COMPARISON OF REVENUE PROVISIONS OF H.R. 2014 AS PASSED BY THE HOUSE AND THE SENATE

Prepared for the Use of the House and Senate Conferees

By the Staff

of the

JOINT COMMITTEE ON TAXATION

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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. 2014, as passed by the House of Representatives on June 26, 1997 and by the Senate (as amended) on June 27, 1997.

H.R. 2014 was reported by the House Committee on the Budget on June 24, 1997 (H. Rept. 105-148).[2] The Senate Committee on Finance reported a separate revenue bill (S. 949) on June 20, 1997 (S. Rept. 105-33). The Senate considered S. 949 on June 25-27, 1997, and included the provisions of S. 949 (as amended by the Senate) in the Senate amendment to H.R. 2014. Certain provisions included in H.R. 2014 as passed by the House (earned income credit compliance provisions) were included in S. 947 ("Balanced Budget Act of 1997") as approved by the Senate Committee on the Budget (as reported by the Committee on Finance), and were included in the Senate amendment to H.R. 2015 ("Balanced Budget Act of 1997").

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[1] This document may be cited as follows: Joint Committee on Taxation, Comparison of Revenue Provisions of H.R. 2014 as Passed by the House and the Senate (JCS-11-97), July 10, 1997.

[2] The House Committee on Ways and Means approved the revenue provisions on June 13, 1997, and transmitted legislative language and an explanation of the provisions to the House Budget Committee on June 14, 1997.

LIST OF IDENTICAL REVENUE PROVISIONS

Education incentives

- Penalty-free withdrawals from individual retirement plans for higher education expenses (sec. 203 of the House bill and sec. 203 of the Senate amendment)
- Treatment of cancellation of certain student loans (sec. 224 of the House bill and sec. 225 of the Senate amendment)

Estate, gift, and generation-skipping tax provisions

- Indexing of certain other estate and gift tax provisions (sec. 501(b)-(e) of the House bill and sec. 401(b)-(e) of the Senate amendment)
- Installment payments of estate tax (secs. 502-503 of the House bill and secs. 404-405 of the Senate amendment)
- Extension of treatment of certain rents under section 2032A to lineal descendants (sec. 504 of the House bill and sec. 406 of the Senate amendment)
- Expansion of exception from generation-skipping transfer tax for transfer to individuals with deceased parents (sec. 512 of the House bill and sec. 407 of the Senate amendment)

Expiring provisions

- Orphan drug tax credit (sec. 604 of the House bill and sec. 504 of the Senate amendment)

Disaster provisions

- Treatment of livestock sold on account of weather-related conditions (sec. 923 of the House bill and sec. 721 of the Senate amendment)

Miscellaneous provisions

- Repeal of tax on diesel fuel used in recreational boats (sec. 901 of the House bill and sec. 701 of the Senate amendment)
- Permanent moratorium on application of pension nondiscrimination rules to State and local government plans (sec. 912 of the House bill and sec. 1308 of the Senate amendment)
- Shrinkage estimates for inventory accounting (sec. 951 of the House bill and sec. 1013 of the Senate amendment)
- Tax-exempt status for certain State worker's compensation act companies (sec. 953 of the House bill and sec. 761 of the Senate amendment)
- Exclusion from unrelated business taxable income for certain sponsorship payments (sec. 955 of the House bill and sec. 763 of the Senate amendment)
- Qualified lessee construction allowances for short-term leases (sec. 961 of the House bill and sec. 1014 of the Senate amendment)

Revenue provisions

- Require gain recognition for certain extraordinary dividends (sec. 1011 of the House bill and sec. 811 of the Senate amendment)
- Reform tax treatment of certain corporate stock transfers (sec. 1013 of the House bill and sec. 813 of the Senate amendment)
- Registration and other provisions relating to confidential corporate tax shelters (sec. 1021 of the House bill and sec. 821 of the Senate amendment)
- Treat certain preferred stock as "boot" (sec. 1022 of the House bill and sec. 822 of the Senate amendment)

- Decrease of threshold for reporting payments to corporations performing services for Federal agencies (sec. 1032 of the House bill and sec. 831 of the Senate amendment)

- Disclosure of return information for administration of certain veterans programs (sec. 1033 of the House bill and sec. 832 of the Senate amendment)

- Consistency requirement for beneficiaries of trusts and estates (sec. 1037 of the House bill and sec. 833 of the Senate amendment)

- Application of communications tax to long-distance prepaid telephone cards (sec. 1044 of the House bill and sec. 843 of the Senate amendment)

- Extend UBIT rules to second-tier subsidiaries and amend control test (sec. 1051 of the House bill and sec. 851 of the Senate amendment)

- Expand the limitations on deductibility of premiums and interest with respect to life insurance, endowment and annuity contracts (sec. 1063 of the House bill and sec. 873 of the Senate amendment)

- Allocation of basis of properties distributed to a partner by a partnership (sec. 1064 of the House bill and sec. 874 of the Senate amendment)

- Treatment of inventory items of a partnership (sec. 1065 of the House bill and sec. 875 of the Senate amendment)

- Restrictions on availability of earned income credit for taxpayers who improperly claimed credit in prior year (sec. 1067 of the House bill and sec. 5851 of the Senate amendment to H.R. 2015 (the "Balanced Budget Act of 1997))

- Limitation on property for which income forecast method may be used (sec. 1068 of the House bill and sec. 876 of the Senate amendment)

- Expansion of requirement that involuntarily converted property be replaced with property acquired from an unrelated person (sec. 1070 of the House bill and sec. 877 of the Senate amendment)

Foreign tax provisions

- Simplify foreign tax credit limitation for individuals (sec. 1103 of the House bill and sec. 901 of the Senate amendment)
- Election to use simplified foreign tax credit limitation for AMT purposes (sec. 1105 of the House bill and sec. 903 of the Senate amendment)
- Simplify treatment of personal transactions in foreign currency (sec. 1106 of the House bill and sec. 904 of the Senate amendment)
- General provisions affecting the treatment of controlled foreign corporations (secs. 1111-1113 of the House bill and secs. 911-913 of the Senate amendment)
- Modification of passive foreign investment company provisions to eliminate overlap with subpart F and to allow mark-to-market election (secs. 1121-1123 of the House bill and secs. 751-753 of the Senate amendment)
- Modification of reporting threshold for stock ownership of a foreign corporation (sec. 1146 of the House bill and sec. 936 of the Senate amendment)
- Transition rule for certain trusts (sec. 1161 of the House bill and sec. 951 of the Senate amendment)
- Simplify application of the stock and securities trading safe harbor (sec. 1162 of the House bill and sec. 952 of the Senate amendment)
- Inclusion of income from notional principal contracts and stock lending transactions under subpart F (sec. 1171 of the House bill and sec. 861 of the Senate amendment)
- Restrict like-kind exchanges for certain personal property (sec. 1172 of the House bill and sec. 862 of the Senate amendment)

- Interest on underpayment reduced by foreign tax credit carryback (sec. 1176 of the House bill and sec. 865 of the Senate amendment)

- Determination of period of limitations relating to foreign tax credits (sec. 1177 of the House bill and sec. 866 of the Senate amendment)

- Clarification of determination of foreign taxes deemed paid (sec. 1178(a) of the House bill and sec. 953(a) of the Senate amendment)

- Clarification of foreign tax credit limitation for financial services income (sec. 1178(b) of the House bill and sec. 953(b) of the Senate amendment)

Simplification provisions relating to individuals and businesses

- Basic standard deduction and minimum tax exemption amount for certain dependents (sec. 1201 of the House bill and sec. 1001 of the Senate amendment)

- Increase in amount of tax exempt from estimated tax requirements (sec. 1202 of the House bill and sec. 1002 of the Senate amendment)

- Treatment of certain reimbursed expenses of rural mail carriers (sec. 1204 of the House bill and sec. 1003 of the Senate amendment)

- Treatment of traveling expenses of certain Federal employees engaged in criminal investigations (sec. 1205 of the House bill and sec. 1004 of the Senate amendment)

- Modifications to look-back method for long-term contracts (sec. 1211 of the House bill and sec. 1011 of the Senate amendment)

- Minimum tax treatment of certain property and casualty insurance companies (sec. 1212 of the House bill and sec. 1012 of the Senate amendment)

- Partnership simplification provisions (secs. 1221-1246 of the House bill and secs. 1021-1046 of the Senate amendment)
- Provisions relating to real estate investment trusts (secs. 1251-1263 of the House bill and secs. 1051-1063 of the Senate amendment)
- Reasonable cause exception for certain penalties (sec. 1281 of the House bill and sec. 1081 of the Senate amendment)
- Clarification of period for filing claims for refunds (sec. 1282 of the House bill and sec. 1082 of the Senate amendment)
- Repeal of authority to disclose whether prospective juror has been audited (sec. 1283 of the House bill and sec. 1083 of the Senate amendment)
- Clarification of statute of limitations (sec. 1284 of the House bill and sec. 1084 of the Senate amendment)
- Penalty for unauthorized inspection of tax returns or tax return information (sec. 1286 of the House bill and sec. 1085 of the Senate amendment)
- Civil damages for unauthorized inspection of returns and return information; notification of unlawful inspection or disclosure (sec. 1287 of the House bill and sec. 1086 of the Senate amendment)

Simplification provisions relating to estate and gift taxes

- Gifts to charities exempt from gift tax filing requirements (sec. 1301 of the House bill and sec. 1101 of the Senate amendment)
- Clarification of waiver of certain rights of recovery (sec. 1302 of the House bill and sec. 1102 of the Senate amendment)
- Transitional rule under section 2056A (sec. 1303 of the House bill and sec. 1103 of the Senate amendment)
- Treatment for estate tax purposes of short-term obligations held by nonresident aliens (sec. 1306 of the House bill and sec. 1104 of the Senate amendment)

- Distributions during first 65 days of taxable year of estate (sec. 1308 of the House bill and sec. 1105 of the Senate amendment)

- Separate share rules available to estates (sec. 1309 of the House bill and sec. 1106 of the Senate amendments)

- Executor of estate and beneficiaries treated as related persons for disallowance of losses, etc. (sec. 1310 of the House bill and sec. 1107 of the Senate amendment)

- Treatment of funeral trusts (sec. 1312 of the House bill and sec. 1108 of the Senate amendment)

- Adjustments for gifts within 3 years of decedent's death (sec. 1313 of the House bill and sec. 1109 of the Senate amendment)

- Clarification of treatment of survivor annuities under qualified terminable interest rules (sec. 1314 of the House bill and sec. 1110 of the Senate amendment)

- Treatment under qualified domestic trust rules of forms of ownership which are not trusts (sec. 1315 of the House bill and sec. 1111 of the Senate amendment)

- Opportunity to correct certain failures under section 2032A (sec. 1316 of the House bill and sec. 1112 of the Senate amendment)

- Authority to waiver requirement of United States trustee for qualified domestic trusts (sec. 1317 of the House bill and sec. 1113 of the Senate amendment)

Simplification provisions relating to excise taxes, tax-exempt bonds, and other matters

- Increase in de minimis limit for after-market alterations for heavy trucks and luxury cars (sec. 1401 of the House bill and sec. 1201 of the Senate amendment)

- Credit for tire tax in lieu of exclusion of value of tires in computing price (sec. 1402 of the House bill and sec. 845 of the Senate amendment)

- Provisions related to distilled spirits, wines, and beer (secs. 1411-1422 of the House bill and secs. 1211-1222 of the Senate amendment)

- Authority to grant exemptions from registration requirements (sec. 1431 of the House bill and sec. 1231 of the Senate amendment)

- Repeal of expired excise tax provisions (sec. 1432 of the House bill and sec. 1232 of the Senate amendment)

- Repeal of $100,000 limitation on unspent proceeds under 1-year exception from rebate (sec. 1441 of the House bill and sec. 1241 of the Senate amendment)

- Exception from rebate for earnings on bona fide debt service fund under construction bond rules (sec. 1442 of the House bill and sec. 1242 of the Senate amendment)

- Repeal of debt service-based limitation on investment in certain nonpurpose investments (sec. 1443 of the House bill and sec. 1243 of the Senate amendment)

- Repeal of expired provisions relating to student loan bonds (sec. 1444 of the House bill and sec. 1244 of the Senate amendment)

- Overpayment determinations of Tax Court (sec. 1451 of the House bill and sec. 1251 of the Senate amendment)

- Redetermination of interest pursuant to motion (sec. 1452 of the House bill and sec. 1252 of the Senate amendment)

- Proceedings for determination of employment status (sec. 1454 of the House bill and sec. 1254 of the Senate amendment)

- Due date for first quarter estimated tax payments by private foundations (sec. 1461 of the House bill and sec. 1261 of the Senate amendment)

- Clarification of authority to withhold Puerto Rico income taxes from salaries of Federal employees (sec. 1462 of the House bill and sec. 1262 of the Senate amendment)

- Certain notices disregarded under provision increasing interest rate on large corporate underpayments (sec. 1463 of the House bill and sec. 1263 of the Senate amendment)

TECHNICAL CORRECTIONS PROVISIONS

The tax technical corrections provisions are identical in the House bill and the Senate amendment, except as follows:

1. Clarify definition of Indian reservation under section 168(j)(6) (sec. 1504(c) of the House bill)

Present Law

Section 168(j)(6) provides for accelerated depreciation for certain property located on Indian reservations. For this purpose, the term "Indian reservation" means a reservation as defined in either (a) section 3(d) of the Indian Financing Act of 1974 (25 U.S.C. 1452(d)), or (b) section 4(10) of the Indian Child Welfare Act of 1978 (25 U.S.C. 1903(10)). In addition, section 45A (which provides for an incremental Indian employment credit) incorporates by reference the same definition of "Indian reservation" contained in section 168(j)(6). Section 3(d) of the Indian Financing Act of 1974 includes not only officially designated Indian reservations and public domain Indian allotments, but also all "former Indian reservations in Oklahoma," which covers most of the State of Oklahoma even though parts of such "former Indian reservations" may no longer have a significant nexus to an Indian tribe.

House Bill

For purposes of the section 168(j)(6) definition of "Indian reservation," the House bill defines the term "former reservations in Oklahoma" as lands that are (1) within the jurisdictional area of an Oklahoma Indian tribe as determined by the Secretary of the Interior, and (2) recognized by such Secretary as an area eligible for trust land status under 25 C.F.R. Part 51.

Effective Date

The provision generally is effective as if included in the Omnibus Budget Reconciliation Act of 1993 (i.e., the technical correction applies to property placed in service and wages paid on or after January 1, 1994). However, the provision does not apply to wages claimed on any original return filed prior to March 18, 1997, nor does it apply to property placed in service with a 10-year life or less (without regard to section 168(j)) if accelerated depreciation under section 168(j) was claimed with respect to such property on an original return filed prior to March 18, 1997.

2. Church plan technical corrections (sec. 1401(d)(4) of the Senate amendment)

The Senate amendment makes clarifying changes to the provisions relating to church plans adopted in the Small Business Job Protection Act of 1996. The Senate amendment clarifies that a minister may participate in a denominational plan, whether or not the minister is performing services for a tax-exempt employer or a taxable employer. (Floor amendment by Sen. Roth for Sen. Graham, adopted by voice vote.)

COMPARISON OF DIFFERING REVENUE PROVISIONS

Following is a comparison of the differing revenue provisions of H.R. 2014, as passed by the House and the Senate, with a summary description of present law for each provision.

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Item	Present Law	House Bill	Senate Amendment
I. CHILD AND DEPENDENT CARE TAX CREDIT; HEALTH CARE FOR CHILDREN			
A. Child Tax Credit for Children Under Age 17 (sec. 101(a), (c), and (d) of the House bill and sec. 101 of the Senate amendment)	Present law does not provide tax credits based solely on the taxpayer's number of dependent children. A nonrefundable dependent care credit is available for up to 30 percent (phased down to 20 percent for individuals with adjusted gross income (AGI) above $28,000) of a limited dollar amount of employment-related child and dependent care expenses.	**Size of credit** The House bill provides a $500 ($400 for taxable year 1998) nonrefundable tax credit for each qualifying child under the age of 17.	**Size of credit** The Senate amendment provides a $500 ($250 in 1997 for children under the age of 13) nonrefundable tax credit for each qualifying child under the age of 17. For taxable years beginning after December 31, 2002, the credit is allowed for each qualifying child under the age of 18.
		Qualifying child A qualifying child is defined as an individual for whom the taxpayer can claim a dependency exemption and who is a son or daughter of the taxpayer (or descendent of either), a stepson or stepdaughter of the taxpayer or	**Qualifying child** Same as House bill.

Item	Present Law	House Bill	Senate Amendment
		an eligible foster child of the taxpayer.	
		Savings requirement	**Savings requirement**
		No provision.	In the case of each child age 13 to 16 (13 to 17 for taxable years beginning after December 31, 2002), the credit generally is available only for amounts contributed to savings for education with respect to that child.
		Reduction for dependent care credit	**Reduction for dependent care credit**
		After 1999, the child credit would be reduced by one-half of the dependent care credit (no reduction with respect to dependents who are physically or mentally incapable of self-care). The reduction applies to married individuals with AGI above $60,000 ($30,000 for married individuals filing separately). In the case taxpayer's filing as a single or head of household, the reduction applies to AGI above $33,000.	No provision.

Item	Present Law	House Bill	Senate Amendment
		Phaseout For taxpayers with modified AGI in excess of certain thresholds, the sum of the otherwise allowable child credit and the otherwise allowable dependent care credit is phased out. The phaseout rate is $25 for each $1,000 of modified AGI (or fraction thereof) in excess of the threshold. The reduction is applied first to the child credit and then to the dependent care credit. 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 taxpayers filing separate returns, the threshold is $55,000. These thresholds are not indexed for inflation.	**Phaseout** Generally the same as the House bill, except the dependent care credit is not phased out.
		Interaction with AMT & EIC The maximum amount of the child credit for each taxable year (after the reduction, if any,	**Interaction with AMT & EIC** The maximum amount of the child credit for each taxable year can not exceed an amount

Item	Present Law	House Bill	Senate Amendment
		for the dependent care credit after 2001) could not exceed an amount equal to the excess of: (1) the taxpayer's regular income tax liability (net of applicable credits) over (2) the sum of the taxpayer's tentative minimum tax liability (determined without regard to the alternative minimum foreign tax credit) and the earned income credit allowed.	equal to the excess of: (1) the taxpayer's regular income tax liability (net of applicable credits) over (2) the sum of the taxpayer's tentative minimum tax liability (determined without regard to the alternative minimum foreign tax credit) and one-half of the earned income credit allowed.
		<u>IRS notice and withholding</u>	No provision.
		Provides that the Secretary of the Treasury shall submit notice to all taxpayers of the passage of the child tax credit. In addition, it directs the Secretary of the Treasury to modify the withholding tables for single taxpayers claiming more than one exemption and for married taxpayers claiming more than two exemptions to take account of the effects of the child tax credit. The adjustments to the withholding tables apply to employees whose annualized wages from an employer are	

Item	Present Law	House Bill	Senate Amendment
		expected to be at least $30,000, but not more than $100,000.	
		Effective date.--Generally, the child tax credit is effective for taxable years beginning after December 31, 1997. The provision to reduce the otherwise allowable child credit by one-half of the amount of the taxpayer's dependent care credit is effective for taxable years beginning after December 31, 2001.	**Effective date**.--The child tax credit is effective July 1, 1997, for taxable years beginning after December 31, 1996.

Item	*Present Law*	*House Bill*	*Senate Amendment*
B. Expand Definition of High-Risk Individuals with respect to Tax-Exempt State-Sponsored Organizations Providing Health Coverage (sec. 101(b) of the House bill)	Present law provides tax-exempt status to any membership organization that is established by a State exclusively to provide coverage for medical care on a nonprofit basis to certain high-risk individuals, provided certain criteria are satisfied. For this purpose, high-risk individuals eligible to receive medical care coverage from the organization must be residents of the State who, due to a pre-existing medical condition, are unable to obtain health coverage for such condition through insurance or an HMO, or are able to acquire such coverage only at a rate that is substantially higher than the rate charged for such coverage by the organization.	The provision expands the definition of high-risk individuals to include a child of an individual who meets the present-law definition of a high-risk individual, subject to certain requirements. The requirements are: (1) the taxpayer is allowed a deduction for a personal exemption for the child for the taxable year; (2) the child has not attained the age of 17 as of the close of the calendar year in which the taxable year of the taxpayer begins; and (3) the child is a son or daughter or the taxpayer (or a dependent of either), a stepson or stepdaughter of the taxpayer, or an eligible foster child of the taxpayer. **Effective date**.--Taxable years beginning after December 31, 1997.	No provision.

Item	*Present Law*	*House Bill*	*Senate Amendment*
C. Indexing of the Dependent Care Credit; Phase Out for High-Income Taxpayers (sec. 102 of the House bill)	A nonrefundable credit against income tax liability is available for up to 30 percent of a limited dollar amount of employment-related child and dependent care expenses. The credit may be claimed by an individual who maintains a household that includes one or more qualifying individuals. A qualifying individual is a dependent of the taxpayer who is under the age of 13, a physically or mentally incapacitated dependent, or a physically or mentally incapacitated spouse. Employment-related expenses are expenses for household services and the care of a qualifying individual, if incurred to enable the taxpayer to be gainfully employed. Eligible employment-related expenses are limited to $2,400 if there is one qualifying individual, and $4,800 if there are two or more qualifying individuals.	**Dollar limits** The dollar limits on eligible employment-related expenses ($2,400 if there is one qualifying individual and $4,800 if there are two or more qualifying individuals) are indexed for inflation. **Phaseout** For taxpayers with modified AGI in excess of certain thresholds, the sum of the otherwise allowable child credit and the otherwise allowable dependent care credit is phased out. The phaseout rate is $25 for each $1,000 of modified AGI (or fraction thereof) in excess of the threshold. The reduction is applied first to the child credit and then to the dependent care credit. 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 taxpayers	No provision.

Item	Present Law	House Bill	Senate Amendment
	The 30-percent credit rate is reduced by one percentage point for each $2,000 (or fraction thereof) of adjusted gross income ("AGI") above $10,000. A married couple's combined AGI is used for purposes of this computation. Individuals with more than $28,000 of AGI are entitled to a credit equal to 20 percent of allowable employment-related expenses.	filing separate returns, the threshold is $55,000. These thresholds are not indexed for inflation. (See above the description of the phaseout in the child tax credit.) **Effective date**.--Taxable years beginning after December 31, 1997.	

Item	*Present Law*	*House Bill*	*Senate Amendment*
D. Allowance of Credit for Employer Expenses for Child Care Expenditures (sec. 103 of the Senate amendment)	There is no tax credit provided to employers for child care expenses. However, ordinary and necessary business expenses are deductible by an employer.	No provision.	Provides a 50-percent credit for qualified child care expenditures. The maximum credit is $150,000 per year. Qualified child care expenditures are (1) costs to acquire, construct, rehabilitate or expand property to be used as a part of a qualified child care facility which is depreciable and not part of the taxpayer's principal residence, (2) the operating costs of such facility, (3) expenses under a contract with a qualified child care facility to provide child care services to employees of the taxpayer, (4) expenses under a contract to provide child care resource and referral services to employees of the taxpayer, or (5) the costs of seeking accreditation for a child care facility. The credit is subject to recapture, if the taxpayer fails to continue using the facility for a 10-year period. (Floor amendment by Senator Kohl and others adopted after the motion to waive the Budget Act passed 72-28.)

Item	Present Law	House Bill	Senate Amendment
			Effective date.--The credit applies to taxable years beginning after December 31, 1997, but before January 1, 2000.

Item	*Present Law*	*House Bill*	*Senate Amendment*
E. Expansion of Coordinated Enforcement Efforts Between the Internal Revenue Service and the Health and Human Services Office of Child Support Enforcement (sec. 104 of the Senate amendment)	The Internal Revenue Service (IRS) and various Federal departments and agencies have information sharing agreements. The Secretary of Health and Human Services (HHS) has been directed to create and maintain various data bases which may be used by the (IRS) to collect, unpaid child support amounts, to administer the earned income credit and to verify a claim with respect to employment on a tax return.	No provision.	Gives the IRS expanded access to information in the National Directory of New Hires to verify any information which is required on a tax return. It also gives the IRS access to the names and social security numbers of custodial parents in the Federal Case Registry of Child Support Orders. This information is made available to administer the Internal Revenue Code provisions which grant tax benefits based on the support and residence of dependent children. (Floor amendment by Senator Kohl and others adopted after a motion to waive the Budget Act passed 72-28.) <u>Effective date</u>.--The provision is effective on October 1, 1997.

Item	Present Law	House Bill	Senate Amendment
F. Penalty-Free Withdrawals from IRAs for Adoption Expenses (sec. 105 of the Senate amendment)	Amounts held in an IRA are includible in income when withdrawn (except to the extent the withdrawal is a return of nondeductible contributions). Amounts withdrawn prior to attainment of age 59-1/2 are subject to an additional 10-percent early withdrawal tax, unless the withdrawal is due to death or disability, is made in the form of certain periodic payments, is used to pay medical expenses in excess of 7.5 percent of AGI, or is used to purchase health insurance of an unemployed individual.	No provision.	The Senate amendment provides that the 10-percent early withdrawal tax does not apply to distributions from IRAs that are not in excess of $2,000 if the taxpayer uses the amounts to pay qualified adoption expenses. The penalty-free withdrawal is available for "qualified adoption expenses," meaning reasonable and necessary adoption fees, court costs, attorney fees, and other expenses which are directly related to, and the principal purpose of which is for, the legal adoption of an eligible child by the taxpayer. Qualified adoption expenses do not include expenses incurred (1) in violation of State or Federal law; (2) in carrying out any surrogate parenting arrangement;(3) in connection with the adoption of a child of a spouse; or (4) which are reimbursed under an employer program or otherwise.

Item	Present Law	House Bill	Senate Amendment
			Effective date.--The provision is effective for distributions after December 31, 1996.

Item	*Present Law*	*House Bill*	*Senate Amendment*
II. EDUCATION TAX INCENTIVES			
A. Tax Benefits Relating to Education Expenses			
1. HOPE credit for higher education tuition expenses (sec. 201 of the House bill and the Senate amendment)	Present law does not provide for a tax credit for education expenses. Taxpayers generally may not deduct education expenses, except that a deduction may be allowed under section 162 if the education (other than education that relates to certain minimum educational requirements or that enables a taxpayer to begin working in a new trade or business) either (1) maintains or improves a skill required in a trade or business currently engaged in by the taxpayer, or (2) meets the express requirements of the taxpayer's employer, or requirements of applicable law or regulations, imposed as a condition of continued employment.	Individual taxpayers are allowed to claim a non-refundable HOPE credit up to $1,500 per student per year for 50 percent of qualified tuition and related expenses (i.e., tuition, fees, and books required for enrollment, but not room and board) paid for the first two years of the student's post-secondary education on at least a half-time basis at a college, university, or certain vocational schools. The credit is phased out for taxpayers with modified AGI between $40,000 and $50,000 ($80,000 and $100,000 for joint returns). A taxpayer may elect with respect to an eligible student either the HOPE credit or the proposed deduction for qualified	Same as House bill, except: (1) the credit rate is 75 percent (rather than 50 percent) for students attending two-year community colleges and vocational schools; (2) an eligible student must have earned a high-school diploma (or equivalent) degree prior to attending any post-secondary classes with respect to which the HOPE credit is claimed, with the exception of students who did not receive a high-school degree by reason of enrollment in an early admission program at a post-secondary institution; and (3) a taxpayer may elect with respect to an eligible student either the HOPE credit or the proposed exclusion for distributions from a qualified tuition program or education IRA provided for by the Senate

Item	Present Law	House Bill	Senate Amendment
		higher education expenses provided for by the House bill. **Effective date**.--Expenses paid after December 31, 1997, for education furnished in academic periods beginning after such date.	amendment. **Effective date**.--Same as House bill.
2. Deduction for qualified higher education expenses or exclusion for certain distributions used to pay qualified education expenses; tax treatment of qualified tuition programs and certain education investment accounts (secs. 202, 211-212 of the House bill and secs. 211-213 of the Senate amendment)	Taxpayers generally may not deduct education expenses, except that a deduction may be allowed under section 162 if the education (other than education that relates to certain minimum educational requirements or that enables a taxpayer to begin working in a new trade or business) either (1) maintains or improves a skill required in a trade or business currently engaged in by the taxpayer, or (2) meets the express requirements of the taxpayer's employer, or requirements of applicable law or regulations, imposed as a condition of continued employment.	Deduction.--Individual taxpayers are allowed a deduction up to $10,000 per student per year (with a $40,000 aggregate cap per student for all taxable years) for qualified higher education expenses paid during the year for undergraduate education furnished to the taxpayer, the taxpayer's spouse, or a dependent, provided that the student attends classes on at least a half-time basis. A deduction is allowed only to the extent that the taxpayer is required to include in gross income for the taxable year earnings distributed from a	Exclusion.--Amounts distributed from State-sponsored and private-school qualified tuition programs and certain education investment accounts ("education IRAs") are excludable from gross income to the extent that the amounts distributed do not exceed qualified higher education expenses incurred during the year on behalf of a student who is attending undergraduate or graduate classes on at least a half-time basis. In addition, distributions from education IRAs (but not qualified tuition programs) after December 31, 2000, will be excludable from gross income to

Item	Present Law	House Bill	Senate Amendment
	Section 529 provides tax-exempt status to certain State-sponsored prepaid tuition programs that make distributions for qualified higher education expenses (meaning tuition, fees, books, supplies, and equipment required for enrollment in an eligible post-secondary institution, but not room and board expenses). Section 529 provides that earnings on contributions to State-sponsored prepaid tuition programs generally are taxable to the distributee at the time that a distribution is made under the program.	qualified tuition program or education investment account. The deduction is not allowed if a HOPE credit (as described above) is claimed with respect to the student for the taxable year.	the extent that the amounts distributed do not exceed certain qualified elementary and secondary education expenses. The exclusion is not allowed if a HOPE credit (as described above) is claimed with respect to a student for the taxable year.
		Qualified expenses.--The deduction is available with respect to tuition, fees, books, supplies, equipment, and certain room and board expenses required for the enrollment of an undergraduate student attending classes at an eligible institution on at least a half-time basis.	Qualified expenses.--The exclusion is available to the extent that the distribution does not exceed tuition, fees, books, supplies, equipment, and certain room and board expenses required for the enrollment of an undergraduate or graduate student attending classes at an eligible institution on at least a half-time basis.

Item	Present Law	House Bill	Senate Amendment
			In addition, distributions from education IRAs (but not qualified tuition programs) after December 31, 2000, will be excludable from gross income to the extent the amounts distributed do not exceed qualified elementary and secondary education expenses--meaning tuition, fees, tutoring, special needs services, books, supplies, equipment, transportation, and supplementary expenses (including homeschooling expenses if the requirements of State or local law are satisfied) required for the enrollment or attendance at a public, private, or sectarian school providing elementary or secondary education (through grade 12) of any dependent of the taxpayer. (Floor amendment by Senators Coverdell, Abraham, Coats, Craig, Santorum, and Ashcroft, adopted by a vote of 58-42.)
		Expansion of section 529.--Present-law section 529 is	Expansion of section 529.--Same as House bill, except that

Item	Present Law	House Bill	Senate Amendment
		expanded to provide tax-exempt status to certain qualified tuition programs operated by private educational institutions, and the definition of "qualified higher education expenses" is expanded to include certain room and board expenses of undergraduate students who are attending classes on at least a half-time basis.	qualified higher education expenses include expenses of undergraduate and graduate students attending classes on at least a half-time basis.
		Education investment accounts.--Tax-exempt status also is provided to certain education investment accounts established by taxpayers exclusively for the purposes of paying qualified higher education expenses of the account holder.	Education IRAs.--Tax-exempt status also is provided to certain "education IRAs" established by taxpayers exclusively for the purposes of paying qualified higher education expenses, and qualified elementary and secondary education expenses, of the account holder.
		Contribution limits.--Contributions to qualified tuition programs operated by private schools and to education investment accounts are limited to $5,000 per year per beneficiary (with a $50,000 aggregate cap per student for all	Contribution limits.--Contributions to qualified tuition programs operated by private schools and to education IRAs are limited to $2,000 per year per beneficiary, plus the amount of any child credit that is allowed for the taxable year

Item	Present Law	House Bill	Senate Amendment
		taxable years). There is no specific dollar contribution limit for State-sponsored qualified tuition programs.	with respect to the beneficiary (i.e., the maximum annual contribution per beneficiary could be as much as $2,500). There is no specific dollar contribution limit for State-sponsored qualified tuition programs.
		10-percent penalty.--An additional tax of 10-percent is imposed on distributions from qualified tuition programs or education investment accounts to the extent the distribution exceeds qualified education expenses (and is not made on account of the death or disability of, or scholarship received by, the designated beneficiary).	10-percent penalty.--Same as House bill, except that (1) distributions from State-sponsored qualified tuition programs are not subject to the 10-percent additional tax (but the State itself must impose a "more than de minimis penalty"), and (2) account balances in qualified tuition programs and education IRAs are allowed to be rolled over on a tax-free basis into an IRA Plus account for the account holder when he or she reaches age 30.
		Estate and gift tax rules.--Contributions to qualified tuition programs and education investment accounts will be treated as completed gifts of a	Estate and gift tax rules.--Contributions to qualified tuition programs and education IRAs will not be considered taxable gifts for Federal gift tax

Item	Present Law	House Bill	Senate Amendment
		present interest. For estate tax purposes, the value of any interest in a qualified tuition program or education investment account will be includible in the estate of the designated beneficiary (and not the estate of the contributor).	purposes (and in no event will distributions from such programs and education IRAs be treated as taxable gifts). For estate tax purposes, the value of any interest in a qualified tuition program or education IRA will be includible in the estate of the designated beneficiary (and not the estate of the contributor).
		Effective date.-- The deduction for qualified higher education expenses, and the expansion of the definition of qualified higher education expenses under section 529 to cover room and board expenses, are effective for expenses paid after December 31, 1997, for education furnished in academic periods beginning after such date. The provisions governing the tax-exempt status of qualified tuition programs and education investment accounts generally are effective after December 31, 1997. The gift tax provisions are effective for contributions made after the date of	**Effective date**.-- The provision applies to distributions made, and qualified higher education expenses paid, after December 31, 1997, for education furnished in academic periods beginning after such date. The provisions governing contributions to, and the tax-exempt status of, qualified tuition programs and education IRAs generally apply after December 31, 1997. The gift tax provisions are effective for contributions made after the date of enactment, and the estate tax provisions are effective for decedents dying after June 8, 1997.

Item	Present Law	House Bill	Senate Amendment
		enactment, and the estate tax provisions are effective for decedents dying after June 8, 1997.	
3. Phase out qualified tuition reduction exclusion (sec. 202(c) of the House bill)	Section 117(d) provides that a "qualified tuition reduction" is excluded from gross income. A "qualified tuition reduction" means any reduction in tuition provided to an employee of an educational organization for the education of the employee, the employee's spouse, and dependent children at that organization or another such organization. In general, the qualified tuition reduction is limited to education below the graduate level; however, this limitation does not apply to graduate students engaged in teaching or research activities. The exclusion does not apply to any amount that represents payment for teaching, research, or other services rendered by the student in exchange for receiving the tuition reduction.	The House bill phases out the special rule contained in section 117(d) that excludes qualified tuition reductions from gross income. For 1998, 80 percent of a qualified tuition reduction is excludable from gross income. For 1999, the excludable percentage is 60 percent; for 2000, the excludable percentage is 40 percent; and for 2001, the excludable percentage is 20 percent. No exclusion for a qualified tuition reduction is permitted after 2001. **Effective date**.--The provision is effective for qualified tuition reductions with respect to courses of instruction beginning after December 31, 1997 (subject to the phaseout described above).	No provision.

Item	Present Law	House Bill	Senate Amendment
4. Deduction for student loan interest (sec. 202 of the Senate amendment)	The Tax Reform Act of 1986 repealed the deduction for personal interest. Student loan interest generally is treated as personal interest and thus is not allowable as an itemized deduction from income. Taxpayers generally may not deduct education and training expenses. However, a deduction for education expenses generally is allowed under section 162 if the education or training (1) maintains or improves a skill required in a trade or business currently engaged in by the taxpayer, or (2) meets the express requirements of the taxpayer's employer, or requirements of applicable law or regulations, imposed as a condition of continued employment (Treas. Reg. sec. 1.162-5). Education expenses are not deductible if they relate to certain minimum educational requirements or to education or	No provision.	Under the Senate amendment, certain individuals who have paid interest on qualified education loans may claim an above-the-line deduction for such interest expenses, up to a maximum deduction of $2,500 per year. The deduction is allowed only with respect to interest paid on a qualified education loan during the first 60 months in which interest payments are required. No deduction is allowed to an individual if that individual is claimed as a dependent on another taxpayer's return for the taxable year. Beginning in 1999, the maximum deduction of $2,500 is indexed for inflation. A qualified education loan generally means any indebtedness incurred to pay for the qualified higher education expenses (generally, tuition, fees, room and board, and related expenses) of the

Item	Present Law	House Bill	Senate Amendment
	training that enables a taxpayer to begin working in a new trade or business. In the case of an employee, education expenses (if not reimbursed by the employer) may be claimed as an itemized deduction only if such expenses relate to the employee's current job and only to the extent that the expenses, along with other miscellaneous deductions, exceed two percent of the taxpayer's AGI.		taxpayer, the taxpayer's spouse, or any dependent of the taxpayer. Such expenses must be attributable to a period when the student is at least a half-time student. The deduction is phased out ratably for taxpayers with modified AGI between $40,000 and $50,000 ($80,000 and $100,000 for joint returns). Beginning in 2001, the income phase-out ranges are indexed for inflation. Any person in a trade or business or any governmental agency that receives $600 or more in qualified education loan interest from an individual during a calendar year must provide an information report on such interest to the IRS and to the payor. **Effective date**.--The provision is effective for payments of interest due after December 31, 1996, on any qualified education

Item	Present Law	House Bill	Senate Amendment
			loan.
5. Tax credit for expenses for education which supplements elementary and secondary education (sec. 204 of the House bill)	In general, taxpayers may not deduct education and training expenses that relate to basic elementary or secondary education. Students who are employed may be eligible for the special exclusion for employer-provided educational assistance under section 127. In addition, qualified scholarships received by such students are excluded from gross income under section 117, and such students may be eligible for the special rules for student loan forgiveness under section 108(f). No tax credit is available under present law for expenses incurred with respect to elementary or secondary education.	The House bill provides a nonrefundable tax credit equal to the lesser of (1) $150 or (2) 50 percent of qualified educational assistance expenses paid with respect to an eligible student. Eligible students are children under age 18 enrolled full-time in elementary or secondary school. Qualified educational assistance expenses are costs of supplementary education (such as tutoring, but not college entrance exam preparation). Such supplementary education must be provided with respect to a student's current classes by an accredited supplementary education service provider. The credit is phased out for taxpayers with AGI between $80,000-$92,000 (joint filers) and $50,000-$62,000	No provision.

Item	Present Law	House Bill	Senate Amendment
		(individual filers). **Effective date**.--The credit is available for taxable years beginning after December 31, 1997.	
6. Certain teacher education expenses not subject to 2-percent floor on miscellaneous itemized deductions (sec. 224 of the Senate amendment)	In general, taxpayers are not permitted to deduct education expenses. However, employees may deduct the cost of certain work-related education. For costs to be deductible, the education must either be required by the taxpayer's employer or by law to retain taxpayer's current job or be necessary to maintain or improve skills required in the taxpayer's current job. Expenses incurred for education that is necessary to meet minimum education requirements of an employee's present trade or business or that can qualify an employee for a new trade or business are not deductible.	No provision.	Under the Senate amendment, qualified professional development expenses incurred by an elementary or secondary school teacher with respect to certain courses of instruction are not subject to the 2 percent floor on miscellaneous itemized deductions. Qualified professional development expenses mean expenses for tuition, fees, books, supplies, equipment and transportation required for enrollment or attendance in a qualified course, provided that such expenses are otherwise deductible under present law section 162. A qualified course of instruction means a course at an institution of higher education which is

Item	Present Law	House Bill	Senate Amendment
	An employee is allowed to deduct work-related education and other business expenses only to the extent such expenses (together with other miscellaneous itemized deductions) exceed 2 percent of the taxpayer's adjusted gross income.		part of a program of professional development that is approved and certified by the appropriate local educational agency as furthering the individual's teaching skills. **Effective date**.--The provision is effective for taxable years beginning after December 31, 1997.

Item	*Present Law*	*House Bill*	*Senate Amendment*
B. Other Education-Related Tax Provisions			
1. Extension of exclusion for employer-provided educational assistance (sec. 221 of the House bill and the Senate amendment)	Up to $5,250 of employer-provided educational assistance is excludable from income. The exclusion does not apply to graduate-level courses beginning after June 30, 1996. The exclusion expires with respect to courses of instruction beginning after June 30, 1997. (The legislative history indicates Congressional intent that the exclusion expire with respect to courses of instruction beginning after May 31, 1997.)	The exclusion for employer-provided educational assistance is extended through courses beginning on or before December 31, 1997.	The exclusion for employer-provided educational assistance is extended permanently. Beginning in 1997, the exclusion applies to graduate-level courses.
		Effective date.--The provision is effective with respect to taxable years beginning after December 31, 1996.	**Effective date.**--The extension of the exclusion with respect to undergraduate courses applies with respect to taxable years beginning after December 31, 1996. The extension of the exclusion with respect to graduate-level courses applies to courses beginning after December 31, 1996.

Item	Present Law	House Bill	Senate Amendment
2. Modification of $150 million limit on qualified 501(c)(3) bonds other than hospital bonds (sec. 222 of the House bill the Senate amendment)	Present law treats section 501(c)(3) organizations as private persons; thus, bonds for their use may only be issued as private activity "qualified 501(1)(3) bonds," subject to the restrictions of Code section 145. The most significant of the restrictions on these bonds limits the amount of outstanding bonds from which a section 501(c)(3) organization may benefit to $150 million.	The $150 million limit is increased annually in $10 million increments until it is $200 million. Specifically, the limitation is $160 million in 1998, $170 million in 1999, $180 million in 2000, $190 million in 2001, and $200 million in 2002 and thereafter. **Effective date**.--The provision is effective on January 1, 1998.	The Senate amendment repeals the $150 million limit. **Effective date**.--The provision is effective for bonds issued after the date of enactment to finance capital expenditures incurred after such date.
3. Enhanced deduction for corporate contributions of computer technology and equipment (sec. 223 of the House bill)	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 the case of a charitable contribution of	The House bill expands the list of qualified contributions that would qualify for the augmented deduction currently available under Code section 170(e)(3) and 170(e)(4). Qualified contributions mean gifts by C corporations of computer	No provision.

Item	Present Law	House Bill	Senate Amendment
	inventory or other ordinary-income property, short-term capital gain property, or certain gifts to private foundations, the amount of the deduction is limited to the taxpayer's basis in the property. In the case of a charitable contribution of tangible personal property, a taxpayer's deduction is limited to the adjusted basis in such property if the use by the recipient charitable organization is unrelated to the organization's tax-exempt purpose. Special rules in the Code provide augmented deductions for certain contributions by C corporations of inventory property for the care of the ill, the needy, or infants (sec. 170(e)(3)) and of scientific equipment constructed by the taxpayer (sec. 170(e)(4)). Under these rules, the amount of the augmented deduction equals the donor's basis in the donated property plus one-half of the amount of ordinary income that	technology and equipment to be used within the United States for educational purposes in any of grades K-12. Eligible donees are (1) any educational organization that normally maintains a regular faculty and curriculum and has a regularly enrolled body of pupils in attendance at the place where its educational activities are regularly carried on; and (2) charitable organizations organized primarily to support elementary and secondary education. A private foundation also is an eligible donee, provided that, within 30 days after receipt of the contribution, the private foundation contributes the property to an eligible donee described above. Qualified contributions are limited to gifts made no later than two years after the date the taxpayer acquired or substantially completed the construction of the donated	

Item	Present Law	House Bill	Senate Amendment
	would have been realized if the property had been sold. However, the augmented deduction cannot exceed twice the basis of the donated property.	property. **Effective date**.--The provision is effective for contributions made in taxable years beginning after 1997.	
4. Expansion of arbitrage rebate exception for certain bonds (sec. 223 of the Senate amendment)	Generally, all arbitrage profits allowed under the law to be earned on investments unrelated to the purpose of a tax-exempt borrowing ("nonpurpose investments") must be rebated to the Federal Government. An exception is provided for bonds issued by governmental units having general taxing powers if the governmental unit (and all subordinate units) issues $5 million or less of governmental bonds during the calendar year ("the small-issuer exception").	No provision.	The Senate amendment provides that up to $5 million dollars of bonds used to finance public school capital expenditures incurred after December 31, 1997, are excluded from application of the present-law $5 million limit. Thus, small issuers will continue to benefit from the small issue exception from arbitrage rebate if they issue no more than $10 million in governmental bonds per calendar year and no more than $5 million of the bonds is used to finance expenditures other than for public school capital expenditures. **Effective date.**--The provision is effective for bonds issued

Item	Present Law	House Bill	Senate Amendment
			after December 31, 1997.

Item	*Present Law*	*House Bill*	*Senate Amendment*
III. SAVINGS AND INVESTMENT TAX INCENTIVES			
A. Individual Retirement Arrangements			
1. Increase deductible IRA phase-out range and modify active participant rule (sec. 301 of the Senate amendment)	If an individual (or, if married, the individual's spouse) is an active participant in an employer-sponsored retirement plan, the $2,000 IRA deduction limit is phased out over the following levels of adjusted gross income ("AGI"): $25,000 to $35,000 in the case of a single taxpayer and $40,000 to $50,000 in the case of married taxpayers.	No provision.	An individual is not considered to be an active participant in an employer-sponsored retirement plan merely because the individual's spouse is such an active participant. The income phase-out range for single individuals is increased as follows: for 1998 and 1999, the phase-out range is $30,000 to $40,000; for 2000 and 2001, $35,000 to $45,000; for 2002 and 2003, $40,000 to $50,000; and for 2004 and thereafter, $50,000 to $60,000. The income phase-out range for married individuals is increased as follows: for 1998 and 1999, the phase-out range is $50,000 to $60,000; for 2000 and 2001,

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Item	Present Law	House Bill	Senate Amendment
			$60,000 to $70,000; for 2002 and 2003, $70,000 to $80,000; and 2004 and thereafter, $80,000 to $100,000. **Effective date**.--The provisions are effective for taxable years beginning after December 31, 1997.
2. Tax-free nondeductible IRAs (sec. 301 of the House bill and sec. 302 of the Senate amendment)	No provision. However, present law provides that an individual can make nondeductible contributions to an IRA to the extent the individual cannot or does not make deductible contributions. Earnings on nondeductible contributions are includible in income when withdrawn.	In general.--The House bill replaces present-law nondeductible IRAs with new American Dream IRAs ("AD IRAs") to which individuals may make nondeductible contributions of up to $2,000 annually. No income limits apply to AD IRAs, and contributions to AD IRAs are in addition to other IRA contributions. The $2,000 contribution limit is indexed for inflation in $50 increments. Taxation of distributions.--Qualified distributions from an AD IRA are not includible in income. Qualified distributions are distributions (1) made after	In general.--Same as the House bill, except that: (1) the new IRAs are called IRA Plus accounts and (2) no more than $2,000 of annual contributions can be made to all an individual's IRAs. Taxation of distributions.--Same as the House bill, except that special purpose distributions also include distributions to long-term

Item	Present Law	House Bill	Senate Amendment
		the 5-taxable year period beginning with the first taxable year for which a contribution was made to an AD IRA and (2) which are (a) made on or after the date on which the individual attains age 59-1/2, (b) made to a beneficiary on or after the death of the individual, (c) attributable to the individual's being disabled, or (d) for a qualified special purpose distribution. A qualified special purpose distribution is a distribution for first-time homebuyer expenses.	unemployed individuals.
		Conversions of IRAs to AD IRAs.--An IRA may be converted to an AD IRA before January 1, 1999. Amounts that would have been includible in income had the amounts converted been withdrawn are includible in income ratably over 4 years. The additional tax on early withdrawals does not apply to conversions of IRAs to AD IRAs.	Conversions of IRAs to AD IRAs.--Same as the House bill, except that conversations of an IRA to an IRA Plus can be made at any time. If the conversion is made before January 1, 1999, the amounts that would have been includible in income had the amounts converted been withdrawn are includible in income ratably over 4 years. In any case, the 10-percent tax on

Item	Present Law	House Bill	Senate Amendment
			early withdrawals does not apply.
		Effective date.--Taxable years beginning after December 31, 1997.	**Effective date.**--Same as the House bill.
3. **Modifications to early withdrawal tax (sec. 301 of the House bill and sec. 303 of the Senate amendment)**	Under present law, a 10-percent additional tax applies to distributions from an IRA prior to age 59-1/2, unless an exception applies.	The early withdrawal tax does not apply to distributions from an AD IRA for first-time homebuyer expenses.	The early withdrawal tax does not apply to distributions from any IRA for first-time homebuyer expenses or for long-term unemployed individuals.
		Effective date.--Taxable years beginning after December 31, 1997.	**Effective date.**--Same as the House bill.
4. **IRA investments in coins and bullion (sec. 304 of the Senate amendment)**	IRA assets may not be invested in collectibles. This prohibition does not apply to certain gold and silver coins or to coins issued by a State.	No provision.	IRA assets may be invested in certain platinum coins and in certain gold, silver, platinum or palladium bullion. (Modified by floor amendment by Sen. Roth)
			Effective date.--The provision is effective for taxable years beginning after December 31, 1997.

Item	*Present Law*	*House Bill*	*Senate Amendment*
B. Capital Gains Provisions			
1. Individual capital gains (sec. 311 of the House bill and 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.--Reduces maximum rate to 20 percent (10 percent for gains otherwise taxed at a 15-percent rate). These rates also apply to the minimum tax.	In general.--Same as House bill.
	Real estate depreciation recapture.--Treated as capital gain, except for excess over straight-line depreciation.	Real estate depreciation recapture.--Maximum capital gain rate of 26 percent.	Real estate depreciation recapture.--Maximum capital gain rate of 24 percent.
	Collectibles.--Collectibles are treated the same as other assets.	Collectibles.--Retains present law maximum rate of 28 percent, if individual does not index basis (discussed below).	Collectibles.--Same as House bill (except Senate amendment does not contain indexing).
		Effective date.--May 7, 1997.	**Effective date.**--Same as House bill.
2. Small business stock (sec. 311 of the House bill and secs. 312 and 313 of the Senate amendment)	Individuals who hold qualified stock for more than 5 years can exclude 50 percent of the gain from the sale of the stock. One-half of the excluded amount is a minimum tax preference.	Retains present law, including maximum 14-percent rate.	Individual rates.--Combination of the exclusion and the lower capital gains rates reduces maximum individual rate to 10 percent. Minimum tax preference repealed.

Item	Present Law	House Bill	Senate Amendment
			Extension to corporations.--Corporations made eligible for the 50-percent exclusion. Modifications.,--Increases corporate size to $100 million gross receipts (from $50 million); no limitation on amount of gain from any corporation; working capital may be held for 5 years (rather than 2 years) without limitation as to amount; business purpose redemptions allowed. Rollover.--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 gross asset test and application to corporate shareholders applies to stock issued after date of enactment.
3. Indexing of capital gains (sec. 312 of the House bill)	The adjusted basis of property taken into account in computing gain or loss is not adjusted for	Individuals are allowed to index for inflation the basis of certain assets held more than 3 years for	No provision.

Item	Present Law	House Bill	Senate Amendment
	inflation.	purposes of determining gain (but not loss). Assets eligible for indexing include common stock of C corporations and tangible property which is a capital asset or business asset (other than a principal residence). **Effective date**.--Assets purchased after December 31, 2000. An individual may elect to treat as having sold and repurchased at fair market value an indexed asset held on January 1, 2001.	
4. Gain from sale of principal residence (sec. 313 of the House bill and sec. 314 of the Senate amendment)	Individuals attaining age 55 one time may exclude up to $125,000 gain from sale of property used as principal residence for 3 of past 5 years. In addition, gain may be rolled over to new principal residence.	Individuals generally may exclude up to $250,000 ($500,000 in case of joint return) of gain from sale of principal residence (including remainder interest) if used as principal residence for 2 of 5 years prior to sale. Rollover provision is repealed. **Effective date**.-- May 7, 1997, with transition rules.	Same as House bill, with technical modifications. **Effective date**.--Same as House bill.

Item	*Present Law*	*House Bill*	*Senate Amendment*
5. Corporate capital gains (sec. 321 of the House bill)	Corporate capital gains are taxed at the same rates as ordinary income.	Maximum tax of 30 percent beginning in 2000 (32 percent in 1998; 31 percent in 1999) on the lesser of taxable income or capital gain from assets held more than 8 years. **Effective date**.--January 1, 1998.	No provision.

Item	Present Law	House Bill	Senate Amendment
IV. ALTERNATIVE MINIMUM TAX PROVISIONS			
A. Increase Exemption Amount Applicable to Individuals (sec. 401 of the House bill and sec. 102 of the Senate amendment)	The AMT exemptions amounts for individuals are $45,000 in the case of married individuals filing a joint return and surviving spouses; $33,750 in the case of other unmarried individuals; and $22,500 in the case of married individuals filing a separate return. The exemption amounts are not indexed for inflation.	For taxable years beginning in 1999, 2001, 2003, 2005 and 2007, the exemption amounts of the individual alternative minimum tax are increased as follows for each such year: (1) by $1,000 in the case of married individuals filing a joint return and surviving spouses; (2) by $750 in the case of other unmarried individuals; and (3) by $500 in the case of married individuals filing a separate return. For taxable years beginning after 2007, the exemption amounts are indexed for inflation.	For taxable years beginning after 2000 and before 2003, the Senate amendment increases the exemption amounts of the individual alternative minimum tax as follows in each such year: (1) by $600 in the case of married individuals filing a joint return and surviving spouses; (2) by $450 in the case of other unmarried individuals; and (3) by $300 in the case of married individuals filing separate returns. For taxable years beginning after 2002, the exemption amounts of the individual alternative minimum tax are increased as follows in each year: (1) by $950 in the case of married individuals filing a joint return and surviving spouses; (2) by $700 in the case of other unmarried individuals; and (3) by $475 in the case of married individuals filing separate returns.

Item	Present Law	House Bill	Senate Amendment
			A floor amendment proposed by Senator Coverdell instructs the Secretary of the Treasury to decrease the amounts provided above in any calendar year to the extent necessary to increase Federal revenues by the amount the Secretary estimates Federal revenues will be reduced by reason of allowing distributions from education individual retirement accounts under section 530 to be used for qualified elementary and secondary education expenses.
		<u>**Effective date**</u>.--Taxable years beginning after 1998.	<u>**Effective date**</u>.--Taxable years beginning after 2000.
B. Exemption from AMT for Small Corporations (sec. 402 of the House bill)	Present law imposes a minimum tax on a corporation to the extent the taxpayer's minimum tax liability exceeds its regular tax liability. The corporate AMT is imposed at a rate of 20 percent on alternative minimum taxable income in excess of a phased-out $40,000 exemption amount.	The corporate AMT is repealed for small business corporations (i.e., corporations with average gross receipts of $5 million or less). <u>**Effective date**</u>.--Taxable years beginning after 1997.	No provision.

Item	*Present Law*	*House Bill*	*Senate Amendment*
C. Repeal of AMT Adjustment for Depreciation (sec. 403 of the House bill)	In computing AMTI, depreciation on property placed in service after 1986 must be computed by using the class lives prescribed by the alternative depreciation system of section 168(g) and either (1) the straight-line method in the case of property subject to the straight-line method under the regular tax or (2) the 150-percent declining balance method in the case of other property.	The AMT adjustment relating to depreciation is repealed for all taxpayers for property placed in service after December 31, 1998. **Effective date**.--Property placed in service after 1998.	No provision.
D. Minimum Tax not to Apply to Farmers' Installment Sales (sec. 404 of the House bill and sec. 732 of the Senate amendment)	Under the regular tax, dealers in personal property are not allowed to defer the recognition of income by use of the installment method on the installment sale of such property. For this purpose, dealer dispositions do not include sales of any property used or produced in the trade or business of farming. For AMT purposes, the installment method is not available with respect to the disposition of any property that is the stock in	For purposes of the AMT, cash method farmers may use the installment method of accounting. **Effective date**.--Generally effective for disposition after 1987.	The AMT adjustment for installment method sales is repealed. The amendment has the same effect as the House bill. **Effective date**.--Generally effective for disposition after 1987.

Item	Present Law	House Bill	Senate Amendment
	trade of the taxpayer or any other property of a kind which would be properly included in the inventory of the taxpayer if held at year end, or property held by the taxpayer primarily for sale to customers. No explicit exception is provided for installment sales of farm property under the AMT.		

Item	Present Law	House Bill	Senate Amendment
V. ESTATE, GIFT, AND GENERATION-SKIPPING TAX PROVISIONS			
A. Increase in Estate and Gift Tax Unified Credit (sec. 501(a) of the House bill and sec. 401(a) of the Senate amendment)	A gift tax is imposed on lifetime transfers by gift and an estate tax is imposed on transfers at death. Since 1976, the gift tax and the estate tax have been unified so that a single graduated rate schedule applies to cumulative taxable transfers made by a taxpayer during his or her lifetime and at death. A unified credit of $192,800 is provided against the estate and gift tax, which effectively exempts the first $600,000 in cumulative taxable transfers from tax. For transfers in excess of $600,000, estate and gift tax rates begin at 37 percent and reach 55 percent on cumulative taxable transfers over $3 million. In addition, a 5-percent surtax is imposed upon cumulative taxable transfers between $10 million and $21,040,000, to phase out the	The bill increases the present-law unified credit beginning in 1998, from an effective exemption of $600,000 to an effective exemption of $1,000,000 in 2007. The increase in the effective exemption is phased in according to the following schedule: the effective exemption is $650,000 for decedents dying and gifts made in 1998; $750,000 in 1999; $765,000 in 2000; $775,000 in 2001 through 2004; $800,000 in 2005; $825,000 in 2006; $1 million in 2007. After 2007, the effective exemption is indexed annually for inflation. The indexed exemption amount is rounded to the next lowest multiple of $10,000. Conforming amendments to reflect the increased unified	The bill increases the present-law unified credit beginning in 1998, from an effective exemption of $600,000 to an effective exemption of $1,000,000 in 2006. The increase in the effective exemption is phased in according to the following schedule: the effective exemption is $625,000 for decedents dying and gifts made in 1998; $640,000 in 1999; $660,000 in 2000; $675,000 in 2001; $725,000 in 2002; $750,000 in 2003; $800,000 in 2004; $900,000 in 2005; and $1 million in 2006. After 2006, the effective exemption is indexed annually for inflation. The indexed exemption amount is rounded to the next lowest multiple of $10,000. Conforming amendments to

Item	Present Law	House Bill	Senate Amendment
	benefits of the graduated rates and the unified credit.	credit are made (1) to the 5-percent surtax to conform the phase out of the increased unified credit and graduated rates, (2) to the general filing requirements for an estate tax return under section 6018(a), and (3) to the amount of the unified credit allowed under section 2102(c)(3) with respect to nonresident aliens with U.S. situs property who are residents of certain treaty countries. **Effective date**.--The provision is effective for decedents dying, and gifts made, after December 31, 1997.	reflect the increased unified credit are made (1) to the 5-percent surtax to conform the phase out of the increased unified credit and graduated rates, (2) to the general filing requirements for an estate tax return under section 6018(a), and (3) to the amount of the unified credit allowed under section 2102(c)(3) with respect to nonresident aliens with U.S. situs property who are residents of certain treaty countries. **Effective date**.--The provision is effective for decedents dying, and gifts made, after December 31, 1997.
B. Estate Tax Exclusion for Qualified Family-Owned Businesses (sec. 402 of the Senate amendment)	There are no special estate tax rules for qualified family-owned businesses. All taxpayers are allowed a unified credit in computing the taxpayer's estate and gift tax, which effectively exempts a total of $600,000 in cumulative taxable transfers from the estate and gift tax (sec. 2010). An executor also may	No provision.	The bill allows an executor to elect special estate tax treatment for qualified "family-owned business interests" if such interests comprise more than 50 percent of a decedent's estate and certain other requirements are met. In general, the provision excludes the first $1 million of value in qualified

Item	Present Law	House Bill	Senate Amendment
	elect, under section 2032A, 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 (sec. 6166). The tax attributable to the first $1,000,000 in value of a closely-held business is eligible for a special 4-percent interest rate (sec. 6601(j)).		family-owned business interests from a decedent's taxable estate. This new exclusion for qualified family-owned business interests is provided in addition to the unified credit (which presently effectively exempts $600,000 of taxable transfers from the estate and gift tax , and will be increased to an effective exemption of $1,000,000 of taxable transfers under other provisions of the bill), the special-use provisions of section 2032A (which permit the exclusion of up to $750,000 in value of a qualifying farm or other closely-held business from a decedent's estate), and the provisions of section 6166 (which provide for the installment payment of estate taxes attributable to closely held businesses). **Effective date**.--The provision is effective with respect to the estates of decedents dying after December 31, 1997.

Item	Present Law	House Bill	Senate Amendment
C. Reduction in Estate Tax for Certain Land Subject to Permanent Conservation Easement (sec. 403 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. Also, a contribution will be treated as "exclusively for	No provision.	The provision allows an executor to elect to exclude from the taxable estate 40 percent of the value of any land subject to a qualified conservation easement if the following requirements are satisfied: (1) the land is located within 25 miles of a metropolitan area or a national park or wilderness area, or within 10 miles of an Urban National Forest; (2) the land has 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 was granted by the decedent or a member of his or her family. For purposes of the provision, 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

Item	Present Law	House Bill	Senate Amendment
	conservation purposes" only if the conservation purpose is protected in perpetuity. A donor making a qualified conservation contribution generally is not allowed to retain an interest in minerals which may be extracted or removed by any surface mining method. However, deductions for contributions of conservation interests satisfying all of the above requirements will be permitted if two conditions are satisfied. First, the surface and mineral estates in the property with respect to which the contribution is made must have been separated before June 13, 1976 (and remain so separated) and, second, the probability of surface mining on the property with respect to which a contribution is made must be so remote as to be negligible (sec. 170(h)(5)(B)). The same definition of qualified conservation contributions also		taxable estate, the basis of such land acquired at death is a carryover basis. Debt-financed property is not eligible for the exclusion. The exclusion amount is 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 40-percent estate tax exclusion for land subject to a qualified conservation easement (described above) may be taken only to the extent that the total exclusion for qualified conservation easements, plus the exclusion for qualified family-owned business interests

Item	Present Law	House Bill	Senate Amendment
	applies for purposes of determining whether such contributions qualify as charitable deductions for income tax purposes.		(described in 2., above), does not exceed $1 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 granting of a qualified conservation easement (as defined above) is not treated as a disposition triggering the recapture provisions of section 2032A. In addition, the existence of a qualified conservation easement does not prevent such property from subsequently qualifying for special-use valuation treatment under section 2032A. The provision also allows a

Item	Present Law	House Bill	Senate Amendment
			charitable deduction (for income tax purposes or estate tax purposes) to taxpayers making a contribution of a permanent conservation easement on property where a mineral interest has been retained and surface mining is possible, but its probability is "so remote as to be negligible." Present law provides for a charitable deduction in such a case if the mineral interests have been separated from the land prior to June 13, 1976. The provision allows such a charitable deduction to be taken regardless of when the mineral interests had been separated. **Effective date**.--The estate tax exclusion applies to decedents dying after December 31, 1997. The rules with respect to the treatment of conservation easements under section 2032A and with respect to retained mineral interests are effective for easements granted after December 31, 1997.

Item	*Present Law*	*House Bill*	*Senate Amendment*
D. Clarify Eligibility for Extension of Time for Payment of Estate Tax (sec. 505 of the House bill)	In general, the Federal estate tax is due within nine months of a decedent's death. Under Code section 6166, an executor generally may elect to pay the estate tax attributable to an interest in a closely held business in installments over, at most, a 14-year period. If the election is made, the estate may pay only interest for the first four years, followed by up to 10 annual installments of principal and interest. To qualify for the installment payment election, the business must meet certain requirements. If certain events occur during the repayment period, full payment of all deferred estate taxes is required at that time. Under present law, there is limited access to judicial review of disputes regarding initial or continuing eligibility for the deferral and installment election under section 6166. If the Commissioner determines that an estate was not initially	The House bill authorizes the U.S. Tax Court to provide declaratory judgments regarding initial or continuing eligibility for deferral under section 6166. **Effective date**.--The provision applies to decedents dying after date of enactment.	No provision.

Item	Present Law	House Bill	Senate Amendment
	eligible for deferral under section 6166, or has lost its eligibility for such deferral, the estate is required to pay the full amount of estate taxes asserted by the Commissioner as being owed in order to obtain judicial review of the Commissioner's determination.		
E. Gifts May Not be Revalued for Estate Tax Purposes after Expiration of Statute of Limitations (sec. 506 of the House bill)	The Federal estate and gift taxes are unified so that a single progressive rate schedule is applied to an individual's cumulative gifts and bequests. The tax on gifts made in a particular year is computed by determining the tax on the sum of the taxable gifts made that year and all prior years and then subtracting the tax on the prior years taxable gifts and the unified credit. Similarly, the estate tax is computed by determining the tax on the sum of the taxable estate and prior taxable gifts and then subtracting the tax on taxable gifts and the unified credit. Under a special rule applicable	The bill provides that a gift for which the limitations period has passed cannot be revalued for purposes of determining the applicable estate tax bracket and available unified credit. For gifts made in calendar years after the date of enactment, the bill also extends the special rule governing gifts valued under Chapter 14 to all gifts. Thus, the statute of limitations will not run on an inadequately disclosed transfer in calendar years after the date of enactment, regardless of whether a gift tax return was filed for other transfers in that same year. It is intended that, in order to	No provision.

Item	Present Law	House Bill	Senate Amendment
	to the computation of the gift tax, the value of gifts made in prior years is the value that was used to determine the prior year's gift tax. There is no comparable rule in the case of the computation of the estate tax. Generally, any estate or gift tax must be assessed within three years after the filing of the return. No proceeding in a court for the collection of an estate or gift tax can be begun without an assessment within the three-year period. If no return is filed, the tax may be assessed, or a suit commenced to collect the tax without assessment, at any time. If an estate or gift tax return is filed, and the amount of unreported items exceeds 25 percent of the amount of the reported items, the tax may be assessed or a suit commenced to collect the tax without assessment, within six years after the return was filed.	revalue a gift that has been adequately disclosed on a gift tax return, the IRS must issue a final notice of redetermination of value (a "final notice") within the statute of limitations applicable to the gift for gift tax purposes (generally, three years). This rule is applicable even where the value of the gift as shown on the return does not result in any gift tax being owed (e.g., through use of the unified credit). It is also anticipated that the IRS will develop an administrative appeals process whereby a taxpayer can challenge a redetermination of value by the IRS prior to issuance of a final notice. A taxpayer who is mailed a final notice may challenge the redetermined value of the gift (as contained in the final notice) by filing a motion for a declaratory judgment with the Tax Court. The motion must be filed on or before 90 days from the date that the final notice was	

Item	*Present Law*	*House Bill*	*Senate Amendment*
	Commencement of the statute of limitations generally does not require that a particular gift be disclosed. A special rule, however, applies to certain gifts that are valued under the special valuation rules of Chapter 14. The gift tax statute of limitations runs for such a gift only if it is disclosed on a gift tax return in a manner adequate to apprise the Secretary of the Treasury of the nature of the item. Most courts have permitted the Commissioner to redetermine the value of a gift for which the statute of limitations period for the gift tax has expired in order to determine the appropriate tax rate bracket and unified credit for the estate tax.	mailed. The statute of limitations is tolled during the pendency of the Tax Court proceeding. **Effective date**.--The provision generally applies to gifts made after the date of enactment. The extension of the special rule under chapter 14 to all gifts made in calendar years after the date of enactment.	
F. Repeal of Throwback Rules Applicable to Domestic Trusts (sec. 507 of the House bill)	A nongrantor trust is treated as a separate taxpayer for Federal income tax purposes. Such a trust generally is treated as a conduit with respect to amounts	The bill exempts from the throwback rules amounts distributed by a domestic trust after the date of enactment. The provision also provides that	No provision.

Item	Present Law	House Bill	Senate Amendment
	distributed currently and taxed with respect to any income which is accumulated in the trust rather than distributed. A separate graduated tax rate structure applies to trusts which historically has permitted accumulated trust income to be taxed at lower rates than the rates applicable to trust beneficiaries. This benefit often was compounded through the creation of multiple trusts. The Internal Revenue Code has several rules intended to limit the benefit that would otherwise occur from using the lower rates applicable to one or more trusts. Under the so-called "throwback" rules, the distribution of previously accumulated trust income to a beneficiary will be subject to tax (in addition to any tax paid by the trust on that income) where the beneficiary's average top marginal rate in the previous five years is higher than those of the trust.	precontribution gain on property sold by a domestic trust no longer is subject to section 644 (i.e., taxed at the contributor's marginal tax rates). The treatment of foreign trusts, including the treatment of foreign trusts that become domestic trusts, remains unchanged. **Effective date**.--The provision with respect to the throwback rules is effective for distributions made in taxable years beginning after the date of enactment. The modification to section 644 applies to sales or exchanges after the date of enactment.	

Item	Present Law	House Bill	Senate Amendment
	Under section 643(f), two or more trusts are treated as one trust if (1) the trusts have substantially the same grantor or grantors and substantially the same primary beneficiary or beneficiaries, and (2) a principal purpose for the existence of the trusts is to avoid Federal income tax. For trusts that were irrevocable as of March 1, 1984, section 643(f) applies only to contributions to corpus after that date. Under section 644, if property is sold within two years of its contribution to a trust, the gain that would have been recognized had the contributor sold the property is taxed at the contributor's marginal tax rates. Sections 665 through 668 apply different rules to accumulation distributions from a foreign trust than to accumulation distributions from domestic trusts. If a foreign trust accumulates income, changes its		

Item	Present Law	House Bill	Senate Amendment
	situs so as to become a domestic trust, and then makes a distribution that is deemed to have been made in a year in which the trust was a foreign trust, the distribution is treated as a distribution from a foreign trust for purposes of the accumulation distribution rules.		
G. Unified Credit of Decedent Increased by Unified Credit of Spouse Used on Split Gift Included in Decedent's Gross Estate (sec. 508 of the House bill)	The Federal gift and estate taxes are a unified transfer tax system in that one progressive tax is imposed on the cumulative transfers during lifetime and at death. The first $10,000 of gifts of present interests to each donee during any one calendar year are excluded from Federal gift tax. Under section 2513, one spouse can elect to treat a gift made by the other spouse to a third person as made one-half by each spouse. The estate tax is imposed on all of the assets held by the decedent at his death, including the value of certain property previously transferred by the	With respect to any split-gift property that is subsequently includible in both spouses' estates, the bill increases the unified credit allowable to the decedent's estate by the amount of the unified credit previously allowed to the decedent's spouse with respect to the split gift. <u>**Effective date**</u>.--The provision applies to gifts made after the date of enactment.	No provision.

Item	Present Law	House Bill	Senate Amendment
	decedent in which the decedent had certain retained powers or interests. In such cases, property that has been treated as a gift made one-half by each spouse may be includible in both spouses' estates.		
H. Reformation of Defective Bequests to Spouse of Decedent (sec. 509 of the House bill)	A "marital deduction" generally is allowed for estate and gift tax purposes for the value of property passing to a spouse. However, "terminable interest" property (i.e., an interest in property that will terminate or fail) transferred to a spouse generally will only qualify for the marital deduction under certain special rules designed to ensure that there will be an estate or gift tax to the transferee spouse on unspent transferred proceeds. Thus, the effect of a marital deduction with the terminable interest rule is to provide only a method of deferral of the estate or gift tax, not exemption. One of the special terminable interest rules provides that the marital	The bill allows the marital deduction with respect to a defective power of appointment or QTIP trust if there is a "qualified reformation" of the trust that corrects the defect. In order to qualify, the reformation must change the governing instrument in a manner that cures the defects to qualification of the trust for the marital deduction. In addition, where a reformation proceeding is commenced after the due date for the estate tax return (including extensions), the reformation would qualify only if, prior to reformation, the governing instrument provides (1) that the surviving spouse is entitled to all of the income from the property for life, and	No provision.

Item	Present Law	House Bill	Senate Amendment
	deduction is allowed where the decedent transfers property to a trust that is required to pay income to the surviving spouse and the surviving spouse has a general power of appointment at that spouse's death (under this so-called "power of appointment trust," the power of appointment both provides the surviving spouse with power to control the ultimate disposition of the trust assets and assures that the trust assets will be subject to estate or gift tax). Another special terminable interest rule called the "qualified terminable interest property" rule ("QTIP") generally permits a marital deduction for transfers by the decedent to a trust that is required to distribute all of the income to the surviving spouse at least annually and an election is made to subject the transferee spouse to transfer tax on the trust property. To qualify for the marital deduction, a power of appointment trust or QTIP trust must meet certain specific	(2) no person other than the surviving spouse is entitled to any distributions during the surviving spouse's life. With respect to QTIP, an election to qualify must be made by the executor on the estate tax return as required by section 2056(b)(7)(B)(v). The determination of whether a marital deduction should be allowed (i.e., the reformation has cured the defects to qualification and otherwise qualifies under this provision) is made either as of the due date for filing the estate or gift tax return (including any extensions) or the time that changes are completed pursuant to a reformation proceeding. The statute of limitations is extended with respect to the estate or gift tax attributable to the trust property until one year after the date the Treasury Department is notified that a qualified reformation has been completed or that the	

Item	Present Law	House Bill	Senate Amendment
	requirements. If there is a technical defect in meeting those requirements, the marital deduction may be lost.	reformation proceeding has otherwise terminated. **Effective date**.--The provision applies to decedents dying after the date of enactment.	
I. Severing of Trusts Holding Property Having an Inclusion Ratio of Greater Than Zero (sec. 511 of the House bill)	A generation-skipping transfer tax ("GST" tax) generally is imposed on transfers, either directly or through a trust or similar arrangement, to a skip person (i.e., a beneficiary in more than one generation below that of the transferor). Transfers subject to the GST tax include direct skips, taxable terminations and taxable distributions. An exemption of $1 million is provided for each person making generation-skipping transfers. The exemption may be allocated by a transferor (or his or her executor) to transferred property. If the value of the transferred	If a trust with an inclusion ratio of greater than zero is severed into two separate trusts, the bill allows the trustee to elect to treat one of the separate trusts as having an inclusion ratio of zero and the other separate trust as having an inclusion ratio of one. To qualify for this treatment, the separate trust with the inclusion ratio of one must receive an interest in each property held by the single trust (prior to severance) equal to the single trust's inclusion ratio, except to the extent otherwise provided by regulation. The remaining interests in each property will be transferred to the separate trust with the inclusion ratio of zero. The election must be	No provision.

Item	*Present Law*	*House Bill*	*Senate Amendment*
	property exceeds the amount of the GST exemption allocated to that property, the GST tax generally is determined by multiplying a flat tax rate equal to the highest estate tax rate (i.e., currently 55 percent) by the "inclusion percentage" and the value of the taxable property at the time of the taxable event. The "inclusion percentage" is the number one minus the "exclusion percentage". The exclusion percentage generally is calculated by dividing the amount of the GST exemption allocated to the property by the value of the property. Under Treasury regulations, trusts that are included in the transferor's gross estate or created under the transferor's will may be validly severed only if (1) the trust is severed according to a direction in the governing instrument; or (2) the trust is severed pursuant to the trustee's discretionary powers, but only if certain other	irrevocable, and must be made at a time and in a manner prescribed by the Treasury Department. **Effective date**.--The provision is effective for severances of trusts occurring after the date of enactment.	

Item	Present Law	House Bill	Senate Amendment
	conditions are satisfied.		

Item	Present Law	House Bill	Senate Amendment
VI. EXTENSION OF CERTAIN EXPIRING PROVISIONS			
A. Research Tax Credit (sec. 601 of the House bill and sec. 501 of the Senate amendment)	Prior to May 31, 1997, section 41 of the Code provided for a research tax credit equal to 20 percent of the amount by which a taxpayer's qualified research expenditures for a taxable year exceeded its base amount for that year. Taxpayers also were allowed for their first taxable year beginning after June 30, 1996, and before July 1, 1997, to elect an alternative incremental research credit regime, under which the taxpayer is assigned a three-tiered fixed-base percentage (that is lower than the fixed-base percentage otherwise applicable) and the credit rate is reduced to 1.65 percent, 2.2 percent, and 2.75 percent. The research tax credit generally does not apply to amounts paid or incurred after May 31, 1997.	The House bill extends the research tax credit for 19 months--i.e., generally for the period June 1, 1997, through December 31, 1998. Taxpayers are permitted to elect the alternative incremental research credit regime for any taxable year beginning after June 30, 1996, and such election will apply to that taxable year and all subsequent taxable years unless revoked with the consent of the Secretary of the Treasury. **Effective date**.--The provision generally is effective for	The Senate amendment extends the research tax credit for 24 months--i.e., generally for the period June 1, 1997, through May 31, 1999. Taxpayers are permitted to elect the alternative incremental research credit regime for any taxable year beginning after June 30, 1996, and such election will apply to that taxable year and all subsequent taxable years unless revoked with the consent of the Secretary of the Treasury. (Floor amendment by Senators Nickles, Hagel, Cleland, and Domenici, adopted by vote of 98-0.) **Effective date**.--The provision generally is effective for

Item	Present Law	House Bill	Senate Amendment
		qualified research expenditures paid or incurred during the period June 1, 1997, through December 31, 1998. A special rule provides that, if a taxpayer elects to be subject to the alternative incremental credit regime for its first taxable year beginning after June 30, 1996, and before July 1, 1997, the alternative incremental credit will be available during the entire 30-month period beginning with the first month of such taxable year--i.e., the equivalent of the 11-month extension provided for by the Small Business Job Protection Act of 1996 plus an additional 19-month extension provided for by this bill. To prevent taxpayers from effectively obtaining more than 30-months of research credits from the Small Business Job Protection Act of 1996 and this bill, the 30-month period for taxpayers electing the alternative incremental credit regime is reduced by the number of months after June 1996 with	qualified research expenditures paid or incurred during the period June 1, 1997, through May 31, 1999. A special rule provides that, if a taxpayer elects to be subject to the alternative incremental credit regime for its first taxable year beginning after June 30, 1996, and before July 1, 1997, the alternative incremental credit will be available during the entire 35-month period beginning with the first month of such taxable year--i.e., the equivalent of the 11-month extension provided for by the Small Business Job Protection Act of 1996 plus an additional 24-month extension provided for by this bill. To prevent taxpayers from effectively obtaining more than 35-months of research credits from the Small Business Job Protection Act of 1996 and this bill, the 35-month period for taxpayers electing the alternative incremental credit regime is reduced by the number of months after June 1996 with

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		respect to which the taxpayer claimed credit amounts under the regular, 20-percent research credit rules.	respect to which the taxpayer claimed credit amounts under the regular, 20-percent research credit rules.

Item	*Present Law*	*House Bill*	*Senate Amendment*
B. Contributions of Stock to Private Foundations (sec. 602 of the House bill and sec. 502 of the Senate amendment)	In computing taxable income, a taxpayer who itemizes deductions generally is allowed to deduct only the taxpayer's basis in property contributed to a private foundation. However, under a special rule contained in section 170(e)(5), taxpayers are allowed to deduct the fair market value of "qualified appreciated stock" contributed to a private foundation prior to May 31, 1997. Qualified appreciated stock is defined as publicly traded stock which is capital gain property.	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 June 1, 1997, through December 31, 1998. **<u>Effective date</u>**.--The provision is effective for contributions made during the period June 1, 1997, through December 31, 1998.	Same as the House bill, except that the extension would apply to contributions of qualified appreciated stock made to private foundations during the period June 1, 1997, through May 31, 1999. (Floor amendment by Senators Nickles, Hagel, Cleland, and Domenici, adopted by a vote of 98-0). **<u>Effective date</u>**.--The provision is effective for contributions made during the period June 1, 1997, through May 31, 1999.

Item	Present Law	House Bill	Senate Amendment
C. Work Opportunity Tax Credit (sec. 603 of the House bill and sec. 503 of the Senate amendment)	The work opportunity tax credit is available on an elective basis for employers hiring individuals from one or more of seven targeted groups. The credit generally is equal to 35 percent of qualified wages. Generally, qualified wages consist of wages attributable to service rendered by a member of a targeted group during the one-year period beginning with the day the individual begins work for the employer. The targeted groups for which the credit is available include (1) families receiving Aid to Families with Dependent Children (AFDC), (2) qualified ex-felons, (3) high-risk youth, (4) vocational rehabilitation referrals, (5) qualified summer youth employees, (6) qualified veterans, and (7) families receiving food stamps. No credit is allowed for wages paid unless the eligible individual is employed by the	**Extension** One year extension. **Targeted categories** Extends eligibility to members of families receiving AFDC benefits for any nine months during the eighteen month period ending on the hiring date. **Minimum employment period** Reduced from 400 to 120 hours. **Credit percentage** 25% for employment of less than 400 hours of employment and 40% for employment of 400 or more hours. **Alternative minimum tax (AMT)** Allows the credit against the AMT.	**Extension** 20 month extension. **Targeted categories** Same as House bill except adds a new eligible category of SSI beneficiaries. **Minimum employment period** Same as House bill. **Credit percentage** Same as the House bill. **Alternative minimum tax (AMT)** No provision.

Item	Present Law	House Bill	Senate Amendment
	employer for at least 180 days (20 days in the case of a qualified summer youth employee) or 400 hours (120 hours in the case of a qualified summer youth employee). The credit is not available against the alternative minimum tax (AMT). The work opportunity tax credit is effective for wages paid or incurred to a qualified individual who begins work for an employer after September 30, 1996, and before October 1, 1997.		
		Effe tive date.--Generally effective for wages paid or incurred to qualified individuals who begin work for the employer after September 30, 1997, and before October 1, 1998. The provision allowing the credit against the AMT is effective for taxable years beginning after December 31, 1997.	**Effective date**.--Wages paid or incurred to qualified individuals who begin work for the employer after September 30, 1997, and before June 1, 1999.

Item	Present Law	House Bill	Senate Amendment
VII. DISTRICT OF COLUMBIA TAX INCENTIVES (secs. 701-702 of the House bill and sec. 601 of the Senate amendment)		**Incentives contingent** The following tax incentives take effect only if, prior to January 1, 1998, a Federal law is enacted creating a District of Columbia economic development corporation.	**Incentives contingent** Same as House bill.
	Empowerment zones and enterprise communities In general The Secretary of HUD designated a total of nine empowerment zones and 95 enterprise communities on December 21, 1994. Designated empowerment zones and enterprise communities were required to satisfy certain eligibility criteria, including specified poverty rates and population and geographic size limitations. Portions of the District of Columbia were designated as an enterprise community. The tax incentives for empowerment zones and	**Designation of D.C. Enterprise Zone** In general Certain economically depressed census tracts within the District of Columbia are designated as the "D.C. Enterprise Zone," within which businesses and individual residents are eligible for special tax incentives. The census tracts that comprise the D.C. Enterprise Zone are (1) all census tracts that presently are part of the D.C. enterprise community designated under section 1391 (i.e., portions of Anacostia, Mt. Pleasant, Chinatown, and the easternmost part of the District) and (2) all	No provision.

Item	Present Law	House Bill	Senate Amendment
	enterprise communities generally will be available during the period that the designation remains in effect, i.e., a 10-year period.	additional census tracts within the District of Columbia where the poverty rate is at least 35 percent. The D.C. Enterprise Zone designation generally will remain in effect for five years for the period from January 1, 1998, through December 31, 2002.	
	Empowerment zone tax incentives The following tax incentives are available for certain businesses located in empowerment zones: (1) an annual 20-percent wage credit for the first $15,000 of wages paid to a zone resident who works in the zone; (2) an additional $20,000 of expensing under Code section 179 for "qualified zone property" placed in service by an "enterprise zone business"; and (3) special tax-exempt financing for certain zone facilities. Enterprise communities are eligible only for the special	D.C. Enterprise Zone tax incentives Same as under present law in empowerment zones, modified as follows: (1) the wage credit rate remains at 20 percent for the period 1998 through 2002 (and does not phase down to 15 percent in the year 2002 as under present-law); and (2) the special tax-exempt bonds can be issued only by a newly created economic development corporation and the amount of outstanding bond proceeds that can be borrowed by any qualified District business cannot exceed $15 million (rather than $3 million).	

Item	Present Law	House Bill	Senate Amendment
	tax-exempt financing benefits.		
	Enterprise zone business	D.C. Zone business	Qualified D.C. business
	An "enterprise zone business" is a corporation or partnership (or proprietorship) if for the taxable year: (1) the sole trade or business of the corporation or partnership is the active conduct of a qualified business within an empowerment zone or enterprise community; (2) at least 80 percent of the total gross income is derived from the active conduct of a "qualified business" within a zone or community; (3) substantially all of the business's tangible property is used within a zone or community; (4) substantially all of the business's intangible property is used in, and exclusively related to, the active conduct of such business; (5) substantially all of the services performed by employees are performed within a zone or community; (6) at least 35 percent of the employees are	Same as present-law definition of "enterprise zone business."	Same as present-law definition of "enterprise zone business," except that (1) the criteria are applied on a District-wide basis; and (2) there is no requirement under the Senate amendment that at least 35 percent of the employees of the business be District residents.

Item	Present Law	House Bill	Senate Amendment
	residents of the zone or community; and (7) no more than five percent of the average of the aggregate unadjusted bases of the property owned by the business is attributable to (a) certain financial property, or (b) collectibles not held primarily for sale to customers in the ordinary course of an active trade or business. A "qualified business" is defined as any trade or business other than a trade or business that consists predominantly of the development or holding of intangibles for sale or license. In addition, the leasing of real property that is located within the empowerment zone or community to others is treated as a qualified business only if (1) the leased property is not residential property, and (2) at least 50 percent of the gross rental income from the real property is from enterprise zone businesses. The rental of tangible personal property to		

Item	Present Law	House Bill	Senate Amendment
	others is not a qualified business unless substantially all of the rental of such property is by enterprise zone businesses or by residents of an empowerment zone or enterprise community.		
	<u>Taxation of capital gains</u>	**<u>Zero-percent capital gains rate</u>**	**<u>Zero-percent capital gains rate</u>**
	In general, gain or loss reflected in the value of an asset is not recognized for income tax purposes until a taxpayer disposes of the asset. On the sale or exchange of capital assets, the net capital gain generally is taxed at the same rate as ordinary income, except that the maximum rate of tax is limited to 28 percent of the net capital gain. Net capital gain is the excess of the net long-term capital gain for the taxable year over the net short-term capital loss for the year. Gain or loss is treated as long-term if the asset is held for more than one year. Capital losses generally are	The House bill provides a zero percent capital gains rate for capital gains from the sale of certain qualified D.C. Zone assets held for more than five years. In general, D.C. Zone assets mean stock or partnership interests held in, or tangible property held by, a D.C. Zone business (as defined above). D.C. Zone stock or partnership interests must be acquired solely for cash upon original issuance after December 31, 1997, and before January 1, 2003, and during substantially all of the taxpayer's holding period, the business must be a D.C Zone business. D.C. Zone business	Same as House bill, except as follows: (1) the zero-percent capital gains rate applies District-wide, and not just in the D.C. Zone; and (2) gain attributable to periods after December 31, 2002, is qualified capital gain. However; the Senate amendment provides that capital gain from the sale of any D.C. asset acquired during calendar year 1998 shall be subject to tax at a 10 percent rate. A special rule provides that if the basis of any D.C. asset is determined in whole or part by reference to a D.C. asset acquired in 1998, all gain from the sale or exchange

Item	Present Law	House Bill	Senate Amendment
	deductible in full against capital gains. In addition, individual taxpayers may deduct capital losses against up to $3,000 of ordinary income in each year. Any remaining unused capital losses may be carried forward indefinitely to another taxable year. A capital asset generally means any property except (1) inventory, stock in trade, or property held primarily for sale to customers in the ordinary course of the taxpayer's trade or business, (2) depreciable or real property used in the taxpayer's trade or business, (3) specified literary or artistic property, (4) business accounts or notes receivable, and (5) certain publications of the Federal Government.	property is tangible property acquired after December 31, 1997, and before January 1, 2003, provided that the original use of the property in the D.C. Enterprise Zone commences with the taxpayer and substantially all of the use of such property during the taxpayer's holding period is by a D.C. Zone business. In general, gain eligible for the zero percent tax rate means gain from the sale or exchange of a qualified D.C. Zone asset that is (1) a capital asset or (2) property used in the trade or business as defined in section 1231(b). Gain attributable to periods before December 31, 1997, and after December 31, 2007, is not qualified capital gain. No gain attributable to real property, or an intangible asset, which is not an integral part of a D.C. Zone business qualifies for the zero percent rate. **Tax credits for certain equity**	of such asset is taxed at the 10 percent rate. (Floor amendment by Senator Jeffords, adopted by voice vote). **Tax credits for certain equity**

Item	Present Law	House Bill	Senate Amendment
		investments and loans A newly created economic development corporation is authorized to allocate $75 million in nonrefundable tax credits to taxpayers that make certain equity investments in, or loans to, businesses engaged in an active trade or business in the District. The business need not be located in the D.C. Enterprise Zone and need not satisfy the criteria of a qualified D.C. Zone business (described above). The amount of credit cannot exceed 25 percent of the amount invested (or loaned) by the taxpayer. Credits may be allocated to loans made to an eligible business only if the business uses the loan proceeds to purchase depreciable tangible property and any functionally related and subordinate land. Credits may be allocated to equity investments only if the	**investments and loans** Same as House bill, except that the economic development corporation is authorized to allocate $60 million (rather than $75 million) in credits. (Floor amendment by Senator Jeffords, adopted by voice vote).

Item	Present Law	House Bill	Senate Amendment
		equity interest was acquired for cash. Any credits allocated to a taxpayer making an equity investment are subject to recapture if the equity interest is disposed of by the taxpayer within five years.	
	<u>Individual tax rates</u> To determine tax liability, an individual taxpayer generally must apply the tax rate schedules (or the tax tables) to his or her taxable income. The rate schedules are broken into several ranges of income, known as income brackets, and the marginal tax rate increases as a taxpayer's income increases. Separate rate schedules apply based on an individual's filing status.	**<u>Tax incentives for individual residents - tax rate reduction</u>** Individuals who have their principal place of abode in any census tract that is part of the D.C. Enterprise Zone are entitled to a 10-percent tax rate on all taxable income that currently is subject to a 15-percent Federal income tax rate. The special 10-percent rate provision is in effect for the period 1998-2007.	**<u>Tax incentives for individual residents - first-time homebuyer tax credit</u>** The Senate amendment provides first-time homebuyers of a principal residence in the District a tax credit of up to $5,000 of the amount of the purchase price. The $5,000 maximum credit amount applies both to individuals and married couples. To qualify as a "first-time homebuyer," neither the individual nor the individual's spouse, if married, can have had a present ownership interest in a principal residence in the District for the one-year period prior to the date of acquisition

Item	*Present Law*	*House Bill*	*Senate Amendment*
			of the principal residence. A taxpayer will be treated as a first-time homebuyer with respect to only one residence. The credit applies to purchases after the date of enactment and before January 1, 2002. Any excess credit may be carried forward indefinitely to succeeding taxable years.
		Trust fund for D.C. schools No provision.	**Trust fund for D.C. schools** The Senate amendment provides for a total of $50 million ($5 million for each year 1998 through 2007) to be transferred from Federal income taxes paid by District individual residents to a Trust Fund for D.C. schools. Amounts in the Trust Fund are to be used to pay debt service on qualified D.C. school bonds, which are taxable bonds issued after March 31, 1998, by the District to finance the rehabilitation and repair of District schools. (Floor amendment by Senator Jeffords,

Item	Present Law	House Bill	Senate Amendment
		Effective dates The D.C. tax incentives generally are effective January 1, 1998, and remain in effect for five years until the termination of the D.C. Enterprise Zone designation on December 31, 2002. However, the zero percent tax rate for capital gains and the special 10-percent rate bracket are effective for the period 1998-2007.	adopted by voice vote). **Effective dates** The zero-percent tax rate for capital gains is effective for qualified D.C. assets purchased (or substantially renovated) during the period January 1, 1998, through December 31, 2002, for any gain accruing with respect to such assets after the date or purchase (or substantial renovation). The tax credit for equity investments and loans applies to credit amounts allocated for taxable years beginning after December 31, 1997, and before January 1, 2003. The D.C. first-time homebuyer credit is effective for purchases after the date of enactment and before January 1, 2002. The Trust Fund for D.C. schools will be funded $5 million per year for 1998 through 2007.

Item	*Present Law*	*House Bill*	*Senate Amendment*
VIII. WELFARE-TO-WORK TAX CREDIT (sec. 801 of the House bill)	The work opportunity tax credit is available on an elective basis for employers hiring individuals from one or more of seven targeted groups. For purposes of the work opportunity tax credit, the targeted groups for which the credit is available include (1) families receiving Aid to Families with Dependent Children (AFDC), (2) qualified ex-felons, (3) high-risk youth, (4) vocational rehabilitation referrals, (5) qualified summer youth employees, (6) qualified veterans, and (7) families receiving food stamps.	Provides to employers a credit on the first $20,000 of eligible wages paid to qualified long-term family assistance (AFDC or its successor program) recipients during the first two years of employment. The credit is 35% of the first $10,000 of eligible wages in the first year of employment and 50% of the first $10,000 of eligible wages in the second year of employment. The maximum credit is $8,500 per qualified employee. Qualified long-term family assistance recipients are: (1) members of a family that has received family assistance for at least 18 consecutive months ending on the hiring date; (2) members of a family that has received family assistance for a total of at least 18 months (whether or not consecutive) after the date of enactment of this credit if they are hired within 2 years after the date that the 18-month total is reached;	No provision.

Item	Present Law	House Bill	Senate Amendment
		and (3) members of a family who are no longer eligible for family assistance because of either Federal or State time limits, if they are hired within 2 years after the Federal or State time limits made the family ineligible for family assistance. Eligible wages are amounts paid by the employer for the following: (1) educational assistance excludable under a section 127 program (or that would be excludable but for the expiration of section 127); (2) health plan coverage for the employee, but not more than the applicable premium defined under section 4980B(f)(4); and (3) dependent care assistance excludable under section 129. **Effective date**.--The provision is effective for wages paid or incurred to a qualified individual who begins work for an employer on or after January 1, 1998 and before May 1, 1999.	

Item	Present Law	House Bill	Senate Amendment
IX. MISCELLANEOUS PROVISIONS			
A. Provisions Relating to Excise Taxes			
1. Continued application of tax on imported recycled halon-1211 (sec. 902 of the House bill)	An excise tax is imposed on the sale or use by the manufacturer or importer of certain ozone-depleting chemicals. The amount of tax is determined by multiplying the base tax amount by an ozone-depleting factor assigned to each taxable chemical. The base tax amount is $6.25 per pound in 1997 and will increase by 45 cents per pound per year thereafter. The ozone-depleting factors for halon-1211 is 3. Taxable chemicals that are recovered and recycled within the United States are exempt from tax. In addition, exemption is provided for imported recycled halon-1301 and halon-2402 if such chemicals are imported from countries that are signatories to the Montreal Protocol on	The House bill repeals the present-law exemption for imported recycled halon-1211. **Effective date.**--The provision is effective on the date of enactment.	No provision.

Item	*Present Law*	*House Bill*	*Senate Amendment*
	Substances that Deplete the Ozone Layer. Similar exemption is to be provided for imported recycled halon-1211, after December 31, 1997.		
2. Create Intercity Passenger Rail Fund (sec. 702 of the Senate amendment)	No provision.	No provision.	The Senate amendment dedicates net revenues from 0.5 cents per gallon of the 4.3-cents-per gallon transportation motor fuels excise tax to a new Intercity Passenger Rail Fund to finance capital improvements of Amtrak and certain transportation activities in States not receiving Amtrak service. Dedicated revenues are those from fuels taxes imposed from October 1, 1997 through April 15, 2001. A floor amendment (Sen. Daschle) expanded the purposes for which non-Amtrak States may use Rail Fund monies to include (1) local transit needs such as transportation for the elderly and handicapped, (2) rail/highway crossing safety

Item	Present Law	House Bill	Senate Amendment
			projects (generally financed through the Highway Trust Fund), and (3) certain capital expenditures of smaller <u>freight</u> railroads. Fund expenditures received by a taxpayer are not included in income, but no deduction is allowed to the taxpayer with respect to expenditure of the amount. (Rail Fund spending is provided for under provisions of the Budget Resolution.) **<u>Effective date</u>**.--Date of enactment.
3. Transfer of General Fund highway fuels tax revenues to the Highway Trust Fund (sec. 704 of the Senate amendment)	The Highway Trust Fund receives revenues from taxes on gasoline and special motor fuels (14 cents per gallon) and diesel fuel (20 cents per gallon) used in highway vehicles, through September 30, 1999. These fuels also are subject to an	No provision.	Revenues from the General Fund 4.3-cents-per-gallon tax (net of 0.5-cent-per-gallon transferred to a new Intercity Passenger Rail Fund under sec. 702 of the Senate amendment for the period, October 1, 1997-April 15, 2001) are transferred

Item	Present Law	House Bill	Senate Amendment
	additional, permanent 4.3-cents-per-gallon rate. Revenues from the 4.3-cents-per-gallon rate are retained in the General Fund.		to the Highway Trust Fund. Of such amounts transferred to the Highway Trust Fund, 20 percent are to be credited to the Mass Transit Account and 80 percent to the Highway Account. Conforming amendments ensure that no direct spending increases will occur as a result of the provision. **Effective date**.--October 1, 1997.
4. Tax certain alternative fuels based on energy equivalency to gasoline (sec. 705 of the Senate amendment)	Special motor fuels are subject to an 18.3-cents-per-gallon excise tax. 14 cents per gallon of the tax is dedicated to the Highway Trust Fund; the remaining 4.3 cents per gallon is retained in the General Fund. Special motor fuels include propane, methanol derived from natural gas, liquefied natural gas, and compressed natural gas. Reduced tax rates apply to methanol from natural gas and compressed natural gas.	No provision.	The Senate amendment adjusts the aggregate tax rates imposed on propane, liquefied natural gas, and methanol derived from natural gas to reflect the energy content of these fuels relative to gasoline. The revised tax rates per gallon are -- Propane 13.6 cents Methanol 9.15 cents Liquefied natural gas 11.9 cents No change is made to the

Item	Present Law	House Bill	Senate Amendment
			current reduced tax rate on compressed natural gas. **Effective date**.--October 1, 1997.
5. Extend and modify tax benefits for ethanol (sec. 605 of the House bill and sec. 707 of the Senate amendment)	Ethanol used as a fuel is eligible for a 54-cents-per gallon tax benefit. The benefit may be claimed either as an income tax credit, through reduced excise tax on sales of gasoline that is blended with ethanol, or by expedited refunds of tax paid on such gasoline. This benefit is scheduled to expire after December 31, 2000. However, provisions relating to excise taxes dedicated to trust funds generally are assumed to be permanent for budget scorekeeping purposes.	The House bill provides that preferential excise tax rates (and associated credits and refunds) that statutorily are scheduled to expire are not assumed to be permanent for budget scorekeeping purposes.	The Senate amendment extends the ethanol tax benefit through 2007, and modifies the benefit rate per gallon of alcohol, as follows: 2001 and 2002 -- 53 cents 2003 and 2004 -- 52 cents 2005, 2006, and 2007 -- 51 cents. **Effective date**.--Date of enactment.
6. Operators of multiple retail gasoline outlets	An 18.3-cents-per-gallon tax is imposed on all gasoline when the fuel is removed from a	Owner-operators of 10 or more retail outlets are allowed to file refund claims for fuel sold for	No provision.

Item	Present Law	House Bill	Senate Amendment
treated as wholesale distributors for refund purposes (sec. 904 of the House bill)	registered terminal storage facility. Exemptions from tax for such uses as by State and local governments are accomplished by refunds, generally to ultimate users. In limited cases, wholesale distributors may file refund claims for fuel sold by them for use in an exempt use.	use in an exempt use (e.g., by a State or local government) on the same basis as wholesale distributors are allowed to do so under present law.	
7. Exemption of electric and other clean-fuel motor vehicles from luxury automobile classification (sec. 905 of the House bill)	Present law imposes an excise tax on the sale of automobiles whose price exceeds a designated threshold, currently $34,000. The excise tax is imposed at a rate of 8-percent for 1997 on the excess of the sales price above the designated threshold. The 8-percent rate declines by one percentage point per year until reaching 3 percent in 2002, and no tax thereafter. The $34,000 threshold is indexed for inflation. The present index of $34,000 is the result of adjusting a $30,000 threshold specified in the Code for inflation occurring after	The House bill modifies the threshold above which the luxury excise tax on automobiles will apply for each of two identified classes of automobiles both in the case of a purchase of a vehicle and in the case of the separate purchase of a vehicle and parts and accessories therefor. For an automobile that is not a clean-burning fuel vehicle to which retrofit parts and components are installed to make the vehicle a clean-burning vehicle, the threshold wild be $30,000, as adjusted for	No provision.

Item	Present Law	House Bill	Senate Amendment
	1990. A 10-percent tax is imposed on the separate purchase of vehicle and parts and accessories therefor when the sum of the separate purchases exceeds the luxury tax threshold.	inflation under present law, plus an amount equal to the increment to the retail value of the automobile attributable to the retrofit parts and components installed. In the case of a passenger vehicle designed to be propelled primarily by electricity and built by an original equipment manufacturer, the threshold applicable for any year is modified to equal 150 percent of $30,000 with the result increased for inflation occurring after 1990 and rounded to next lowest multiple of $2,000. __Effective date__.--The provision is effective for sales and installations occurring on or after the date of enactment.	
8. Provide a lower rate of excise tax on hard ciders (sec. 703 of the Senate amendment)	Hard ciders, like other similar wines, are taxed at $1.07 per gallon generally. A tax credit for small domestic producers (total wine production not	No provision.	The Senate amendment reduces the tax rate on hard cider to 22.6 cents per gallon generally. Small wine producers will continue to receive a 17-cents-

Item	Present Law	House Bill	Senate Amendment
	exceeding 250,000 gallons annually) reduces this rate to 17 cents per gallon on up to 100,000 gallons of wine production.		per-gallon rate to the extent provided under present law. **Effective date**.--October 1, 1997.
9. **Study feasibility of moving collection point for distilled spirits excise tax (sec. 706 of the Senate amendment)**	Distilled spirits are taxed at $13.50 per proof gallon. A proof gallon is a liquid gallon consisting of 50 percent alcohol. The tax is imposed and collected when the distilled spirits are removed from a distillery (or are imported).	No provision.	The Senate amendment directs the Treasury Department to study and report to Congress on compliance and other administrative issues associated with proposals to delay collection of the distilled spirits excise tax until the distilled spirits are removed from wholesale distribution warehouses. **Effective date**.--Date of enactment.
10. **Codify Treasury Department regulations on wine**	The Internal Revenue Code includes rules on the information required on labels	No provision.	The Senate amendment codifies the current Treasury Department regulations with respect to use

Item	*Present Law*	*House Bill*	*Senate Amendment*
labeling (sec. 708 of the Senate amendment)	for wine marketed to consumers. Associated Treasury Department regulations allow the use of certain names associated with geographic locations on labels for wine from other locations ("semi-generic names), with proper disclosure.		of semi-generic names on wine labels. **Effective date**.--Date of enactment.

Item	Present Law	House Bill	Senate Amendment
B. Provisions Relating to Pensions and Other Benefits			
1. Cash or deferred arrangements for irrigation and drainage entities (sec. 911 of the House bill)	Under present law, taxable and tax-exempt employers may maintain qualified cash or deferred arrangements. State and local government organizations generally are prohibited from establishing qualified cash or deferred arrangements ("section 401(k) plans"). This prohibition does not apply to qualified cash or deferred arrangements adopted by a State or local government before May 6, 1986. Mutual irrigation or ditch companies are exempt from tax if at least 85 percent of the income of the company consists of amounts collected from members for the sole purpose of meeting losses and expenses.	Under the bill, mutual irrigation or ditch companies and districts organized under the laws of a State as a municipal corporation for the purpose of irrigation, water conservation or drainage (or a national association of such organizations) are permitted to maintain qualified cash or deferred arrangements, even if the company or district is a State or local government organization. **Effective date**.--The provision is effective with respect to years beginning after December 31, 1997.	No provision.
2. Treatment of certain disability	Under present law, amounts received under a workmen's	Under the House bill, certain payments made on behalf of	Same as the House bill, except that the provision applies to

Item	Present Law	House Bill	Senate Amendment
payments to public safety employees (sec. 913 of the House bill and sec. 785 of the Senate amendment)	compensation act as compensation for personal injuries or sickness incurred in the course of employment are excluded from gross income. Compensation received under a workmen's compensation act by the survivors of a deceased employee also are excluded from gross income. Nonoccupational death and disability benefits are not excludable from income as workmen's compensation benefits.	full-time employees of any police or fire department organized and operated by a State (or any political subdivision, agency, or instrumentality thereof) are excludable from income. The bill applies to payments made on account of heart disease or hypertension of the employee and that were received in 1989, 1990, 1991 pursuant to a State law as amended on May 19, 1992, which irrebuttably presumed that heart disease and hypertension are work-related illnesses, but only for employees separating from service before July 1, 1992. Claims for refund or credit for overpayment of tax resulting from the provision may be filed up to 1 year after the date of enactment, without regard to the otherwise applicable statute of limitations. __Effective date.__--The provision is effective on the date of enactment.	amounts payable under a State law (as in existence on July 1, 1992) which irrebuttably presumed that heart disease and hypertension are work-related illnesses, but only for employees separating from service before such date. (Floor amendment by Sen. Roth (for Sen. D'Amato and Sen. Dodd) adopted by unanimous consent.) __Effective date.__--Same as the House bill.

Item	*Present Law*	*House Bill*	*Senate Amendment*
3. Portability of permissive service credit under governmental pension plans (sec. 914 of the House bill)	Under present law, limits are imposed on the contributions and benefits under qualified pension plans. Certain special rules apply in the case of State and local governmental plans. In the case of a defined contribution plan, the limit on annual additions is the lesser of $30,000 or 25 percent of compensation. Annual additions include employer contributions, as well as after-tax employee contributions. In the case of a defined benefit pension plan, the limit on the annual retirement benefit is the lesser of (1) 100 percent of compensation or (2) $120,000 (indexed for inflation). The 100 percent of compensation limitation does not apply in the case of State and local governmental pension plans. Amounts contributed by employees to a State or local governmental plan are treated as made by the employer if the employer "picks up" the	Under the bill, in applying the defined benefit pension plan limit, the annual benefit under a State or local governmental plan includes the accrued benefit derived from contributions to purchase permissive service credit. Such contributions are not taken into account in determining annual additions. Permissive service credit means credit for a period of service recognized by the governmental plan if the employee contributes to the plan an amount (as determined by the plan) which does not exceed the amount necessary to fund the accrued benefit attributable to such period of service. The bill does not affect the treatment of "pick up" contributions. **<u>Effective date</u>**.--The provision is effective with respect to years beginning after December 31, 1997.	No provision.

Item	Present Law	House Bill	Senate Amendment
	contribution.		
4. Gratuitous transfers for the benefit of employees (sec. 915 of the House bill)	An employee stock ownership plan ("ESOP") is a qualified stock bonus plan or a combination stock bonus and money purchase pension plan under which employer securities are held for the benefit of employees. A deduction is allowed for Federal estate tax purposes for transfers by a decedent to charitable, religious, scientific, etc. organizations. In the case of a transfer of a remainder interest to a charity, the remainder interest must be in a charitable remainder trust. A charitable remainder trust generally is a trust that is required to pay, no less often than annually, a fixed dollar amount (charitable remainder annuity trust) or a fixed percentage of the fair market value of the trust's assets determined at least annually (charitable remainder unitrust)	The bill permits certain limited transfers of qualified employer securities by charitable remainder trusts to ESOPs without adversely affecting the status of the charitable remainder trusts. As a result, the bill provides that a qualified gratuitous transfer of employer securities to an ESOP is deductible from the gross estate of a decedent under Code section 2055 to the extent of the present value of the remainder interest. In addition, an ESOP will not fail to be a qualified plan because it complies with the requirements with respect to a qualified gratuitous transfer. In order for a transfer of securities to be a qualified gratuitous transfer, a number of requirements must be satisfied, including the following: (1) the securities transferred to the ESOP must previously have	No provision.

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	to noncharitable beneficiaries, and the remainder of the trust (i.e., after termination of the annuity or unitrust amounts) to a charitable, religious, scientific, etc. organization.	passed from the decedent to a charitable remainder trust; (2) at the time of the transfer to the ESOP, family members of the decedent own (directly or indirectly) no more than 10 percent of the value of the outstanding stock of the company; (3) immediately after the transfer to the ESOP, the ESOP owns at least 60 percent of the value of outstanding stock of the company; and (4) the plan must certain requirements. The provision applies in cases in which the ESOPs was in existence on August 1, 1996 and the decedent dies on or before December 31, 1998. **Effective date.**--The provision is effective with respect to transfers to an ESOP after the date of enactment.	
5. Treatment of certain transportation on noncommercially	Under present law, the value of an employer-provided flight taken for personal purposes is generally includible in income.	Under the provision, the value of air transportation for personal purposes is excludable from income if the flight is made in	No provision.

Item	Present Law	House Bill	Senate Amendment
operated aircraft as a fringe benefit (sec. 916 of the House bill)	However, under a special rule in regulations, the value of a personal flight is deemed to be zero (and, therefore, there is no income inclusion) if at least 50 percent of the regular passenger seating capacity of the aircraft is occupied by individuals whose flights are primarily for the employer's business (and therefore, excludable from income).	the ordinary course of the trade or business of an employer and the flight would have been made whether or not the employee was transported on the flight, and the employer incurs no substantial additional cost (including foregone revenue) in providing the flight to the employee. **Effective date.**--The provision is effective for transportation services provided after December 31, 1998.	
6. Cash out of certain accrued benefits (sec. 917 of the House bill and sec. 879 of the Senate amendment)	In the case of an employee whose plan participation terminates, a qualified plan may involuntarily "cash out" the benefit (i.e., pay out the balance to the credit of a plan participant without the participant's consent, and, if applicable, the consent of the participant's spouse) if the present value of the benefit does not exceed $3,500. If a benefit is cashed out under this rule and the	The House bill increases the limit on involuntary cash-outs to $5,000 from $3,500. The $5,000 amount is adjusted annually for inflation beginning after 1998 in $50 increments.	Same as House bill, except the Senate amendment also makes a corresponding change to title I of ERISA and provides that the $5,000 amount is adjusted annually for inflation beginning after 1997 in $50 increments.

Item	Present Law	House Bill	Senate Amendment
	participant subsequently returns to employment covered by the plan, then service taken into account in computing benefits payable under the plan after the return need not include service with respect to which benefits were cashed out unless the employee "buys back" the benefit. Generally, a cash-out distribution from a qualified plan to a plan participant can be rolled over, tax free, to an IRA or to another qualified plan.	__Effective date.__--The provision is effective for plan years beginning after the date of enactment.	__Effective date.__--Same as House bill.
7. **Clarification of certain rules relating to employee stock ownership plans of S corporations (sec. 918 of the House bill and sec. 1309 of the Senate amendment)**	Under present law, an S corporation can have no more than 75 shareholders. For taxable years beginning after December 31, 1997, certain tax-exempt organizations, including employee stock ownership plans ("ESOPs") can be a shareholder of an S corporation. ESOPs are generally required to make distributions in	The bill provides that ESOPs of S corporations may distribute cash to plan participants as long as the employee has a right to require the employer to purchase the securities (as under the present-law rules). In addition, the bill extends the Code's exception to certain prohibited transactions rules to shareholder employees of S corporations.	Same as the House bill, except that the Senate amendment amends the prohibited transaction rules of ERISA as well as the Code.

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Item	Present Law	House Bill	Senate Amendment
	the form of employer securities. If the employer securities are not readily tradable, the employee has a right to require the employer to buy the securities. In the case of an employer whose bylaws or charter restricts ownership of substantially all employer securities to employees or a pension plan, the plan may provide that benefits are distributed in the form of cash. Such a plan may distribute employer securities, if the employee has a right to require the employer to purchase the securities. ESOPs are subject to certain prohibited transaction rules under the Internal Revenue Code and title I of ERISA designed to prohibit certain transactions between the plan and certain persons close to the plan. A number of statutory exceptions are provided to the prohibited transaction rules, including exceptions for loans between the plan and plan	**Effective date.**--The provision is effective for taxable years beginning after December 31, 1997.	**Effective date.**--Same as the House bill.

Item	Present Law	House Bill	Senate Amendment
	participants and certain sales of stock to the ESOP. These statutory exceptions do not apply to shareholder-employees of S corporations. However, such individuals can obtain an administrative exception from such rules from the Department of Labor.		
8. Repeal application of UBIT to ESOPs of S corporations (sec. 716 of the Senate amendment)	Under present law, for taxable years beginning after December 31, 1997, certain tax-exempt organizations, including employee stock ownership plans ("ESOPs") can be a shareholder of an S corporation. Items of income or loss of the S corporation will flow through to qualified tax-exempt shareholders as unrelated business taxable income ("UBTI"), regardless of the source of the income.	No provision.	The Senate amendment repeals the provision treating items of income or loss of an S corporation as unrelated business taxable income in the case of an employee stock ownership plan that is an S corporation shareholder. **<u>Effective date.</u>**--Taxable years beginning after December 31, 1997.
9. Treatment of multiemployer	Present law imposes limits on contributions and benefits under	No provision.	The Senate amendment eliminates the application of the

Item	Present Law	House Bill	Senate Amendment
plans under section 415 (sec. 711 of the Senate amendment)	qualified plans based on the type of plan. In the case of defined benefit pension plans, the limit on the annual retirement benefit is the lesser of (1) 100 percent of compensation or (2) $125,000 (indexed for inflation).		100 percent of compensation limitation for multiemployer defined benefit pension plans. Such plans will only be subject to the dollar limitation. Effective date.--The provision is effective for years beginning after December 31, 1997.
10. Modification of partial termination rules (sec. 712 of the Senate amendment)	Under the Internal Revenue Code, pension plan benefits are required to become fully vested upon termination or partial termination of the plan. The plan document is required to contain a provision reflecting this rule. Under section 552 of the Deficit Reduction Act of 1984 ("DEFRA"), for purposes of this rule, a partial termination is treated as not occurring if (1) the partial termination is a result of a decline in plan participation which occurs by reason of the completion of the Trans-Alaska Oil Pipeline construction project and occurred after December 31, 1975, and before January 1,	No provision.	The provision clarifies that section 552 of DEFRA applies for the Code, any other provision of law, and any plan or trust provision. Effective date.--The provision is effective as if included in section 552 of DEFRA.

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	1980, with respect to participants employed in Alaska; (2) no discrimination occurred with respect to the partial termination; and (3) it is established to the satisfaction of the Secretary of the Treasury that the benefits of the provision will not accrue to the employers under the plan.		
11. Increase in full funding limit (sec. 713 of the Senate amendment)	Under present law, defined benefit pension plans are subject to minimum funding requirements. In addition, there is a maximum limit on contributions that can be made to a plan, called the full funding limit. The full funding limit is the lesser of a plan's accrued liability and 150 percent of current liability. In general, current liability is all liabilities to plan participants and beneficiaries. Current liability represents benefits accrued to date, whereas the accrued liability full funding limit is based on projected benefits.	No provision.	The provision increases the 150-percent of full funding limit as follows: 155 percent for plan years beginning in 1999 or 2000, 160 percent for plan years beginning in 2001 or 2002, 165 percent for plan years beginning in 2003 and 2004, and 170 percent for plan years beginning in 2005 and thereafter. In addition, under the provision, amounts that cannot be contributed due to the current liability full funding limit are amortized over 20 years. Amounts that could not be contributed because of such full

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	Under IRS rules, amounts that cannot be contributed because of the current liability full funding limit are amortized over 10 years.		funding limit and that have not been amortized as of the last day of the plan year beginning in 1998 are amortized over this 20-year period. (Floor amendment by Sen. Roth for Sen. Graham, adopted by voice vote.) **Effective date.**--Plan years beginning after December 31, 1998.
12. Spousal consent required for distributions from section 401(k) plans (sec. 714 of the Senate amendment)	Pension plans that provide automatic survivor benefits (i.e., joint and survivor annuities and preretirement survivor annuities) require spousal consent to the payment of a participant's benefit in a form other than a survivor annuity. A qualified cash or deferred arrangement (a "section 401(k) plan") is not subject to the automatic survivor benefit rules if the plan provides that the spouse of a participant is the beneficiary of the participant's entire account under the plan, the participant's benefit is not	No provision.	The Senate amendment provides that written spousal consent is required for all distributions, including plan loans, from plans containing a qualified cash or deferred arrangement. As under present law, spousal consent is not required for an involuntary cash-out of a participant's benefit or for the payment of distributions required under the minimum distribution rules. If spousal consent is not obtained, the benefit must be distributed in equal periodic payments over the life (or life expectancy) of the participant, the lives (or life

Item	Present Law	House Bill	Senate Amendment
	paid in the form or an annuity, and the participant's account does not include amounts transferred from another plan that was subject to the automatic survivor benefit rules. In general, spousal consent is not required for an involuntary cash-out of a participant's benefit or distributions made to satisfy the minimum distribution rules.		expectancies) of the participant and beneficiary, or over a period of 10 years or more. A plan which complies with the spousal consent requirement will not be treated as failing to satisfy the anti-cutback rules related to optional forms of benefit. **Effective date**.--The provision is effective for plan years beginning after December 31, 1998.
13. Contributions on behalf of a minister to a church plan (sec. 715 of the Senate amendment)	Under present law, contributions made to retirement plans by ministers who are self-employed are deductible to the extent such contributions do no exceed certain limitations applicable to retirement plans. These limitations include the limit on elective deferrals, the exclusion allowance, and the limit on annual additions to a retirement plan.	No provision.	The Senate amendment provides that in the case of a contribution made on behalf of a minister who is self-employed to a church plan, the contribution will be excludable from the income of the minister to the extent that the contribution would be excludable if the minister was an employee of a church and the contribution was made to the plan. **Effective date**.--The provision is effective for years beginning

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			after December 31, 1997.
14. Exclusion of ministers from discrimination testing of certain non-church retirement plans (sec. 715 of the Senate amendment)	Ministers who are employed by an organization other than a church are treated as if employed by the church and may participate in the retirement plan sponsored by the church. If the organization also sponsors a retirement plan, such plan does not have to include the ministers as employees for purposes of satisfying the nondiscrimination rules applicable to qualified plans provided the organization is not eligible to participate in the church plan.	No provision.	The Senate amendment provides that if a minister is employed by an organization other than a church and the organization is not otherwise participating in the church plan then, the minister does not have to be included as an employee under the retirement plan of the organization for purposes of the nondiscrimination rules. **Effective date**.--The provision is effective for years beginning after December 31, 1997.
15. Diversification in section 401(k) plan investments (sec. 717 of the Senate amendment)	The Employee Retirement Income Security Act of 1974, as amended ("ERISA") prohibits certain employee benefit plans from investing more than 10-percent of the plan's assets in the securities and real property of the employer who sponsors	No provision.	The Senate amendment provides that the term "eligible individual account plan" does not include the portion of a plan that consists of elective deferrals (and earnings on the elective deferrals) made under section 401(k) if more than 1-percent of

Item	Present Law	House Bill	Senate Amendment
	the plan. The 10-percent limitation does not apply to "eligible individual account plans" that specifically authorize such investments. Generally, eligible individual account plans are defined contribution plans, including plans containing a cash or deferred arrangement ("401(k) plans"). The assets of such plans may be invested in employer securities and real property without regard to the 10-percent limitation.		such amounts are required to be invested in employer securities at the direction of a person other than the participant. Such portion of the plan will be treated as a separate plan subject to the 10-percent limitation on investment in employer securities and real property. The provision does not apply to an individual account plan if the value of the assets of all individual account plans maintained by the employer do not exceed 10-percent of the value of the assets of all pension plans maintained by the employer. The provision does not apply to an employee stock ownership plan as defined in sections 409(a) and 4975(e)(7) of the Code. **Effective date**.--The provision is effective with respect to employer securities and employer real property acquired after the beginning of the first plan year beginning after the 90th day after the date of

Item	Present Law	House Bill	Senate Amendment
			enactment.
16. Removal of dollar limitation on benefit payments from a defined benefit plan for police and fire employees (sec. 786 of the Senate amendment)	In the case of a defined benefit pension plan, the limit on the annual retirement benefit is the lesser of (1) 100 percent of compensation or (2) $120,000 (for 1997). The 100 percent of compensation limitation does not apply in the case of State and local governmental pension plans. In general, the dollar limit is reduced if benefits begin before social security retirement age and increased if benefits begin after social security retirement age. In the case of certain police and firefighters, the dollar limit cannot be reduced below $50,000 (indexed), regardless of the age at which benefits commence.	No provision.	The dollar limit on defined benefit plans does not apply to individuals who receive the special rule for police and firefighters under present law. (Floor amendment by Mr. Roth (for Mr. D'Amato and Mr. Dodd) adopted by unanimous consent.) **Effective date.**--Years beginning after December 31, 1996.

Item	Present Law	House Bill	Senate Amendment
C. Disaster Relief Provisions			
1. Authority to postpone certain tax-related deadlines by reason of Presidentially declared disaster (sec. 921 of the House bill)	In the case of a Presidentially declared disaster, the Secretary of the Treasury has the authority to postpone some (but not all) tax-related deadlines.	The bill provides that, in the case of a taxpayer determined to be affected by a Presidentially declared disaster, the Secretary may specify that, for a period of up to 90 days, certain taxpayer deadlines are postponed. The deadlines that may be postponed are the same as are postponed by reason of service in a combat zone. The provision does not apply for purposes of determining interest on any overpayment or underpayment. Effective date.--The provision is effective for any period for performing an act that has not expired before the date of enactment.	No provision.
2. Use of certain appraisals to establish amount of disaster loss (sec. 922 of the House bill)	In order to claim a disaster loss, a taxpayer must establish the amount of the loss. This may, for example, be done through the use of an appraisal.	The bill provides that nothing in the Code should be construed to prohibit Treasury from issuing guidance providing that an appraisal for the purpose of obtaining a Federal loan or Federal loan guarantee as the	No provision.

Item	Present Law	House Bill	Senate Amendment
		result of a Presidentially declared disaster may be used to establish the amount of a disaster loss. Effective date.--The provision is effective on the date of enactment.	
3. Mortgage financing for residences located in Presidentially declared disaster areas (sec. 924 of the House bill and sec. 723 of the Senate amendment)	Qualified mortgage bonds are private activity tax-exempt bonds issued by States and local governments acting as conduits to provide mortgage loans to first-time home buyers who satisfy specified income limits and who purchase homes that cost less than statutory maximums. Present law waives the three buyer targeting requirements for a portion of the loans made with proceeds of a qualified mortgage bond issue if the loans are made to finance homes in statutorily prescribed economically distressed areas.	Waives the first time homebuyer requirement, the income limits, and the purchase price limits for loans to finance homes in certain Presidentially declared disaster areas. The waiver applies only during the one-year period following the date of the disaster declaration. Effective date.--The provision applies to loans financed with bonds issued after December 31, 1996, and before January 1, 2000.	Same as the House bill except for effective date. Effective date.--The provision applies to loans financed with bonds issued after December 31, 1996, and before January 1, 1999.

Item	*Present Law*	*House Bill*	*Senate Amendment*
4. Rules relating to denial of earned income credit on basis of disqualified income (sec. 722 of the Senate amendment)	For taxable years beginning after December 31, 1995, an individual is not eligible for the earned income credit if the aggregate amount of "disqualified income" of the taxpayer for the taxable year exceeds $2,200. This threshold is indexed for inflation. Disqualified income is the sum of: (1) interest (taxable and tax-exempt); (2) dividends; (3) net rent and royalty income (if greater than zero); (4) capital gain net income and; (5) net passive income (if greater than zero) that is not self-employment income.	No provision.	Clarifies that gain or loss from the sale of livestock (as defined under section 1231(b)(3) of the Code) is disregarded for purposes of the calculation of capital gain net income under the disqualified income test of the earned income credit. __Effective date__.--The provision is effective for taxable years beginning after December 31, 1995.
5. Penalty-free withdrawals from IRAs for disaster-related expenses (sec. 724 of the Senate amendment)	Amounts held in an IRA are includible in income when withdrawn (except to the extent the withdrawal is a return of nondeductible contributions). Amounts withdrawn prior to	No provision.	The Senate amendment provides that the 10-percent early withdrawal tax does not apply to distributions from IRAs made to a taxpayer for qualified disaster-related expenses.

Item	Present Law	House Bill	Senate Amendment
	attainment of age 59-1/2 are subject to an additional 10-percent early withdrawal tax, unless the withdrawal is due to death or disability, is made in the form of certain periodic payments, is used to pay medical expenses in excess of 7.5 percent of AGI, or is used to purchase health insurance of an unemployed individual.		The penalty-free withdrawal is available for "qualified disaster-related distributions" meaning distributions made to pay for the repair or replacement of tangible property which was located in a disaster area and was destroyed or substantially damaged as a result of the disaster. The term "disaster area" means an area determined by the President of the United States during 1997 to warrant assistance by the Federal Government under the Robert T. Stafford Disaster Relief and Emergency Assistance Act". The penalty-free withdrawal rule only applies to qualified disaster distributions that (1) are made within the 2-year period beginning on the date the determination is made that the area is a disaster area; (2) are used by the taxpayer within 60 days of the payment or distribution to pay for the disaster-related expenses; and (3) do on exceed $10,000 during the 2-year period.

Item	Present Law	House Bill	Senate Amendment
			Effective date.--The provision is effective for distributions after December 31, 1996, with respect to disasters occurring after such date.
6. Elimination of 10-percent floor for casualty losses resulting from Presidentially declared disaster (sec. 725 of the Senate amendment)	Non-business casualty and theft losses are deductible as an itemized deduction only to the extent each loss is more than $100 and the total of all losses during the year is more than 10 percent of AGI.	No provision.	Eliminates the 10-percent of AGI floor for casualty losses resulting from a Presidentially declared disaster that occurs in 1997. (Floor amendment by Sen. Dorgan, adopted by unanimous consent). **Effective date**.--Disasters occurring in 1997.
7. Requirement to abate interest by reason of Presidentially declared disaster (sec. 726 of the Senate amendment)	In the case of a Presidentially declared disaster, the Secretary of the Treasury has the authority to postpone some tax-related deadlines, but there is no authority to abate interest.	No provision.	Requires IRS to abate interest for the same period of time for which IRS has provided an extension of time to file tax returns and pay taxes for individuals located in Presidentially declared disaster areas during 1997. (Floor

Item	Present Law	House Bill	Senate Amendment
			amendment by Sen. Dorgan, adopted by unanimous consent.) **Effective date**.--Disasters occurring in 1997.

Item	Present Law	House Bill	Senate Amendment
D. Provisions Relating to Employment Taxes			
1. Employment tax status of distributors of bakery products (sec. 931 of the House bill)	Under a special statutory rule, bakery distributors are treated as employees for Social Security payroll tax purposes (even if they are independent contractors for income tax purposes) if: (1) their services are part of a continuing relationship with the person for whom they are performed; (2) the distributor's service contract contemplates that he or she will perform substantially all of the services personally; and (3) the distributor does not have a substantial investment in facilities used in the performance of services, excluding facilities used for transportation. Bakery drivers generally take the position that they are not employees under the statutory rule.	The House bill deletes distributors of bakery products from the list of product and service distributors treated as statutory employees for Social Security payroll tax purposes. Thus, the status of such workers is determined under the generally applicable rules. **Effective date.**--The provision is effective for services performed after December 31, 1997.	No provision.
2. Clarification of standard to be used	Under present law, whether a worker is an employee or	Under the bill, in determining the status of a registered	Same as the House bill, except

Item	*Present Law*	*House Bill*	*Senate Amendment*
in determining tax status of retail securities brokers (sec. 932 of the House bill and sec. 779 of the Senate amendment)	independent contractor generally is determined under a common-law facts and circumstances test. An employer-employee relationship is generally found to exist if the service recipient has not only the right to control the result to be accomplished by the work, but also the means by which the result is to be accomplished. Whether such control exists is determined based on the relevant facts and circumstances. The IRS training manual provides that if a business requires its workers to comply with rules established by a third party (e.g., municipal building codes related to construction), the fact that such rules are imposed should be given little weight in determining the worker's status.	representative of a broker-dealer for Federal tax purposes, no weight is to be given to instructions from the service recipient which are imposed only in compliance with governmental investor protection standards or investor protection standards imposed by a governing body pursuant to a delegation by a Federal or State agency.	that the provision applies only for Federal income tax purposes.
		Effective date.--Services performed after December 31, 1997. No inference is intended that the provision is not present law.	**Effective date.**--Same as the House bill.

Item	*Present Law*	*House Bill*	*Senate Amendment*
3. Clarification of exemption from self-employment tax for certain termination payments received by former insurance salesmen (sec. 933 of the House bill)	Under the self-employment contributions act ("SECA"), taxes are imposed on an individual's net earnings from self employment. In general, net earnings from self employment means the gross income derived by an individual from any trade or business carried on by such individual, less the deductions allowed which are attributable to such trade or business. The SECA tax rate is the same as the combined employer and employee FICA rates (i.e., 12.4 percent for old age, suvivors, and disability income (OASDI) and 2.9 percent for Medicare Hospital Insurance taxes) and the maximum amount of earnings subject to the OASDI portion of SECA taxes is coordinated with and is set at the same level as the maximum level of wages and salaries subject to the OASDI portion of FICA taxes ($65,400 for 1997). There is no limit on the amount	The bill codifies case law by providing that net earnings from self employment do not include any amount received during the taxable year from an insurance company on account of services performed by such individual as an insurance salesman for such company if (1) such amount is received after termination of the individual's agreement to perform services for the company, (2) the individual performs no services for the company after such termination and before the close of the taxable year, (3) the amount of the payment depends solely on policies sold by the individual during the last year of the agreement and the extent to which such policies remain in force for some period after such termination, and does not depend on the length of service or overall earnings from services performed for the company, and (4) the payments are conditioned upon the	No provision.

Item	Present Law	House Bill	Senate Amendment
	of self-employment income subject to the HI portion of the tax. Certain insurance salesmen are independent contractors and therefore subject to tax under SECA.Under case law, certain payments received by a former insurance salesmen who had sold insurance as an independent contractor are not net earnings from self employment and therefore are not subject to SECA. See, e.g., Jackson v. Comm'r, 108 TC No. 10 (1997); Gump v. U.S., 86 F. 3d 1126 (CA FC 1996); Milligan v. Comm'r, 38 F. 3d 1094 (9th Cir. 1994).	salesman agreeing not to compete with the company for at least one year following such termination. The bill also amends the Social Security Act to provide that such termination payments are not treated as earnings for purposes of determining social security benefits. No inference is intended with respect to the SECA tax treatment of payments that are not described in the proposal. **Effective date**.--The provision is effective with respect to payments after December 31, 1997. No inference is intended that the proposal is not present law.	
4. Safe harbor for independent contractors (sec. 934 of the House bill)	Under present law, whether a worker is an employee or independent contractor is generally determined under a common-law facts and	In general.--The bill provides a statutory safe harbor for determining worker classification for Federal tax purposes. If the standards set	No provision.

Item	Present Law	House Bill	Senate Amendment
	circumstances test. An employer-employee relationship is generally found to exist if the service recipient has not only the right to control the result to be accomplished by the work, but also the means by which the result is to be accomplished. The Internal Revenue Service ("IRS") has developed a set of 20 factors for use in applying the common-law test. Under a special safe harbor rule (section 530 of the Revenue Act of 1978), a service recipient may treat a worker as an independent contractor for employment tax purposes even though the worker is in fact an employee if the service recipient has a reasonable basis for treating the worker as an independent contractor and certain other requirements are met. Section 530 does not apply to the worker and does not apply for income tax purposes. Section 530 does not apply to technical services personnel.	forth in the bill are met, the worker is not treated as an employee and the service recipient (or payor) is not treated as an employer. If the safe harbor is not satisfied, the determination of the worker's status is made under the present-law rules. Standards for determining whether individuals are not employees.--Under the bill, the following three sets of requirements have to be satisfied in order for a worker not to be treated as an employee: (1) worker requirements regarding the service recipient; (2) worker requirements regarding others; and (3) documentation requirements. The requirements regarding the worker are satisfied if, in connection with performing the services, the worker: (1) has a significant investment in assets and/or training; (2) incurs significant unreimbursed expenses; (3) agrees to perform the services	

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		for a particular amount of time or to complete a specific result and is liable for damages for early termination without cause; (4) is paid primarily on a commissioned basis; or (5) purchases products for resale. The requirements regarding others are satisfied if one of the following two requirements is met: (1) a place of business requirement; or (2) a services available to the public requirement. The place of business requirement is satisfied if the worker: (1) has a principal place of business; (2) does not primarily perform services in the service recipient's place of business; or (3) pays a fair market rent for use of the service recipient's place of business. The services available to the public requirement is satisfied if the worker is not required to perform services exclusively for the service recipient, and during the year (or the preceding or subsequent year) the worker (1) has	

Item	Present Law	House Bill	Senate Amendment
		performed a significant amount of services for other persons; (2) has offered to perform services for other persons through advertising, individual written or oral solicitations, listings with agencies, brokers, or other organizations that provide referrals, or other similar activities; or (3) provides service under a business name that is registered with (or licensed by) a State or a political subdivision (or an agency or instrumentality of a State or political subdivision). The documentation requirement is satisfied if the services performed by the worker are performed pursuant to a written contract between the worker and the service recipient (or payor) and the contract provides that the worker will not be treated as an employee. If the service recipient (or payor) fails to file the appropriate Federal tax returns (including information returns)	

Item	Present Law	House Bill	Senate Amendment
		with respect to a worker for a taxable year, the safe harbor is not available for such year. **Effective date.**--The provision is effective with respect to services performed after December 31, 1997.	
5. Combined employment tax reporting demonstration project (sec. 769 of the Senate amendment)	Traditionally, Federal tax forms are filed with the Federal government and State tax forms are filed with individual states. This necessitates duplication of items common to both returns. Some States have recently been working with the IRS to implement combined State and Federal reporting of certain types of items on one form as a way of reducing the burdens on taxpayers. The State of Montana and the IRS have cooperatively developed a system to combine State and Federal employment tax reporting on one form. The one form would contain exclusively Federal data, exclusively State	No provision.	The bill permits implementation of a demonstration project to assess the feasibility and desirability of expanding combined reporting in the future. There are several limitations on the demonstration project. First, it is limited to the State of Montana and the IRS. Second, it is limited to employment tax reporting. Third, it is limited to disclosure of the name, address, TIN, and signature of the taxpayer, which is information common to both the Montana and Federal portions of the combined form. Fourth, it is limited to a period of five years.

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	data, and information common to both: the taxpayer's name, address, TIN, and signature. The Internal Revenue Code prohibits disclosure of tax returns and return information, except to the extent specifically authorized by the Internal Revenue Code. Implementation of the combined Montana-Federal employment tax reporting project has been hindered because the IRS interprets section 6103 to apply that provision's restrictions on disclosure to information common to both the State and Federal portions of the combined form, although these restrictions would not apply to the State with respect to the State's use of State-requested information if that information were supplied separately to both the State and the IRS.		**Effective date**.--The provision is effective on the date of enactment, and will expire on the date five years after the date of enactment.

Item	Present Law	House Bill	Senate Amendment
E. Provisions Relating to Small Business			
1. Delay imposition of penalties for failure to make payments electronically through EFTPS (sec. 941 of the House bill and sec. 731 of the Senate amendment)	Employers are required to withhold income taxes and FICA taxes from wages paid to their employees. Employers also are liable for their portion of FICA taxes, excise taxes, and estimated payments of their corporate income tax liability. The Code requires the development and implementation of an electronic fund transfer system to remit these taxes and convey deposit information directly to the Treasury. The Electronic Federal Tax Payment System ("EFTPS") was developed by Treasury in response to this requirement. The new system is phased in over a period of years by increasing each year the percentage of total taxes subject to the new EFTPS system. The specific implementation method required to achieve the target	The bill provides that no penalty shall be imposed solely by reason of a failure to use EFTPS prior to January 1, 1999, if the taxpayer was first required to use the EFTPS system on or after July 1, 1997. **Effective date**.--The provision is effective on the date of enactment.	Same as House bill, except applies to penalties for failures to use EFTPS prior to June 30, 1998.

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	percentages is set forth in Treasury regulations. Implementation began with the largest depositors. Treasury originally implemented the 1997 percentages by requiring that all employers who deposit more than $50,000 in 1995 must begin using EFTPS by January 1, 1997. The Small Business Job Protection Act of 1996 provided that the increase in the required percentages for fiscal year 1997 (which, pursuant to Treasury regulations, was to take effect on January 1, 1997) will not take effect until July 1, 1997. On June 2, 1997, the IRS announced that it will not impose penalties through December 31, 1997, on businesses that make timely deposits using paper federal tax deposit coupons while converting to the EFTPS system.		

Item	Present Law	House Bill	Senate Amendment
2. Home office deduction: clarification of definition of principal place of business (sec. 942 of the House bill)	Section 280A(c)(1) provides that business deductions generally are allowed with respect to a portion of a home only if that portion is used exclusively and regularly in one of the following ways: (1) as the principal place of business for a trade or business; (2) as a place of business used to meet with patients, clients, or customers in the normal course of the taxpayer's trade or business; or (3) in connection with the taxpayer's trade or business, if the portion so used constitutes a separate structure not attached to the dwelling unit. In the case of an employee, the business use of the home must be for the convenience of the employer.	Section 280A is amended to specifically 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. In the case of an employee, a deduction is allowed, as under present law, only if the business use of the home office is for the convenience of the employer. __Effective date__.--Taxable years beginning after December 31, 1997.	No provision.

Item	*Present Law*	*House Bill*	*Senate Amendment*
3. Increase in deduction for health insurance costs of self-employed individuals (sec. 733 of the Senate amendment)	Self-employed individuals are entitled to deduct the amount paid for health insurance for the self-employed individual and the individual's spouse and dependents as follows: the deduction is 40 percent in 1997; 45 percent in 1998 through 2002; 50 percent in 2003; 60 percent in 2004; 70 percent in 2005; and 80 percent in 2006 and thereafter. The deduction for health insurance expenses of self-employed individuals is not available for any month in which the taxpayer is eligible to participate in a subsidized health plan maintained by the employer of the taxpayer or the taxpayer's spouse. Under present law employees can exclude from income 100 percent of employee-provided health insurance.	No provision.	The Senate amendment permits self-employed individuals to deduct a higher percentage of the amount paid for health insurances as follows: the deduction would be 50 percent in 1997 and 1998; 60 percent in 1999 through 2002; 70 percent in 2003; 80 percent in 2004; 85 percent in 2005; 90 percent in 2006; and 100 percent in 2007 and all years thereafter. <u>**Effective date**</u>.--The provision is effective for taxable years beginning after December 31, 1996.

Item	*Present Law*	*House Bill*	*Senate Amendment*
F. Other Provisions			
1. Treatment of workmen's compensation liability under rules for certain personal injury liability assignments (sec. 952 of the House bill)	An exclusion from gross income is provided for amounts received for agreeing to a qualified assignment to the extent that the amount received does not exceed the aggregate cost of any qualified funding asset (sec. 130 of the Code). A qualified assignment means any assignment of a liability to make periodic payments as damages (whether by suit or agreement) on account of a personal injury or sickness (in a case involving physical injury or physical sickness), provided the liability is assumed from a person who is a party to the suit or agreement, and the terms of the assignment satisfy certain requirements. Present law provides a separate exclusion under section 104(a)(1) for the recipient of amounts received under workmen's compensation acts as compensation for personal injuries or sickness, but a qualified assignment under section 130 does not include the	The provision extends the exclusion for qualified assignments under Code section 130 to amounts assigned for assuming a liability to pay compensation under any workmen's compensation act. **Effective date**.--Effective for workmen's compensation claims filed after the date of enactment.	No provision.

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	assignment of a liability to make such payments.		
2. **Election to continue exception from treatment of publicly traded partnerships as corporations (sec. 954 of the House bill and sec. 762 of the Senate amendment)**	A publicly traded partnership generally is treated as a corporation for Federal tax purposes. An exception to the rule treating the partnership as a corporation applies if 90 percent of the partnership's gross income consists of certain defined "passive-type income." A publicly traded partnership is a partnership whose interests are (1) traded on an established securities market, or (2) readily tradable on a secondary market (or the substantial equivalent thereof). When the rules treating publicly traded partnerships as corporations were enacted in 1987, a 10-year grandfather rule provided that these rules apply to certain existing partnerships only for taxable years beginning after December 31, 1997.	In the case of an existing publicly traded partnership that elects to be subject to a tax on gross income from the active conduct of a trade or business, the rule of present law treating a publicly traded partnership as a corporation does not apply. The rate of the tax is 15 percent. **Effective date**.--Taxable years beginning after December 31, 1997.	Same as House bill, except that the rate of the tax is 3.5 percent. **Effective date**.--Same as House bill.

Item	*Present Law*	*House Bill*	*Senate Amendment*
3. Timeshare associations (sec. 956 of the House bill and sec. 764 of the Senate amendment)	Taxation of homeowners associations making the section 528 election.--Under present law (sec. 528), condominium management associations and residential real estate management associations may elect to be taxable at a 30 percent rate on their "homeowners association income" if they meet certain income, expenditure, and organizational requirements. "Homeowners association income" is the excess of the association's gross income, excluding "exempt function income," over allowable deductions directly connected with non-exempt function gross income. "Exempt function income" includes membership dues, fees, and assessments for a common activity undertaken by association members or owners of residential units in the condominium or subdivision. Homeowners association income includes passive income (e.g., interest and dividends)	The House bill amends section 528 to permit timeshare associations to qualify for taxation under that section. Timeshare associations electing to be taxed under section 528 are subject to a tax on their "timeshare association income" at a rate of 32 percent. Timeshare associations would have to meet the requirements of section 528 (e.g., the 60-percent gross income, 90-percent expenditure, and the non-profit organizational and operational requirements). 60-percent test.--A qualified timeshare association must receive at least 60 percent of its income from membership dues, fees and assessments from owners of either (a) timeshare rights to use of, or (b) timeshare ownership in, property of the timeshare association. 90-percent test.--At least 90 percent of the expenditures of the timeshare association must be for the acquisition,	The Senate amendment is the same as the House bill, except that the Senate amendment provides that association property includes property in which a timeshare association or members of the association have rights arising out of recorded easements, covenants, and other recorded instruments to use property related to the timeshare project.

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	earned on reserves and fees for use of association property (e.g., swimming pools, meeting rooms, etc.). For an association to qualify for this treatment, (1) at least 60 percent of the association's gross income must consist of membership dues, fees, or assessments on owners, (2) at least 90 percent of its expenditures must be for the acquisition, management, maintenance, or care of "association property," and (3) no part of its net earnings can inure to the benefit of any private shareholder. "Association property" means: (1) property held by the association; (2) property commonly held by association members; (3) property within the association privately held by association members; and (4) property held by a governmental unit for the benefit of association members. In addition to these statutory requirements, Treasury	management, maintenance, or care of "association property," and activities provided by the association to, or on behalf of, members of the timeshare association. "Activities provided to or on behalf of members of the [timeshare] association" includes events located on association property (e.g., member's meetings at the association's meeting room, parties at the association's swimming pool, golf lessons on association's golf range, transportation to and from association property, etc.). Organizational and operational tests.--No part of the net earnings of the timeshare association can inure to the benefit (other than by acquiring, constructing, or providing management, maintenance, and care of property of the timeshare association or rebate of excess membership dues, fees, or assessments) of any private shareholder or individual. A member of a qualified timeshare	

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	regulations require that the units of the association be used for residential purposes. Use is not a residential use if the unit is occupied by a person or series of persons less than 30 days for more than half of the association's taxable year. Treas. Reg. sec. 1.528-4(d). Taxation of homeowners associations **not** making the section 528 election.--Homeowners associations that do not (or cannot) make the section 528 election are taxed either as a tax-exempt social welfare organization under section 501(c)(4) or as a regular C corporation. In order for an organization to qualify as a tax-exempt social welfare organization, the organization must meet the following three requirements: (1) the association must serve a "community" which bears a reasonable, recognizable relationship to an area ordinarily identified as a governmental subdivision or unit; (2) the	association must hold a timeshare right to use (or timeshare ownership in) real property of the association. A qualified timeshare association cannot be a condominium management association. Lastly, the timeshare association must elect to be taxed under section 528. **Effective date**.--Taxable years beginning after December 31, 1996.	**Effective date**.-- Same as House bill.

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	association may not conduct activities directed to exterior maintenance of any private residence, and (3) common areas of association facilities must be for the use and enjoyment of the general public (Rev. Rul. 74-99, 1974-1 C.B. 131). Non-exempt homeowners associations are taxed as C corporations, except that (1) the association may exclude excess assessments that it refunds to its members or applies to the subsequent year's assessments (Rev. Rul. 70-604, 1970-2 C.B. 9); (2) gross income does not include special assessments held in a special bank account (Rev. Rul. 75-370, 75-2 C.B. 25), and (3) assessments for capital improvements are treated as non-taxable contributions to capital (Rev. Rul. 75-370, 1975-2 C.B. 25). Taxation of timeshare associations.--Under present law, timeshare associations are		

Item	*Present Law*	*House Bill*	*Senate Amendment*
	taxed as regular C corporations because (1) they cannot meet the requirement of the Treasury regulations for the section 528 election that the units be used for residential purposes (i.e., the 30-day rule) and they have relatively large amount of services performed for its owners (e.g., maid and janitorial services) and (2) they cannot meet any of requirements of Rev. Rul. 74-99 for tax-exempt status under section 501(c)(4).		
4. Deferral of gain on certain sales of farm product refiners and processors (sec. 958 of the House bill)	Under present law, if certain requirements are satisfied, a taxpayer may defer recognition of gain on the sale of qualified securities to an employee stock ownership plan ("ESOP") or a eligible worker-owned cooperative to the extent that the taxpayer reinvests the proceeds in qualified replacement property (sec. 1042). Gain is recognized when the taxpayer disposes of the qualified replacement property. One of	The bill extends the deferral provided under section 1042 to the sale of stock of a qualified refiner or processor to an eligible farmer's cooperative. A qualified refiner or processor is a domestic corporation substantially all of the activities of which consist of the active conduct of the trade or business of refining or processing agricultural or horticultural products and which purchases more than one-half of such	No provision.

Item	Present Law	House Bill	Senate Amendment
	the requirements that must be satisfied for deferral to apply is that, immediately after the sale, the ESOP must own at least 30 percent of the stock of the corporation issuing the qualified securities. In general, qualified securities are securities issued by a domestic C corporation that has no stock outstanding that is readily tradeable on an established securities market. Deferral treatment does not apply to gain on the sale of qualified securities by a C corporation.	products to be refined or processed from farmers who make up the cooperative which is purchasing the stock or the cooperative. An eligible farmers' cooperative is an organization which is treated as a cooperative for Federal income tax purposes and which is engaged in the marketing of agricultural or horticultural products. The deferral of gain is available only if, immediately after the sale, the eligible farmers' cooperative owns 100 percent of the qualified refiner or processor. The provision applies even if the stock of the qualified refiner or processor is publicly traded. In addition, the bill applies to gain on the sale of stock by a C corporation. **Effective date.**--The provision applies to sales after December 31, 1997.	

Item	Present Law	House Bill	Senate Amendment
5. Exception from real estate reporting requirements for sales of principal residences (sec. 959 of the House bill and secs. 314(c) and 601(d) of the Senate amendment).	Persons who close real estate transactions are required to file informational returns with the IRS.	Sales of personal residences for $500,000 or less ($250,000 or less in the case of a seller who is not married) are not required to be reported if the person otherwise required to file obtains assurances that any gain will be exempt from Federal income tax under section 121(a) and that no financing of the seller was federally-subsidized indebtedness.	Same as the House bill except: 1) the requirement that assurances be obtained that no financing of the seller was federally-subsidized indebtedness does not apply until the Secretary requires such information to be reported; and 2) a sale of a principal residence in the District of Columbia must be reported if the Secretary requires verification of eligibility for the D.C. first-time home buyer credit.
		Effective date.--Returns otherwise required with respect to sales occurring after the date of enactment.	**Effective date**.--Same as House bill.
6. Deduction for business meals (sec. 960 of the House bill and sec. 765 of the Senate amendment)	Generally, the amount allowable as a deduction for business meals is limited to 50 percent of the otherwise deductible amount. Exceptions to this 50 percent rule are provided for	Individuals subject to Department of Transportation hours of service limitations who are away from home are allowed a deduction for business meals	Same as House bill, except also applies to workers located at remote seafood processing facilities north of 53 degrees north latitude.

Item	Present Law	House Bill	Senate Amendment
	food and beverages provided to crew members of certain vessels and offshore oil or gas platforms or drilling rigs.	according to the following schedule: <u>Taxable years beginning in:</u> 1998, 1999 -- 55 percent 2000, 2001 -- 60 percent 2002, 2003 -- 65 percent 2004, 2005 -- 70 percent 2006, 2007 -- 75 percent after 2007 -- 80 percent **<u>Effective date.</u>**--Taxable years beginning after 1997.	**<u>Effective date.</u>**--Taxable years beginning after 1997.
7. Provide above-the-line deduction for certain business expenses (sec. 766 of the Senate amendment)	Under present law, individuals may generally deduct ordinary and necessary business expenses in determining adjusted gross income ("AGI"). This deduction does not apply in the case of an individual performing services as an employee. Employee business expenses are generally deductible only as a miscellaneous itemized deduction, i.e., only to the extent	No provision.	Employee business expenses relating to service as an official of a State or local government (or political subdivision thereof) are deductible in computing AGI ("above the line"), provided the official is compensated in whole or in part on a fee basis. Consequently, such expenses are also deductible for minimum tax purposes.

Item	Present Law	House Bill	Senate Amendment
	all the taxpayer's miscellaneous itemized deductions exceed 2 percent of the taxpayer's AGI. Employee business expenses are not allowed as a deduction for alternative minimum tax purposes.		**Effective date.**--The provision applies to expenses paid or incurred in taxable years beginning after December 31, 1997.
8. Increase in standard mileage rate for purposes of computing charitable deduction (sec. 767 of the Senate amendment)	In general, individuals who itemize their deductions may deduct charitable contributions. For purposes of computing the charitable deduction for the use of a passenger automobile, the standard mileage rate is 12 cents per mile (sec. 170(i)).	No provision.	Increases this mileage rate to 15 cents per mile. This rate is indexed for inflation, rounded down to the nearest whole cent. **Effective date**.--The increase to 15 cents is effective for taxable years beginning after December 31, 1997. The indexation is effective for inflation occurring after 1997. Accordingly, the first adjustment for indexing will occur in 1999 to reflect inflation in 1998.
9. Expensing of environmental remediation costs ("brownfields") (sec.	In general, costs incurred to purchase new property or for permanent improvements made to increase the value of any property	No provision.	The Senate amendment provides that taxpayers may elect to treat certain environmental remediation expenditures that would otherwise

Item	Present Law	House Bill	Senate Amendment
768 of the Senate amendment)	are not currently deductible, but must be capitalized. In contrast, amounts paid for repair and maintenance of business and investment property may be deducted currently as a business expense. In 1994, the IRS issued Rev. Rul. 94-38, holding that soil remediation expenditures and ongoing water treatment expenditures incurred to clean up land and water that a taxpayer contaminated are deductible. Although this ruling addressed certain issues with respect to the proper tax treatment of environmental clean-up expenses, there remains uncertainty under current law as to whether such expenses must be capitalized or are currently deductible.		be chargeable to capital account as deductible in the year paid or incurred. The deduction applies for both regular and alternative minimum tax purposes. The expenditure must be incurred in connection with the abatement or control of hazardous substances at a qualified contaminated site. In general, any expenditure for the acquisition of depreciable property used in connection with the abatement or control of hazardous substances at a qualified contaminated site does not constitute a qualified environmental remediation expenditure. A "qualified contaminated site" generally is any property that: (1) is held for use in a trade or business, for the production of income, or as inventory; (2) is certified by the appropriate State environmental agency to be located within a targeted area; and (3) contains (or potentially contains) a hazardous substance. Targeted areas would mean (1) empowerment zones and

Item	Present Law	House Bill	Senate Amendment
			enterprise communities (including supplemental empowerment zones); and (2) sites announced before February, 1997, as being subject to one of the 76 Environmental Protection Agency (EPA) Brownfields Pilots. **Effective date**.--The provision applies to eligible expenditures incurred after the date of enactment.
10. Deduction of traveling expenses while working away from home on qualified construction projects (sec. 775 of the Senate amendment)	In the absence of facts and circumstances indicating otherwise, a taxpayer is considered to be temporarily away from home (and thus allowed to deduct certain traveling expenses) if the period of employment away from home does not exceed one year.	No provision.	In the absence of facts and circumstances indicating otherwise, a taxpayer employed on qualified construction projects is considered to be temporarily away from home if the period of employment away from home does not exceed 18 months (24 months if the qualified construction project is in a remote location) and the taxpayer continues to maintain a household as his principal residence and incur duplicative expenses at such residence.

Item	Present Law	House Bill	Senate Amendment
			Effective date.-- Costs paid or incurred in taxable years beginning after 1997.
11. Deductibility of meals provided for the convenience of the employer (sec. 778 of the Senate amendment)	In general, subject to several exceptions, only 50 percent of business meal and entertainment expenses are allowed as a deduction (sec. 274(n)). Under one exception, the value of meals that are excludable from employees' incomes as a de minimis fringe benefit (sec. 132) are fully deductible by the employer. In addition, the courts that have considered the issue have held that if meals are provided for the convenience of the employer pursuant to section 119 they are fully deductible (Boyd Gaming Corp. v. Commissioner and Gold Coast Hotel & Casino v. I.R.S.).	No provision.	Provides that meals that are excludable from employees' incomes because they are provided for the convenience of the employer pursuant to section 119 of the Code are excludable as a de minimis fringe benefit and therefore are fully deductible by the employer. No inference is intended as to whether such meals are fully deductible under present law. **Effective date**.--The provision is effective for taxable years beginning after December 31, 1997.
12. Treatment of consolidation of	Present law provides for special treatment of a mutual savings	The provision provides that the consolidation of two or more life	No provision.

Item	Present Law	House Bill	Senate Amendment
certain mutual savings bank life insurance departments (sec. 962 of the House bill)	bank conducting a life insurance business in a separate life insurance department. Under the special rule, the insurance and noninsurance businesses of such banks are bifurcated, and the tax imposed is the sum of the partial taxes computed on (a) the taxable income of the mutual savings bank determined without regard to items properly allocable to the life insurance business, and (b) the income of the life insurance department, calculated in accordance with the rules applicable to life insurance companies.	insurance departments of mutual savings banks into a single life insurance company by requirement of State law is treated as a tax-free reorganization described in section 368(a)(1)(E) (i.e., a recapitalization). Any payments required to be made to policyholders in connection with the consolidation are treated as policyholder dividends deductible by the company under section 808, provided that certain requirements are met. **Effective date.**--The provision takes effect on December 31, 1991.	
13. Offset of past-due, legally enforceable State tax obligations of State residents against Federal overpayments (sec. 963 of the House bill)	Overpayments of Federal income tax are refunded after offset for certain liabilities of the person making the overpayment, including revenue taxes due, past-due support payments and past-due legally enforceable debts owed to Federal agencies.	An overpayment of Federal tax also could be offset by the amount of any past-due, legally enforceable State tax obligation of a resident of the State seeking the offset. **Effective date.**-- refunds payable after December 31, 1998.	No provision.

Item	*Present Law*	*House Bill*	*Senate Amendment*
14. Modify limits on depreciation of luxury automobiles for certain clean-burning fuel and electric vehicles (sec. 964 of the House bill)	The amount the taxpayer may claim as a depreciation deduction for any passenger automobile is limited to: $2,560 for the first taxable year in the recovery period; $4,100 for the second taxable year in the recovery period; $2,450 for the third taxable year in the recovery period; and $1,475 for each succeeding taxable year in the recovery period. Each of the dollar limitations is indexed for inflation after October 1987 by automobile component of the Consumer Price Index. The limitations applicable for 1997 are $3,160, $5,000, $3,050, and $1,775.	The House bill modifies the present-law limitation on depreciation in the case of qualified clean-burning fuel vehicles and certain electric vehicles. With respect to qualified clean-burning fuel vehicles, vehicles that are modified to permit such vehicle to be propelled by a clean burning fuel, only the cost of the vehicle before modification is subject to the present-law limitations on depreciation. The clean-burning fuel property may be recovered as a separate asset not subject to the present law limitations on depreciation. In the case of a passenger vehicle designed to be propelled primarily by electricity and built by an original equipment manufacturer, the base-year limitation amounts are tripled to $7,680, $12,300, $7,350, and $4,425, respectively, and then adjusted for inflation after October 1987 by the automobile component of the Consumer Price Index.	No provision.

Item	*Present Law*	*House Bill*	*Senate Amendment*
		<u>Effective date</u>.--The provision is effective for property placed in service on or after the date of enactment and before January 1, 2005.	
15. Exemption from tax upon death of a police officer in the line of duty (sec. 965 of the House bill and sec. 784 of the Senate amendment)	Survivors of military service personnel (such as those killed in combat) are generally entitled to survivor benefits (38 U.S.C. sec. 1310). These survivor benefits are generally exempt from taxation (38 U.S.C. sec. 5301). Survivor means the surviving spouse or surviving dependent child of the military service personnel. Survivor annuity benefits paid under a governmental retirement plan to a survivor of a law enforcement officer killed in the line of duty are generally includible in income. Amounts contributed to the plan by the officer and previously included in the officer's income would not be includible in the survivor's income.	The House bill generally provides that an amount paid as a survivor annuity on account of the death of a law enforcement officer who is killed in the line of duty will be excludable from income to the extent the survivor annuity is attributable to the officer's service as a law enforcement officer. The survivor annuity must be provided under a governmental plan to the surviving spouse (or former spouse) of the law enforcement officer or to a child of the officer. **<u>Effective date</u>**.--The provision applies to amounts received in taxable years beginning after December 31, 1996, with respect to individuals dying after that date.	Same as the House bill, except that the provision applies to public safety officers killed in the line of duty. Public safety officers include law enforcement officers, firefighters, rescue squad or ambulance crew. **<u>Effective date</u>**.--The provision applies to amounts received in taxable years beginning after December 31, 1996, with respect to individuals dying after that date.

Item	Present Law	House Bill	Senate Amendment
16. Suspension of limitations on percentage depletion for production from marginal wells (sec. 966 of the House bill and sec. 772 of the Senate amendment)	The Code permits taxpayers to recover their investments in oil and gas wells through depletion deductions. In the case of certain properties, the deductions may be determined using the percentage depletion method. Certain limitations apply in calculating percentage depletion deductions. One limitation is a restriction that these deductions may not exceed 65 percent of the taxpayer's taxable income. Another limitation is a restriction that the amount deducted may not exceed 100 percent of the net income from that property in any year. Specific percentage depletion rules apply to oil and gas production from "marginal" properties. Marginal production is defined as domestic crude oil and natural gas production from stripper well property or from property substantially all of the production from which during the calendar year is heavy oil. Stripper well property is property from which the average daily production is 15 barrel	The 65-percent-of-net-income limitation is suspended for domestic oil and gas production from marginal properties during taxable years beginning after December 31, 1997, and before January 1, 2000. **Effective date**.--The provision is effective on the date of enactment.	The 100-percent-of-net-income property limitation with respect to oil and gas produced from marginal properties does not apply for any taxable year beginning in a calendar year in which the annual average wellhead price per barrel for crude oil (within the meaning of section 29(d)(2)(C)) is below $14 per barrel. **Effective date**.--The provision is effective for taxable years beginning after December 31, 1997.

Item	Present Law	House Bill	Senate Amendment
	equivalents or less, determined by dividing the average daily production of domestic crude oil and domestic natural gas from producing wells on the property for the calendar year by the number of wells.		
17. Extend production credit for electricity produced from wind and "closed loop" biomass (sec. 771 of the Senate amendment)	An income tax credit is allowed for the production of electricity from either qualified wind energy or qualified "closed-loop" biomass facilities. The credit is equal to 1.5 cents (plus adjustments for inflation since 1992) per kilowatt hour of electricity produced from these qualified sources during the 10-year period after the facility is placed in service. The credit applies to electricity produced by qualified wind or closed-loop biomass facilities placed in service before July 1, 1999. In order to claim the credit, a taxpayer must own the facility and sell the electricity produced	No provision.	The provision extends the income tax credit for electricity produced from wind and closed-loop biomass for two years. Thus, the credit is available for qualifying electricity produced from facilities placed in service before July 1, 2001. As under present law, the credit is allowable for a period of ten years after the facility is placed in service. <u>**Effective date**</u>.--The provision is effective as of the date of enactment.

Item	Present Law	House Bill	Senate Amendment
	by the facility to an unrelated party.		
18. Modification of advance refunding rules for certain tax-exempt bonds issued by the Virgin Islands (sec. 957 of the House bill)	<u>**Advance refundings**</u> Generally a governmental bond originally issued after December 31, 1985, may be advance refunded one time. An advance refunding is any refunding where all of the refunded bonds are not redeemed within 90 days after the refunding bonds are issued. <u>**Virgin Island bonds**</u> Under present law, the Virgin Islands is required to secure its bonds with a priority first lien claim on specified revenue streams rather than being permitted to issue multiple bond issues secured on a parity basis by a common pool of revenues. Under a proposed non-tax law change, the priority lien requirement would be repealed.	One additional advance refunding is allowed for governmental bonds issued by the Virgin Islands that were advance refunded before June 9, 1997, if the Virgin Islands debt provisions are changed to repeal the current priority first lien requirement. <u>**Effective date**</u>.--The provision is effective on the date of enactment.	No provision.

Item	Present Law	House Bill	Senate Amendment
19. Qualified small-issue bonds (sec. 770 of the Senate amendment)	Interest on certain small issues of private activity bonds issued by State or local governments ("qualified small-issue bonds") is excluded from gross income if certain conditions are met. First, at least 95 percent of the bond proceeds must be used to finance manufacturing facilities or certain agricultural land or equipment. Second, the bond issue must have an aggregate face amount of $1 million or less, or alternatively, the aggregate face amount of the issue, together with the aggregate amount of certain related capital expenditures during the six-year period beginning three years before the date of the issue and ending three years after that date, must not exceed $10 million.	No provision.	The Senate amendment increases the maximum capital expenditure limit under present law from $10 million to $20 million. The maximum amount of bonds is not be increased over present-law amounts. **Effective date**.--The provision is effective for bonds issued after December 31, 1997.
20. Treatment of bonds issued by the Federal Home Loan Bank Board under the Federal guarantee rules (sec. 774 of the Senate amendment)	Generally, interest on bonds which are Federally guaranteed do not qualify for tax-exemption for Federal income tax purposes. Certain exceptions (enacted when the restriction was first enacted in 1984) are provided including	No provision.	Bonds guaranteed by the Federal Home Loan Bank Board are not treated as Federally guaranteed for purposes of the Federal guarantee prohibition generally applicable to tax-exempt bonds.

Item	Present Law	House Bill	Senate Amendment
	otherwise qualifying bonds guaranteed by the Federal Housing Administration, the Veterans' Administration, the Federal National Mortgage Association, the Federal Home Loan Mortgage Corporation, and the Government National Mortgage Association.		**Effective date**.--The provision is effective for bonds issued after the date of enactment.
21. Purchasing of receivables by tax-exempt hospital cooperative service organizations (sec. 773 of the Senate amendment)	Section 501(e) provides that an organization organized on a cooperative basis by tax-exempt hospitals will itself be tax-exempt if the organization is operated solely to perform, on a centralized basis, one or more of certain enumerated services for its members. These services are: data processing, purchasing (including the purchase of insurance on a group basis), warehousing, billing and collection , food, clinical, industrial engineering, laboratory, printing, communications, record center, and personnel services.	No provision.	The Senate amendment clarifies that, for purposes of section 501(e), billing and collection services include the purchase of patron accounts receivable on a recourse basis. **Effective date**.--The provision is effective for taxable years beginning after December 31, 1996. No inference is intended with respect to taxable years prior to the effective date.

Item	*Present Law*	*House Bill*	*Senate Amendment*
22. Charitable contribution deduction for certain expenses incurred in support of Native Alaskan subsistence whaling (sec. 776 of the Senate amendment)	In the case of an individual who itemizes deductions, unreimbursed expenditures made incident to the rendition of services to a charitable organization may constitute a deductible charitable contribution (Treas. Reg. Sec. 1.170A-1(g)). Specifically, section 170(j) provides that no charitable contribution deduction is allowed for traveling expenses (including amounts expended for meals and lodging) while away from home, whether paid directly or by reimbursement, unless there is no significant element of personal pleasure, recreation, or vacation in such travel.	No provision.	Individuals who are recognized whaling captains are allowed to claim a charitable contribution deduction up to $7,500 per taxable year for certain expenses incurred in carrying out subsistence bowhead whale hunting activities conducted pursuant to the management plan of the Alaska Eskimo Whaling Commission. The deduction is available for reasonable and necessary expenses paid by the taxpayer for (1) the acquisition and maintenance of whaling boats, weapons, and gear used in sanctioned whaling activities, (2) the supplying of food for the crew and other provisions for carrying out such activities, and (3) storage and distribution of the catch from such activities. **Effective date**.--Taxable years ending after the date of enactment.
23. Modification of empowerment zone and enterprise	Pursuant to the Omnibus Budget Reconciliation Act of 1993 (OBRA 1993), the Secretaries of	No provision.	The present-law empowerment zone and enterprise community designation criteria under section

Item	Present Law	House Bill	Senate Amendment
community criteria in the event of future designations of additional zones and communities (sec. 777 of the Senate amendment)	the Department of Housing and Urban Development (HUD) and the Department of Agriculture designated a total of nine empowerment zones and 95 enterprise communities on December 21, 1994. As required by law, six empowerment zones are located in urban areas (with aggregate population for the six designated urban empowerment zones limited to 750,000) and three empowerment zones are located in rural areas. Of the enterprise communities, 65 are located in urban areas and 30 are located in rural areas (sec. 1391). Designated empowerment zones and enterprise communities were required to satisfy certain eligibility criteria, including specified population limitations (sec. 1392(a)(1)), geographic size limitations (sec. 1392(a)(3)), and poverty rate criteria for census tracts within the empowerment zone or enterprise community (sec. 1392(a)(4)) as determined by the most recent decennial census data available.		1392 are modified so that, in the event that additional empowerment zones or enterprise communities are authorized to be designated in the future, any zones or communities designated in the States of Alaska or Hawaii will not be subject to the general size limitations under section 1392(a)(3), nor will such zones or communities be subject to the general poverty-rate criteria under section 1392(a)(4). Instead, nominated areas in either State will be eligible for designation as an empowerment zone or enterprise community if, for each census tract or block group within such area, at least 20 percent of the families have incomes which are 50 percent or less of the State-wide median family income. Such zones and communities will be subject to the population limitations under present-law section 1392(a)(1). __Effective date__.--Date of enactment.

Item	*Present Law*	*House Bill*	*Senate Amendment*
24. Conducting of certain games of chance not treated as unrelated trade or business (sec. 783 of the Senate amendment)	Tax-exempt organizations generally 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. However, a specific exemption from the UBIT is provided for certain bingo games conducted by tax-exempt organizations and certain public entertainment activities conducted at agricultural and educational fairs. In South End Italian Independent Club, Inc. v. Comm'r, 87 T.C. 168 (1986), acq. 1987-2 C.B. 1, the Tax Court held that gambling profits of a tax-exempt social club that were required by State law to be used for charitable purposes were fully deductible under section 162 in computing the UBIT liability of the social club.	No provision.	The UBIT will not apply to income from a "qualified game of chance," meaning any game of chance (other than a bingo game exempt under present-law sec. 513(f)) conducted by a tax-exempt organization if (1) such organization is licensed pursuant to State law to conduct such game, (2) only organizations which are organized as nonprofit corporations or are exempt from Federal income tax under section 501(a) may be so licensed to conduct such game within the State, and (3) the conduct of such game does not violate State or local law. (Floor amendment by Senator Grams, adopted by unanimous consent.) **Effective date**.--Date of enactment.

Item	Present Law	House Bill	Senate Amendment
25. Exclusion from income of certain severance payments (sec. 788(a) of the Senate amendment)	Severance payments are includible in income.	No provision.	Under the provision, certain severance payments are excludable from income. The provision applies to payments received by an individual who was separated from service in connection with a reduction in the work force of the employer and who does not attain employment within 6 months of the separation from service at a compensation level that is at least 95 percent of the compensation the individual was receiving before the separation from service. The exclusion does not apply if the total separation payments received by the individual exceed $125,000. (Floor amendment by Sen. Torricelli and Sen. Landrieu agreed to by voice vote.) **<u>Effective date.</u>**--The provision applies to taxable years beginning after December 31, 1997, and before July 1, 2002.
26. Current refundings of certain bonds	Indian tribal governments are permitted to issue tax-exempt	No provision.	The Senate amendment allows pre-1987 tax-exempt bonds issued

Item	Present Law	House Bill	Senate Amendment
issued by Indian tribal governments (sec. 789 of the Senate amendment)	bonds for essential government functions. Since 1987, this term has been defined to include only those activities that traditionally are carried out as governmental functions by State governments. Before 1987, some Indian tribes issued tax-exempt bonds to acquire existing businesses as investments. Under present law, tax-exempt bonds may not be issued for this purpose, and outstanding pre-1987 bonds issued for such acquisitions may not be refunded.		by Indian tribal governments for business acquisitions to be refunded if-- (1) the refunded bonds are redeemed within 90 days after the refunding bonds are issued; (2) the outstanding principal amount of the bonds is not increased; and (3) the maturity date of the bonds is not extended. <u>Effective date</u>.--Bonds issued after the date of enactment.
27. Special rule for thrift institutions that became large banks (sec. 790 of the Senate amendment)	A provision of the Small Business Job Protection Act of 1996 repealed the percentage-of-taxable-income method of determining bad debt deductions of thrift institutions for taxable years beginning after 1995. A large bank (i.e., one with assets in excess of $500 million as of the end of its 1995 taxable year) that was required to change its method	No provision.	The Senate amendment allows a thrift institution that first became a large bank in its first taxable year beginning after 1994 to be treated as a small bank for purposes of the Small Business Job Protection Act provision. In addition, such institutions may apply the required change in accounting method on a cut-off basis.

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	of accounting by reason of the provision generally is required to recapture its post-1987 bad debt reserve over a 6-year period. The amount of recapture for a small bank generally is reduced to the extent the bank's reserve for bad debts determined under the experience method applicable to such institutions exceeded its pre-1988 reserve.		The provision was adopted by unanimous consent pursuant to an amendment of Senator Gorton. **Effective date**.--Effective as if included in the Small Business Job Protection Act of 1996.
28. Income averaging for farmers (sec. 792 of the Senate amendment)	The ability for an individual taxpayer to reduce his or her tax liability by averaging his or her income over a number of years was repealed by the Tax Reform Act of 1986.	No provision.	An individual taxpayer is allowed to elect to compute his or her current year tax liability by averaging, over the prior three-year period, all or a portion of his or her taxable income from the trade of business of farming. The provision was adopted by unanimous consent pursuant to an amendment offered by Senator Roth on behalf of Senator Burns. **Effective date**.--Taxable years beginning after the date of enactment and before January 1, 2001.

Item	*Present Law*	*House Bill*	*Senate Amendment*
X. REVENUE-INCREASE PROVISIONS			
A. Financial Products			
1. Constructive sales treatment for appreciated financial positions (sec. 1001 of the House bill and sec. 801 of the Senate amendment)	Timing of Gain or Loss. In general, gain or loss is taken into account for tax purposes when realized. Gain or loss generally is realized with respect to a capital asset at the time the asset is sold, exchanged, or otherwise disposed of. Special rules under the Code can defer or accelerate recognition in certain circumstances. Transactions designed to reduce or eliminate risk of loss, such as a "short sale against the box", or an "equity swap", generally do not cause realization.	Constructive Sales. The House bill requires recognition of gain (but not loss) upon a constructive sale of any "appreciated financial position" in stock, a partnership interest or debt other than certain "straight" debt instruments (as defined in sec. 1361(c)(5)(B)). A constructive sale occurs when the taxpayer enters into one of the following transactions with respect to the same or substantially identical property: (1) a short sale, (2) an offsetting notional principal contract, or (3) a futures or forward contact. For a taxpayer who has one of these transactions, a constructive sale occurs when it acquires the related long position. Other transactions will be treated as constructive sales to the extent provided in Treasury regulations.	Constructive Sales. Under the Senate amendment, the types of debt instruments excluded from the definition of "appreciated financial position" are instruments that are not convertible and the interest on which is either fixed, payable at certain variable rates or based on certain interest payments on a pool of mortgages. In addition, the amendment provides an exception for transactions closed during the 90-day period ending on the 30th day after the close of the taxable year which are reestablished during such period, so long as the normal requirements for positions closed within such 90-day period are met by the reestablished position.

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		The bill provides an exception for transactions that are closed before the end of the 30th day after the close of the taxable year. This exception does not apply to transactions closed during the 90-day period ending on such day unless, for the 60 days after closing, (1) the taxpayer holds the appreciated financial position and (2) at no time is the taxpayer's risk of loss reduced by holding certain other positions.	
	Securities Dealers. A dealer in securities must compute its income pursuant to the mark-to-market method of accounting. Mark-to-market treatment does not apply to traders in securities or dealers in other property.	Mark-to-Market. The House bill allows securities traders and commodities traders and dealers to elect mark-to-market accounting similar to that currently required for securities dealers.	Mark-to-Market. Same as House bill.
		Effective date.--The constructive sale provision is effective for constructive sales entered into after June 8, 1997, with special rules for transactions entered into before this date which are identified by the taxpayer and for certain	**Effective date**.--Same as House bill.

Item	*Present Law*	*House Bill*	*Senate Amendment*
		decedents dying after June 8, 1997. The mark-to-market election applies to taxable years ending after the date of enactment.	
2. Limitation on exception for investment companies under section 351 (sec. 1002 of the House bill and sec. 802 of the Senate amendment)	Gain or loss is recognized upon a contribution by a shareholder to a corporation that is an investment company. Gain, but not loss, is recognized upon a contribution by a partner to a partnership that would be treated as an investment company. Under Treasury regulations, a contribution of property is treated as made to an investment company only if (1) the contribution results, directly or indirectly, in a diversification of the transferor's interest and (2) the transferee is (a) a regulated investment company ("RIC"), (b) a real estate investment trust ("REIT") or (c) a corporation more than 80 percent of the assets of which by	The House bill modifies the definition of an investment company by requiring that the following assets also be taken into account for purposes of the 80-percent test: money, financial instruments, foreign currency, and interests in RICs, REITs, common trust funds, publicly-traded partnerships and precious metals. The bill provides an exception for precious metals that are produced, used or held in an active trade or business by a partnership. The bill also provides "look through" rules for certain entities that hold the above-listed items.	The Senate amendment clarifies that equity interests in non-corporate entities will be taken into account for purposes of the investment company determination only if (1) the entity is a REIT, publicly-traded partnership or common trust fund, (2) the interest is convertible into or exchangeable for one of the other listed assets or (3) the entity holds listed assets and is subject to the "look-through" rules. The amendment also clarifies that the exception for precious metals used or held in an active trade or business applies to both corporations and partnerships. The amendment deletes the exception for precious metals

Item	Present Law	House Bill	Senate Amendment
	value (excluding cash and non-convertible debt instruments) are readily marketable stocks or securities or interests in RICs or REITs that are held for investment.	**Effective Date**. Transfers after June 8, 1997, in taxable years ending after such date, with an exception for transfers pursuant to certain binding written contracts in effect on that date.	that are produced by a partnership. The amendment also provides the Treasury with regulatory authority to remove items from the list in appropriate circumstances. **Effective Date**. Same as House bill.
3. Disallowance of interest on indebtedness allocable to tax-exempt obligations (sec. 1003 of the House bill)	**In general** Present law disallows a deduction of individuals and corporations for interest on indebtedness incurred or continued to purchase or carry obligations the interest on which is not subject to tax (tax-exempt obligations) (sec. 265). The rule also applies to certain cases in which a taxpayer incurs or continues indebtedness and a related person acquires or holds tax-exempt obligations (sec. 7701(f)).	**General rule** The House bill extends to all corporations (other than insurance companies) the rule that applies to financial institutions that disallows interest deductions of a taxpayer (that are not otherwise disallowed as allocable under present law to tax-exempt obligations) in the same proportion as the average basis of its tax-exempt obligations bears to the average basis of all of the taxpayer's assets.	No provision.

Item	Present Law	House Bill	Senate Amendment
	<u>Application to non-financial corporations</u> <u>General guidelines</u>.--In Rev. Proc. 72-18, the IRS provided guidelines for application of the disallowance provision to individuals, dealers in tax-exempt obligations, other business enterprises, and banks in certain situations. Under Rev. Proc. 72-18, a deduction is disallowed only when indebtedness is incurred or continued for the purpose of purchasing or carrying tax-exempt obligations. <u>Two-percent de minimis exception</u>.--In the case of a corporation other than a financial institution or a dealer in tax-exempt obligations, interest on indebtedness generally is not disallowed if the average adjusted basis of the tax-exempt obligations during the taxable year does not exceed 2 percent of the average adjusted basis of all assets held in the active conduct of the trade	However, the House bill does not extend the small-issuer exception to taxpayers which are not financial institutions. **<u>Exceptions</u>** The House bill does not apply to nonsalable tax-exempt debt acquired by a corporation in the ordinary course of business in payment for goods or services sold to a State or local government. In addition, the House bill provides a de minimis exception under which the disallowance rule does not apply to corporations, other than financial institutions and dealers in tax-exempt obligations, if the average adjusted basis of tax exempt obligations acquired after August 7, 1986, is less than the lesser of $1 million or 2 percent of the basis of all of the corporation's assets. Under the House bill, insurance companies are not subject to the pro rata rule but would continue to be subject to present law.	

Item	Present Law	House Bill	Senate Amendment
	or business. Interest on installment sales to State and local governments.--If a taxpayer sells property to a State or local government in exchange for an installment obligation, interest on the obligation may be exempt from tax. Present law has been interpreted to not disallow interest on a taxpayer's indebtedness if the taxpayer acquires nonsalable tax-exempt obligations in the ordinary course of business in payment for services performed for, or goods supplied to, State or local governments. **Application to financial corporations and dealers in tax-exempt obligations** In the case of a financial institution, the allocation of the interest expense of the financial institution (which is not otherwise allocable to tax-exempt obligations) is based on the ratio of the average	**Holdings by related persons** The House bill applies the interest disallowance provision to all related persons that are members of the same consolidated group as if all the members of the group were a single taxpayer. The consolidated group rule is to be applied without regard to any member that is an insurance company. In the case of affilated corportions that are not members of the same consolidated group, tracing rules apply as if all of the related persons are a single entity In the case of a corporation (other than a financial institution) that is a partner in a partnership, the corporate partners are treated as holding their allocable shares of all of the assets of the partnership. **Effective date**.--Taxable years beginning after the date of enactment with respect to obligations acquired after June	

Item	Present Law	House Bill	Senate Amendment
	adjusted basis of the tax-exempt obligations acquired after August 7, 1987, to the average adjusted basis of all assets of the taxpayer (sec. 265). In the case of an obligation of an issuer which reasonably anticipates to issue not more than $10 million of tax-exempt obligations (other than certain private activity bonds) within a calendar year (the "small issuer exception"), only 20 percent of the interest allocable to such tax-exempt obligations is disallowed (sec. 291(a)(3)). A similar pro rata rule applies to dealers in tax-exempt obligations, but there is no small issuer exception, and the 20-percent disallowance rule does not apply (Rev. Proc. 72-18). **<u>Treatment of insurance companies</u>** Present law provides that a life insurance company's deduction for additions to reserves is reduced by a portion of the company's income that is	8, 1997.	

Item	Present Law	House Bill	Senate Amendment
	not subject to tax (generally, tax-exempt interest and deductible intercorporate dividends) (secs. 807 and 812).		
4. Gains and losses from certain terminations with respect to property (sec. 1004 of the House bill and sec. 803 of the Senate amendment)	Extinguishment treated as sale or exchange.--The definition of capital gains and losses in section 1222 requires that there be a "sale or exchange" of a capital asset. Court decisions interpreted this requirement to mean that when a disposition is not a sale or exchange of a capital asset, for example, a lapse, cancellation, or abandonment, the disposition produces ordinary income or loss. Under a special provision, gains and losses attributable to the cancellation, lapse, expiration, or other termination of a right or obligation with respect to certain personal property are treated as gains or losses from the sale of a capital asset (sec. 1234A). Personal property subject to this rule is (1) personal property (other than	Extension of relinquishment rule to all types of property.--The provision extends the rule which treats gain or loss from the cancellation, lapse, expiration, or other termination of a right or obligation which is (or on acquisition would be) a capital asset in the hands of the taxpayer as an exchange to all types of property. Character of gain on retirement of debt obligations issued by natural persons.--The provision repeals the provision that exempts debt obligations issued by natural persons from the rule which treats gain realized on retirement of the debt as exchanges. Thus, under the provision, gain or loss on the retirement of such debt is capital gain or loss. The provision	The Senate amendment is same as the House bill.

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Item	Present Law	House Bill	Senate Amendment
	stock that is not part of straddle or of a corporation that is not formed or availed of to take positions which offset positions in personal property of its shareholders) of a type which is actively traded and which is, or would be on acquisition, a capital asset in the hands of the taxpayer and (2) a "section 1256 contract" which is capital asset in the hands of the taxpayer. Section 1234A does not apply to the retirement of a debt instrument. Character of gain on retirement of debt obligations.--Amounts received on the retirement of any debt instrument are treated as amounts received in exchange therefor (sec. 1271(a)(1)). In addition, gain on the sale or exchange of a debt instrument with OID generally is treated as ordinary income to the extent of its OID if there was an intention at the time of its issuance to call the debt instrument before maturity (sec. 1271(a)(2)).	retains the present-law exceptions for debt issued before July 2, 1982, by noncorporations or nongovernments. **Effective date.**--The extension of the extinguishment rule applies to property acquired or positions established 30 days after the date of enactment. The repeal of the exception to the character of gain on retirement of debt instruments issued by natural persons or obligations issued before July 2, 1982, applies to debt issued or purchased after June 8, 1997.	**Effective date.**-- Same as the House bill, except that the repeal of exception to the character of gain on retirement on debt obligations issued by natural persons would not apply to transfers where the basis to the transferee is a carryover basis.

Item	Present Law	House Bill	Senate Amendment
	These rules do not apply to (1) debt issued by a natural person or (2) debt issued before July 2, 1982, by a noncorporate or nongovernment issuer.		
5. Determinations of OID where pooled debt instruments subject to acceleration (sec. 1005 of the House bill)	A taxpayer generally must include in gross income the amount of interest received or accrued within the taxable year on indebtedness held by the taxpayer. If the principal amount of an indebtedness may be paid without interest by a specified date (as is the case with certain credit card balances), the holder of the indebtedness is not required to accrue interest until after the specified date has passed.	If a taxpayer holds a pool of debt instruments that require interest to be paid if the borrowers do not pay their accounts by a specified date, the taxpayer would be required to accrue interest or OID on such pool based upon a reasonable assumption regarding the timing of the payments of the accounts in the pool. The Secretary of the Treasury is authorized to provide appropriate exemptions from the provision, including exemptions for taxpayers that hold a limited amount of debt instruments, such as small retailers. **Effective date**.--Taxable years beginning after the date of enactment. If a taxpayer is required to change its method of	No provision.

Item	Present Law	House Bill	Senate Amendment
		accounting under the bill, such change would be treated as initiated by the taxpayer with the consent of the Secretary of the Treasury and any section 481 adjustment would be included in income ratably over a four-year period.	
6. Denial of interest deductions on certain debt instruments (sec. 1006 of the House bill)	Whether an instrument is treated as debt or equity for tax purposes is determined under all the facts and circumstances based on principles developed in case law. If an instrument is treated as equity, the issuer generally does not receive a deduction for dividends paid and the holder includes such dividends in income. Corporate holders generally may obtain a dividends received deduction of at least 70 percent of the dividend. If an instrument is treated as debt, the issuer may receive a deduction for interest and the holder includes such interest in income. Original issue discount on a debt	No deduction is allowed for interest or OID on an instrument issued by a corporation (or by a partnership, to the extent of its corporate partners) that is payable in stock of the issuer of a related party (within the meaning of sections 267(b) and 707(b)), including an instrument a substantial portion of which is mandatorily convertible or convertible at the issuer's option into such stock. An instrument is treated as payable in stock if a substantial portion of the principal or interest is required to, or may be, determined by reference to such stock at the option of the issuer or a related party. An instrument is treated	No provision.

Item	Present Law	House Bill	Senate Amendment
	instrument (the excess of the stated redemption price at maturity over the issue price) is accrued as interest (deducted by the issuer and included by the holder) over the term of the instrument.	as payable in stock if it is part of an arrangement designed to result in such payment with or by reference to such stock. No inference is intended as to the treatment of any instrument under present law. **Effective date.**-- The provision is effective for instruments issued after June 8, 1997, but will not apply to such instruments 1) issued pursuant to a written agreement which was binding on such date and at all times thereafter, 2) described in a ruling request submitted to the IRS on or before such date, or 3) described in a public announcement or filing with the SEC on or before such date.	

Item	*Present Law*	*House Bill*	*Senate Amendment*
B. Corporate Organizations and Reorganizations			
1. Require gain recognition on certain distributions of controlled corporation stock (sec. 1012 of the House bill and sec. 812 of the Senate amendment)	A corporation generally recognizes gain on the distribution of property (including stock of a subsidiary) as if such property had been sold for fair market value. Shareholders also generally are taxed on the receipt of such property. Section 355 of the Code provides an exception to this rule for certain "spin-off" type distributions of stock of a controlled corporation ("controlled") by a distributing corporation ("distributing"), provided that various requirements are met. Under section 355(d), certain disqualified distributions are taxed at the corporate level only.	If, pursuant to a plan or arrangement in existence on the date of distribution, either the controlled or distributing corporation is acquired, gain is recognized by the other corporation as of the date of the distribution.	Same as House bill.
		The amount of gain recognized by the distributing corporation if the controlled corporation is acquired is the amount that would have been recognized if the stock of controlled had been sold for fair market value. The amount of gain recognized by controlled if distributing is acquired is the amount that distributing would have recognized if it had sold its assets for fair market value immediately after the distribution.	Same as House bill.
		An acquisition occurs if one or	Same as House bill.

Item	Present Law	House Bill	Senate Amendment
		more persons acquire 50 percent or more of the vote or value of the stock of controlled or distributing pursuant to a plan or series of related transactions.	
		Acquisitions occurring within the four-year period beginning two years before the date of distribution are presumed to be pursuant to a plan; however, taxpayers can avoid gain recognition by showing that such an acquisition was unrelated to the distribution.	Same as House bill.
		Except as provided in regulations, section 355 does not apply to the distribution of the stock of one member of an affiliated group of corporations filing a consolidated return to another member.	Except as provided in regulations, section 355 does not apply to any distribution of the stock of one member of a group of affiliated corporations (within the meaning of section 1504(a)), whether or not filing a consolidated return, if the distribution is part of a plan or series of related transactions for the acquisition of distributing or controlled that would be taxable. In addition, in the case of any distribution within a group of affiliated corporations

Item	Present Law	House Bill	Senate Amendment
			(whether or not resulting in an acquisition) the Treasury Department is authorized under section 358(c) to provide adjustments to the basis of the stock in a corporation which is a member of such group, to reflect appropriately the proper treatment of such distribution.
	If assets are contributed to the controlled corporation before it is distributed, then under section 368(a)(1)(D), 368(c), and 351, shareholders who had control of distributing must control the distributed corporation immediately after the distribution. Control for this purpose is defined as 80 percent of the voting power of all voting stock and 80 percent of each other class of stock.	In the case of distributions under section 355, the rules applicable to section 368(a)(1)(D) and section 351 are modified to require a 50 percent or greater interest in the vote and value of stock of the distributed corporation after a distribution.	Same as House bill, except that the control requirement is for a greater than 50 percent interest in the vote and value of stock of the distributed corporation.
		Effective date.-- The provision is generally effective for distributions after April 16, 1997. However, the modification for certain transfers under section 368(a)(1)(D) and section 351,	**Effective date.**--The provision is generally effective for distributions after April 16, 1997. However, the part of the provision that provides a greater than 50 percent control requirement for certain transfers

Item	Present Law	House Bill	Senate Amendment
		providing a 50-percent control requirement, is effective for transfers after the date of enactment. No part of the provision will apply to a distribution (or transfer) after April 16, 1997 if such distribution or transfer is 1) made pursuant to a written agreement which was binding on such date and at all times thereafter; 2) described in a ruling request submitted to the IRS on or before such date, or 3) described on or before such date in a public announcement or in a filing with the SEC required solely by reason of the distribution. Any written agreement, ruling request, or public announcement is not within the scope of these transition provisions unless it identifies the unrelated acquiror of the distributing or controlled corporation.	under sections 368(a)(1)(D) and 351 is effective for transfers after the date of enactment. The provision does not apply to a distribution after April 16, 1997 that is part of an acquisition that would otherwise cause gain recognition under the provision, if such acquisition is 1) made pursuant to a written agreement which was binding on April 16, 1997 and at all times thereafter; 2) described in a ruling request submitted to the IRS on or before such date, or 3) described on or before such date in a public announcement or in a filing with the SEC required solely by reason of the distribution or acquisition. Any written agreement, ruling request, public announcement or SEC filing is not within the scope of these transition provisions unless it identifies the acquiror of the distributing corporation or controlled corporation, whichever is applicable. The provision for a greater than 50 percent control

Item	Present Law	House Bill	Senate Amendment
			requirement for certain transfers under sections 368(a)(1)(D) and 351 will not apply if the transfer meets the requirements of 1), 2) or 3) above.
2. **Modify holding period for dividends received deduction (sec. 1014 of the House bill and sec. 814 of the Senate amendment)**	A corporate holder of stock issued by a U.S. corporation (and in certain cases, stock of a foreign issuer) is entitled to a dividends-received deduction if a holding period requirement and certain other requirements are met. The deduction is generally at least 70 percent of dividends received and can be 80 percent or 100 percent, depending on the amount of stock ownership of the recipient in the payor corporation and certain other factors. The dividends received deduction is allowed only if the corporate shareholder satisfies a 46-day holding period for the dividend paying stock (or a 91-day holding period for certain dividends on preferred stock). The holding period generally	A taxpayer is not entitled to the dividends-received deduction if the taxpayer's holding period for the dividend paying stock is not satisfied over a period immediately before or immediately after the taxpayer becomes entitled to receive the dividend. Effective date.--The provision is effective for dividends paid or accrued after the 30th day after the date of the enactment of the bill.	Same as House bill. Effective date.--The provision is effective for dividends paid or accrued after the 30th day after the date of the enactment of the bill. However, the provision does not apply to dividends received or accrued during the 2-year period beginning on the date of enactment if (1) the dividend is paid with respect to stock held by the taxpayer on June 8, 1997 and at all times thereafter until the dividend is

Item	Present Law	House Bill	Senate Amendment
	does not include any time in which the shareholder is protected from the risk of loss otherwise inherent in the ownership of an equity interest (sec. 246(c)(4)). The holding period must be satisfied only once, rather than with respect to each dividend received.		received, (2) such stock is continuously subject to a position described in section 246(c)(4) of the Code on June 8, 1997 and at all times thereafter until the dividend is received, and (3) such stock and position are clearly identified in the taxpayer's records within 30 days after the date of enactment. Stock is not treated as meeting the requirements for transition if the position is sold, closed, or otherwise terminated and reestablished.
C. Administrative Provisions			
1. Reporting of certain payments made to attorneys (sec. 1031 of the House bill)	Information reporting is required by persons engaged in a trade or business and making payments in the course of that trade or business of "rent, salaries, wages, ... or other fixed or determinable gains, profits, and income" (Code sec. 6041(a)). Treas. reg. sec. 1.6041-1(d)(2) provides that attorney's fees are required to be reported if they are paid by a	The provision requires gross proceeds reporting on all payments to attorneys made by a trade or business in the course of that trade or business. It is anticipated that gross proceeds reporting would be required on Form 1099-B (currently used by brokers to report gross proceeds). The only exception to this new reporting requirement would be for any	No provision.

Item	Present Law	House Bill	Senate Amendment
	person in a trade or business in the course of a trade or business. Reporting is required to be done on Form 1099-Misc. If, on the other hand, the payment is a gross amount and it is not known what portion is the attorney's fee, no reporting is required on any portion of the payment.	payments reported on either Form 1099-Misc under section 6041 (reports of payment of income) or on Form W-2 under section 6051 (payments of wages). __Effective date__.--The provision is effective for payments made after December 31, 1997. Consequently, the first information reports will be filed with the IRS (and copies will be provided to recipients of the payments) in 1999, with respect to payments made in 1998.	
2. Establish IRS continuous levy and improve debt collection (secs. 1034, 1035, and 1036 of the House bill and secs. 834, 835, and 836 of the Senate amendment)			
a. Continuous levy	a. If any person is liable for	a. The provision amends the	a. Same as House bill.

Item	Present Law	House Bill	Senate Amendment
	any internal revenue tax and does not pay it within 10 days after notice and demand by the IRS, the IRS may then collect the tax by levy upon all property and rights to property belonging to the person, unless there is an explicit statutory restriction on doing so. A levy is the seizure of the person's property or rights to property. Property that is not cash is sold pursuant to statutory requirements. In general, a levy does not apply to property acquired after the date of the levy, regardless of whether the property is held by the taxpayer or by a third party (such as a bank) on behalf of a taxpayer. Successive seizures may be necessary if the initial seizure is insufficient to satisfy the liability. The only exception to this rule is for salary and wages. A levy on salary and wages is continuous from	Code to provide that a continuous levy is also applicable to non-means tested recurring Federal payments. This is defined as a Federal payment for which eligibility is not based on the income and/or assets of a payee. For example, Social Security payments, which are subject to levy under present law, would become subject to continuous levy. In addition, the provision provides that this levy would attach up to 15 percent of any specified payment due the taxpayer. This rule explicitly replaces the other specifically enumerated exemptions from levy in the Code. A continuous levy of up to 15 percent would also apply to unemployment benefits and means-tested public assistance. The bill also permits the disclosure of otherwise confidential tax return	

Item	Present Law	House Bill	Senate Amendment
	the date it is first made until the date it is fully paid or becomes unenforceable. A minimum exemption is provided for salary and wages. It is computed on a weekly basis by adding the value of the standard deduction plus the aggregate value of personal exemptions to which the taxpayer is entitled, divided by 52. For a family of four for taxable year 1996, the weekly minimum exemption is $325.	information to the Treasury Department's Financial Management Service only for the purpose of, and to the extent necessary in, implementing these levy provisions. **Effective date**.--The provision is effective for levies issued after the date of enactment.	
b. **Modifications of levy exemptions**	b. The Code exempts from levy workmen's compensation payments and annuity or pension payments under the Railroad Retirement Act and benefits under the Railroad Unemployment Insurance Act described above, unemployment benefits and means-tested public assistance.	b. The provision provides that the following property is not exempt from levy if the Secretary of the Treasury (or his delegate) approves the levy of such property: (1) workmen's compensation payments, (2) annuity or pension payments under the Railroad Retirement	b. Same as House bill, except does not apply to annuity or pension payments under the Railroad Retirement Act and benefits under the Railroad Unemployment Insurance Act.

Item	Present Law	House Bill	Senate Amendment
		Act and benefits under the Railroad Unemployment Insurance Act, (3) unemployment benefits, and (4) means-tested public assistance. **Effective date**.--The provision applies to levies issued after the date of enactment.	

Item	*Present Law*	*House Bill*	*Senate Amendment*
D. Excise Tax Provisions			
1. Extension and modification of Airport and Airway Trust Fund taxes (sec. 1041 of the House bill and sec. 841 of the Senate amendment)	Excise taxes are imposed on commercial air transportation of passengers (10 percent of fare) and cargo (6.25 percent of shipping charge) and on noncommercial aviation fuels to finance a portion of the cost of programs administered by the Federal Aviation Administration.		
	Expiration.--The Airport and Airway Trust Fund excise taxes are scheduled to expire after September 30, 1997.	**Extension**.--The House bill extends the taxes for 10 years, through September 30, 2007.	**Extension**.--Same as the House bill.
	Commercial passenger tax	**Commercial passenger tax modifications**.--	**Commercial passenger tax modifications**.--
	(1) Domestic passenger transportation is taxed at 10 percent of the fare.	(1) Domestic passenger transportation is taxed at 7.5 percent of the fare plus $2 per flight segment. The $2 charge increases to $3 in 4 equal annual increments (1999-2002) and is indexed to the CPI thereafter.	(1) Domestic passenger transportation is taxed at 10 percent (same as under present law).
	There is no special tax rate for	No provision.	The Senate amendment includes

Item	Present Law	House Bill	Senate Amendment
	flight segments to or from small, rural airports.		a 7.5-percent rate for flight segments to or from airports that enplaned no more than 100,000 passengers in the second preceding calendar year and that either (A) are at least 75 miles from a larger airport, or (B) qualify for essential air service subsidies in the date of the amendment's enactment.
	(2) Passengers traveling on domestic flights en route to or from international flights are not subject to tax.	(2) The House bill retains the present-law exemption for passengers traveling on domestic flights en route to or from international flights.	(2) The Senate amendment taxes passengers traveling on domestic flights en route to or from international flights the same as other domestic passengers (i.e., at 10 percent of fare, or 7.5 percent for certain rural airport flight segments, for the domestic flight).
	(3) International departures are taxed at $6 per passenger; no tax is imposed on international arrivals.	(3) Both international departures and arrivals are taxed at $15.50 per passenger.	(3) Both international departures and arrivals are taxed at $8 per passenger.
	(4) Travel between the 48 contiguous States and Alaska or Hawaii (and between those States) is taxed at 10 percent of the fare attributable to U.S.-	(4) Travel between the 48 contiguous States and Alaska or Hawaii (and between those States) is taxed at 7.5 percent of the fare attributable to U.S.-	(4) Same as present law.

Item	Present Law	House Bill	Senate Amendment
	territorial miles plus a $6 per passenger international departure tax.	territorial miles, plus $2 per flight segment, plus the $15.50 per passenger international departure tax.	
	(5) Application of the 10-percent tax to transportation sold through credit card frequent flyer award and similar arrangements is unclear.	(5) The House bill specifies that frequent flyer-type awards through credit card and similar arrangements are subject to the 7.5-percent tax rate.	(5) The Senate amendment is the same as House bill, except the tax rate is 10 percent (the general domestic tax rate under the Senate amendment).
	(6) Passengers are liable for the tax; air carrier liability is only for collection and remittance to the government.	(6) The House bill imposes secondary liability for tax on air carriers.	(6) The Senate amendment is the same as the House bill.
	(7) Air carriers deposit collected taxes semimonthly, generally no later than the 10th day of the 2nd semimonthly period after the transportation is deemed sold.	(7) The House bill provides two special delays in deposits-- (i) taxes otherwise due in the period August 15-September 30, 1997, are due October 10, 1997; and (ii) taxes otherwise due in the period July 1-September 30, 1998, are due October 13, 1998.	(7) The Senate amendment provides two special delays in deposits-- (A) taxes otherwise due in the period August 15-September 30, 1997, are due October 10, 1997; and (B) taxes otherwise due in the period July 1-September 30, 2001, are due October 10, 2001.
	Advertising.--Airlines are required to advertise their fares either tax-inclusive or, if	**Advertising**.--The House bill requires airlines to state separately pre-tax fare and tax,	**Advertising**.--No provision.

Item	Present Law	House Bill	Senate Amendment
	separately stated, to state the pre-tax fare, tax, and total in equal sized type.	with tax being stated in print at least 50 percent the size of print in which fare is stated.	
	General Fund fuels tax.--In addition to the Airport and Airway Trust fuel taxes, aviation fuels used in both commercial and noncommercial aviation are subject to a 4.3-cents-per-gallon excise tax. Revenues from this tax are retained in the General Fund.	**Transfer of General Fund fuels tax**.--The House bill transfers revenues from the 4.3-cents-per-gallon fuels tax to the Airport and Airway Trust Fund for taxes received in the Treasury on or after October 1, 1997.	**Transfer of General Fund fuels tax**.--No provision.
		Effective date.--Generally, transportation beginning after September 30, 1997, with special rules for (1) prepayments under credit card and similar arrangements after June 11, 1997, and (2) tickets sold after date of enactment and before October 1, 1997 for transportation beginning after September 30, 1997.	**Effective date**.--Same as the House bill, except the credit card prepayment rule applies to payments after June 16, 1997.
2. Extend diesel fuel excise tax rules to	Diesel fuel is taxed at 24.3 cents per gallon when the fuel is removed from a registered	The diesel fuel tax rules are extended to kerosene, with the following modifications:	No provision.

Item	*Present Law*	*House Bill*	*Senate Amendment*
kerosene (sec. 1042 of the House bill)	terminal storage facility <u>unless</u> the fuel is dyed and is destined for a nontaxable use. Kerosene is taxed at the wholesale level if it is sold as an aviation fuel. If kerosene is blended with diesel fuel, tax is due from the blender unless the kerosene, and the diesel fuel with which it is blended, are dyed and destined for a nontaxable use.	(1) Undyed kerosene can be removed from terminals without tax by registered aviation wholesalers; (2) Undyed kerosene can be removed from terminals by pipeline without tax for use as an industrial feedstock (and other than by pipeline as permitted in Treasury Department rules for such a use); and (3) Expedited refunds to ultimate vendors are allowed for tax-paid kerosene sold for use in space heaters. **<u>Effective date.</u>**--July 1, 1998.	
3. Extend Leaking Underground Storage Tank Trust Fund excise tax (sec. 1043 of the House bill and sec. 842 of the Senate amendment)	Before January 1, 1996, a 0.1-cent-per-gallon excise tax was imposed on gasoline, diesel fuel, special motor fuels, aviation fuels, and inland waterway fuels. Revenues were transferred to a Leaking Underground Storage Tank	The House bill reinstates the tax for approximately 5 years, from the date of enactment through September 30, 2002. **<u>Effective date.</u>**--Date of enactment.	The Senate amendment reinstates the tax for 10 years, from October 1, 1997, through September 30, 2007. **<u>Effective date.</u>**--Date of enactment.

Item	Present Law	House Bill	Senate Amendment
	Trust Fund to finance cleanup of damage from leaking underground storage tanks.		
4. Uniform rate of excise tax on vaccines (sec. 903 of the House bill and sec. 844 of the Senate amendment)	A manufacturer's excise tax is imposed on the following vaccines routinely recommended for administration to children: DPT (diphtheria, pertussis, tetanus), $4.56 per dose; DT (diphtheria, tetanus), $0.06 per dose; MMR (measles, mumps, or rubella), $4.44 per dose; and polio, $0.29 per dose.	The House bill replaces the present-law excise tax rates, that differ by vaccine, with a single rate tax of $0.84 per dose on any listed vaccine component. Thus, the bill provides that the tax applied to any vaccine that is a combination of vaccine components is 84 cents times the number of components in the combined vaccine. In addition, the provision adds three new taxable vaccines to the present-law taxable vaccines: (1) HIB (haemophilus influenza type B); (2) Hepatitis B; and (3) varicella (chicken pox). The three newly listed vaccines also are subject to the 84-cents per dose excise tax. __Effective date__.--The provision is effective for vaccine purchases after September 30,	The Senate amendment is the same as the House bill regarding rates of tax and taxable vaccines. In addition, the amendment directs the Secretary of the Treasury to undertake a study of the efficacy of the new flat-rate vaccine tax system as a means to finance the Vaccine Injury Compensation Trust Fund. __Effective date__.--Same as House bill and, in addition, the amendment provides that returns

Item	Present Law	House Bill	Senate Amendment
		1997. No tax is to be collected or refunds permitted for amounts held for sale on October 1, 1997.	to the manufacturer occurring on or after October 1, 1997, are assumed to be returns of vaccines to which the new rates of tax apply.
5. Increase tobacco excise taxes (sec. 846 of the Senate amendment)	The following excise taxes are imposed on tobacco products: Cigarettes -- Small cigarettes - 24 cents/pack of 20 Large cigarettes - $25.20/1000 Cigars -- Large cigars - $12.75% of mfgr. price, up to $30/1000 Small cigars - $1.125/1000 Cigarette papers -- $0.0075/50 papers Cigarette tubes -- $0.15/50 tubes Chewing tobacco -- $0.12/lb. Snuff -- $0.36/lb. Pipe tobacco -- $0.675/lb.	No provision.	The Senate amendment increases the small cigarette tax rate by 20 cents per pack of 20 (i.e., to 44 cents per pack), and increases the tax rates on other tobacco products proportionately. The amendment also extends the tax to "roll-your-own" cigarette tobacco at $0.66/lb. and includes compliance provisions for untaxed cigarettes destined for export. Floor stocks taxes are imposed on cigarettes and other currently taxed tobacco products held for sale on October 1, 1997, (including articles held in foreign trade zones). **Effective date**.--October 1, 1997.

Item	Present Law	House Bill	Senate Amendment
E. Provisions Relating to Tax-Exempt Organizations			
1. Limitation on increase in basis of property resulting from sale by tax-exempt entity to a related person (sec. 1052 of the House bill and sec. 852 of the Senate amendment)	If a tax-exempt entity transfers assets to a controlled taxable entity in a transaction treated as a sale, the transferee obtains a fair market value basis in the assets. Because the transferor is tax-exempt, no gain is recognized on the transfer except to the extent of certain unrelated business taxable income, if any. The Code denies certain other tax benefits on transfers between related parties. See, e.g., secs. 267 (losses disallowed) and 1239 (ordinary income treatment required on sale of depreciable property).	In the case of a sale or exchange directly or indirectly between a tax-exempt entity and a related person, the basis of the related person in the property will not exceed the adjusted basis of such property immediately before the sale in the hands of the tax-exempt entity, increased by the amount of any gain recognized to the tax-exempt entity under the unrelated business income rules of section 511. A related person means a person having a relationship to the tax-exempt entity described in sections 267(b) or 707(b)(1). For purposes of section 267(b)(2), such entity is treated as an individual. **Effective date**.-- The provision applies to sales or exchanges after June 8, 1997, unless made pursuant to a binding written agreement which was binding on that date and at all times	Same as House bill, except the provision specifies that a tax-exempt entity is defined as in section 168(h)(2)(A), without regard to section (iii) of that section (dealing with a foreign person or entity). **Effective date.**--Same as House bill.

Item	*Present Law*	*House Bill*	*Senate Amendment*
		thereafter.	
2. Reporting and proxy tax requirements for political and lobbying expenditures of certain tax-exempt organizations (sec. 1053 of the House bill)	Section 162(e) denies deductions as a trade or business expense for certain lobbying and political expenditures. Section 162(e)(3) provides a flow-through rule to disallow a deduction for a portion of membership dues paid to a tax-exempt organization if the organization notifies the member under section 6033(e) that such portion of the dues is allocable to political or lobbying activities engaged in by the organization. Section 6033(e) generally requires tax-exempt organizations (other than charities) to disclose to their members and the IRS the amount of members' dues allocable to lobbying or political expenditures, or if there is a failure to so disclose, then the organization is subject to a "proxy tax" equal to 35 percent	Section 6033(e)(3) is amended to provide an exemption from the general disclosure requirements and proxy tax of section 6033(e) is available to a tax-exempt organization if more than 90 percent of the amount of aggregate annual dues (or similar payments) received by the organization are paid by (1) individuals or families whose annual dues (or similar amounts) are less than $100 (indexed for inflation), or (2) tax-exempt entities. As under present law, charities described in section 501(c)(3) are not subject to the section 6033(e) general disclosure requirements and proxy tax. **<u>Effective date</u>**.--Taxable years beginning after December 31, 1997.	No provision.

Item	Present Law	House Bill	Senate Amendment
	of the amount of dues allocable to lobbying or political expenditures. However, under section 6033(e)(3) organizations are exempt from the disclosure and proxy tax requirements if they can establish to the satisfaction of the Secretary of the Treasury that substantially all dues they receive are not deductible without regard to whether or not the organization conducts lobbying or political activities. In Rev. Proc. 95-35, the IRS announced that all tax-exempt organizations--other than (1) section 501(c)(4) organizations that are not veterans organizations, (2) section 501(c)(5) agricultural and horticultural organizations, and (3) section 501(c)(6) trade associations and other organizations-- are deemed to satisfy section 6033(e)(3) and, thus, are exempt from the general disclosure and proxy tax requirements of section 6033(e). In addition, Rev. Proc. 95-35 provides that section 501(c)(4) organizations and section		

Item	*Present Law*	*House Bill*	*Senate Amendment*
	501(c)(5) agricultural and horticultural organizations qualify for the section 6033(e)(3) exemption if the organization receives at least 90 percent of its dues from (a) members with annual dues of less than $50 or (b) other tax-exempt entities.		
3. Repeal grandfather rule with respect to pension business of certain insurers (sec. 1054 of the bill and sec. 853 of the Senate amendment)	Present law provides that an organization described in sections 501(c)(3) or (4) of the Code is exempt from tax only if no substantial part of its activities consists of providing commercial-type insurance. Grandfather rules were provided in the 1986 Act relating to this provision. It was provided that the provision does not apply to that portion of the business of the Teachers Insurance Annuity Association-College Retirement Equities Fund ("TIAA-CREF") which is attributable to pension business, nor does the provision apply with respect to that portion of the business of	TIAA-CREF.--The provision repeals the grandfather rules applicable to that portion of the business of the Teachers Insurance Annuity Association-College Retirement Equities Fund which is attributable to pension business.	TIAA-CREF.--No provision.

Item	Present Law	House Bill	Senate Amendment
	Mutual of America which is attributable to pension business.		
		Mutual of America.--The provision repeals the grandfather rules applicable to that portion of the business of Mutual of America which is attributable to pension business.	**Mutual of America**.--Same as House bill.
		Effective date.--Taxable years beginning after December 31, 1997. A fresh start is provided with respect to changes in accounting methods resulting from the change from tax-exempt to taxable status. Any reserve weakening after June 8, 1997, is treated as occurring in the organization's first taxable year beginning after December 31, 1997. The basis of assets is deemed to be equal to the amount of the assets' fair market value on the first day of the organization's taxable year beginning after December 31, 1997, for purposes of determining gain or loss (but not for determining depreciation, amortization or for other	**Effective date**.--Same as House bill.

Item	Present Law	House Bill	Senate Amendment
		purposes).	

Item	*Present Law*	*House Bill*	*Senate Amendment*
F. Other Revenue-Increase Provisions			
1. Termination of suspense accounts for family farm corporations required to use accrual method of accounting (sec. 1061 of the House bill and sec. 871 of the Senate amendment)	A family farm corporation must use an accrual method of accounting for its farming business unless, for each prior taxable year beginning after December 31, 1985, such corporation did not have gross receipts exceeding $25 million. A family farm corporation is one where at 50 percent or more of the stock of the corporation is held by one (or in some limited cases, two or three) families. A family farm corporation that must change to an accrual method of accounting is to establish a suspense account in lieu of including the entire amount of the section 481 adjustment in gross income. All or a portion of the suspense account is required to be included in gross income if the corporation ceases to be a family corporation or if the gross receipts of the corporation attributable to farming for any	The bill repeals the ability of a family farm corporation to establish a suspense account when it is required to change to an accrual method of accounting. In addition, any taxpayer with an existing suspense account is required to restore the account into income ratably over a 20-year period beginning in the first taxable year beginning after June 8, 1997, subject to the present-law requirements to restore such accounts more rapidly. The amount required to be restored to income for a taxable year pursuant to the 20-year spread period shall not exceed the net operating loss of the corporation for the year (in the case of a corporation with a net operating loss) or 50 percent of the net income of the taxpayer for the year (for corporations with taxable income).	Same as the House bill. In addition, the Senate amendment repeals the present-law requirement that a portion of a suspense account be restored to income if the gross receipts of the corporation diminishes.

Item	Present Law	House Bill	Senate Amendment
	taxable year decline.		
		Effective date.--Taxable years ending after June 8, 1997.	
2. Modify net operating loss carryback and carryforward rules (sec. 1062 of the House bill and sec. 872 of the Senate amendment)	The net operating loss ("NOL") of a taxpayer (generally, the amount by which the business deductions of a taxpayer exceeds its gross income) may be carried back three years and carried forward 15 years to offset taxable income in such years. A taxpayer may elect to forgo the carryback of an NOL.	The bill limits the NOL carryback period to two years and extends the NOL carryforward period to 20 years. The bill does not apply to NOLs arising from casualty losses of individual taxpayers.	The Senate amendment follows the House bill. In addition, the amendment does not apply to NOLs attributable to losses incurred in Presidentially declared disaster areas by taxpayers engaged in a farming business or by small businesses.
		Effective date.--Taxable years beginning after the date of enactment.	**Effective date**.--Taxable years beginning after the date of enactment.
3. Treatment of appreciated property contributed to a partnership (sec. 1066 of the House	Under present law, if a partner contributes appreciated property to a partnership, no gain is recognized to the contributing partner at the time of the contribution. If the property is subsequently distributed to	The provision extends to 10 years the period in which a partner recognizes pre-contribution gain with respect to property contributed to a partnership.	No provision.

Item	*Present Law*	*House Bill*	*Senate Amendment*
bill)	another partner within 5 years of the contribution, the contributing partner generally recognizes gain as if the property had been sold for its fair market value at the time of the distribution (sec. 704(c)(1)(B)). Similarly, the contributing partner generally includes pre-contribution gain in income to the extent that the value of other property distributed by the partnership to that partner exceeds its adjusted basis in its partnership interest, if the distribution by the partnership is made within 5 years after the contribution of the appreciated property (sec. 737).	**Effective date**.--Effective for property contributed to a partnership after June 8, 1997.	
4. Require taxpayers to include rental value of residence in income without regard to period of rental (sec. 1069 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	The bill repeals the 15-day rules of section 280A(g). The bill 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	No provision.

Item	*Present Law*	*House Bill*	*Senate Amendment*
	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 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.	dwelling unit for the period of rental. **Effective date**.--The provision applies to taxable years beginning after December 31, 1997.	
5. **Repeal of exception for certain sales by manufacturers to dealer (sec. 1071 of the House bill and sec. 878 of the Senate amendment)**	In general, the installment sales method of accounting may not be used by dealers in personal property. Present law provides an exception which permits the use of the installment method for installment obligations arising from the sale of tangible personal property by a manufacturer of the property (or an affiliate of the manufacturer) to a dealer, but only if the dealer is obligated to make payments of principal only when the dealer resells (or rents) the property, the manufacturer has the right to repurchase the property at a fixed (or ascertainable) price after no	The House bill repeals the exception that permits the use of the installment method of accounting for certain sales by manufacturers to dealers. **Effective date**.--Taxable years beginning after the date of enactment. (Any resulting adjustment from a required change in accounting will be includible ratably over the 4-year taxable years beginning after that date.)	The Senate amendment is the same as the House bill **Effective date**.--Txable years beginning one year after the date of enactment. (Any resulting adjustment from a required change in accounting will be includible ratably over the 4-year taxable years beginning after that date.)

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	longer than a nine-month period following the sale to the dealer, and certain other conditions are met. In order to meet the other conditions, the aggregate face amount of the installment obligations that otherwise qualify for the exception must equal at least 50 percent of the total sales to dealers that gave rise to such receivables (the "50-percent test") in both the taxable year and the preceding taxable year, except that, if the taxpayer met all of the requirements for the exception in the preceding taxable year, the taxpayer would not be treated as failing to meet the 50-percent test before the second consecutive year in which the taxpayer did not actually meet the test. For purposes of applying the 50-percent test, the aggregate face amount of the taxpayer's receivables is computed using the weighted average of the taxpayer's receivables outstanding at the end of each month during the taxpayer's taxable year. In addition, these		

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	requirements must be met by the taxpayer in its first taxable year beginning after October 22, 1986, except that obligations issued before that date are treated as meeting the applicable requirements if such obligations were conformed to the requirements of the provision within 60 days of that date.		
6. Election to receive taxable cash compensation in lieu of nontaxable parking benefits (sec. 880 of the Senate amendment)	Under present law, up to $165 per month of employer-provided parking is excludable from gross income. In order for the exclusion to apply, the parking must be provided in addition to and not in lieu of any compensation that is otherwise payable to the employee. Employer-provided parking cannot be provided as part of a cafeteria plan.	No provision.	Under the Senate amendment, no amount is includible in the income of an employee merely because the employer offers the employee a choice between cash and employer-provided parking. The amount of cash offered is includible in income only if the employee chooses the cash instead of parking. **Effective date.**--The provision is effective with respect to taxable years beginning after December 31, 1997.

Item	Present Law	House Bill	Senate Amendment
7. Extension of Federal unemployment surtax (sec. 883 of the Senate amendment)	The Federal Unemployment Tax Act (FUTA) imposes a 6.2-percent gross tax rate on the first $7,000 paid annually by covered employers to each employee. Employers in States with programs approved by the Federal Government and with no delinquent Federal loans may credit 5.4-percentage points against the 6.2-percent tax rate, making the minimum, net Federal unemployment tax rate 0.8 percent. The current 0.8 percent FUTA tax rate has two components: a permanent tax rate of 0.6 percent, and a temporary surtax rate of 0.2 percent.	No provision.	The temporary surtax rate is extended through December 31, 2007. Also, the limit is increased from 0.25 percent to 0.50 percent of covered wages on the Federal Unemployment Account (FUA) in the Unemployment Trust Fund. **Effective date**.--The provision is effective for labor performed on or after January 1, 1999.
8. Repeal of excess distribution and excess retirement accumulation taxes (sec. 882 of the Senate amendment)	A 15-percent excise tax is imposed on excess distributions from qualified retirement plans, tax-sheltered annuities, and IRAs. Excess distributions are generally the aggregate amount of retirement distributions from such plans during any calendar	No provision.	The Senate amendment repeals both the 15-percent excise tax on excess distributions and the 15-percent estate tax on excess retirement accumulations. **Effective date**.--The provision repealing the excess distribution

Item	Present Law	House Bill	Senate Amendment
	year in excess of $160,000 (for 1997) or 5 times that amount in the case of a lump-sum distribution. The 15-percent excise tax does not apply to distributions received in 1997, 1998, and 1999. An additional 15-percent estate tax is imposed on an individual's excess retirement accumulations. Excess retirement accumulations are generally the balance in retirement plans in excess of the present value of a benefit that would not be subject to the 15-percent tax in excess distributions.		tax is effective with respect to excess distributions received after December 31, 1996. The repeal of the excess accumulation tax is effective with respect to decedents dying after December 31, 1996.
9. Treatment of charitable remainder trusts with greater than 50 percent annual payout (sec. 883 of the Senate Amendment)	In general.--Sections 170(f), 2055(e)(2) and 2522(c)(2) disallow a charitable deduction for income, estate or gift tax purposes, respectively, where the donor transfers a remainder interest in property to a charity except for remainder interests in charitable remainder annuity	No provision.	Under the Senate amendment, a trust cannot be a charitable remainder annuity trust if the annuity for any year is greater than 50 percent of the initial fair market value of the trust's assets or be a charitable remainder unitrust if the percentage of assets that are required to be

Item	Present Law	House Bill	Senate Amendment
	trusts, charitable remainder unitrusts, pooled income funds, farms, and personal residences. Charitable remainder trusts.--A charitable remainder trust is a trust which is required to pay either (1) a fixed dollar amount, not less often than annually, of least 5 percent the initial value of the trust (in the case of a charitable remainder annuity trust) or a fixed percentage not less than 5 percent of the fair market value of the trust's assets determined at least annually (in the case of a charitable remainder unitrust) to a non-charity for life of an individual or period or years not to exceed 20 years, with the remainder passing to charity. (sec. 664(d)). Charitable remainder trusts are exempt from tax unless they have unrelated business taxable income. Distributions from a charitable remainder trust are treated first		distributed at least annually is greater than 50 percent. Any trust that fails this 50-percent rule will not be a charitable remainder trust whose taxation is governed under section 664, but will be treated as a complex trust and, accordingly, all its income will be taxed to its beneficiaries or to the trust. **Effective date.**--.Applies to transfers to a trust made after June 18, 1997.

Item	Present Law	House Bill	Senate Amendment
	as ordinary income to the extent of the trust's current and previously undistributed ordinary income for the trust's year in which the distribution occurred, second as capital gains to the extent of the trust's current capital gain and previously undistributed capital gain for the trust's year in which the distribution occurred; third, as other income (e.g., tax-exempt income) to the extent of the trust's current and previously undistributed other income for the trust's year in which the distribution occurred, and, lastly, as corpus. (sec. 664(b)). Distributions are includible in the income of the beneficiary for the year that the annuity or unitrust amount is required to be distributed even though the annuity or unitrust amount is not distributed until after the close of the trust's taxable year. (Treas. Reg. sec. 1.664-1(d)(4)). On April 18, 1997, the Treasury		

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	Department proposed regulations providing additional rules under sections 664 and 2702 to address the perceived abuses involving distributions from charitable remainder trusts. One of those proposed rules would require that payment of any required annuity or unitrust amount by a charitable remainder trust (other than an "income only" unitrust) be made by the close of the trust's taxable year in which such payments are due. (See Prop. Treas. reg. secs. 1.664-2(a)(1)(i) and 1.664-3(a)(1)(i)).		
10. Tax on prohibited transactions (sec. 884 of the Senate amendment)	Present law prohibits certain transactions (prohibited transactions) between a qualified plan and a disqualified person in order to prevent persons with a close relationship to the qualified plan from using that relationship to the detriment of plan participants and beneficiaries. A two-tier excise tax is imposed on prohibited	No provision.	The Senate amendment increases the initial-level prohibited transaction tax from 10 percent to 15 percent. **Effective date**.--The provision is effective with respect to prohibited transactions occurring after the date of enactment.

Item	Present Law	House Bill	Senate Amendment
	transactions. The initial level tax was equal to 10-percent of the amount involved with respect to the transaction. If the transaction is not corrected within a certain period, a tax equal to 100 percent of the amount involved may be imposed.		
11. Basis recovery rules (sec. 885 of the Senate amendment)	Under present law, amounts received as an annuity under a tax-qualified pension plan generally are includible in income in the year received, except to the extent the amount received represents return of the recipient's investment in the contract (i.e., basis). The portion of each annuity payment that represents a return of basis generally is determined by a simplified method. Under this method, the portion of each annuity payment that is a return to basis is equal to the employee's total basis as of the annuity starting date, divided by the number of anticipated	No provision.	Under the Senate amendment, the present-law table applies to benefits based on the life of one annuitant. A separate table applies to benefits based on the life of more than one annuitant, as follows: Combined age of annuitants: 110 or less, 410 payments; combined age 111-120, 360 payments; combined age 121-130, 310 payments; combined age 131-140, 260 payments; combined age 141 and over, 210 payments. **Effective date**.--The provision is effective with respect to

Item	Present Law	House Bill	Senate Amendment
	payments under a specified table. The number of anticipated payments listed in the table is based on the age of the primary annuitant on the annuity starting date.		annuity starting date after December 31, 1997.
12. Modify general business credit carryback and carryforward rules (sec. 788(b) of the Senate amendment)	A qualified taxpayer is allowed to claim the rehabilitation credit, the energy credit, the reforestation credit, the work opportunity credit, the alcohol fuels credit, the research credit, the low-income housing credit, the enhanced oil recovery credit, the disabled access credit, the renewable electricity production credit, the empowerment zone employment credit, the Indian employment credit, the employer social security credit, and the orphan drug credit (collectively, known as the general business credit), subject to certain limitations based on tax liability for the year. Unused general business credits generally may be carried back three years and carried forward	No provision.	The Senate amendment limits the carryback period for the general business credit to one year and extends the carryforward period to 20 years. The provision was adopted pursuant to an amendment offered by Senator Torricelli on behalf of himself and Senator Landrieu. __Effective date__.--Taxable years beginning after December 31, 1997.

Item	Present Law	House Bill	Senate Amendment
	15 years to offset tax liability of such years, subject to the same limitations.		

Item	Present Law	House Bill	Senate Amendment
XI. FOREIGN TAX PROVISIONS			
A. Eligibility of Licenses of Computer Software for Foreign Sales Corporation Benefits (sec. 1101 of the House bill and sec. 741 of the Senate amendment)	Under special tax provisions that provide an export benefit, a portion of the foreign trade income of an eligible foreign sales corporation ("FSC") is exempt from Federal income tax. Foreign trade income is defined as the gross income of a FSC that is attributable to foreign trading gross receipts. The term "foreign trading gross receipts" includes the gross receipts of a FSC from the sale, lease, or rental of export property and from services related and subsidiary to such sales, leases, or rentals. Intangible property generally is excluded from the definition of export property for purposes of the FSC rules. This exclusion applies to copyrights other than films, tapes, records, or similar reproductions for commercial or home use. The statutory exclusion for intangible property does not contain any	Computer software licensed for reproduction abroad is not excluded from the definition of export property for purposes of the FSC provisions. Accordingly, computer software that is exported with a right to reproduce is eligible for the benefits of the FSC provisions. In light of the rapid innovations in the computer and software industries, it is intended that the term "computer software" be construed broadly to accommodate technological changes in the products produced by both industries. No inference is intended regarding the qualification as export property of computer software licensed for reproduction abroad under present law.	The provision is identical to the provision in the House bill, except with respect to the effective date.

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	specific reference to computer software. However, the temporary Treasury regulations provide that a copyright on computer software does not constitute export property, and that standardized, mass marketed computer software constitutes export property if such software is not accompanied by a right to reproduce for external use.		
		Effective date.--The provision generally applies to gross receipts from computer software licenses attributable to periods after December 31, 1997. However, in the case of gross receipts attributable to 1998, the provision applies to only one-third of such gross receipts. In the case of gross receipts attributable to 1999, the provision applies to only two-thirds of such gross receipts.	**Effective date**.--The provision applies to gross receipts from computer software licenses attributable to periods after December 31, 1997.

Item	*Present Law*	*House Bill*	*Senate Amendment*
B. Increase Dollar Limitation on Section 911 Exclusion (sec. 1102 of the House bill)	U.S. citizens living abroad may be eligible to exclude from their income for U.S. tax purposes certain foreign earned income and foreign housing costs. The exclusion for foreign earned income generally applies to income earned from sources outside the United States as compensation for personal services actually rendered by the taxpayer. The maximum exclusion for foreign earned income for a taxable year is $70,000.	The $70,000 limitation on the exclusion for foreign earned income is increased to $80,000, in increments of $2,000 each year beginning in 1998. The limitation on the exclusion for foreign earned income then is indexed for inflation beginning in 2008 (for inflation after 2006). **Effective date**.--The provision is effective for taxable years beginning after December 31, 1997.	No provision.
C. Simplify Translation of Foreign Taxes (sec. 1104 of the House bill and sec. 902 of the Senate amendment)	Foreign income taxes paid in foreign currencies are required to be translated into U.S. dollar amounts using the exchange rate as of the time such taxes are paid. For taxpayers using the accrual basis of accounting, accrued and unpaid foreign tax liabilities are translated at the exchange rate as of the last day of the taxable year of accrual.	In the case of taxpayers that take foreign income taxes into account when accrued, foreign taxes are translated at the average exchange rate for the taxable year to which such taxes relate. This rule does not apply (1) to taxes paid more than two years after the close of the taxable year to which they relate, (2) to taxes paid in a taxable year prior to the year to which they relate, or (3) to tax	The provision is the same as the provision in the House bill with one modification to the rule for the treatment of accrued taxes that are paid more than two years after the close of the taxable year to which such taxes relate. In the case of the direct foreign tax credit, any such taxes subsequently paid are taken into account for the taxable year to which such taxes relate, but are translated using

Item	Present Law	House Bill	Senate Amendment
	If a difference exists between the dollar value of accrued foreign taxes and the dollar value of those taxes when paid, a redetermination of foreign taxes arises. A redetermination of foreign tax paid or accrued directly by a U.S. person generally requires notification of the Internal Revenue Service and a redetermination of U.S. tax liability for the taxable year for which the foreign tax was claimed as a credit. In the case of a redetermination of foreign taxes that qualify for the indirect foreign tax credit, the Treasury regulations generally require taxpayers to make appropriate adjustments to the payor foreign corporation's pools of earnings and profits and foreign taxes.	payments denominated in an inflationary currency. Foreign taxes not eligible for application of this rule generally are translated using the exchange rates as of the time such taxes are paid. The Secretary of the Treasury is granted authority to issue regulations allowing foreign tax payments to be translated using an average exchange rate for a specified period. A redetermination of foreign taxes is required if: (1) accrued taxes when paid differ from the amounts claimed as credits by the taxpayer, (2) accrued taxes are not paid within two years after the close of the taxable year to which such taxes relate, or (3) any tax paid is refunded in whole or in part. In the case of indirect foreign tax credits, regulatory authority is granted to prescribe appropriate adjustments to the foreign tax credit pools in lieu of such a redetermination. Accrued taxes actually paid within two years	the exchange rates in effect as of the time such taxes are paid. In the case of the indirect foreign tax credit, any such taxes subsequently paid are taken into account for the taxable year in which paid, and are translated using the exchange rates as of the time such taxes are paid.

Item	*Present Law*	*House Bill*	*Senate Amendment*
		after the close of the taxable year to which they relate are taken into account for the taxable year to which they relate, but are translated using the exchange rates in effect as of the time such taxes are paid.	
		Effective date.--The provision generally is effective for foreign taxes paid or accrued in taxable years beginning after December 31, 1997. The provision's changes to the foreign tax redetermination rules apply to foreign taxes which relate to taxable years beginning after December 31, 1997.	**Effective date**.--Same as House bill.
D. Simplify Foreign Tax Credit Limitation for Dividends from 10/50 Companies (sec. 1107 of the House bill)	U.S. persons may credit foreign taxes against U.S. tax on foreign source income. The amount of foreign tax credits that can be claimed in a year is subject to a limitation that prevents taxpayers from using foreign tax credits to offset U.S. tax on U.S. source income. Special foreign tax credit limitation rules apply	A single foreign tax credit limitation generally applies to dividends received by the taxpayer from all 10/50 companies. However, separate foreign tax credit limitations continue to apply to dividends received by the taxpayer from each 10/50 company that qualifies as a passive foreign	No provision.

Item	Present Law	House Bill	Senate Amendment
	in the case of dividends received from a foreign corporation in which the taxpayer owns at least 10 percent of the stock by vote and which is not a controlled foreign corporation (a so-called "10/50 company"). Dividends received by the taxpayer from each 10/50 company are subject to a separate foreign tax credit limitation.	investment company. Regulatory authority is granted to provide rules regarding the treatment of distributions out of earning and profits for periods prior to the taxpayer's acquisition of such stock. **Effective date**.--The provision is effective for taxable years beginning after December 31, 2001.	
E. Simplify Formation and Operation of International Joint Ventures (secs. 1131, 1141-1145, and 1151 of the House bill and secs. 921, 931-935, and 941 of the Senate amendment)	Under section 1491, an excise tax generally is imposed on transfers of property by a U.S. person to a foreign corporation as paid-in surplus or as a contribution to capital or to a foreign partnership, estate or trust. The tax is 35 percent of the amount of the unrecognized gain inherent in the property transferred. However, several exceptions to the section 1491 excise tax are available. Under section 1494(c), a substantial penalty applies in the case of a	The sections 1491-1494 excise tax and information reporting rules that apply to certain transfers of property by a U.S. person to a foreign entity are repealed. Gain recognition is required upon a transfer of appreciated property by a U.S. person to a foreign estate or trust. Regulatory authority is granted under section 367 to deny nonrecognition treatment to certain transfers to a foreign corporation in a transaction not otherwise described in section 367. Regulatory authority is	The provision is the same as the provision in the House bill with several modifications. Gain recognition is required upon a transfer of appreciated property by a U.S. person to a foreign estate or trust, except as provided in regulations. The penalty equal to 10 percent of the value of property transferred to a foreign partnership or corporation that applies to a failure to comply with the applicable information

Item	Present Law	House Bill	Senate Amendment
	failure to report a transfer described in section 1491. Section 367 applies to require gain recognition upon certain transfers by U.S. persons to foreign corporations. Under section 367(d), a U.S. person that contributes intangible property to a foreign corporation is treated as having sold the property to the corporation and is treated as receiving deemed royalty payments from the corporation. These deemed royalty payments are treated as U.S. source income. A foreign partnership may be required to file a partnership return. A U.S. person that acquires or disposes of an interest in a foreign partnership, or whose proportional interest in the partnership changes substantially, may be required to file an information return with respect to such event. A partnership generally is considered to be a domestic	granted to provide for gain recognition on a transfer of appreciated property to a partnership in cases where such gain otherwise would be transferred to a foreign partner. Regulatory authority is granted to deny nonrecognition treatment under section 1035 to certain exchanges of insurance policies where the transfer is to a foreign person. In the case of a transfer of intangible property to a foreign corporation, the deemed royalty payments under section 367(d) are treated as foreign source income to the same extent that an actual royalty payment would be considered to be foreign source income. Regulatory authority is granted to provide similar treatment in the case of a transfer of intangible property to a foreign partnership. A foreign partnership generally is required to file a partnership return for a taxable year if the partnership has U.S. source	reporting requirements may not exceed $100,000 except in cases of intentional disregard for such reporting requirements. Regulatory authority is granted to provide rules treating a partnership as a domestic or foreign partnership, where such treatment is more appropriate, without regard to where the partnership is created or organized.

Item	Present Law	House Bill	Senate Amendment
	partnership if it is created or organized in the United States or under the laws of the United States or any State. A foreign partnership generally is any partnership that is not a domestic partnership.	income or is engaged in a U.S. trade or business, except to the extent provided in regulations. Reporting rules similar to those applicable in the case of controlled foreign corporations apply in the case of foreign partnerships. A U.S. partner that controls a foreign partnership is required to file an annual information return with respect to such partnership. For this purpose, a U.S. partner is considered to control a foreign partnership if the partner holds a more than 50 percent interest in the partnership's capital, profits, or, to the extent provided in regulations, losses. Similar information reporting also may be required from a U.S. 10-percent partner of a foreign partnership that is controlled by U.S. 10-percent partners. A $10,000 penalty applies to a failure to comply with these reporting requirements; additional penalties of up to $50,000 apply in the case of continued noncompliance after	

Item	Present Law	House Bill	Senate Amendment
		notification by the Secretary of the Treasury. The penalties for failure to report information with respect to a controlled foreign corporation are conformed with these penalties. Reporting by a U.S. person of an acquisition or disposition of an interest in a foreign partnership, or a change in the person's proportional interest in the partnership, is required only in the case of acquisitions, dispositions, or changes involving at least a 10-percent interest. A $10,000 penalty applies to a failure to comply with these reporting requirements; additional penalties of up to $50,000 apply in the case of continued noncompliance after notification by the Secretary. The penalties for failure to report information with respect to a foreign corporation are conformed with these penalties. Reporting rules similar to those applicable in the case of	

Item	Present Law	House Bill	Senate Amendment
		transfers by U.S. persons to foreign corporations apply in the case of transfers to foreign partnerships. These reporting rules apply in the case of a transfer to a foreign partnership only if the U.S. person holds at least a 10-percent interest in the partnership or the value of the property transferred by such person to the partnership during a 12-month period exceeds $100,000. A penalty equal to 10 percent of the value of the property transferred applies to a failure to comply with these reporting requirements. The penalty for failure to report transfers to a foreign corporation is conformed with this penalty. In the case of a transfer to a foreign partnership, failure to comply also results in gain recognition with respect to the property transferred. In the case of a failure to report required information with respect to a foreign corporation, partnership, or trust, the statute of limitations with respect to	

Item	Present Law	House Bill	Senate Amendment
		any event or period to which such information relates will not expire before three years after the date on which such information is provided. Regulatory authority is granted to provide rules treating a partnership as a foreign partnership where such treatment is more appropriate. **Effective date**.--The provisions with respect to the repeal of sections 1491-1494 are effective upon date of enactment. The provisions with respect to the source of a deemed royalty under section 367(d) are effective for transfers made and royalties deemed received after date of enactment. The provisions regarding reporting with respect to foreign partnerships generally are effective for partnership taxable years beginning after date of enactment. The provisions regarding reporting with respect to interests in, and transfers to,	**Effective date**.--Same as House bill.

Item	Present Law	House Bill	Senate Amendment
		foreign partnerships are effective for transfers to, and changes in interest in, foreign partnerships after date of enactment. The provision with respect to the statute of limitations is effective for information returns due after date of enactment. The provision granting regulatory authority with respect to the treatment of partnerships as foreign is effective for partnership taxable years beginning after date of enactment.	
F. Impose Holding Period Requirement for Certain Foreign Taxes (sec. 1173 of the House bill and sec. 863 of the Senate amendment)	A U.S. person that receives a dividend from a foreign corporation generally is entitled to a credit for foreign income taxes paid on the dividend, regardless of the shareholder's holding period for the stock. If a regulated investment company ("RIC") elects, U.S. persons that receive dividends from the RIC generally are entitled to an	The foreign tax credits normally available with respect to a dividend from a corporation or RIC are disallowed if the shareholder has not held the stock for 16 days in the case of common stock and 46 days in the case of preferred stock. The disallowance applies both to foreign tax credits for foreign withholding taxes that are paid	The provision is the same as the provision in the House bill with one modification. The special rule for contracts to sell stock does not apply to indirect foreign tax credits of a RIC shareholder.

Item	Present Law	House Bill	Senate Amendment
	indirect credit for foreign taxes paid by the RIC, regardless of the shareholder's holding period for the RIC stock. A U.S. corporation that receives a dividend from a foreign corporation in which it has a 10-percent or greater voting interest generally is entitled to an indirect credit for foreign taxes paid by the foreign corporation, also regardless of the shareholder's holding period.	on the dividend where the dividend-paying stock is held for less than these holding periods and to indirect foreign tax credits for taxes paid by a lower-tier foreign corporation or a RIC where any of the required stock in the chain of ownership is held for less than these holding periods. Periods during which a taxpayer is protected from risk of loss generally are not counted toward the holding period requirement. In the case of a bona fide contract to sell stock, a special rule applies for purposes of indirect foreign tax credits. An exception also is provided for foreign active securities dealers. **Effective date**.--Dividends paid or accrued more than 30 days after the date of enactment.	**Effective date**.--Same as House bill.
G. Penalties for Failure to File Disclosure of Exemption for Income from the International	The United States generally imposes a 4-percent tax on the U.S.-source gross transportation income of foreign persons that	A foreign person that claims exemption from U.S. tax for income from the international operation of ships or aircraft,	No provision.

Item	*Present Law*	*House Bill*	*Senate Amendment*
Operation of Ships or Aircraft by Foreign Persons (sec. 1174 of the House bill)	is not effectively connected with the foreign person's conduct of a U.S. trade or business. Foreign persons generally are subject to U.S. tax at regular graduated rates on net income, including transportation income, that is effectively connected with a U.S. trade or business. Transportation income is any income derived from the use of a vessel or aircraft or the performance of services directly related to such use. Income attributable to transportation that begins and ends in the United States is treated as derived from sources in the United States. Income attributable to transportation that either begins or ends in the United States generally is treated as 50 percent from U.S. sources and 50 percent from foreign sources. U.S.-source transportation income is treated as effectively connected with a foreign person's conduct of a U.S. trade or business only if the foreign person has a fixed place	but does not satisfy the filing requirements for claiming such exemption, is subject to the penalty of the denial of such exemption and any deductions or credits otherwise allowable in determining the U.S. tax liability with respect to such income. If a foreign person that has a fixed placed of business in the United States fails to satisfy the filing requirements for claiming an exemption from U.S. tax for its income from the international operation of ships or aircraft, such person is subject to the additional penalty that foreign source income from the international operation of ships or aircraft would be treated as effectively connected with the conduct of a U.S. trade or business, but only to the extent that such income is attributable to such fixed place of business in the United States. These penalties do not apply in the case of a failure to disclose that is due to reasonable cause. The provision does not apply to the extent the application would	

Item	Present Law	House Bill	Senate Amendment
	of business in the United States that is involved in the earning of such income and substantially all of such income of the foreign person is attributable to regularly scheduled transportation. An exemption from U.S. tax is provided for income derived by a nonresident alien individual or foreign corporation from the international operation of a ship or aircraft, provided that the foreign country in which such individual is resident or such corporation is organized grants an equivalent exemption to individual residents of the United States or corporations organized in the United States.	be contrary to any treaty obligation of the United States. In addition, the U.S. Customs Service is to provide information to the Secretary of the Treasury regarding foreign-flag ships engaged in shipping to or from the United States. **Effective date**.--The provision is effective for taxable years beginning after December 31, 1997.	
H. Limitation on Treaty Benefits for Payments to Hybrid Entities (sec. 1175 of the House bill and sec. 742 of the Senate amendment)	The United States imposes tax on certain types of U.S. source income, including interest, dividends and royalties, of foreign persons not engaged in business in the United States. Such tax is imposed on a gross	Limitations on the availability of a reduced rate of withholding tax pursuant to an income tax treaty are imposed in order to prevent tax avoidance. A foreign person is entitled to a reduced rate of withholding tax	The Secretary of the Treasury shall prescribe regulations to determine the extent to which a taxpayer shall be denied benefits under an income tax treaty of the United States with respect to any payment received by, or

Item	Present Law	House Bill	Senate Amendment
	basis and is collected through withholding. The statutory rate of this withholding tax is 30 percent. However, most U.S. income tax treaties provide for a reduction in the rate, or elimination, of this withholding tax. The Treasury regulations under the withholding tax provision include specific rules that apply in the case of income derived through an entity that is treated as a partnership for U.S. tax purposes. In the case of a payment of an item of U.S. source income to a U.S. partnership, the partnership is required to impose the withholding tax to the extent the item of income is includible in the distributive share of a partner who is a foreign person. Tax-avoidance opportunities may arise in applying the reduced rates of withholding tax provided under a treaty to cases involving income derived through a limited liability company or other hybrid entity	under a treaty with a foreign country on an item of income derived through an entity that is a partnership (or is otherwise treated as transparent) for U.S. tax purposes only if such item is treated for purposes of the taxation laws of such foreign country as an item of income of such person. This rule does not apply if the treaty itself contains a provision addressing the applicability of the treaty in the case of income derived through a partnership. Moreover, the rule does not apply if the foreign country imposes tax on an actual distribution of such item of income from such partnership to such person. In this regard, the foreign country will be considered to impose tax on a distribution even though such tax may be reduced or eliminated by reason of deductions or credits otherwise available to the taxpayer. The provision addresses a potential tax-avoidance opportunity for Canadian	income attributable to activities of, an entity that is treated as a partnership for U.S. federal income tax purposes (or is otherwise treated as fiscally transparent for such purposes) but is treated as fiscally non-transparent for purposes of the tax laws of the jurisdiction of residence of the taxpayer.

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	(e.g., an entity that is treated as a partnership for U.S. tax purposes but as a corporation for purposes of the treaty partner's tax laws).	corporations with U.S. subsidiaries that arises because of the interaction between the U.S. tax law, the Canadian tax law, and the income tax treaty between the United States and Canada. Through the use of a U.S. limited liability company, which is treated as a partnership for U.S. tax purposes but as a corporation for Canadian tax purposes, a payment of interest (which is deductible for U.S. tax purposes) may be converted into a dividend (which is excludable for Canadian tax purposes). Under the provision, withholding tax is imposed at the full statutory rate of 30 percent in such case.	
		Effective date.--The provision is effective upon date of enactment.	**Effective date**.--Same as House bill.
I. Treatment of Certain Securities Positions Under the Subpart F Investment in U.S.	The U.S. 10-percent shareholders of a controlled foreign corporation (CFC) are subject to current U.S. tax on	No provision.	Two additional exceptions from the definition of U.S. property for purposes of the subpart F rules are provided.

Item	Present Law	House Bill	Senate Amendment
Property Rules (sec. 743 of the Senate amendment)	their shares of the CFC's earnings to the extent invested by the CFC in certain U.S. property. A shareholder's current income inclusion with respect to a CFC's investment in U.S. property for a taxable year is based on the CFC's average investment in U.S. property for such year. For this purpose, the U.S. property held by the CFC must be measured as of the close of each quarter in the taxable year. U.S. property generally is defined to include tangible property located in the United States, stock of a U.S. corporation, obligations of a U.S. person, and the right to use certain intellectual property in the United States. Exceptions are provided for, among other things, obligations of the United States, U.S. bank deposits, certain trade or business obligations, and stock or debts of certain unrelated U.S. corporations.		The first exception covers the deposit of collateral or margin by a securities or commodities dealer, or the receipt of such a deposit by a securities or commodities dealer, if such deposit is made or received on commercial terms in the ordinary course of the dealer's business as a securities or commodities dealer. This exception applies to deposits of margin or collateral for securities loans, notional principal contracts, options contracts, forward contracts, futures contracts, and any other financial transaction with respect to which the Secretary of the Treasury determines that the posting of collateral or margin is customary. The second exception covers repurchase agreement transactions and reverse repurchase agreement transactions entered into by or with a securities or commodities dealer in the ordinary course of its business as a securities or

Item	Present Law	House Bill	Senate Amendment
			commodities dealer. The exception applies only to the extent that the obligation under the transaction does not exceed the fair market value of readily marketable securities transferred or otherwise posted as collateral. **Effective date**.--The provision is effective for taxable years of foreign corporations beginning after December 31, 1997, and taxable years of U.S. shareholders with or within which such taxable years of foreign corporations end.
J. Exception from Foreign Personal Holding Company Income Under Subpart F for Active Financing Income (sec. 744 of the Senate amendment)	Certain U.S. shareholders of a controlled foreign corporation ("CFC") are subject to U.S. tax currently on certain income earned by the CFC, whether or not such income is distributed to the shareholders. The income subject to current inclusion includes, among other things, "foreign personal holding company income," foreign base	No provision.	Foreign personal holding company income does not include income that is derived in or incident to the active conduct of a banking, financing or similar business by a CFC that is predominantly engaged in the active conduct of such business. A CFC is considered to be predominantly engaged in the active conduct of a banking,

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	company services income (i.e., income derived from services performed for a related person outside the country in which the CFC is organized), and insurance income. Foreign personal holding company income includes the following: dividends, interest, royalties, rents and annuities; net gains from sales or exchanges of property that gives rise to the preceding types of income or that does not give rise to income; net gains from commodities transactions; net gains from foreign currency transactions; and income that is equivalent to interest. Insurance income subject to current inclusion includes any income of a CFC attributable to the issuing or reinsuring of any insurance or annuity contract in connection with risks located in a country other than the CFC's country of organization. Such insurance income also includes income attributable to an		financing, or similar business if (1) more than 70 percent of its gross income is derived from transactions with unrelated persons and more than 20 percent of its gross income from that business is derived from transactions with unrelated persons located within the country in which the CFC is organized or incorporated, or (2) the CFC is predominantly engaged in the active conduct of a banking or securities business, or is a qualified bank or securities affiliate, as defined for purposes of the passive foreign investment company provisions. Foreign personal holding company income also does not include certain investment income of a qualifying insurance company with respect to risks located within the CFC's country of organization. These exceptions apply to income derived from investments of assets equal to the total of (1) unearned premiums and reserves

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	insurance contract in connection with risks located within the CFC's country of organization, as the result of an arrangement under which another corporation receives a substantially equal amount of consideration for insurance of other-country risks. Investment income allocable to risks located within the CFC's country of organization generally is taxable as foreign personal holding company income.		ordinary and necessary for the proper conduct of the CFC's insurance business, (2) one-third of premiums earned during the taxable year on insurance contracts regulated in the country in which sold as property, casualty, or health insurance contracts, and (3) the greater of $10 million or 10 percent of reserves for insurance contracts regulated in the country in which sold as life insurance or annuity contracts. For this purpose, a qualifying insurance company is an entity that is subject to regulation as an insurance company under the laws of its country of incorporation and that realizes at least 50 percent of its gross income (other than income from investments) from premiums related to risks located within such country. These exceptions do not apply to investment income received by the CFC from a related person or attributable directly or indirectly to the insurance or reinsurance of risks of related persons.

Item	*Present Law*	*House Bill*	*Senate Amendment*
			An exception from foreign base company services income is provided for income derived from services performed in connection with the active conduct of a banking, financing, insurance, or similar business by a CFC that is predominantly engaged in the active conduct of such business. **<u>Effective date</u>**.--The provision applies <u>only</u> to taxable years of foreign corporations beginning in 1998, and to taxable years of U.S. shareholders with or within which such taxable years of foreign corporations end.
K. Treat Service Income of Nonresident Alien Individuals Earned on Foreign Ships as Foreign Source Income and Disregard the U.S. Presence of Such Individuals (sec. 745 of the Senate amendment)	Nonresident alien individuals are subject to U.S. tax and withholding on their U.S. source income. Compensation paid to a nonresident alien individual for labor and personal services performed within the United States is considered U.S. source unless three conditions are satisfied: (1) the compensation	No provision.	Gross income of a nonresident alien individual, who is present in the United States as a member of the regular crew of a foreign vessel, from the performance of personal services in connection with the international operation of a ship is treated as income from foreign sources. However, such

Item	Present Law	House Bill	Senate Amendment
	does not exceed $3,000, (2) the compensation reflects services performed on behalf of a foreign employer, and (3) the individual is present in the United Sates for not more than 90 days during the taxable year. U.S. residents are subject to U.S. tax on their worldwide income. A non-U.S. citizen generally is considered to be a resident of the United States if the individual has been present in the United States for a substantial period of time during a three-year period.		persons are not excluded for purposes of applying the minimum participation standards of section 410 to a plan of the employer. In addition, for purposes of determining whether an individual is a U.S. resident, the days that such individual is present as a member of the regular crew of a foreign vessel are disregarded. __Effective date__.--The provision is effective for taxable years beginning after December 31, 1997.
L. Treatment of Income from Certain Sales of Inventory as U.S. Source (sec. 864 of the Senate amendment)	U.S. persons are subject to U.S. tax on their worldwide income. A credit against U.S. tax on foreign source income is allowed for foreign taxes. The amount of foreign tax credits that can be claimed in a year is subject to a limitation that prevents taxpayers from using foreign tax credits to offset U.S. tax on U.S. source income.	No provision.	Income from a sale of inventory property by a U.S. resident to another U.S. resident for use, consumption, or disposition in the United States is treated as U.S. source income, if the sale is not attributable to an office or other fixed place of business maintained by the seller outside the United States.

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	Specific rules apply in determining whether income is from U.S. or foreign sources. Income from the sale or exchange of inventory property generally is sourced where the sale occurs. In Liggett Group, Inc. v. Commissioner, 58 T.C.M. 1167 (1990), the court held that a sale of inventory property by a U.S. corporation to U.S. customers gave rise to foreign source income because the sale occurred outside the United States.		**Effective date**.--The provision is effective for taxable years beginning after date of enactment.
M. Modify Foreign Tax Credit Carryover Rules (sec. 867 of the Senate amendment)	U.S. persons may credit foreign taxes against U.S. tax on foreign source income. The amount of foreign tax credits that can be claimed in a year is subject to a limitation that prevents taxpayers from using foreign tax credits to offset U.S. tax on U.S. source income. The amount of creditable taxes paid or accrued (or deemed paid) in any taxable year which exceeds the foreign tax credit limitation is permitted	No provision.	The carryback period for excess foreign tax credits is reduced from two years to one year. The excess foreign tax credit carryforward period is extended from five years to seven years. **Effective date**.--The provision applies to foreign tax credits arising in taxable years beginning after December 31, 1997.

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	to be carried back two years and forward five years. The amount carried over may be used as a credit in a carryover year to the extent the taxpayer otherwise has excess foreign tax credit limitation for such year.		
N. Repeal Special Exception to Foreign Tax Credit Limitation for Alternative Minimum Tax Purposes (sec. 868 of the Senate amendment)	The combination of the taxpayer's net operating loss carryover and foreign tax credits cannot reduce the taxpayer's alternative minimum tax liability by more than 90 percent of the amount determined without these items. The Omnibus Budget Reconciliation Act of 1989 ("1989 Act") provided a special exception to the limitation on the use of the foreign tax credit against the tentative minimum tax. In order to qualify for this exception, a corporation must meet four requirements. First, more than 50 percent of both the voting power and value of the stock of the corporation must be	No provision.	The Senate amendment repeals the special exception regarding the use of foreign tax credits for purposes of the alternative minimum tax. **Effective date**.--The provision is effective for taxable years beginning after the date of enactment.

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	owned by U.S. persons who are not members of an affiliated group which includes such corporation. Second, all of the activities of the corporation must be conducted in one foreign country with which the United States has an income tax treaty in effect and such treaty must provide for the exchange of information between such country and the United States. Third, the corporation generally must distribute to its shareholders all current earnings and profits (except for certain amounts utilized for normal maintenance or capital expenditures related to its existing business). Fourth, all of such distributions which are received by U.S. persons must be utilized by such persons in a U.S. trade or business. This exception applies to taxable years beginning after March 31, 1990 (with a proration rule effective for certain taxable years which include March 31, 1990).		

Item	Present Law	House Bill	Senate Amendment
XII. SIMPLIFICATION PROVISIONS RELATING TO INDIVIDUALS AND BUSINESSES			
A. Provisions Relating to Individuals			
1. Optional methods for computing SECA tax combined (sec. 1203 of the House bill)	The Self Employment Contributions Act ("SECA") imposes taxes on net earnings from self employment to provide social security coverage to self-employed workers. Two special rules allow certain self-employed individuals to continue to maintain social security coverage during a period of low income. Both farmers and other self-employed persons may increase their self-employment income by reporting two-thirds of the first $2,400 of gross income as net earnings from self employment. There is no limit on the number of times a farmer may use this method. However, nonfarmers may not use the optional method more than five times, and only if	The House bill combines the two current optional methods of calculating net earnings from self employment into a single combined optional method. Under the provision, a self-employed worker may elect the proposed combined optional method an unlimited number of times on a year-by-year basis. An election for a taxable year is filed with the original Federal income tax return for the year, and may not be made retroactively by filing an amended return. The provision increases the $2,400 amount to an amount which would provide four quarters of coverage in 1998. Thereafter, this dollar amount	No provision.

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	the taxpayer had net earnings from self employment of $400 or more in at least two of the three years immediately preceding the year in which the optional method is elected.	increases each year based on the earnings requirements under the Social Security Act. **Effective date.**--The provision is effective for taxable years beginning after January 1, 1998.	
2. Payment of taxes by commercially acceptable means (sec. 1206 of the House bill)	Payment of taxes may be made by checks or money orders, to the extent and under the conditions provided by Treasury regulations (sec. 6311).	The bill allows the IRS to accept payment by any commercially acceptable means that the Secretary deems appropriate, to the extent and under the conditions provided in Treasury regulations. This could include, for example, electronic funds transfers, including those arising from credit cards, debit cards, and charge cards. The bill provides that the Federal Government may pay fees with respect to any such contracts only out of amounts specifically appropriated for that purpose. **Effective date**.--The provision is effective nine months after	No provision.

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		the date of enactment. The IRS may, in this interim period, conduct internal tests and negotiate with card issuers, but may not accept credit or debit cards for payment of tax liability.	

Item	*Present Law*	*House Bill*	*Senate Amendment*
B. Repeal Short-short Test for Regulated Investment Companies (sec. 1271 of the House bill and sec. 1071 of the Senate amendment)	To qualify as a regulated investment company (RIC), a company must derive less than 30 percent of its gross income from the sale or other disposition of stock or securities held for less than 3 months (the "30-percent test" or "short-short rule").	The 30-percent test (or short-short rule) is repealed. **Effective date**.-- The provision is effective for taxable years ending after the date enactment.	The 30-percent test (or short-short rule) is repealed. **Effective date**.--The provision is effective for taxable years beginning after December 31, 1997.

Item	Present Law	House Bill	Senate Amendment
C. Taxpayer Protections: Awarding of Administrative Costs and Attorneys Ffees (sec. 1285 of the House bill)	Any person who substantially prevails in any action brought by or against the United States in connection with the determination, collection, or refund of any tax, interest, or penalty may be awarded reasonable administrative costs incurred before the IRS and reasonable litigation costs incurred in connection with any court proceeding. No time limit is specified for the taxpayer (1) to apply to the IRS for an award of administrative costs or (2) to appeal to the Tax Court an IRS decision denying an award of administrative costs. Finally, the procedural rules for adjudicating a denial of administrative costs are unclear.	The bill provides that a taxpayer who seeks an award of administrative costs must apply for such costs within 90 days of the date on which the taxpayer was determined to be a prevailing party. The bill also provides that a taxpayer who seeks to appeal an IRS denial of an administrative cost award must petition the Tax Court within 90 days after the date that the IRS mails the denial notice. The bill clarifies that dispositions by the Tax Court of petitions relating only to administrative costs are to be reviewed in the same manner as other decisions of the Tax Court. **Effective date**.--The provision is effective with respect to costs incurred in civil actions or proceedings commenced after the date of enactment.	No provision.

Item	*Present Law*	*House Bill*	*Senate Amendment*
XIII. ESTATE, GIFT, AND TRUST TAX SIMPLIFICATION			
A. Clarifications Relating to Disclaimers (sec. 1304 of the House bill)	Historically, there must be acceptance of a gift in order for the gift to be completed under State law and there is no taxable gift for Federal gift tax purposes unless there is a completed gift. Most States have rules that provide that, where there is a disclaimer of a gift, the property passes to the person who is entitled to the property had the disclaiming party died before the purported transfer. Under section 2518, a State law disclaimer is effective for Federal transfer tax purposes if it is an irrevocable and unqualified refusal to accept an interest in property and certain other requirements are satisfied. One of these other requirements is that the disclaimer generally must be made in writing not later than nine months after the transfer creating the interest occurs. Section 2518 is not	The bill allows a transfer-type disclaimer of an "undivided portion" of the disclaimant transferor's interest in property to qualify under section 2518. Also, the bill allows a spouse to make a qualified transfer-type disclaimer where the disclaimed property is transferred to a trust in which the disclaimant spouse has an interest (e.g., a credit shelter trust). Finally, the bill provides that a qualified disclaimer for transfer tax purposes under section 2518 is also effective for Federal income tax purposes (e.g., disclaimers of interests in annuities and income in respect of a decedent). None of the foregoing provisions are intended to create an inference regarding the Federal tax treatment of disclaimers under present law.	No provision.

Item	Present Law	House Bill	Senate Amendment
	presently effective for Federal tax purposes other than transfer taxes. Certain transfers of property also may be treated as qualified disclaimers. In order to qualify, these transfer-type disclaimers must be a written transfer of the disclaimant's "entire interest in the property" to persons who would have received the property had there been a valid disclaimer under State law. Like other disclaimers, the transfer-type disclaimer generally must be made within nine months of the transfer creating the interest.	**Effective date**.--The provision applies to disclaimers made after the date of enactment.	
B. Amend "5 or 5 Power" (sec. 1305 of the House bill)	The exercise or release of a general power of appointment generally is considered a gift by the person holding the power. A special rule, however, provides that the lapse of a power of appointment during the life of the person holding the power is considered a release (and thus a taxable gift) only to the extent that the value of the	The bill increases the limitations in sections 2514(e) and 2041(b)(2) to the greater of $10,000 or 5 percent. **Effective date**.--The provision applies to lapses occurring in taxable years beginning after the date of enactment.	No provision.

Item	Present Law	House Bill	Senate Amendment
	property over which the power lapsed exceeds the greater of $5,000 or five percent of the value of the assets of the trust. A similar provision applies for purposes of estate taxation.		
C. Certain Revocable Trusts Treated as Part of Estate (sec. 1307 of the House bill)	Both estates and revocable inter vivos trusts can function to settle the affairs of a decedent and distribute assets to heirs. While both estates and revocable trusts perform essentially the same function after the testator or grantor's death, there are a number of ways in which an estate and a revocable trust operate differently. First, there can be only one estate per decedent while there can be more than one revocable trust. Second, estates are in existence only for a reasonable period of administration; revocable trusts can perform the same settlement functions as an estate, but may continue in existence thereafter as testamentary trusts. Numerous differences presently exist between the income tax	The bill provides an irrevocable election to treat a qualified revocable trust as part of the decedent's estate for Federal income tax purposes. This elective treatment is effective from the date of the decedent's death until two years after his or her death (if no estate tax return is required) or, if later, six months after the final determination of estate tax liability (if an estate tax return is required). The election must be made by both the executor of the decedent's estate (if any) and the trustee of the revocable trust no later than the time required for filing the income tax return of the estate for its first taxable year, taking into account any extensions. A conforming change is made to section 2652(b) for generation-skipping	No provision.

Item	Present Law	House Bill	Senate Amendment
	treatment of estates and revocable trusts.	transfer tax purposes. For this purpose, a qualified revocable trust is any trust (or portion thereof) which was treated under section 676 as owned by the decedent with respect to whom the election is being made, by reason of a power in the grantor. **<u>Effective date</u>**.--The provision applies to decedents dying after the date of enactment.	
D. Limitation on Taxable Year of Estates (sec. 1311 of the House bill)	The taxability of distributions from a trust or estate is based on the amount of income received by the trust or estate in the trust or estate's taxable year "ending with or within" the taxable year of the beneficiary (typically a calendar year). Trusts are required to use a calendar year and, consequently, income of a trust that is distributed to a calendar-year beneficiary in the year earned is taxed to the beneficiary in the year earned. Estates, on the other hand, are allowed to use any fiscal year.	The bill limits the taxable year of an estate to a year ending on October 31, November 30, or December 31. Thus, the maximum deferral allowable to a calendar-year beneficiary is with respect to distributions made in the last two months of the calendar year. **<u>Effective date</u>**.--The provision applies to decedents dying after the date of enactment.	No provision.

Item	Present Law	House Bill	Senate Amendment
	Consequently, in the case of estates, the taxation of distributions to a calendar-year beneficiary in up to the last 11 months of the calendar year can be deferred until the next taxable year depending upon the fiscal year selected.		

Item	Present Law	House Bill	Senate Amendment
XIV. EXCISE TAX AND OTHER SIMPLIFICATION PROVISIONS			
A. Excise Tax Simplification Provisions			
1. Modifications to excise tax on arrows (sec. 1233 of the Senate amendment)	An 11-percent manufacturers excise tax is imposed on arrows that are either (1) greater than 18 inches long or (2) suitable for use with bows that are subject to a separate excise tax.	No provision.	The Senate amendment replaces the excise tax on arrows with a 12.4-percent manufacturers' excise tax on four component parts of arrows: nocks, vanes, points, and shafts. **Effective date**.--October 1, 1997.
2. Modifications to the heavy highway vehicle retail excise tax (sec. 1234 of the Senate amendment)	A 12-percent retail excise tax is imposed on tractors, trucks (having a gross vehicle weight over 33,000 pounds), and trailers (having a gross vehicle weight over 26,000 pounds). The tax applies to the first retail sale of a new or remanufactured	No provision.	The Senate amendment makes two modifications to the retail truck excise tax-- (1) The amendment provides that repair of wrecked vehicles

Item	Present Law	House Bill	Senate Amendment
	vehicle.		does not constitute remanufacture unless repair costs exceed 75-percent of vehicle value; and
	Sales for resale are not taxed if the purchaser is registered with the IRS. (Tax is imposed on the sale by the purchasers.)		(2) The amendment replaces current sale-for-resale registration rules with a certification procedure. **Effective date**.--January 1, 1998.
3. Treatment of skydiving flights as noncommercial aviation (sec. 1235 of the Senate amendment)	Skydiving flights are treated as commercial air transportation subject to a 10-percent ticket tax unless the flight includes instruction, in which case it is noncommercial aviation subject to fuels tax. A single flight may satisfy both standards.	No provision.	The Senate amendment provides that skydiving flights are noncommercial aviation, subject to the tax on fuels used. **Effective date**.--October 1, 1997.
4. Eliminate double taxation of certain aviation fuels sold to producers by "fixed-base	Aviation fuels are subject to excise tax when sold by a producer (defined to include a wholesale distributor). No refund is provided for	No provision.	The Senate amendment allows refunds to aviation fuel producers that reacquire previously taxed fuel.

Item	*Present Law*	*House Bill*	*Senate Amendment*
operators" (sec. 1236 of the Senate amendment)	previously taxed fuel repurchased by a producer from a retailer if the fuel is sold in a subsequent (second) taxable transaction.		**Effective date**.--October 1, 1997.

Item	Present Law	House Bill	Senate Amendment
B. Tax Court Procedures: Application of Net Worth Requirement for Awards of Litigation Costs (sec. 1453 of the House bill and sec. 1253 of the Senate amendment)	Any person who substantially prevails in any action brought by or against the United States in connection with the determination, collection, or refund of any tax, interest, or penalty may be awarded reasonable administrative costs incurred before the IRS and reasonable litigation costs incurred in connection with any court proceeding. A person who substantially prevails must meet certain net worth requirements to be eligible for an award of administrative or litigation costs. In general, only an individual whose net worth does not exceed $2,000,000 is eligible for an award, and only a corporation or partnership whose net worth does not exceed $7,000,000 is eligible for an award.	The bill provides that the net worth limitations currently applicable to individuals also apply to estates and trusts. The bill also provides that individuals who file a joint tax return shall be treated as one individual for purposes of computing the net worth limitations. Consequently, the net worth of both spouses is aggregated for purposes of this computation. An exception to this rule is provided in the case of a spouse otherwise qualifying for innocent spouse relief. <u>**Effective date**</u>.--The provision applies to proceedings commenced after the date of enactment.	Same as House bill with respect to estates and trusts. Individuals who file a joint tax return are treated as separate individuals for purposes of computing the net-worth limitations.

Item	Present Law	House Bill	Senate Amendment
XV. PENSION SIMPLIFICATION			
A. Matching Contributions of Self-Employed Individuals not Treated as Elective Deferrals (sec. 1301 of the Senate amendment)	An employee's annual elective contributions to a qualified cash or deferred arrangement ("section 401(k) plan") are subject to a dollar limit ($9,500 for 1997). Employer matching contributions are not subject to the $9,500 limit on elective contributions. Matching contributions made for a self-employed individual are generally treated as additional elective contributions by the self-employed individual who receives the matching contribution and, therefore, are subject to the section 401(k) dollar limits on elective contributions.	No provision.	The Senate amendment provides that matching contributions for self-employed individuals are treated the same as matching contributions for employees, i.e., they are not treated as elective contributions and are not subject to the elective contribution limit. **<u>Effective date</u>**.--The provision is effective for years beginning after December 31, 1997.
B. Contributions to IRAs Through Payroll Deductions (sec. 1302 of the Senate amendment)	Under present law, employer involvement in the establishment or maintenance of individual retirement arrangements ("IRAs") of its	No provision.	The Senate amendment provides that an employer that facilitates IRA contributions by its employees by establishing a system under which employees,

Item	Present Law	House Bill	Senate Amendment
	employees can result in the employer being considered to maintain a retirement plan for purposes of title I of the Employee Retirement Income Security Act of 1974, as amended ("ERISA"), thus subjecting the employer to ERISA's fiduciary rules.		through employer payroll deductions, may make contributions to IRAs will not be considered to sponsor a retirement plan subject to ERISA. Under the system, employees would be required to provide their employer with a contribution certificate which establishes the IRA and specifies the contribution amount to be deducted from the employee's wages and remitted to the employee's IRA. As under present law, the amount contributed through payroll deduction would be includible in the employee's gross income and wages for employment tax purposes, and deductible by the employee in accordance with the rules relating to IRAs. The provision does not apply to an employee employed by an employer who maintains a tax-qualified retirement plan. **<u>Effective date</u>**.--The provision is effective for taxable years beginning after December 31,

Item	Present Law	House Bill	Senate Amendment
			1997.
C. Plans not Disqualified Merely by Accepting Rollover Contributions (sec. 1303 of the Senate amendment)	A qualified retirement plan that accepts rollover contributions from other plans will not be disqualified because the plan making the distribution is, in fact, not qualified at the time of the distribution, if, prior to accepting the rollover, the receiving plan reasonably concluded that the distributing plan was qualified. The receiving plan can reasonably conclude that the distributing plan was qualified if, for example, prior to accepting the rollover, the distributing plan provided a statement that the distributing plan had a favorable determination letter issued by the Internal Revenue Service ("IRS"). The receiving plan is not required to verify this information.	No provision.	The Senate amendment clarifies the circumstances under which a qualified plan could accept rollover contributions without jeopardizing its qualified status. Under the provision, if the trustee of the plan making the distribution notifies the recipient plan that the distributing plan is intended to be a qualified plan, the plan receiving the rollover will not be disqualified if the distributing plan was not in fact a qualified plan. Effective date.--The provision is effective for rollover contributions made after December 31, 1997.
D. Modification of	Amounts held in a qualified	No provision.	The Senate amendment permits

Item	Present Law	House Bill	Senate Amendment
Prohibition on Assignment or Alienation (sec. 1304 of the Senate amendment)	retirement plan for the benefit of a participant are not, except in very limited circumstances, assignable or available to personal creditors of the participant. A plan may permit a participant, at such time as benefits under the plan are in pay status, to make a voluntary revocable assignment of an amount not in excess of 10-percent of any benefit payment, provided the purpose is not to defray plan administration costs. In addition, a plan may comply with a qualified domestic relations order issued by a state court requiring benefit payments to former spouses or other "alternate payees" even if the participant is not in pay status. There is no specific exception under the Employee Retirement Income Security Act of 1974, as amended ("ERISA") or the Internal Revenue Code which would permit the offset of a participant's benefit against the amount owed to a plan by the participant as a result of a		a participant's benefit in a qualified plan to be reduced to satisfy liabilities of the participant to the plan due to (1) the participant being convicted of committing a crime involving the plan, (2) a civil judgment (or consent order or decree) entered by a court in an action brought in connection with a violation of the fiduciary provisions of ERISA, or (3) a settlement agreement between the Secretary of Labor or the Pension Benefit Guaranty Corporation and the participant in connection with a violation of the fiduciary provisions of ERISA. The court order establishing such liability must require that the participant's benefit in the plan be applied to satisfy the liability. If the participant is married at the time his or her benefit under the plan is offset to satisfy the liability, spousal consent to such offset is required unless the spouse is also required to pay an amount to the plan in the judgment, order, decree or settlement or

Item	Present Law	House Bill	Senate Amendment
	breach of fiduciary duty to the plan or criminality involving the plan.		the judgment, order, decree or settlement provides a 50-percent survivor annuity for the spouse. **Effective date**.--The provision is effective for judgments, orders, and degrees issued, and settlement agreements entered into, on or after the date of enactment.
E. Elimination of Paperwork Burdens on Plans (sec. 1305 of the Senate amendment)	Under present law, employers are required to prepare summary plan descriptions of employee benefit plans ("SPDs"), and summaries of material modifications to such plans ("SMMs"). The SPDs and SMMs generally provide information concerning the benefits provided by the plan and the participants' rights and obligations under the plan. The SPDs and SMMs must be furnished to plan participants and beneficiaries and filed with the Secretary of Labor.	No provision.	The Senate amendment eliminates the requirement that SPDs and SMMs be filed with the Secretary of Labor. Employers would be required to furnish these documents to the Secretary of Labor upon request. A civil penalty could be imposed by the Secretary of Labor on the plan administrator for failure to comply with such requests. The penalty would be up to $100 per day of failure, up to a maximum of $1,000 per request. No penalty would be imposed if the failure was due to matters reasonably outside the control of the plan

Item	Present Law	House Bill	Senate Amendment
			administrator. **Effective date**.--The provision is effective on the date of enactment.
F. Modification of Section 403(b) Exclusion Allowance to Conform to Section 415 Modifications (sec. 1306 of the Senate amendment)	Under present law, annual contributions to a section 403(b) annuity cannot exceed the exclusion allowance. In general, the exclusion allowance for a taxable year is the excess, if any, of (1) 20 percent of the employee's includible compensation multiplied by his or her years of service, over (2) the aggregate employer contributions for an annuity excludable for any prior taxable years. Alternatively, an employee may elect to have the exclusion allowance determined under the rules relating to tax-qualified defined contribution plans (sec. 415).	No provision.	The provision conforms the section 403(b) exclusion allowance to the section 415 limits by providing that includible compensation includes elective deferrals of the employee. The Secretary of the Treasury is directed to revise the regulations regarding the exclusion allowance to reflect the fact that the overall limit on benefits and contributions is repealed. The revised regulations are to be effective for limitation years beginning after December 31, 1999. **Effective date.**--The modification to the definition of includible compensation is effective for years beginning

Item	*Present Law*	*House Bill*	*Senate Amendment*
			after December 31, 1997. The direction to the Secretary is effective on the date of enactment.
G. New Technologies in Retirement Plans (sec. 1307 of the Senate amendment)	Under present law it is not clear if sponsors of employee benefit plans may use new technologies (telephonic response systems, computers, E-mail) to satisfy the various ERISA requirements for notice, election, consent, record keeping, and participant disclosure.	No provision.	The Senate amendment directs the Secretaries of the Treasury and Labor to issue guidance facilitating the use of new technology for plan purposes. **Effective date**.--The provision is effective on the date of enactment and requires that the guidance be issued not later than December 31, 1998.
H. Modification of 10-Percent Tax on Nondeductible Contributions (sec. 1310 of the Senate amendment)	Under present, employer sponsors both a defined benefit plan and a defined contribution plan that covers some of the same employees, the total deduction for all plans for a plan year is generally limited to the greater of (1) 25 percent of compensation or (2) the contribution necessary to meet	No provision.	The bill adds an additional exception to the 10-percent excise tax on nondeductible contributions. Under the provision, the excise tax does not apply to contributions to one or more defined contribution plans that are not deductible because they exceed the combined plan deduction limit

Item	Present Law	House Bill	Senate Amendment
	the minimum funding requirements of the defined benefit plan for the year. A 10-percent nondeductible excise tax is imposed on contributions that are not deductible. This excise tax does not apply to contributions to one or more defined contribution plans that are nondeductible because they exceed the combined plan deduction limit to the extent such contributions do not exceed 6 percent of compensation in the year for which the contribution is made.		to the extent such contributions do not exceed the amount of the employer's matching contributions plus the elective deferral contributions to a section 401(k) plan. **Effective date.**--The provision is effective with respect to taxable years beginning after December 31, 1997.
I. Modify Funding Requirements for Certain Plans (sec. 1311 of the Senate amendment)	Under present law, defined benefit pension plans are required to meet certain minimum funding rules. Underfunded plans are required to satisfy certain faster funding requirements. In general, these additional requirements do not apply in the case of plans with a funded current liability percentage of at least 90	No provision.	The Senate amendment modifies the minimum funding requirements in the case of certain plans. The provision applies in the case of plans that (1) were not required to pay a variable rate PBGC premium for the plan year beginning in 1996, (2) do not, in plan years beginning after 1995 and before 2009, merge with another plan

Item	Present Law	House Bill	Senate Amendment
	percent. The Pension Benefit Guaranty Corporation ("PBGC") insures benefits under most defined benefit pension plans in the event the plan is terminated with insufficient assets to pay for plan benefits. The PBGC is funded in part by a flat-rate premium per plan participant, and a variable rate premium based on plan underfunding.		(other than a plan sponsored by an employer that was a member of the controlled group of the employer in 1996), and (3) are sponsored by a company that is engaged primarily in the interurban or interstate passenger bus service. The provision treats a plan to which it applies as having a funded current liability percentage of at least 90 percent for plan years beginning after 1996 and before 2005. For plan years beginning after 2004, the funded current liability percentage will be deemed to be at least 90 percent if the actual funded current liability percentage is at least at certain specified levels. The relief from the minimum funding requirements applies for the plan year beginning in 2005, 2006, 2007, and 2008 only if contributions to the plan equal at least the expected increase in current liability due to benefits accruing during the plan year.

Item	Present Law	House Bill	Senate Amendment
			Effective date.--The provision is effective with respect to contributions due after December 31, 1997.

Item	*Present Law*	*House Bill*	*Senate Amendment*
XVI. SENSE OF THE SENATE RESOLUTIONS			
A. Sense of the Senate Regarding Reform of the Internal Revenue Code of 1986 (sec. 780 of the Senate amendment)	The Federal Government imposes an individual income tax, a corporate income tax, a payroll tax collected from both employees and employers, certain excise taxes, and transfer taxes on certain transfers of wealth by gift or from an estate.	No provision.	The Senate amendment provides a Sense of the Senate resolution that the Internal Revenue Code needs broad-based reform and that the President should submit a comprehensive proposal for reform. (Floor amendment by Sen. Shelby and others adopted by unanimous consent.)

Item	*Present Law*	*House Bill*	*Senate Amendment*
B. Sense of the Senate Regarding Tax Treatment of Stock Options (sec. 781 of the Senate amendment)	Under present law, an employer is generally entitled to a deduction with respect to stock options when the options are exercised by the employee. The deduction is generally the difference between the option price and the fair market value of the stock when the option is exercised.	No provision.	The Senate finds that businesses can deduct the value of stock options as a business expense even though the options are not treated as an expense on the books of the business. It is the sense of the Senate that the Committee on Finance should hold hearings on the tax treatment of stock options. (Floor amendment by Sens. Levin and McCain adopted by unanimous consent.)

Item	Present Law	House Bill	Senate Amendment
C. Sense of the Senate on Estate Taxes (sec. 782 of the Senate amendment)	A gift tax is imposed on lifetime transfers by gift and an estate tax is imposed on transfers at death under a single unified graduated rate schedule that effectively begins at 37 percent and reaches 55 percent on cumulative taxable transfers over $3 million. A unified credit effectively exempts the first $600,000 in cumulative taxable transfers from estate and gift tax (sec. 2010). An executor may elect 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 with a portion bearing 4-percent interest.	No provision.	The Senate amendment provides a sense of the Senate resolution that (1) estate tax relief provided by this bill is an important step that will enable more family-owned farms and small businesses to survive and continue to provide economic security and job creation in American communities and (2) Congress should eliminate the Federal estate tax liability for family-owned businesses by the end of 2002 on a deficit-neutral basis. (Floor amendment by Sen. Roth for Sens. Enzi, Hagel, Hutchinson, Grams, Roberts, Inhofe, Thomas, Allard, Lugar, Specter, Frist, Burns, and Sessions, adopted by unanimous consent). See also section 402 of the Senate amendment which excludes the first $1 million of value in qualified family-owned business interests from a decedent's taxable estate.

Item	*Present Law*	*House Bill*	*Senate Amendment*
D. Sense of the Senate Regarding who Should Benefit from Tax Cuts (sec. 791 of the Senate amendment)	No provision.	No provision.	The Senate amendment includes a Sense of the Senate resolution that only those who pay Federal income taxes should benefit from the tax reduction provisions of the Act. (Floor amendment by Sen. Santorum agreed to by voice vote.)

Item	Present Law	House Bill	Senate Amendment
E. Sense of the Senate with respect to Self-Employment Taxes of Limited Partners (sec. 734 of the Senate amendment)	Under the self-employment contributions act, taxes are imposed on an individual's net earnings from self employment. A limited partner's net earnings from self employment include guaranteed payments made to the individual for services actually rendered and do not include a limited partner's distributive share of the income or loss of the partnership. The Department of the Treasury has issued proposed regulations defining a limited partner for this purpose. These regulations provide, among other things, that an individual is not a limited partner if the individual participates in the partnership business for more than 500 hours during the taxable year.	No provision.	It is the sense of the Senate that the Department of the Treasury should withdraw the proposed regulations defining limited partner and that the Congress should determine the tax law governing self-employment income. (Floor amendment by Sens. Nickles and Bond agreed to by voice vote.)

Item	*Present Law*	*House Bill*	*Senate Amendment*
XVII. TRADE PROVISIONS			
A. Extension of Duty-Free Treatment Under the Generalized System of Preferences (sec. 971 of the House bill)	Title V of the Trade Act of 1974, as amended, (Generalized System of Preferences), grants authority to the President to provide duty-free treatment on imports of eligible articles from designated beneficiary developing countries, subject to specific conditions and limitations. To qualify for GSP privileges, each beneficiary country is subject to various mandatory and discretionary eligibility criteria. Import sensitive products are ineligible for GSP. The President's authority to grant GSP benefits expired on May 31, 1997.	The GSP program is reauthorized for two years, to expire on May 31, 1999. Refunds of any duty paid between May 31, 1997 and the date of enactment are provided upon request of the importer. __Effective date__.--The provision is effective upon date of enactment.	No provision.

Item	*Present Law*	*House Bill*	*Senate Amendment*
B. Temporary Suspension of Vessel Repair Duty (sec. 972 of the House bill)	Section 466 of the Tariff Act of 1930 establishes a 50-percent duty on repairs made outside the United States to U.S. flag vessels.	The current 50-percent duty on repairs to U.S. flag vessels made in countries that are signatories to the OECD Shipbuilding Agreement is suspended for a one-year period. **Effective date**.--The provision is effective with respect to repair activities occurring for a one-year period beginning on the date of enactment.	No provision.

Item	*Present Law*	*House Bill*	*Senate Amendment*
C. United States-Caribbean Basin Trade Partnership Act (secs. 981-988 of the House bill)	The Caribbean Basin Initiative (CBI) program was established by the Caribbean Basin Economic Recovery Act (CBERA), which was enacted on August 5, 1983. This legislation authorized the President to grant duty-free treatment to the imports of eligible articles from designated countries in the Caribbean Basin region. Certain products (textiles, apparel, canned tuna, petroleum and petroleum products, footwear, handbags, luggage, flatgoods, work gloves, leather wearing apparel, watches and watch parts) were excluded under the statute from eligibility for duty-free treatment. CBI trade benefits were made permanent in 1990.	The House bill amends the Caribbean Basin Economic Recovery Act to provide additional temporary transitional trade benefits to products that are excluded from eligibility for duty-free treatment under CBI. These products are provided tariff and quota treatment which is comparable to treatment accorded to like articles imported from Mexico under the North American Free Trade Agreement (NAFTA) subject to certain rule-of-origin and customs requirements and other limitations. The President must review periodically country adherence to eligibility criteria, and consult with beneficiary countries about free trade agreement negotiations. <u>**Effective date**</u>.--The provision is effective for one year beginning January 1, 1998.	No provision.