of the corporation, (2) has the right to payments receivable in liquidation prior to any other stock in the corporation, (3) upon liquidation or redemption, has a fixed right to receive the greater of (a) the fair market value of the stock at the date of liquidation or redemption or (b) the net fair market value of all assets transferred to the corporation by the issuer, and	

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	corporation.	(4) has a right to require its redemption by a date which is not later than 10 years after the date that the election is made. Second, the transferee corporation is required to assume or otherwise provide for the payment of all the qualified scholarship funding bond indebtedness of the issuer within a reasonable period after the election. Lastly, immediately after the transfer, the issuer (i.e., the nonprofit student loan funding corporation) is required to become a charitable organization (described in section 501(c)(3) that is exempt from tax under section 501(a)), at least 80 percent of the members of its board of directors must be independent members, and it must hold all of the senior stock of the corporation. Excess business holdings.--For purposes of the excess business	

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		holding restrictions imposed on a private foundation, the charity would not be required to divest its ownership in a corporation most of whose assets are student loan notes incurred under the Higher Education Act of 1965. **Effective date**.--The provision is effective on the date of enactment.	
26. Apply look-through rule for purposes of characterizing certain subpart F insurance income as unrelated business taxable income (sec. 13642 of the House bill)	Dividend income is excluded from unrelated business taxable income. The treatment of income inclusions under subpart F for unrelated business income tax purposes is not entirely clear, but the IRS has issued several private letter rulings concluding that subpart F inclusions are treated as dividends for unrelated business income tax purposes.	The House bill applies a look-through rule in characterizing certain subpart F insurance income for unrelated business income tax purposes. The look-through rule applies to amounts that constitute insurance income currently includible in gross income under the subpart F rules and that are not attributable to the insurance of risks of (1) the tax-exempt organization itself, (2) tax-exempt affiliates of such organization, and (3) employees of such organization or such affiliates if the insurance covers solely risks associated with the	No provision.

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		performance of services for the benefit of such organization or affiliates. **Effective date.**--The provision applies to amounts includible in gross income in taxable years beginning after December 31, 1995.	
27. Increase deductibility of business meal expenses for individuals subject to Federal hours of service limitations (sec. ___ of the Senate amendment)	In general, 50 percent of meal and entertainment expenses incurred in connection with a trade or business that are ordinary and necessary (and not lavish or extravagant) are deductible (sec. 274). Food or beverage expenses are fully deductible provided that they are (1) required by Federal law to be provided to crew members of a commercial vessel, (2) provided to crew members of similar commercial vessels not operated on the oceans, or (3) provided on certain oil or gas platforms or drilling rigs.	No provision.	The Senate amendment provides that 80 percent of meal expenses are deductible with respect to food or beverages consumed by an individual during, or incident to, any period of duty subject to the hours of service limitations of the Department of Transportation. There are four general groupings of individuals subject to these limitations. The first is certain air transportation employees, such as pilots, crew, dispatchers, mechanics, and control tower operators, pursuant to Federal Aviation Administration regulations. The second is interstate truck and bus drivers, pursuant to

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			Department of Transportation regulations. The third is certain railroad employees, such as engineers, conductors, train crews, dispatchers, and control operations personnel, pursuant to Federal Railroad Administration regulations. The fourth is certain merchant mariners, pursuant to Coast Guard regulations. Employers of individuals subject to these limitations will have to maintain recordkeeping systems to enable them to differentiate expenses eligible for 80-percent deductibility (e.g., expenses of individuals during, or incident to, the period of duty subject to the hours of duty limitations) from expenses eligible for 50-percent deductibility (e.g., expenses of individuals not subject to these limitations, as well as expenses of individuals subject to these limitations but not incurred during, or incident to, the period of duty subject to these limitations).

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			Effective date.--The provision is effective for taxable years beginning after December 31, 1995. [Floor amendment by Sen. Kohl, adopted by _____.]
28. Allocation and apportionment of interest expense of certain nonfinancial institutions (sec. ___ of the Senate amendment)	For foreign tax credit purposes, taxpayers generally are required to allocate and apportion interest expense between U.S. and foreign source income based on the proportion of the taxpayer's total assets in each location. Such allocation and apportionment is required to be made for affiliated groups (as defined for this purpose) as a whole rather than on a subsidiary-by-subsidiary basis. However, certain types of financial institutions that are members of an affiliated group are treated as members of a separate affiliated group for purposes of allocating and apportioning their interest expense. Section 1215(c)(5) of	No provision.	The Senate amendment repeals the targeted rule of section 1215(c)(5) of the Tax Reform Act of 1986 (P.L. 99-514, 100 Stat. 2548). **Effective date**.--The provision applies to taxable years beginning after December 31, 1995. [Floor amendment by Sen. Kohl adopted by _____.]

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	the Tax Reform Act of 1986 (P.L. 99-514, 100 Stat. 2548) includes a targeted rule which treats a certain corporation as a financial institution for this purpose.		
29. Rollover of gain from sale of farm assets to individual retirement plans (sec. ___ of the Senate amendment)	Under present law, gain recognized upon the sale of farm assets are generally includible in the gross income of the taxpayer. There is no provision under present law for deferring the recognition of such gain by making contributions to an asset rollover account.	No provision.	In general.--Under the Senate amendment, a taxpayer who has a qualified net farm gain from the sale of a qualified farm asset may, at the taxpayer's election, recognize the gain from such sale only to the extent the gain exceeds the contributions to one or more asset rollover accounts of the taxpayer for the taxable year in which such sale occurs. Contributions to an asset rollover account.--No deductions are permitted with respect to contributions to an asset rollover account. Contributions to an asset rollover account are subject to an annual limit and a lifetime limit. Under the annual limit, the total contributions that can be

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			made to an asset rollover account in a taxable year cannot exceed 100 percent of the lesser of (1) the qualified net farm gain for the taxable year, or (2) an amount equal to the number of years the taxpayer is a qualified farmer times $10,000 ($20,000 for years the taxpayer files a joint return). The Secretary may reduce the 100 percent in the preceding sentence to a lower percentage to the extent necessary if the reduction in Federal receipts as a result of this provision exceeds the increases in Federal receipts resulting from the amendments made by section 12880 (disposition of stock in domestic corporations by 10-percent foreign shareholders) and section 12881 (limitation on treaty benefits) of the Balanced Budget Reconciliation Act of 1995. Qualified net farm gain is, for the taxable year, the lesser of (1) the net capital gain of the taxpayer, or (2) the net capital gain only taking into account gain in

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			connection with a disposition of a qualified farm asset. Qualified farm asset means an asset used by a qualified farmer in the active conduct of the trade or business of farming. A qualified farmer is a taxpayer who (1) during the 5-year period ending on the date of the disposition of the qualified farm asset materially participated in the trade or business of farming, and (2) owned (or the taxpayer's spouse owned) 50 percent or more of such trade or business during such 5-year period. Under the lifetime limit on contributions to an asset rollover account, the aggregate amount for all taxable years that can be contributed to all asset rollover accounts by an individual cannot exceed $500,000 ($250,000 in the case of a separate return filed by a married individual), reduced by the amount by which the aggregate value of assets held in all individual retirement arrangements ("IRAs") by the individual exceeds $100,000.

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			The lifetime limit is applied as of the close of the taxable year in which a contribution to an asset rollover account is made. To the extent contributions to an asset rollover account exceed the annual or lifetime limits, such excess contributions are subject to a 6-percent excise tax. <u>Definition and tax treatment of an asset rollover account</u>.--In general, an asset rollover account is treated in the same manner as an IRA. Consequently, earnings are not currently includible in income. Amounts in an asset rollover account are includible in income when withdrawn. In addition, the 10-percent additional tax on early distributions applies, unless the distribution is made after the individual attains age 59-1/2, dies, or becomes disabled, or the distribution is paid in the form of a life annuity. Amounts in an asset rollover account may be rolled over to another asset rollover account without income

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			inclusion. Reporting.--Any individual who makes a contribution to an asset rollover account or receives a distribution from such account is required to include such information on the individual's Federal income tax return as the Secretary may prescribe. Such information is the same information required by the Secretary to be reported by individuals making nondeductible contributions to an IRA. **Effective date.**--The provision applies to sales and exchanges after the date of enactment. [Floor amendment by Sen. Kohl, adopted by voice vote.]
30. Taxation of certain stock gains of foreign persons (secs. 12880-12881 of the Senate	Disposition of stock in domestic corporations.--Foreign persons are subject to a 30-percent U.S. tax on dividends received from a U.S. corporation. Foreign	No provision.	Disposition of stock in domestic corporations.--Under the Senate amendment, where a foreign person owns, or has owned at any time during the previous 5

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amendment)	persons generally are not subject to U.S. tax on gain realized on the disposition of stock in a U.S. corporation (other than a U.S. real property holding corporation), unless the gain is effectively connected with the conduct of a trade or business in the United States. Many U.S. income tax treaties contain provisions that preclude the imposition of U.S. tax on such gains realized by treaty-country residents.		years, 10 percent or more of the stock in a U.S. corporation, gain or loss from the disposition of the stock is subject to U.S. income tax at graduated rates. Constructive ownership rules apply in determining whether a foreign person is a 10-percent shareholder. In addition, certain ownership interests are treated as stock for purposes of this provision. Certain nonrecognition provisions that would otherwise apply to dispositions of U.S. stock are suspended, and the Treasury Secretary is authorized to prescribe regulations providing the extent to which nonrecognition provisions will apply for purposes of this provision. Special alternative minimum tax rules apply in the case of nonresident aliens who recognize net gains on dispositions of stock that are subject to this provision. This tax generally is collected

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			through withholding at the rate of 10 percent of the proceeds of the disposition giving rise to the liability. Exceptions apply in cases of dispositions of stock that is regularly traded on an established securities market. Amounts withheld in excess of the tax liability are refundable. This provision does not override any current U.S. income tax treaty obligations. However, in certain cases where a treaty prevents the imposition of U.S. tax on stock gains of a qualified resident of a treaty country (as defined below), the provision treats as dividends amounts received from any distribution in liquidation or redemption that would (but for the treaty) be gain subject to U.S. tax (at the applicable treaty rate). Dividend treatment only applies to such gain to the extent of the earnings and profits of the distributing corporation which are attributable to the stock with respect to which the distribution

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			is made. **Effective date.**--The provision generally is effective for dispositions after December 31, 1995. The withholding requirements are applicable only to dispositions occurring 6 months or more after the date of enactment.
	Limitation on treaty benefits.--The United States has entered into bilateral income tax treaties with over 40 foreign countries. A function served by these treaties is to reduce the U.S. tax on U.S. source income earned by a resident of a treaty country. Tax treaty abuse (or "treaty shopping") occurs when a person who is not a resident of either country seeks certain benefits under the income tax treaty between the two countries. Newer treaties negotiated by the United States usually contain a "Limitation on Benefit" article that may deny treaty benefits to foreign persons	No provision.	Limitation on treaty benefits.--The Senate amendment imposes a qualified resident requirement as a prerequisite for the reduction of U.S. tax on a foreign entity under any treaty. For this purpose, a foreign entity that is a resident of a foreign country is a qualified resident of such country unless (1) 50 percent or more (by value) of the interests in such entity are owned (directly or indirectly) by individuals who are not residents of such country or citizens or residents of the United States, or (2) 50 percent or more of the entity's income is used (directly or indirectly) to meet liabilities

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	that wish to "treaty-shop" the U.S. treaty network. However, not all of the U.S. income tax treaties now in force contain such an article.		to persons who are not residents of the foreign country or citizens or residents of the United States. Special rules apply in the case of entities that are publicly-traded or that are wholly-owned by publicly-traded corporations. The Treasury Secretary may, in his discretion, treat a foreign entity as a qualified resident. In addition, the Senate amendment prevents any person from obtaining U.S. tax benefits under a treaty with respect to any income that bears a significantly lower tax under the laws of the other treaty country than similar income arising from sources within such foreign country derived by residents of such foreign country. **Effective date.**--The provision takes effect on January 1, 1996, and applies to any treaty whether entered into before, on, or after such date. [Floor amendment by Sen. Kohl,

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			adopted by voice vote.]
31. $1 million compensation deduction limit extended to all employees (sec. ___ of the Senate amendment)	Under present law, for purposes of the regulation income tax and the alternative minimum tax, the otherwise allowable deduction for compensation paid or accrued with respect to a covered employee of a publicly held corporation is limit to no more than $1 million per year. A person is a covered employee if (1) they are the chief executive officer of the corporation, or (2) their total compensation is required to be reported for the taxable year under the Securities Exchange Act of 1934 because the employee is one of the 4 highest compensated officers for the year (other than the chief executive officer). The deduction limitation applies to all remuneration for services, including cash and the cash value of all remuneration paid in a form other than cash, other than remuneration payable on a	No provision.	Under the Senate amendment, the denial of the deduction for compensation is extended to compensation of all employees, other than employees of personal service corporations. The definition of compensation subject to the deduction denial is not modified. The Commissioner of Social Security is to increase the amount of earnings that an individual may receive and still qualify for full social security benefits by an amount which takes into account the revenues resulting from the expansion of the compensation deduction denial. (Senate floor amendment by Senator Brown.) **Effective date.**--The expansion of the deduction denial applies to taxable years beginning after December 31, 1995, except that it does not apply to

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	commission basis, (2) certain performance-based compensation, (3) payments to a tax-qualified retirement plan, and (4) amounts excludable from the executive's gross income (e.g., heath benefits).		remuneration payable under a written binding contract in effect on October 25, 1995, and which was not modified thereafter in any material respect before the remuneration was paid. [Floor amendment by Sen. Brown, adopted by a vote of 99-0.]
32. Limitation on State income taxation of certain pension income (sec. ___ of the Senate amendment)	Certain State laws provide that some or all retirement income is included in income for State income tax purposes if the income was earned within the State, even though the individual resides outside the State when the retirement income is actually received. Some States achieve this result through general rules that tax income earned within the State, whereas others have explicit provisions regarding retirement income.	No provision.	The Senate amendment amends title 4 of the United States Code (entitled "Flag and Seal, Seat of Government, and the States), to prohibit any State, including any political subdivision of a State, the District of Columbia, and the possessions of the United States, from imposing income tax on any retirement income of any individual who is not a resident or domiciliary of the State. For this purpose, retirement income includes any income from a qualified retirement or annuity plan, a simplified employee pension, a tax-sheltered annuity plan, an eligible deferred

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			compensation plan of a tax-exempt or State and local government, an individual retirement arrangement, a governmental plan, a trust created before June 25, 1959, and that is part of a plan funded only by employee contributions, and certain retired or retainer pay of a member or former member of the uniformed services. The term retirement income also includes income from a nonqualified deferred compensation plan, provided such income is part of a series of substantially equal periodic payments made over (1) the life or life expectancy of the recipient (or the joint lives or life expectancies of the recipient and the recipient's beneficiary), or (2) a period not less than 10 years. The provision has no effect on the application of the provision in the Employee Retirement Security Act of 1974 that generally preempts State laws.

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			Effective date.--The provision applies to amounts received after December 31, 1994. [Floor amendment by Sen. Reid, adopted by voice vote.]

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X. Earned Income Credit Provisions (secs. 13701-13703 of the House bill and secs. 7460-7466 of the Senate amendment)	Certain eligible low-income workers are entitled to claim a refundable earned income tax credit (EIC). The amount of the credit an eligible taxpayer may claim depends upon whether the taxpayer has one, more than one, or no qualifying children and is determined by multiplying the credit rate by the taxpayer's earned income up to an earned income threshold. The maximum amount of the credit is the product of the credit rate and the earned income threshold. For taxpayers with earned income (or adjusted gross income (AGI), if greater) in excess of the phaseout threshold, the credit amount is reduced by the phaseout rate multiplied by the amount of earned income (or AGI, if greater) in excess of the phaseout threshold. For taxpayers with earned income (or AGI, if greater) in excess of the phaseout limit, no credit is allowed.	Denies eligibility to taxpayers without qualifying children.	Same as the House bill.
		Modifies the definition of AGI	Modifies the definition of AGI

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		used for phasing out the credit by including the following items: (1) Social Security benefits not subject to income tax, and (2) nontaxable distributions (that are not rolled over) from pensions, annuities, and individual retirement arrangements.	used for phasing out the credit by including the following items: (1) Social Security benefits not subject to income tax, (2) nontaxable distributions (that are not rolled over) from pensions, annuities, and individual retirement arrangements, (3) tax-exempt interest, and (4) child support payments received pursuant to a divorce or separation instrument, but only in excess of $6,000. and disregarding the following losses: (1) net capital losses (if greater than zero), (2) net losses from sole proprietorships (other than in farming), (3) net losses from sole proprietorships in farming, (4) net losses from other

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			trades and businesses, (5) net losses from nonbusiness rents and royalties, (6) net losses from trusts and estates, and (7) net operating losses.
		Increases the phaseout rate of the EIC to 23 percent for taxpayers with two or more qualifying children and to 18 percent for taxpayers with one qualifying child.	Changes the method of phasing out the EIC; rather than specifying a phaseout rate, the size of the phaseout range is fixed in nominal dollars, resulting in a phaseout range that increases with inflation. The phaseout limit will always be $15,100 greater than the phaseout threshold for taxpayers with two or more qualifying children and will always be $11,600 greater than the phaseout threshold for taxpayers with one qualifying child.
		Taxpayers are not eligible for the EIC if they do not include their taxpayer identification number (and, if married, their spouse's taxpayer identification number) on their tax return. A	Same as the House bill.

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		social security number obtained solely because an individual is an applicant for, or a recipient of, Federally funded benefits does not satisfy any of the EIC identification requirements.	
		If a taxpayer fails to provide a correct taxpayer identification number, such omission will be treated as a mathematical or clerical error. If a taxpayer who claims the EIC with respect to net earnings from self-employment fails to pay the proper amount of self-employment tax on such net earnings, the failure will be treated as a mathematical or clerical error.	Same as the House bill.
		No provision.	Adds net capital gain income (if greater than zero) and net passive income (if greater than zero) to the definition of disqualified income for purposes of the disqualified income test added by Public Law 104-7 (H.R. 831) for taxable years beginning after December 31, 1995.

Item	*Present Law*	*House Bill*	*Senate Amendment*
		No provision.	Repeals the increase in the credit rate for taxpayers with two or more qualifying children that was supposed to take effect for 1996.
		No provision.	Doubles penalties for income tax return preparers for taking an unrealistic position or for willful or reckless conduct, for failures leading to other assessable penalties, and for aiding and abetting understatement of tax liability where there is a material matter. Also, the Secretary of the Treasury is encouraged to use the maximum feasible review process to insure compliance by originators of electronic income tax returns involving the EIC.
		Effective date.--Taxable years beginning after December 31, 1995.	**Effective date**.--Same as the House bill.

Item	*Present Law*	*House Bill*	*Senate Amendment*
XI. Coal Industry Retiree Health Equity Provisions (sec. 13901 of the House bill)	In general.--Under the Coal Industry Retiree Health Benefit Act of 1992 (the "Coal Act"), any company (or related company) that had signed a National Bituminous Coal Wage Agreement since 1946 is required to pay an insurance premium to the United Mine Workers of America ("UMWA") Combined Fund (the "Combined Fund") or the 1992 UMWA Benefit Plan based on the number of beneficiaries assigned to the company to pay for retiree health benefits. The Combined Fund provides benefits to coal miners (and their beneficiaries) who retired on or before July 20, 1992. The 1992 UMWA Benefit Plan provides benefits to coal miners (and their beneficiaries) who retired between July 21, 1992, and September 30, 1994, and (1) would have been eligible for benefits under the Combined Fund had they retired earlier, or (2) whose last employer does not provide the benefits	In general.--The House bill exempts from the Coal Act's provisions companies that did not sign the 1988 National Bituminous Coal Wage Agreement and companies who made withdrawal liability payments under the terms of such agreement. Such companies are no longer obligated to pay insurance premiums to the Combined Fund or the 1992 UMWA Benefit Plan. Beneficiaries allocated to these companies are reallocated to the unassigned pool. To the extent the insurance premiums associated with these unassigned beneficiaries are not paid from amounts transferred from the Federal Abandoned Mine Reclamation Fund, the insurance premiums will be allocated to the companies that signed the 1988 National Bituminous Coal Wage Agreement in proportion to their share of assigned beneficiaries. As under present law, if, for any plan year, there is a shortfall in	In general.--No provision. [Provision stricken from the Senate amendment pursuant to a point of order. Before the point of order, the Senate amendment reduced the insurance premiums required to be paid by companies that did not sign the 1988 National Bituminous Coal Wage Agreement for the period beginning October 1, 1995, through September 30, 1997, to the extent of any surplus in the Combined Fund. The amount of any surplus would have been determined on a cash basis and would have been reduced by an amount equal to 10 percent of the benefits and administrative costs paid by the Combined Fund for the preceding plan year. The surplus would also have been determined without regard to amounts transferred to pay for unassigned beneficiaries. The Senate amendment would have also fixed by statute the base premium of $2,116.67 per beneficiary, as determined by the Secretary of Health and

Item	*Present Law*	*House Bill*	*Senate Amendment*
	promised under a 1978 or later collective bargaining agreement. To cover the costs associated with unassigned beneficiaries, up to $70 million per year is transferred into the Combined Fund from the Federal Abandoned Mine Reclamation Fund. If costs for unassigned beneficiaries exceed the annual transfer, they are allocated to the companies in proportion to their share of assigned beneficiaries. If, for any plan year, there is a shortfall in the Combined Fund, the insurance premiums payable by companies for the following plan year are proportionally increased. The per beneficiary insurance premium is calculated each year by the Commissioner of the Social Security Administration, and is based on a base premium increased each year for medical inflation. The base premium is equal to the payments from the 1950 UMWA and 1974 UMWA Benefit Plans for health benefits (including administrative costs) for the plan year beginning July	the Combined Fund, the insurance premiums payable by companies for the following plan year are proportionally increased.	Human Services, and would have required that the trustees of the Combined Fund must provide to any person required to pay insurance premiums to the Combined Fund, within 30 days of a written request, information regarding the financial and operational status of the Combined Fund.]

Item	*Present Law*	*House Bill*	*Senate Amendment*
	1, 1991, divided by the number of individual covered by such plans. The base premium was determined initially by the Secretary of Health and Human Services to be equal to $2,116.67 per beneficiary. Disclosure requirements.--The Coal Act does not require the trustees of the Combined Fund to disclose any information to persons required to pay insurance premiums to the Combined Fund.	Disclosure requirements.--The House bill provides that the trustees must provide to any person required to pay insurance premiums to the Combined Fund, within 30 days of a written request, information regarding the financial and operational status of the Combined Fund. **Effective date.**--The provision is effective with respect to plan years beginning after September 30, 1995.	

Item	*Present Law*	*House Bill*	*Senate Amendment*
XIII. Adjustment to Contract With America Tax Relief Act (sec. 19002 of the House bill)	No provision.	In order to bring the budget reconciliation bill into compliance with the budget resolution, this provision generally provides various adjustments to the provisions of the Contract with America Tax Relief Act of 1995. In general, the effects of the changes in income and estate tax liability occurring as a result of the provisions of the Contract With America Tax Relief Act would be changed by 27 percent, with the following exceptions. In the case of capital gains, the benefit of the corporate rate reduction on, and the individual deduction for, capital gain income would be reduced by 15 percent for 1995 and by 31 percent for 1996 and thereafter. In the case of the indexing of the basis of capital assets, the adjustment to basis would be reduced by 31 percent for 1996 and thereafter.	No provision.

Item	*Present Law*	*House Bill*	*Senate Amendment*
		In the case of American Dream Savings accounts, taxpayers would be entitled to 69 percent of the benefits of the American Dream Savings accounts to which they otherwise are entitled In the case of the alternative minimum tax, after 1994, depreciation would no longer be treated as a preference item in the case of individuals and the alternative minimum tax rate applicable to corporations would be zero. The effects of this modification would be suspended for taxable years beginning in 1995 and 1996. Thus, for the first three taxable years beginning after 1996, taxpayers would be entitled to a refund equal to 1/3 of the amount of minimum tax paid by corporations and the amount of minimum tax liability attributable to depreciation in the case of individual taxpayers for taxable year beginning in 1995 and 1996.	

Item	*Present Law*	*House Bill*	*Senate Amendment*
		The provisions relating to neutral cost recovery would be deleted.	