[COMPARATIVE COMMITTEE PRINT]

DESCRIPTION OF TAX PROVISIONS

OF

H.R. 4170

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 is prepared for the use of the conferees on the tax provisions of H.R. 4170 as passed by the House and amended by the Senate.

The first part of the document is the legislative background on H.R. 4170. The second part is a list of the tax provisions which are the same in the House bill and Senate amendment. The third part is a comparative description of the tax provisions of the bill as passed by the House and amended by the Senate. Finally, the fourth part presents the estimated revenue effect of the tax provisions of H.R. 4170 as passed by the House and Senate.

PART ONE: LEGISLATIVE BACKGROUND OF TAX PROVISIONS

HOUSE ACTION

H.R. 4170

H.R. 4170 as originally reported

H.R. 4170 was introduced and was ordered to be reported on October 20, 1983, to incorporate the markup decisions of the House Committee on Ways and Means on various introduced tax bills and other amendments. A report was filed on H.R. 4170 on October 21, 1983 (H. Rep. No. 98-432).[1] In addition to eight tax titles, H.R. 4170 as reported included the Social Security Disability Benefits Reform Act of 1983, the Medicare Budget Reconciliation Amendments of 1983, and trade assistance amendments.

On November 16, 1983, the House Rules Committee granted a modified open rule (H. Res. 376) for consideration of H.R. 4170, which rule failed of passage on November 17, 1983.

H.R. 4170 Committee amendment

On March 1, 1984, the Committee on Ways and Means approved a Committee amendment as a substitute for H.R. 4170 as originally reported. The Committee filed a supplemental report on its amendment on March 5, 1984 (H. Rep. No. 98-432, Part 2).[2]

The Committee amendment included nine tax titles plus the Social Security disability, Medicare, and trade assistance titles. On March 7, 1984, the House Rules Committee granted a modified closed rule on H.R. 4170, making the Ways and Means Committee amendment (without the three nontax titles) in order as a substitute for H.R. 4170 as originally reported (H. Res. 462). The House adopted the rule on April 11, 1984, and passed the bill with the Committee amendments, including a technical amendment, by a vote of 318-97 on April 11, 1984. H.R. 4170 was received in the Senate on April 26, 1984, and placed on the Senate Legislative Calendar (Senate Calendar No. 800).

H.R. 2163

H.R. 2163, the Sport Fish Restoration Act of 1983, was introduced on March 16, 1983, and referred to the House Committees on Merchant Marine and Fisheries. The Subcommittee on Coast Guard and Navigation marked up the bill on April 20, 1983, and forwarded the bill (adding amendments relating to the Federal Boat Safety Act of 1971) to the full Committee on Merchant Marine and Fisheries on April 20. The Full Committee marked up the bill on May 10, 1983, and reported the bill as amended on May 16, 1983 (H. Rep. No. 98-133, Part 1).

H.R. 2163 was sequentially referred to the Committee on Ways and Means for a period ending July 15, 1983. The Ways and Means Committee marked up the bill on June 29, 1983. The bill was reported by the Ways and Means Committee with an amendment in the nature of a substitute on July 1, 1983 (H. Rep. No. 98-133, Part 2).[3]

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[1] Fourteen bills, as amended, were incorporated along with other Committee amendments into H.R. 4170 as reported. For more details on this legislative history of the Ways and Means Committee and Subcommittee hearings and markups on these bills, see H. Rep. No. 98-432, at 11-13.

[2] For more details on the legislative history of the Committee hearings and markup on the Committee amendment, see the Supplemental Report, at 1025-28.

[3] The bill was then sequentially referred to the Committee on Interior and Insular Affairs for a period ending July 11, 1983. The Interior Committee was discharged by motion on July 11, and the bill as placed on the House Calendar on July 11.

On July 12, 1983, the House by voice vote suspended the rules and passed H.R. 2163, as amended by the Ways and Means Committee. Thus, as passed by the House, the bill related primarily to the Sport Fish Restoration and Federal Boat Safety Programs, and the excise taxes on sport fishing equipment and motorboat fuels that finance these programs. The House-passed bill also included provisions relating to the excise tax on certain arrows and the tax-exempt status of the proposed National Fish and Wildlife Foundation (contained in a separate bill, H.R. 2809, subsequently enacted in P.L. 98-244).

SENATE ACTION

S. 2062

The Senate Finance Committee approved its fiscal year 1984 budget reconciliation recommendations (revenue and spending provisions) on October 31, 1983, and transmitted bill and report language on that date to the Senate Budget Committee. The Budget Committee included the Finance Committee's revenue and spending recommendations as title I (Deficit Reduction Tax Act of 1983) of S. 2062 (Omnibus Reconciliation Act of 1983) as reported by the Budget Committee on November 4, 1983 (S. Rep. No. 98-300). S. 2062 was placed on the Senate Calendar on November 16, 1983, was considered on November 16-17, 1983, and was returned to the Calendar on November 18, 1983.

H.R. 2163

1983 consideration

H.R. 2163, as passed by the House, was referred to the Senate Finance Committee on July 13, 1983. A hearing was held on August 3, 1983, by the Finance Subcommittee on Taxation and Debt Management. The substance of the bill (with amendments) [4] was included in the Finance Committee revenue reconciliation proposal in S. 2062 as reported.

The Finance Committee then marked up H.R. 2163 on November 7, 1983, and reported it on November 15, 1983 (S. Rep. 98-312), substituting miscellaneous trade and tariff matters from S. 230, S. 453, and S. 759 for the House-passed revenue provisions.

1984 consideration

Finance Committee markup

The Finance Committee marked up its deficit reduction (revenue and spending) proposals on February 23, 28-29, and March 1, 7-8, 13-15, and 20-21, 1984, with Committee approval on March 21 of a deficit reduction proposal. The Finance Committee printed an explanation and statutory language of its deficit reduction proposal on April 2, 1984 (S. Prt. 98-169, Vols. I and II). The deficit reduction proposal included the revenue and spending provisions of S. 2062, with further amendments, as well as new provisions.

Senate floor action

The Finance Committee deficit reduction proposal (revenue and spending provisions) was considered as a floor amendment to H.R. 2163, beginning on April 5, 1984, and continuing on April 9-12, 1984. The amendment, as amended by further Senate floor amendments, was approved on April 12, 1984, by a record vote of 76-5.

The Senate continued floor debate on spending-related amendments to H.R. 2163 on April 24-26, and 30, and May 1-3, 8-11, and 14-17, 1984.

[4] Except for the provision relating to the tax-exempt status of the National Fish and Wildlife Foundation.

H.R. 4170

The provisions of H.R. 2163, as amended by the revenue provisions (Deficit Reduction Tax Act of 1984) and the spending-related provisions, were substituted by the Senate as an amendment to H.R. 4170 on May 17, 1984, and was passed by a record vote of 74–23.

PART TWO: PROVISIONS IN BOTH THE HOUSE BILL AND SENATE AMENDMENT WHICH ARE THE SAME

Tax Freeze Provisions

- Amount of used property eligible for investment tax credit (sec. 12 of the House bill and sec. 12 of the Senate amendment).
- Election to expense certain depreciable business assets (sec. 14 of the House bill and sec. 14 of the Senate amendment).
- Cost of living adjustments in pension plan limitations (sec. 16 of the House bill and sec. 85(d) of the Senate amendment).
- Foreign earned income of individuals (sec. 18 of the House bill and sec. 18 of the Senate amendment).
- Continuation of percentage depletion for oil and gas from secondary or tertiary processes (sec. 25(b) of the House bill and sec. 885 of the Senate amendment).
- Extension of 3-percent excise tax on communications services (sec. 26 of the House bill and sec. 16 of the Senate amendment).

Bond Provision

- Original issue discount on tax-exempt bonds (sec. 41 of the House bill and sec. 25 of the Senate amendment).

Corporate Provisions

- Extension of holding period for losses attributable to capital gain dividends of regulated investment companies or real estate investment trusts (sec. 55 of the House bill and sec. 37 of the Senate amendment).
- Nonrecognition of gain or loss by a corporation on options with respect to its own stock (sec. 57 of the House bill and sec. 42 of the Senate amendment).
- Amendments to accumulated earnings tax (sec. 58 of the House bill and sec. 43 of the Senate amendment).

Partnership Provisions

- Partnership allocations with respect to contributed property (sec. 71 of the House bill and sec. 55 of the Senate amendment).
- Contributions to a partnership of unrealized receivables, inventory items, or capital loss property (sec. 74 of the House bill and sec. 58 of the Senate amendment).
- Application of section 751 in the case of tiered partnerships (sec. 76 of the House bill and sec. 61 of the Senate amendment).

Trust Provisions

- Treatment of property distributed in kind (sec. 81 of the House bill and sec. 65 of the Senate amendment).
- Treatment of multiple trusts (sec. 82 of the House bill and sec. 66 of the Senate amendment).

Pension Provision

- Determination of whether there is a collective bargaining agreement (sec. 118 of the House bill and sec. 91(c) of the Senate amendment).

Foreign Provisions

- Section 1248 to apply to certain indirect transfers of stock in a foreign corporation (sec. 133 of the House bill and sec. 123 of the Senate amendment).
- Treatment of certain transportation income (sec. 136 of the House bill and sec. 125 of the Senate amendment).
- Coordination of subpart F with foreign personal holding company provisions (sec. 455 of the House bill and sec. 131(d) of the Senate amendment).

Compliance Provision

- Authorization to disregard appraisals of persons penalized for aiding in understatements of tax liability (sec. 156 of the House bill and sec. 151 of the Senate amendment).

Miscellaneous Reform Provision

- Eligibility for income averaging (sec. 165 of the House bill and sec. 178 of the Senate amendment).

Life Insurance Provisions

- Taxation of life insurance company provisions—Code sections 801, 803, 804, 808, 811(a)-(c), (e)-(f), 813, 814, 815, and 818 (sec. 211 of the House bill and sec. 211 of the Senate amendment).

Private Foundation Provisions

- Exemption for certain operating foundations from excise tax on investment income (sec. 303 of the House bill and sec. 303 of the Senate amendment).
- Abatement of first tier taxes in certain cases (sec. 306 of the House bill and sec. 304 of the Senate amendment).
- Decrease attributable to stock issuances not to reduce permitted percentage of holdings where decrease is 2 percent or less (sec. 309 of the House bill and sec. 308 of the Senate amendment).
- Aggregation of stock holdings of private foundations and disqualified persons in applying 95 percent ownership test. (sec. 310 of the House bill and sec. 309 of the Senate amendment).
- 5-year period to dispose of excess holdings resulting from certain acquisitions by disqualified persons (sec. 311 of the House bill and sec. 310 of the Senate amendment).
- Tax on self-dealing not to apply to certain stock purchases (sec. 313 of the House bill and sec. 312 of the Senate amendment).
- Termination of status as substantial contributor in certain circumstances (sec. 314 of the House bill and sec. 313 of the Senate amendment).
- Miscellaneous private foundation amendments (sec. 305(b), 307(c) and 315 of the House bill and secs. 314(c), 306(b), 314(a), and 314(b) of the Senate amendment).

Administrative Provisions

- Simplification of certain reporting requirements (sec. 461 of the House bill and sec. 831 of the Senate amendment).
- Removal of $1,000,000 limitation on working capital fund (sec. 462 of the House bill and sec. 832 of the Senate amendment).
- Increase in limitation on revolving fund for redemption of real property (sec. 463 of the House bill and sec. 833 of the Senate amendment).
- Removal of $1,000,000 limitation on special authority to dispose of obligations (sec. 464 of the House bill and sec. 834 of the Senate amendment).
- Secretary of the Treasury authorized to accept gifts and bequests (sec. 465 of the House bill and sec. 835 of the Senate amendment).

- Extension of period for court review of jeopardy assessment where prompt service not made on the United States (sec. 466 of the House bill and sec. 836 of the Senate amendment).
- Extension of period during which additional tax shown on amended return may be assessed (sec. 467 of the House bill and sec. 837 of the Senate amendment).
- Treatment of certain guaranteed drafts issued by financial institutions (sec. 468 of the House bill and sec. 840 of the Senate amendment).
- Disclosure of windfall profit tax information to State tax officials (sec. 469 of the House bill and sec. 841 of the Senate amendment).
- Increase in jurisdictional limit in small tax cases (sec. 475(b) of the House bill and sec. 156 of the Senate amendment).

Distilled Spirits Miscellaneous Provisions

- Repeal of occupational tax on manufacturers of stills and condensers; notices of manufacture and set up of stills (sec. 470 of the House bill and sec. 843 of the Senate amendment).
- Allowance of drawback claims even where certain requirements not met (sec. 471 of the House bill and sec. 844 of the Senate amendment).
- Disclosure of alcohol fuel producers to administrators of State alcohol laws (sec. 472 of the House bill and sec. 845 of the Senate amendment).
- Repeal of stamp requirement for distilled spirits (sec. 473 of the House bill and sec. 846 of the Senate amendment).
- Cooking wine may be fortified using distilled spirits (sec. 814 of the House bill and sec. 848 of the Senate amendment).

Miscellaneous Provisions

- Miscellaneous highway revenue technical amendments (sec. 634(a) and (d) of the House bill and sec. 622 of the Senate amendment).
- Pickups under salary reduction arrangements (secs. 641(i)(2) and 643(i)(9) of the House bill and sec. 830 of the Senate amendment).
- Simplification of income tax credits (secs. 481–486 of the House bill and secs. 850–854 of the Senate amendment).
- Taxation of unemployment compensation not to apply to compensation paid for weeks of unemployment ending before December 1, 1978 (sec. 807 of the House bill and sec. 825 of the Senate amendment).
- Treatment of home won in local radio contest and specially designed for handicapped foster child (sec. 809 of the House bill and sec. 871 of the Senate amendment).
- Tax treatment of regulated investment companies (sec. 810 of the House bill and sec. 861 of the Senate amendment).
- Certain organizations providing child care included within the definition of tax-exempt organizations (sec. 816 of the House bill and sec. 881 of the Senate amendment).

PART THREE: COMPARISON OF DIFFERENCES IN TAX PROVISIONS IN THE HOUSE BILL AND THE SENATE AMENDMENT

Item	Present Law
A. Tax Freeze and Related Provisions	
1. Finance lease provisions (sec. 13 of the House bill and sec. 13 of the Senate amendment)	Present law provides liberalized leasing rules called "finance leasing."
(a) General effective date for finance lease rules	*(a)* Agreements entered into after 1983.
(b) Transitional availability for up to $150,000 of farm property per lessee	*(b)* Agreements entered into after July 1, 1982, and before 1984.
(c) Transitional availability for other property	*(c)* None.
(d) Ban on Treasury regulations	*(d)* None.

House Bill	Senate Amendment
(a) Finance lease provisions generally deferred. First effective for agreements entered into after 1987.	*(a)* Same as House bill.
(b) Special lease rules for farm property extended through 1987.	*(b)* Same as House bill.
(c) Finance lease rules available before 1988 for property which lessee was bound to acquire or construct, or which lessee had acquired, or on which construction had begun by or for the lessee, if before March 2, 1984.	*(c)* Finance lease rules are available before 1988 for the same property as under the House bill, except March 7, 1984, is substituted for March 2, 1984. In addition, finance lease rules available before 1988 for— (1) Up to $150 million of certain automotive manufacturing property; and (2) Property that is part of a coal-fired cogeneration facility for which certification and construction permit applications were filed on specified dates.
(d) Treasury not to issue regulations relating to treatment of agreements as leases between enactment date and 1988.	*(d)* No provision.
Revenue effect.—	***Revenue effect.—***

Fiscal Years

(Millions of dollars)

Fiscal year	House Bill	Senate Amendment
1984	+63	+63
1985	+351	+348
1986	+875	+862
1987	+1,404	+1,381
1988	+1,445	+1,424
1989	+739	+741
Sum of 1984–87	+2,693	+2,654

Item	Present Law
2. Employee stock ownership credit (sec. 15 of the House bill and sec. 15 of the Senate amendment)	ESOP tax credit is limited to 0.5 percent of compensation in 1984 and 0.75 percent in 1985, 1986, and 1987. No credit after 1987.
3. Net interest exclusion (sec. 17 of the House bill and sec. 17 of the Senate amendment)	Individuals may exclude 15 percent of net interest received, up to $3,000 of net interest ($6,000 on joint return). Net interest is generally defined as eligible interest received by the taxpayer in excess of the amount of interest payments by the taxpayer for which an income tax deduction is allowed. First effective for taxable years beginning after 1984.
4. Maximum estate and gift tax rates (sec. 21 of the House bill)	Top tax rate declines from 60 percent in 1983 to 55 percent in 1984 and to 50 percent thereafter.

House Bill	Senate Amendment
[For provisions relating to payroll-based tax credit for ESOPs, see item 224.]	[For provisions relating to payroll-based tax credit for ESOPs, see item 224.]

House Bill:

Repeals net interest exclusion.

Revenue effect.—

Fiscal Years

(Millions of dollars)

1984	
1985	+1,024
1986	+2,858
1987	+3,100
1988	+3,366
1989	+3,637
Sum of 1984–87	+6,982

Senate Amendment:

Postpones net interest exclusion until taxable years beginning after 1987.

Revenue effect.—

Fiscal Years

(Millions of dollars)

1984	
1985	+1,024
1986	+2,858
1987	+3,100
1988	+2,065
1989	......
Sum of 1984–87	+6,982

House Bill:

Top tax rate stays at 60 percent in 1984–87, declines to 55 percent in 1988, and to 50 percent thereafter.

Effective date.—Estates of decedents dying after, and gifts made after, December 31, 1983.

Revenue effect.—

Fiscal Years

(Millions of dollars)

1984	(1)
1985	+129
1986	+399
1987	+503
1988	+578
1989	+439
Sum of 1984–87	+1,031

[1] Gain of less than $5 million.

Senate Amendment:

No provision.

Item	Present Law
5. Windfall profit tax rate on newly discovered oil (sec. 25 of the House bill)	Windfall profit tax rate on newly discovered oil declines from 25 percent in 1983 to 22.5 percent in 1984, 20 percent in 1985, and 15 percent thereafter.
6. Modification of excise tax rates on cigarettes and distilled spirits (sec. 27 of the House bill and sec. 822 of the Senate amendment)	
(a) Cigarettes	*(a) Cigarettes.*—Tax rate generally 16 cents per pack of 20 cigarettes. After September 30, 1985, rate declines to 8 cents per pack of 20 cigarettes (the pre-1983 rate).
(b) Distilled spirits	*(b) Distilled spirits.*—Tax rate of $10.50 per proof gallon.

House Bill	Senate Amendment

House Bill:

Tax rate stays at 25 percent in 1984-87, declining to 22.5 percent in 1988, 20 percent in 1989, and 15 percent thereafter.

Effective date.—Taxable oil removed from the premises after December 31, 1983.

Revenue effect.—

Fiscal Years (Millions of dollars)

1984	+15
1985	+15
1986	......
1987	......
1988	......
1989	......
Sum of 1984-87	+30

Senate Amendment:

No provision.

House Bill:

(a) Cigarettes.—Imposes tax at rate of 12 cents per pack of 20 cigarettes after September 30, 1985, and before January 1, 1988.

Tax rate declines to 8 cents per pack of 20 cigarettes on January 1, 1988 (the pre-1983 rate).

Revenue effect.—

Fiscal Years (Millions of dollars)

1985	
1986	+838
1987	+974
1988	+251
1989	.....
Sum of 1984-87	+1,812

Senate Amendment:

(a) Cigarettes.—No provision.

House Bill:

(b) Distilled spirits.—Increases tax rate by \$3.75, to \$14.25 per proof gallon, after September 30, 1985, and before January 1, 1988.

Rate will return to \$10.50 per proof gallon on January 1, 1988.

Revenue effect.[1]—

Fiscal Years (Millions of dollars)

1984	
1985	+109
1986	+732
1987	+941
1988	+226
1989	
Sum of 1984-87	+1,782

[1] This provision increases the cover over of the excise tax to Puerto Rico.

Senate Amendment:

(b) Distilled spirits.—Increases tax rate by \$2.00, to \$12.50 per proof gallon, after December 31, 1984.

New rate is permanent.

Revenue effect.[1]—

Fiscal Years (Millions of dollars)

1984	
1985	+371
1986	+479
1987	+510
1988	+520
1989	+535
Sum of 1984-87	+1,360

[1] This provision limits the cover over of the excise tax to Puerto Rico (\$10.50 per proof gallon).

Item	Present Law
7. Modification of time and manner of paying cigarette and alcohol excise taxes (sec. 847 of the Senate amendment)	
(a) Time of payment	*(a) Time of payment.*—Cigarette and alcohol excise taxes generally are paid with respect to semimonthly periods; the taxes are due the following number of days after the last day of the semimonthly period:
	Cigarettes .... 25 days
	Domestically produced and bulk imported distilled spirits .... 30 days
	Bottled imported distilled spirits .... 15 days
	Wine and beer .... 15 days
(b) Method of payment	*(b) Method of payment.*—Payment generally must accompany return; no requirement of electronic funds transfer.

House Bill	Senate Amendment
No provision.	*(a) Time of payment.*—Payment of cigarette and all alcohol excise taxes required 14 days after close of each semimonthly period; payment due on last preceding business day if 14th day is Saturday, Sunday, or Federal holiday.

Effective date.—Generally, semimonthly periods ending on and after June 30, 1984.

(b) Method of payment.—Payment by electronic funds transfer required for taxpayers liable for $5 million or more in tax in preceding calendar year. Threshold is determined separately for tobacco, distilled spirits, wine, and beer.

Effective date.—Payments due after June 30, 1984.

Revenue effect.—

Fiscal Years

(Millions of dollars)

1984	+687
1985	+9
1986	−164
1987	+9
1988	+9
1989	+9
Sum of 1984-87	+541

Item	Present Law
B. Leasing Provisions	
Tax-Exempt Entity Leasing (secs. 31-33 of the House bill and secs. 21-22 of the Senate amendment)	
8. Tax-exempt entity leasing.—General rule	ITC generally denied for property leased to tax-exempt entities (nontaxable use restriction), but no restriction on depreciation deductions for property leased to tax-exempt entities.
9. Definition of domestic tax-exempt entity for purposes of nontaxable use restriction	Tax-exempt organizations (other than farmers' cooperatives) and U.S., State, and local governmental units, agencies, and instrumentalities.
10. Rules applicable to personal property subject to nontaxable use restriction	ITC denied for property used by a tax-exempt entity; no restriction on ACRS.
11. Rules applicable to real property subject to nontaxable use restriction	
(a) Definition of tax-exempt use property	*(a)* No special provision.
(b) Depreciation method	*(b)* 175-percent declining balance switching to straight-line. Only straight-line if rehabilitation credit is claimed.

House Bill	Senate Amendment
ITC denied and depreciation deductions reduced for tax-exempt use property.	Same as House bill.
Same as present law, except— *(a)* Includes taxable organizations that were tax-exempt during any part of preceding 5-year period, and U.S. possessions.	*(a)* Same as House bill, except— 5-year lookback rule does not apply to certain former cooperatives (e.g., rural electric cooperatives) that agree to remain taxable for the recovery period for the property involved and for 15 years thereafter.
(b) Excludes instrumentalities of U.S., State, or local governmental units if all activities are subject to U.S. tax and majority of board is not selected by U.S. or any State or political subdivision.	*(b)* No requirement regarding selection of board.
(a) No ITC for tax-exempt use personal property, and it must be depreciated using the straight-line method and a recovery period equal to the greater of the ADR midpoint life (12 years if no midpoint life) or the lease term.	*(a)* Same as House bill, but uses a recovery period equal to the greater of the midpoint life or 125 percent of the lease term.
(b) Authority to Treasury to prescribe midpoint lives where none currently assigned.	*(b)* No provision.
(a) Real property is characterized as tax-exempt use property to extent of disqualified use if disqualified use exceeds 20 percent. Disqualified uses require use by tax-exempt entity and:	*(a)* Same as House bill, except the disqualified use must exceed 50 percent (35 percent in the case of a single tax-exempt user):
(1) tax-exempt entity participates in financing property through tax-exempt bonds,	(1) same as House bill.
(2) lease contains a fixed or determinable purchase or sale option or there is the equivalent of such an option,	(2) same as House bill.
(3) lease term exceeds 80 percent of property's useful life, or	(3) lease term exceeds 20 years, or
(4) use occurs after a sale, lease, or other transfer of the property by the tax-exempt entity.	(4) same as House bill but with exception for property leased within 3 months after being placed in service by the tax-exempt entity.
(b) Straight-line.	*(b)* Same as House bill.

Item	Present Law
(c) Recovery period	*(c)* 15 years.
(d) Rehabilitation credit	*(d)* Allowed for real property used by tax-exempt entities.
12. Foreign-use rules	
(a) Foreign tax-exempt entity users	*(a)* ITC denied for property used by most international organizations and their agencies and instrumentalities and for most property used predominantly outside the U.S. but no restriction on depreciation deductions unless used predominantly outside the U.S.
(b) Movies and sound recordings	*(b)* 6⅔ percent ITC for qualified movies; income forecast method of cost recovery may be used. For sound recordings, no special provision for ITC; income forecast method of cost recovery may be used.

House Bill	Senate Amendment
(c) Greater of 40 years or 125 percent of lease term.	*(c)* Same as House bill.
(d) Denied for tax-exempt use property financed by tax-exempt bonds.	*(d)* Denied for all tax-exempt use property. Property that is reasonably expected to become tax-exempt use property is treated as tax-exempt use property.
(a) Property used by any foreign person or entity (including all international organizations and foreign governments, and agencies and instrumentalities thereof) is treated the same as property used by a domestic tax-exempt entity, unless more than 50 percent of income derived from the use of the property is subject to U.S. tax.	*(a)* Special rules apply to property used by any foreign person or entity (as defined in House bill), except where more than 20 percent of income derived from the use of the property is subject to U.S. tax (including income included under Subpart F in the income of a U.S. shareholder of a controlled foreign corporation in the year in which such income was derived). Special rules are phased in as follows— (1) *Special rule for 1983.*—For property (real or personal) placed in service and leased to a foreign person or entity before 1984, bill does not apply if identity of lessee does not change. (2) *Special rule for 1984.*—For property (real or personal) placed in service and leased to a foreign entity in 1984, one-half regular ITC is allowed, and property is depreciated using the 175-percent declining balance method over the longer of ADR midpoint life or 125 percent of lease term. (3) *Permanent rule.*—No ITC, and property (real or personal) is depreciated using the 150-percent declining balance method over midpoint life.
(b) Qualified movies are not subject to rules regarding use by foreign persons or entities. No provision for sound recordings.	*(b)* Same as House bill for qualified movies. Sound recordings are not subject to rules regarding use by foreign persons or entities. (Under the Senate amendment, movies are denied ACRS. Sound recordings may elect 3-year ACRS and 6 percent ITC, or income forecast depreciation and no ITC. See items 112 and 113.) Sound recordings are not subject to foreign-use rules.

Item	Present Law
13. **High-technology equipment and other short-lived property**	No special provision.
14. **Short-term lease exception**	
(a) Depreciation	*(a)* No special provision.
(b) Investment tax credit	*(b)* Personal property exempt from nontaxable use restriction on ITC if lease is casual or short-term under facts and circumstances.
15. **Lease term**	No special provision.
16. **ITC for property leased by thrift institutions not to exceed ITC allowable if such persons owned the property**	Thrift institutions allowed one-half ITC for property owned by them.

House Bill	Senate Amendment
(a) Exemption from reduced depreciation for certain high technology equipment—Exemption from reduced depreciation for computers and peripherals, high-technology telephone station equipment, and high-technology medical equipment if lease term is 5 years or less (if lease term is greater than 5 years, straight-line method is used over a 5-year recovery period), or if property is used predominately outside the U.S.	*(a) Exemption from reduced depreciation for certain short-lived property.*—Exemption from reduced depreciation for property with a midpoint life of 6 years or less (e.g., computers and peripherals and cars, but not any telephone station equipment), where lease term does not exceed 75 percent of property's midpoint life (5 years for property with a midpoint life of 6 years). High-technology medical equipment is treated as having midpoint life of 6 years.
(b) Exemption denied if property was previously used by the tax-exempt entity, was financed with tax-exempt bonds, or is used by the Federal government or an instrumentality thereof.	*(b)* No provision.
(c) Treasury directed to study whether ADR midpoint lives of high-technology equipment are appropriate and to report conclusions to Congress not later than July 1, 1984.	*(c)* Treasury, by prospective regulations, can give high-technology medical equipment a midpoint life greater than 6 years.
(a) For personal property, exemption where lease term is less than 1 year or less than 30 percent of property's midpoint life (to extent midpoint life does not exceed 10 years); for real property, exemption where lease term is less than 3 years.	*(a)* For personal property, exemption where lease term does not exceed 1 year and 30 percent of property's midpoint life (to extent midpoint life does not exceed 10 years); for real property, lease term does not exceed 3 years.
(b) Present law, except that for rehabilitation credit purposes, exemption where lease term is less than 1 year.	*(b)* Exemption where lease term is less than 6 months. For offshore oil and gas drilling equipment, exemption where lease term does not exceed 2.25 years. For certain containers, exemption where lease term does not exceed 1.8 years. For rehabilitation credit, exemption where lease term does not exceed 3 years.
Includes all options to renew and certain successive leases.	Same as House bill, except that in the case of real property, options to renew at fair rental value are disregarded.
No provision.	The lessor of property to thrift institution cannot claim ITC in excess of what the thrift institution could claim if it owned the property.

Item	Present Law
17. Service contracts	Property used to provide services to a tax-exempt entity may qualify for ITC under facts and circumstances.
18. Special service contract rules for certain facilities	No special provision.
19. Effective dates for tax-exempt leasing provisions	

House Bill	Senate Amendment
ITC denied and property subject to reduced depreciation if contract more properly treated as a lease, taking into account all relevant circumstances including whether— (1) service recipient is in physical possession, (2) service recipient controls, (3) service recipient has significant economic or possessory interest, (4) service provider bears significant risk of non-performance, (5) there is concurrent use by service provider to provide significant services to others, and (6) contract price substantially exceeds rental value.	Same as House bill, except that rules apply to treat a transaction as a lease for all income tax purposes, (e.g., to determine if property is public utility property), whether or not a tax-exempt entity is involved.
Special rules for qualified solid waste disposal facilities.—Contract for waste-to-energy facilities not treated as tax-exempt use property if— (1) tax-exempt entity does not control, or have physical possession of facility; and (2) service provider bears risk of substantially diminished receipts or increased expenditures if there is nonperformance	*Special rules for service contracts involving solid waste, energy, energy management, and clean water facilities.*—Contract for solid waste, energy, energy management, or clean water facilities not treated as lease unless service recipient— (1) operates facility; (2) bears significant financial burden if there is non-performance; (3) receives significant financial benefit if operating costs are less than the standards of performance; or (4) has a fixed or determinable price purchase option (other than at fair market value) or may be required to purchase.
(a) General effective date.—Generally applies to property placed in service by the taxpayer after May 23, 1983, and to property leased after that date, except as noted below. ***(b) Transitional rules.***—Exceptions are provided for property: (1) used under a sublease where master lease was entered into on or before May 23, 1983. (2) leased pursuant to a renewal option in a lease entered into on or before May 23, 1983.	***(a) General effective date.***—Same as House bill. ***(b) Transitional rules.***—Exceptions: (1) Same as House bill. (2) Same as House bill.

Item	Present Law
19. Effective dates for tax-exempt leasing provisions—Cont.	

House Bill	Senate Amendment
(3) leased pursuant to written contracts that were binding on May 23, 1983, requiring taxpayer to acquire and tax-exempt entity to lease property.	(3) Same as House bill.
(4) acquired or constructed pursuant to written contract that was binding on May 23, 1983, requiring taxpayer or tax-exempt entity to acquire or construct property not previously used by tax-exempt (or property acquired or completed by taxpayer or tax-exempt entity between January 1, 1983, and May 23, 1983), and (i) a contract entered into before January 1, 1984, requires tax-exempt entity to use property, or (ii) on May 23, 1983, there was a firm written plan for tax-exempt entity to enter into a contract for use property.	(4) No provision.
(5) where there was significant governmental action on or before May 23, 1983, at least $100,000 (or, if less, .5 percent of project cost) was paid or incurred by that date, and a contract entered into before January 1, 1984, requires tax-exempt entity to use property.	(5) No provision.
(6) Other transitional rules for certain property grandfathered under earlier legislation (i.e., mass commuting vehicles, certain boilers and turbines of rural electric cooperatives, and certain sewage or solid waste disposal facilities).	(6) Same as House bill.
(7) No special provision.	(7) Property used by Postal Service—general effective date is October 31, 1983.
(8) No special provision.	(8) Identification of 81 specific projects for which transitional relief is provided.
(9) No special provision.	(9) Transitional rule for property leased by Federal government if express appropriation for rentals was made prior to May 23, 1983, and there is no tax indemnity.

Item	Present Law
19. Effective dates for tax-exempt leasing provisions—Cont.	
Revenue effect of tax-exempt leasing provisions	
20. TRAC leasing (sec. 23 of the Senate amendment)	It is IRS position, and 1 court has agreed, that motor vehicle leases with terminal rental adjustment clauses (TRACs) in them cannot qualify as leases for tax purposes.

House Bill	Senate Amendment
(10) No provision.	(10) Containers placed in service before 1984, and used by foreign persons or entities before 1984, are exempted from ITC recapture by reason of use by a foreign person or entity prior to 1985. If used by such a person or entity after 1984, ITC recapture applies. (Floor amendment by Sen. Boschwitz, agreed to by voice vote.)
(11) Certain partnerships organized before October 21, 1983 exempted from pass-through rules.	(11) Same as House bill, but exempts additional partnerships.
(12) No special provision.	(12) Service contract rules as they apply outside the tax-exempt use area are effective November 5, 1983.
(13) Certain sewage facilities use 12-year recovery period.	(13) No provision.

House Bill

Revenue effect.—

Fiscal Years

(Millions of dollars)

1984	+683
1985	+990
1986	+1,740
1987	+3,070
1988	+4,871
1989	+6,978
Sum of 1984–87	+6,483

Senate Amendment

Revenue effect.—

Fiscal Years

(Millions of dollars)

1984	+492
1985	+998
1986	+1,809
1987	+3,124
1988	+5,005
1989	+7,086
Sum of 1984–87	+6,423

House Bill

No provision.

Senate Amendment

Motor vehicles leases are not to be denied lease treatment merely because they contain terminal rental adjustment clauses. Applies whether lessee uses vehicle for business or personal purpose. Does not apply if lessor finances with non-recourse debt.

Effective date.—Leases entered into before, on, or after date of enactment.

Revenue effect.—

Fiscal Years

(Millions of dollars)

1984	−38
1985	−41
1986	−9
1987	−2
1988	−3
1989	−4
Sum of 1984–87	−90

Item	Present Law
C. Treatment of Bonds and Other Evidences of Indebtedness	
21. Discount obligations (secs. 41–44 of the House bill and secs. 25–28 of the Senate amendment)	
(a) Market discount	*(a) Market discount.*—From the viewpoint of the holder of a bond, market discount is a substitute for stated interest— (1) Capital gain treatment generally is accorded to the appreciation in value attributable to market discount; (2) In many cases, interest on indebtedness incurred to purchase or carry a market discount bond is deductible against ordinary income, even though the income eventually generated by the investment is taxed on a deferred basis and at capital gain rates.
(b) Discount on short-term obligations	***(b) Discount on short-term obligations.—*** (1) Exceptions to the rule requiring periodic inclusion of original issue discount (OID) are provided for acquisition discount on short-term governmental obligations payable without interest at a fixed maturity not exceeding one year and for OID on certain short-term obligations other than governmental obligations.

House Bill	Senate Amendment
(a) Market discount.—	*(a) Market discount.—*
(1) Provides generally that gain on disposition of a market discount bond is recognized as interest income to the extent of accrued market discount.	(1) Same as House bill.
(2) Limits taxpayer's ability to take current interest deductions on indebtedness incurred to purchase or carry market discount bonds.	(2) Same as House bill, except— (i) under a special rule for financial institutions, a portion of all interest paid or incurred would be treated as attributable to market discount bonds, allocated by reference to the ratio of the basis of market discount bonds to the basis of all assets held by the financial institution. (ii) for bonds that are subject to the interest-deferral rule but not the interest-characterization rule, gain on disposition is recognized as interest income to the extent of the disallowed interest expense allowed as a deduction at the time of disposition.
(3) *Election.*—In lieu of the foregoing, bondholder may elect to include market discount in income in the taxable year during which it accrues.	(3) Same as House bill.
Effective date.—The interest-characterization rule applies to obligations issued after the date of enactment. The interest-deferral rule applies to obligations acquired after the date of enactment.	*Effective date.*—Same as House bill.
(b) Discount on short-term obligations.— (1) Mandatory accrual for (i) taxpayers who use the accrual method of accounting for other income tax accounting purposes, (ii) banks, (iii) broker dealers, and (iv) any transactions for which the hedging exception is claimed under the anti-straddle rules.	*(b) Discount on short-term obligations.—* (1) No provision.

Item	Present Law
21. Discount obligations (cont.) *(b) Discount on short-term obligations (cont.)*	(2) In many cases, interest on indebtedness incurred to purchase or carry obligations eligible for the exceptions can be deducted currently against unrelated income to generate a one-year tax deferral.

House Bill	Senate Amendment
(2) Limits a taxpayer's ability to take current interest deductions on indebtedness incurred to purchase or carry obligations that remain eligible for the exceptions. Provides an election to avoid application of the rule by accruing acquisition discount or OID currently.	(2) Essentially the same as House bill, except permits taxpayers who acquire obligations other than governmental obligations to apply the rule with respect to acquisition discount rather than OID.
Effective date.—Obligations acquired after the date of enactment.	*Effective date.*—Same as House bill.
Election.—Provides an election to accrue acquistion discount or OID currently, for all short-term obligations held during the taxable year that includes the date of enactment. If election is made, treats the application of the accrual rule as a change in method of accounting and spreads additional taxable income over a ten-year period without interest.	*Election.*—Provides an election to apply the interest-deferral rule to all short-term obligations held during the taxable year that includes the date of enactment. If election is made, permits a five-year pay-in period for additional tax liability attributable to income deferred from taxable years prior to the year that includes the date of enactment, with interest charged on unpaid installments of tax.
Revenue effect.—	*Revenue effect.*—

Fiscal Years

(Millions of dollars)

Fiscal year	House Bill	Senate Amendment
1984	+72	+154
1985	+146	+663
1986	+150	+93
1987	+153	+92
1988	+155	+90
1989	+158	+72
Sum of 1984-87	+521	+1,002

Item	Present Law
D. Corporate Tax Provisions	
22. Dividends received deduction for debt-financed portfolio stock (sec. 51 of the House bill and sec. 31 of the Senate amendment)	Interest deductions and dividends received deductions allowed with respect to debt-financed dividend-paying stock without limitation.
23. Distributions from mutual funds (sec. 52 of the House bill and sec. 32 of the Senate amendments)	*(a)* If at least 75 percent of a mutual fund's gross income for a taxable year consists of dividend income, all its distributions are treated as dividends for purposes of the dividend exclusion and the dividends received deduction. *(b)* No requirement that the fund be otherwise entitled to dividends received deduction with respect to any payment for that payment to be treated as a dividend for these purposes. *(c)* For these purposes, it is unclear whether short-term capital gain from disposition of securities is treated as gross income although IRS says it is. *(d)* If less than 75 percent of gross income consists of dividend income, percentage of distributions treated as dividends equals percentage of dividend income divided by all gross income.

House Bill	Senate Amendment
Dividends received deductions generally reduced or eliminated where stock is debt-financed portfolio stock. For this purpose, proceeds of a short sale are treated as indebtedness.	Same as House bill except that proceeds of a short sale are treated as indebtedness only if payments in lieu of dividends with respect to the stock sold short are not required to be capitalized under the amendment.
Effective date.—Stock the holding period for which begins after date of enactment.	*Effective date.*—Same as House bill.
Revenue effect.—Revenue gain of less than $10 million annually.	*Revenue effect.*—Same as House bill.
(a) Increases 75-percent test to 100 percent, for purposes of the dividends received deduction only.	*(a)* Increases 75 percent test to 95 percent, for purposes of both the dividend exclusion and the dividends received deduction.
(b) No payment treated as dividend unless the fund would have been entitled to a dividends received deduction with respect to the payment.	*(b)* Same as House bill.
(c) No provision.	*(c)* Short-term capital gain from disposition of securities is treated as gross income for these purposes.
(d) No provision.	*(d)* If 95-percent test is not met, present law proration rule replaced by rule that amount of distribution treated as a dividend for purposes of the dividends received deduction cannot exceed amount of dividends received by the fund.
Effective date.—Fund taxable years beginning after date of enactment.	*Effective date.*—Same as House bill.
Revenue effect.— *Fiscal Years* *(Millions of dollars)* 1984 .... 1985 .... 1986 .... +83 1987 .... +89 1988 .... +96 1989 .... +103 Sum of 1984-87 .... +172	*Revenue effect.*— *Fiscal Years* (Millions of dollars) 1984 .... 1985 .... 1986 .... +66 1987 .... +71 1988 .... +77 1989 .... +82 Sum of 1984-87 .... +137

Item	Present Law
24. **Corporate shareholder's basis in stock reduced by non-taxed portion of extraordinary distribution (sec. 53 of the House bill and sec. 35 of the Senate amendment)**	
(a) Reduction in shareholder's basis in stock	*(a)* Corporate shareholder's basis not reduced by any dividend distribution.
(b) Holding period requirement for dividends received deduction	*(b)* The dividends received deduction is disallowed unless the taxpayer satisfies a 16-day holding period requirement with respect to the underlying stock (91 days in the case of dividends on certain preferred stock). The 16-day and 91-day holding periods do not include periods during which the taxpayer has an option to sell, is under a contractual obligation to sell, or has made (and not closed) a short sale of substantially identical stock or securities.
(c) Corresponding payments made with respect to dividends	*(c)* Dividends received deduction is disallowed to the extent that the taxpayer is under an obligation to make corresponding payments with respect to substantially identical stock or securities.

House Bill	Senate Amendment
(a) Reduces a corporate shareholder's basis in stock by reason of non-taxed portion of certain extraordinary dividends. Property distributions taken into account at fair market value.	*(a)* Same as House bill.
Effective date.—Distributions after March 1, 1984.	*Effective date.*—Distributions after date of enactment.
(b) Expands the scope of the provision that suspends the holding period of stock to include—	*(b)* Same as House bill, except—
(1) any period during which the taxpayer is the grantor of an option to buy substantially identical stock or securities, subject to an exception for qualified covered call options; and	(1) Same as House bill.
(2) any period during which the taxpayer holds one or more other positions that substantially reduce the risk of loss from holding the stock.	(2)(i) any period during which the taxpayer has reduced the risk of loss from holding the stock by reason of holding one or more positions in substantially similar property (as defined in Committee Report), and, prospectively only, as regulations may provide. (ii) Exception for broker and dealers with respect to ordinary income or loss property.
Effective date.—Stock acquired after date of enactment	*Effective date.*—Same as House bill.
(c) No provision.	*(c)* Provides that the deduction is disallowed if the taxpayer is obligated to make corresponding payments with respect to positions in substantially similar property.
	Effective date.—Stock acquired after date of enactment.
Revenue effect.—	***Revenue effect.***—Same as House bill.

Fiscal Years

(Millions of dollars)

1984	
1985	+140
1986	+100
1987	+100
1988	+100
1989	+100
Sum of 1984–87	+340

Item	Present Law
25. Non-liquidating distributions by corporations of appreciated property (sec. 54 of the House bill and sec. 36 of the Senate amendment)	
(a) General rule	Gain generally not recognized except for recapture, LIFO inventory, and excess liabilities, and in certain redemptions.
(b) Exceptions to new rule	

House Bill	Senate Amendment
(a) Gain recognized, except as noted below.	*(a)* Same as House bill.
(b) Exceptions: (1) Distributions to 80 percent corporate shareholders. (2) Distributions of active trade or business property (other than inventory and certain accounts or notes receivable) to certain non-corporate shareholders to the extent treated as a dividend. (3) Certain exceptions of present law.	*(b)* Same as House bill.
***Effective date.*—**Distributions declared after date of enactment.	***Effective date.***—Distributions declared after March 15, 1984.
Exceptions.—Distributions before February 1, 1986, of royalty trusts by certain corporations with respect to which a royalty trust proposal was submitted by certain groups.	*Exceptions.*—(i) Any distributions before February 1, 1986, by corporations referred to under House bill exception. (ii) Certain distributions of partnership interests traded on a national securities exchange on March 7, 1984, by certain corporations owning more than 80 percent of such interests on March 7, 1984. (iii) Certain distributions declared before date of enactment of not more than 51 percent of stock of controlled corporations by certain corporations pursuant to proposals considered before February 15, 1982. (Floor amendment by Sen. Levin, agreed to by voice vote.)
***Revenue effect.*—**	***Revenue effect.***—Same as House bill.

Fiscal Years

(Millions of dollars)

1984	+3
1985	+18
1986	+64
1987	+114
1988	+169
1989	+227
Sum of 1984—87	+199

Item	Present Law
26. Holding period for property distributed by one corporation to another (sec. 54 of the House bill and sec. 35 of the Senate amendment)	Corporate shareholder adds holding period of distributing corporation if basis is determined with reference to distributing corporation's basis.
27. Certain expenses incurred in connection with short sales (sec. 56 of the House bill and sec. 41 of the Senate amendment)	
(a) Payments in lieu of dividends	*(a)* Payments in lieu of dividends with respect to stock used in a short sale are deductible against ordinary income.
(b) Special holding-period rule where risk of loss substantially diminished	*(b)* No provision.

House Bill	Senate Amendment
Corporate shareholder does not add distributing corporation's holding period but starts holding period not earlier than date stock with respect to which the distribution is made was acquired.	Same as House bill.
Effective date.—Distributions declared after date of enactment.	*Effective date.*—Distributions made after date of enactment.
Revenue effect.—Negligible.	*Revenue effect.*—Same as House bill.
(a) Payments in lieu of dividends are not deductible unless the short sale is held open for at least 16 days (more than one year in the case of payments in lieu of extraordinary dividends).	*(a)* Same as House bill, except the amount disallowed as a deduction is reduced by any ordinary income received from a person providing the stock used in the short sale as compensation for having to keep the short sale proceeds on deposit with the lender. (Floor amendment by Sen. Dole, adopted by voice vote.)
(b) In determining whether a short sale is held open for the required 16-day or more-than-one-year holding period, there is not to be included any period during which—	*(b)* Same as House bill, except——
(1) the taxpayer holds, has an option to buy, or is under a contractual obligation to buy, substantially identical stock or securities, or	(1) Same as House bill.
(2) there is otherwise a substantial diminution of the taxpayer's risk of loss from the short sale by reason of holding one or more other positions.	(2) the taxpayer has diminished the risk of loss by holding one or more other positions with respect to substantially similar property (as defined in the Committee report) and, prospectively only, as regulations may provide.

Item	Present Law
(c) Denial of deduction for short sale expenses related to tax-exempt income	*(c)* No deduction is allowed for interest on indebtedness incurred to purchase or carry tax-exempt obligations. Under a court case (the *Leslie* case), this rule is applied to broker-dealers by allocating interest on indebtedness not directly attributable to particular assets according to a formula which treats indebtedness as allocable on a pro-rata basis to all other assets.

House Bill	Senate Amendment
(c) For purposes of the present-law provision, the definition of interest is expanded to include any amount paid or incurred in connection with personal property used in a short sale.	*(c)* Same as House bill except— (1) the rule applies, in addition, to any amount paid by the person lending the stock used in the short sale as compensation for use of collateral with respect to the stock (floor amendment by Sen. Dole, adopted by voice vote); (2) it is clarified that this provision does not apply to a broker who acts as a conduit in a transaction executed in a customer's account (floor amendment by Sen. Dole, adopted by voice vote); and (3) short sale expenses are treated as directly allocable to the assets used as collateral for the use of the property used in the short sale so that neither the expenses nor the collateral would enter into the pro-rata *Leslie* formula. (Floor amendment by Sen. Dole, adopted by voice vote.)
Effective date.—Short sales after date of enactment.	***Effective date.***—Same as House bill.
Revenue effect.—	***Revenue effect.***—Same as House bill.

Fiscal Years

(Millions of dollars)

1984	+22
1985	+32
1986	+38
1987	+43
1988	+48
1989	+54
Sum of 1984–87	+135

Item	Present law
28. Phaseout of graduated rate for large corporations (sec. 44 of the Senate amendment)	Present law provides graduated corporate rates on the first $100,000 of taxable income. These rates provide a maximum tax reduction of $20,250 in tax below the tax which would be imposed if the tax rate on that income were 46 percent.
29. Increase in reduction of certain corporate tax preference items from 15 percent to 20 percent (sec. 45 of the Senate amendment)	TEFRA reduced certain corporate tax preferences by 15 percent. These preferences include real estate capital gains, percentage depletion for coal and iron ore (but not other minerals), bad debt reserves and interest to carry tax-exempt obligations of financial institutions, amortization of pollution control facilities, DISC, intangible drilling expenses of integrated oil companies, and mining exploration and development costs. The corporate minimum tax was adjusted to prevent a double impact of the two provisions.

House Bill	Senate Amendment
No provision.	Phases out the benefits of the graduated rates on corporations with taxable income in excess of $1 million, by imposing an additional 5 percent tax on the first $400,000 of taxable income over $1 million. This recaptures $20,000 of the graduated rate benefits for corporations with taxable income in excess of $1.4 million. *Effective date.*—Taxable years beginning after December 31, 1983. ***Revenue effect.***— *Fiscal Years* (Millions of dollars) 1984 .... +70 1985 .... +212 1986 .... +185 1987 .... +190 1988 .... +192 1989 .... +194 Sum of 1984-87 .... +657
No provision.	Increases the preference cutback from 15 to 20 percent, including a similar adjustment to the new Foreign Sales Corporation (FSC) provision. Makes a corresponding adjustment to the corporate minimum tax. The cutback in the depletion allowance for coal and iron ore remains unchanged. (Floor amendment by Sen. Specter, adopted by voice vote) *Effective date.*—Taxable years and transactions beginning after December 31, 1984. ***Revenue effect.***— *Fiscal Years* (Millions of dollars) 1984 .... 1985 .... +236 1986 .... +357 1987 .... +400 1988 .... +449 1989 .... +512 Sum of 1984-87 .... +993

Item	Present Law
30. "Golden parachute" contracts (sec. 46 of Senate amendment)	Corporations are allowed to deduct ordinary and necessary trade or business expenses, including reasonable compensation. Compensation is normally includible as ordinary income when received.
31. Earnings and profits (sec. 47 of the Senate amendment)	Generally, distributions from corporations are treated as dividends only to the extent of earnings and profits. Dividends to individuals are generally taxed as ordinary income while dividends to corporations are generally at least 85 percent tax free. With exceptions not presently relevant, earnings and profits generally are increased or decreased by taxable income or loss rather than true economic income. However, for earnings and profits purposes, depreciation is computed on a straight-line basis over extended lives (35 years for 15-year real property). Redemption distributions reduce capital account on a pro rata basis with the excess reducing earnings and profits. Earnings and profits also have an impact on the tax liability of a U.S. parent of a foreign subsidiary. For example, the concept is used in deemed foreign tax credit computations. In general, the benefits of the deemed foreign tax credit increases as earnings and profits of the foreign corporation decrease.

House Bill	Senate Amendment
No provision.	Rebuttable presumption that payments under "golden parachute" contracts are not reasonable compensation. If presumption is not overcome, no payments are deductible, and recipient has a nondeductible 20-percent excise tax upon receipt. FICA rules apply. "Golden parachute" contract is a contract calling for payments which have a present value of more than 200 percent of recipient's highest compensation in any of the preceding 5 years and which are payable by reason of change or threatened change in ownership or control. Also includes certain contracts treated as "golden parachutes" by SEC. *Effective date.*—Payments under contracts entered into after March 15, 1984. *Revenue effect.*—Increase revenues by less than $5 million annually.
No provision.	A corporation's "earnings and profits" are defined to more nearly conform to its true economic income than is the case under present law. Thus— (1) For earnings and profits purposes, construction period interest, taxes, and other carrying charges are to be capitalized as a part of the asset to which they relate. (2) For earnings and profits purposes, (i) intangible drilling costs for productive property are to be capitalized and amortized over 5 years, beginning in the year placed in service, and (ii) mineral exploration and development costs for unabandoned property are to be capitalized and amortized over 10 years, beginning in the year placed in service. (3) For earnings and profits purposes, amounts for certain intangibles (circulation expenditures, trademarks and tradenames, and organizational expenses) are to be capitalized as a part of the asset to which they relate and amortized, if at all, as a part of that asset.

Item	Present Law
31. Earnings and profits-Cont.	

House Bill	Senate Amendment

(4) Earnings and profits are increased by gain realized on distributions of appreciated property.

(5) Earnings and profits are generally adjusted for changes in LIFO reserves, subject to regulations.

(6) Earnings and profits are increased by deferred gain in installment sales.

(7) Taxpayers reporting income on the completed contract method must compute earnings and profits on a percentage of completion basis.

(8) Domestic real property qualifying as 15-year property under present law is to be depreciated for earnings and profits purposes on the straight-line method over 40 years.

(9) In the case of redemption distributions, earnings and profits are reduced in proportion to the percentage of stock redeemed (but not by more than amount of redemption).

Effective date.—These changes are generally effective, with exceptions providing for earlier effective dates, for taxable years beginning after date of enactment.

Revenue effect.—

Fiscal Years

(Millions of dollars)

1984	....
1985	+108
1986	+308
1987	+343
1988	+389
1989	+430
Sum of 1984–87	+759

Item	Present Law
32. Dividend distributions of discount obligations by corporations (sec. 60 of the House bill and sec. 47 of the Senate amendment)	The distribution of a discount obligation is a dividend only to the extent of fair market value but probalby reduces earnings and profits by full principal amount. Applicability of original issue discount rules is unclear.
33. Delay in application of net operating loss rules added by Tax Return Act of 1976 Reform (sec. 805 of the House bill and sec. 48 of the Senate amendment)	*(a)* For acquisitions other than reorganizations, the net operating loss, etc. rules of the Tax Reform Act of 1976 generally go into effect with respect to taxable years beginning after June 30, 1984. *(b)* For reorganizations, those rules go into effect for transactions pursuant to a plan adopted on or after January 1, 1984.
34. "C" reorganizations (sec. 49 of the Senate amendment)	A "C" reorganization is an acquisition of substantially all the assets of a corporation solely for voting stock. There is no requirement that an acquired corporation in a C reorganization "liquidate."
35. "D" reorganizations (sec. 50 of the Senate amendment)	A "D" reorganization includes a transfer of substantially all the assets of 1 corporation to a related corporation. No D reorganization can occur unless, after the transaction, either the acquired corporation or its shareholders control, the acquiring corporation. Control requires ownership of at least 80 percent of the voting power and at least 80 percent of all classes of nonvoting stock. No attribution rules apply.

House Bill	Senate Amendment
The distribution of a discount obligation reduces earnings and profits by its fair market value, not its full principal amount. Applies original issue discount rules.	Same as House bill.
Effective date.—Distributions made after date of enactment.	*Effective date.*—Distributions declared after March 15, 1984.
Revenue effect.—Increase revenues by less than $10 million annually.	*Revenue effect.*—Same as House bill.
(a) Substitutes October 31, 1984, for June 30, 1984, for effective date of 1976 rules.	*(a)* Substitutes December 31, 1985.
(b) Substitutes November 1, 1984, for January 1, 1984, for effective date of 1976 rules.	*(b)* Substitutes January 1, 1986.
Revenue effect.—Reduce revenues by less than $10 million annually.	*Revenue effect.*—Same as House bill.
No provision.	Except as otherwise provided by regulations, acquired corporation must "liquidate" if there is to be a "C" reorganization.
	Regulatory authority is granted for allocation of earnings and profits where acquired corporation has corporate parent owning at least 80 percent of its stock.
	Effective date.—Transactions pursuant to a plan adopted after date of enactment.
	Revenue effect.—Increase revenues by less than $10 million annually.
No provision.	Control requirement changed from 80 percent to 50 percent. Attribution rules made applicable.
	Effective date.—Transactions pursuant to a plan adopted after date of enactment.
	Revenue effect.—Increase revenues by less than $10 million annually.

Item	Present Law
36. Collapsible corporations (sec. 164 of the House bill and sec. 51 of the Senate amendment)	The collapsible corporation rules operate to prevent the use of a corporation to convert ordinary income to capital gain. These rules generally are inapplicable if a collapsible corporation realizes a "substantial part" of the income to be derived from collapsible assets. Under court decisions, application of the "substantial part" test is satisfied if the corporation realizes as little as one-third of the income to be derived from collapsible assets. Present law also provides an exception to the rules if 70 percent or less of a shareholder's total gain is attributable to collapsible assets of the corporation (the "70/30 rule").

House Bill	Senate Amendment
Provides that the "substantial part" test requires the realization of at least two-thirds of the income from collapsible assets. Makes conforming changes to the 70/30 rule.	Same as House bill.
Effective date.—Sales, exchanges, and distributions after the date of enactment.	*Effective date.*—Sales, exchanges, and distributions after December 31, 1984 (except sales after that date where the corporation realized a substantial part of the taxable income before that date).

House Bill

***Revenue effect.*—**

Fiscal Years

(Millions of dollars)

1984	+5
1985	+57
1986	+196
1987	+305
1988	+351
1989	+382
Sum of 1984–87	+563

Senate Amendment

***Revenue effect.*—**

Fiscal Years

(Millions of dollars)

1984	
1985	+8
1986	+81
1987	+256
1988	+351
1989	+382
Sum of 1984–87	+345

Item	Present Law
37. Condominium conversions (sec. 801 of the House bill.)	Sale of condominium units by a building owner generally does not qualify for capital gain treatment. An owner may generally secure capital gain treatment by selling the property to an unrelated person, who may then convert the property.
(a) Allowance of capital gain treatment	
(b) Amount eligible for capital gain treatment	
(c) Recognition of capital gain or loss	
(d) Overvaluation rules	
(e) Collapsible corporation rules	

House Bill	Senate Amendment
(a) Allows property-by-property election to treat portion of gain on sale or exchange of condominium units by building owner as capital gain. This election applies to property used by the taxpayer in a trade or business at all times during five-year period ending on the determination date (as described below). *(b)* Capital gain treatment applies to excess (if any) of— (1) fair market value of property on the determination date (excluding improvements made in anticipation of conversion), over (2) adjusted basis of property to the owner, increased by depreciation recapture. Determination date is earliest of dates on which: (i) taxpayer adopts conversion plan, (ii) substantial improvements are begun in anticipation of conversion, or (iii) form of ownership of property changes into condominium units. If more than two years elapse between sale of first and second unit, date of second sale is substituted for (i) and (iii) above. *(c)* The amount eligible for capital gain treatment is allocated among individual units according to their fair market value on the determination date and realized in part on the sale of each unit (together with any ordinary income gain). Where property is sold for less than fair market value on the determination date, shortfall results: (1) in reduction of gain on disposition of property used in a trade or business (sec. 1231); and, to the extent of any excess, (2) in ordinary loss. *(d)* Reduce capital gain amount by 20 percent for each full percentage point of overvaluation in excess of 15 percent. The amount of this reduction is treated as ordinary income. [*(e)* The House provision also contained certain collapsible corporation rules, see item 36, above.]	No provision.

Item	Present Law
37. Condominium conversions—Cont.	
38. Repeal of stock for debt exception for purposes of determining income from discharge of indebtedness (sec. 59 of the House bill)	Generally, a taxpayer has income from the discharge of indebtedness when its debts are satisfied at less than their face amount. However, cases have held that a corporation does not have income from the discharge of indebtedness when its debts are satisfied with its own stock, notwithstanding that the value of the stock is less than the amount of the debt.

House Bill	Senate Amendment
Effective date. Conversions after date of enactment.	

Revenue effect.—

Fiscal Years

(Millions of dollars)

1984	−33
1985	−72
1986	−71
1987	−53
1988	−29
1989	−18
Sum of 1984–87	−229

House Bill	Senate Amendment
Provides that a debtor corporation has income from the discharge of indebtedness when it satisfies its debt with stock having a fair market value less than the principal of the debt. Rule does not apply where debtor is in bankruptcy or is insolvent *Effective date.*—Transfers after date of enactment. *Revenue effect.*—Increases revenues by less than $5 million annually.	No provision.

Item	Present Law
39. Consolidated returns (sec. 61 of the House bill and sec. 52 of the Senate amendment)	
(a) Eligibility to file	*(a)* If one corporation owns (i) stock possessing at least 80 percent of total voting power and (ii) at least 80 percent of each class of non-voting stock, of another corporation, the two may file consolidated returns so that, among other things, losses of one may be deducted against income of the other.
(b) Deconsolidation	*(b)* No special provision.
(c) Stock ignored	*(c)* Stock limited and preferred as to dividends and stock held under certain employee stock ownership plans is ignored in determining eligibility.
(d) Reconsolidation	*(d)* No special provision.

House Bill	Senate Amendment
(a) Eligibility changed to require ownership of (i) stock possessing at least 80 percent of voting power and (ii) at least 80 percent of total value of all stock.	*(a)* Same as House bill, with regulatory authority to provide relief from 80 percent of value requirement. (Floor amendment by Sen. Dole agreed to by voice vote.)
(b) Deconsolidation required if ownership interest drops to (i) stock possessing less than 80 percent of the voting power, or (ii) 50 percent or less of total value of all stock.	*(b)* Same as House bill.
(c) Non-convertible stock limited and preferred as to dividends and in liquidation and stock held under certain employee stock ownership plans.	*(c)* Non-convertible stock limited and preferred as to dividends and in redemption and liquidation.
(d) No reconsolidation for 5 taxable years after deconsolidation without Secretary's consent.	*(d)* Generally, the same as House bill, with special rule for certain domestic insurance companies.
Effective date.—Taxable years beginning after December 31, 1984.	*Effective date.*—Same as House bill.
Permament exception for corporations affiliated under present law on March 1, 1984.	Temporary exception through 1987, for corporations affiliated under present law on April 11, 1984, if a consolidated return is filed for the taxable year which includes April 11, 1984.
Revenue effect.—	***Revenue effect.—***

Fiscal Years

(Millions of dollars)

Fiscal year	House Bill	Senate Amendment
1984	....	....
1985	+52	+11
1986	+94	+29
1987	+119	+48
1988	+99	+27
1989	+70	+8
Sum of 1984–87	+265	+88

Item	Present Law
E. Partnership Provisions	
40. Retroactive allocations (sec. 72 of the House bill and sec. 56 of the Senate amendment)	A partner's share of partnership items of income, gain or loss, deduction or credit generally is determined in accordance with the partner's interest in the partnership if the partnership agreement does not provide for the partner's share or if the agreement's provisions lack substantial economic effect. When there are variations in the partners' interests during the year, those variations must be taken into account in determining the partners' shares of partnership items. Thus, retroactive allocations of partnership items of income, gain or loss, deduction or credit are prohibited. This prohibition may be effectively avoided in the case of cash method partnerships or tiered partnerships.
41. Payments for services or property (sec. 73 of the House bill and sec. 57 of the Senate amendment)	
(a) Disguised payments for services or property	*(a)* A person providing services or property to a partnership may take back an allocation of partnership income and a corresponding distribution in lieu of a direct payment.

House Bill	Senate Amendment
The Secretary is to provide regulations which will determine the partners' shares of any partnership items when there are variations in the partners' interests. Unless these regulations provide otherwise, cash basis partnerships will allocate interest, taxes, payments for services, rents and other items specified in regulations among partners by reference to the accrual of those items over the various periods for which different interests exist. In the case of tiered partnerships, items of the subsidiary partnerships are allocated ratably over the days in the parent partnership's year during which it owns an interest in the subsidiary unless the regulations provide otherwise.	Same as House bill, except— (1) a partnership may elect, under statutory rules, to treat changes in interests as occurring once a month, and (2) this monthly rule does not apply to disposition of an entire interest.
Effective date.—Amounts attributable to periods after March 31, 1984, for cash basis partnerships. Amounts paid or accrued after March 31, 1984 by the lower tier partnership for tiered partnerships.	*Effective date.*—Same as House bill.
Revenue effect.—	*Revenue effect.*—Same as House bill.

Fiscal Years

(Millions of dollars)

1984	....
1985	+50
1986	+75
1987	+100
1988	+100
1989	+100
Sum of 1984–87	+225

House Bill	Senate Amendment
(a) Allocations and distributions of partnership income in exchange for services or property are treated like payments for services or property made to a person who is not a partner if direct payment would be capitalized.	*(a)* Same as House bill, except— (1) Allocations and distributions are recharacterized only if the transaction is properly characterized as a sale or performance of services, and (2) all disguised payments, not just capital expenditures, are subject to the rule.
Effective date.—Transfers after March 1, 1984.	*Effective date.*—Transfers after February 29, 1984.

Item	Present Law
(b) Disguised sales	*(b)* A person may disguise a sale of property to a partnership or its partners by receiving consideration in the form of a partnership distribution.
(c) Definition of partner	*(c)* No special provision.
42. Transfers of partnership interests by corporations (sec. 75 of the House bill and sec. 59 of the Senate amendment)	It is not completely clear that recapture provisions apply when a corporation distributes, or makes a liquidating sale of, a partnership interest.

House Bill	Senate Amendment
(b) Treats a transfer of money or property to a partnership as a sale of property if there is a related distribution of property or money.	*(b)* Generally, same as House bill, except for clarifying changes.
Effective date.—Transfers after March 1, 1984.	***Effective date.***—Transfers after March 31, 1984, except for certain transfers before December 31, 1984, for which a written offering was circulated before February 28, 1984, and costs of such offering exceeded $250,000.
(c) For purposes of (a) and (b), treats a partner joining at the end of a series of transactions as a partner for the entire series.	*(c)* Provides for same result under regulations.
Revenue effect.—	***Revenue effect.***—Same as House bill.

Fiscal Years

(Millions of dollars)

1984	....
1985	+20
1986	+51
1987	+60
1988	+69
1989	+78
Sum of 1984–87	+131

House Bill	Senate Amendment
A corporation is treated as distributing or selling its share of recapture property when it distributes or makes a liquidating sale of a partnership interest or an interest in a trust.	Same as House bill.
Effective date.—Applies to distributions, sales and exchanges after March 1, 1984.	***Effective date.***—Applies to distributions, sales and exchanges after March 31, 1984.
Revenue effect.—	***Revenue effect.***—Same as House bill.

Fiscal Years

(Millions of dollars)

1984	....
1985	[1]
1986	+50
1987	+50
1988	+50
1989	+50
Sum of 1984–87	+100

[1] Negligible.

Item	Present Law
43. Section 1031 not applicable to partnership interests; limitation on the period during which like-kind exchanges may be made (sec. 77 of the House bill and sec. 61 of the Senate amendment)	Gain or loss is not recognized on an exchange of property held for productive use in a trade or business or for investment if the exchange is made for property of a like-kind. This non-recognition rule does not apply to exchanges of stock, bonds, notes, or other securities or evidence of indebtedness or beneficial interest. *(a)* Cases have held that exchanges of interests in different partnerships may qualify for tax-free treatment under the like-kind exchange rules. *(b)* Case law has applied the like-kind exchange rules to provide tax-free treatment where replacement property is not received until 5 years after the original property transfer.
44. Elimination of basis strips under section 734(b) (sec. 78 of the House bill)	A partnership may elect to increase the basis of its remaining assets when the basis of distributed assets is reduced upon their distribution to a partner with a low basis for his interest. This increase may be accomplished without a reduction in asset basis if, rather than distributing assets directly to the partner, they are contributed to a lower tier partnership which has no basis adjustment election in effect and an interest in that partnership is distributed to the low basis partner.
45. Allocation of certain liabilities to limited partners (sec. 79 of the House bill)	A recent case, *Raphan* v. *United States,* held that a general partner was not to be treated as personally liable for an otherwise nonrecourse partnership debt which he guaranteed. Nonrecourse debt is allocated to all partners, including limited partners, who may thereby increase their maximum partnership deductions. Treasury regulations governing the rules for sharing partnership liabilities may be in need of revision.

House Bill	Senate Amendment
(a) Partnership interests would not be eligible for tax-free like-kind exchange treatment.	*(a)* Same as House bill.
Effective date.—Transfers after March 31, 1984 except exchanges pursuant to a contract binding on March 1, 1984.	***Effective date.***—Transfers after the date of enactment.
(b) Like-kind exchange treatment would be limited to cases in which the property to be received is acquired within 180 days of the original property transfer or, if earlier, the due date of the return for the year in which the original transfer occurs.	*(b)* Same as the House bill, except that the property to be received by the taxpayer must be identified on the date of the original property transfer.
Effective date.—Transfers after date of enactment, and earlier transfers if the property to be received is not acquired before January 1, 1987.	***Effective date.***—Transfers after the date of enactment.
Revenue effect.—	***Revenue effect.***—Same as House bill.

Fiscal Years

(Millions of dollars)

1984	....
1985	+226
1986	+630
1987	+667
1988	+788
1989	+842
Sum of 1984–87	+1,523

House Bill	Senate Amendment
A basis increase would not be permitted where the distributed property is an interest in a second partnership without a basis adjustment election in effect.	No provision.
Effective date.—Distributions after March 1, 1984.	
Revenue effect.—Negligible.	
Regulations are authorized relating to the treatment of partnership liabilities, including rules that reject the holding in the *Raphan* case.	No provision.
Effective date.—Amounts paid or incurred after March 1, 1984.	
Revenue effect.—Included in the estimated revenues for other partnership provisions.	

Item	Present Law
F. Accounting Changes	
46. Premature accruals (sec. 91 of the House bill and sec. 71 of the Senate amendment)	Under the accrual method of accounting, an expense is deductible when— (1) all events have occurred that determine the fact of liability, and (2) the amount of the liability can be estimated with reasonable accuracy. The proper time for deducting expenses for which economic performance has not yet occurred is the subject of controversy under present law. In general, net operating losses may be carried back 3 years and forward 15 years. A special 10-year carryback is provided for product liability losses.

House Bill	Senate Amendment
(a) General rule.—Economic performance must occur before all events establishing the fact of liability will be considered to have occurred.	*(a)* Same as House bill.
(b) Employee benefits.—In general, if a taxpayer has a liability to provide benefits to employees, economic performance occurs when payments are made to the employee. The rule does not apply, however, to benefits provided through a qualified pension, profit-sharing, stock bonus or other deferred compensation arrangement under sec. 404 or 404A, or through a funded welfare benefit plan to which sec. 419 of the Code (as added by the bill) applies.	*(b)* Same as House bill, except if payments are made before 2½ months after the end of the taxable year, economic performance is treated as occurring in such taxable year. For contributions to certain trusts, including funded welfare benefit plans, economic performance occurs when payments are made to the plan or trust.
(c) Exceptions.—Items for which specific timing rules are provided under the Code, such as bad debts and vacation pay.	*(c)* Same as House bill.
(d) NOL carrybacks.—Provides a 10-year carryback for losses arising from certain deferred liabilities (or, in the case of nuclear decommissioning expenses, a carryback to the year the nuclear power facilities are placed in service). No loss may be carried back to a taxable year beginning before January 1, 1984, unless it may be carried back without regard to this special rule.	*(d)* Same as House bill.
Effective date.—Expenses accruing under present law after date of enactment.	*Effective date.*—Expenses accruing under current law or under economic performance rule after date of enactment. To prevent double deductions, differences subject to section 481.

House Bill

Revenue effect.—

Fiscal Years

(Millions of dollars)

1984	+303
1985	+643
1986	+646
1987	+603
1988	+576
1989	+563
Sum of 1984–87	+2,195

Senate Amendment

Revenue effect.—

Fiscal Years

(Millions of dollars)

1984	+242
1985	+542
1986	+526
1987	+467
1988	+431
1989	+409
Sum of 1984–87	+1,777

Item	Present Law
47. Nuclear power plant decommissioning costs (sec. 71 of the Senate amendment)	An accrual-basis taxpayer is allowed to deduct an expense in the taxable year in which all the events have occurred which determine the fact of the liability and the amount can be determined with reasonable accuracy. Generally, under Federal and State laws, utility companies that operate nuclear power plants are obligated to decommission the plants at the end of their useful lives. In some cases, a portion of the estimated future cost of decommissioning is being collected from the utility's current customers as a cost of service for ratemaking purposes. It is unclear under present law when a utility may properly accrue decommissioning expenses. The IRS position is that the all events test has not been met.
48. Mine reclamation and similar costs (sec. 71 of the Senate amendment)	An accrual-basis taxpayer is allowed to deduct an expense in the taxable year in which all the events have occurred which determine the fact of the liability and the amount can be determined with reasonable accuracy. The Internal Revenue Service takes the position that reclamation expenses cannot be accrued until reclamation occurs. Notwithstanding the IRS position, the courts have held that reclamation expenses may be accrued when the land is disturbed.

House Bill	Senate Amendment
General rule.—The general rule adopted in the bill (i.e., deductions allowed only as economic performance occurs) would apply to nuclear decommissioning. In most cases, this is the practice under present law. The net operating loss attributable to nuclear decommissioning expenses may be carried back to the year the plant is placed in service. See item 46(d), above.	*(a) General.*—Utility companies owning nuclear power plants will be allowed to elect to deduct contributions to a segregated reserve fund dedicated to plant decommissioning, subject to certain limits. *(b) Contributions.*—Contributions to the reserve fund will be deductible only to the extent these amounts are currently included in the cost of service charged to customers, and included in the taxpayer's taxable income in that year. *(c) Segregated reserve fund.*—A nuclear decommissioning reserve fund is a segregated fund, the proceeds of which are used exclusively to pay decommissioning costs, taxes on reserve income, and management costs of the fund. The fund is treated as a separate taxable entity and is taxed at the maximum corporate rate (46 percent). Contributions to the fund are not subject to tax. *(d) Ruling.*—Taxpayers must obtain a ruling from the IRS to establish the maximum annual deduction that may be claimed for contributions to the reserve fund. Maximum deduction will be based on present value of estimated future decommissioning costs. *(e) Withdrawals.*—Amounts expended on nuclear decommissioning are (1) included in the company's taxable income when withdrawn from the reserve fund, and (2) deductible as decommissioning is performed. Amounts remaining in the reserve fund when decommissioning is substantially completed must be withdrawn and included in taxable income. *Effective date.*—Contributions made after the date of enactment. *Revenue effect.*—Included in item 46.
The general rule adopted in the bill (i.e., deduction allowed only as economic performance occurs) would apply to the reclamation and closing costs of mines and disposal sites for solid, liquid and hazardous waste.	*(a) General.*—Provides that taxpayers may elect to deduct mine reclamation and closing costs prior to economic performance under a uniform method. Provision also applies to reclamation and closing costs associated with solid or liquid waste disposal (except superfund sites).

Item	Present Law
48. Mine reclamation and similar costs—Cont.	

(b) Site reclamation costs.—Taxpayers will be allowed a current deduction for the present value (discounted at 2 percent) of the estimated current costs of reclamation that can be reasonably anticipated to occur by the end of the third subsequent tax year. Amounts not spent by the end of the third year are recaptured as ordinary income, except for sites in existence prior to the effective date for which deductions were taken on a current cost basis.

(c) Site closing costs.—Taxpayer will be allowed to deduct the incremental current closing costs, discounted at 2 percent per year over the remaining site life, based on units of production (or units of capacity in the case of disposal sites). Amounts not spent by the end of closing are recaptured as ordinary income.

(d) Sinking fund.—Amounts currently deducted for site reclamation and closing are, for tax purposes, deemed deposited in a sinking fund account. The sinking fund is deemed to earn interest at half the sec. 483 interest rate (short-term sec. 483 rate in the case of mine reclamation and long-term sec. 483 rate in the case of closing costs). The sinking fund is tax-exempt.

(e) Transition rules.—

(1) Recapture rules will not apply to fixed price ore supply contracts entered into prior to the effective date.

(2) The Service may not challenge a taxpayer's entitlement to deductions, taken prior to effective date, for land disturbed prior to the effective date on the basis that the liability has not been incurred (The deductions could be challenged on the basis that the costs were not estimated with reasonable accuracy.)

Effective date.—Expenses accruing after date of enactment.

Revenue effect.—Included in item 46.

Item	Present Law
49. Accrued vacation pay (sec. 117 of the House bill)	An accrual method taxpayer may elect to accrue a deduction for an addition to a vacation pay account equal to the amount payable (but not necessarily paid) within 12 months after the close of the taxable year, regardless of when actually paid or whether the employees' right to the vacation pay is vested or contingent.
50. Prepaid expenses (sec. 91 of the House bill and sec. 71 of the Senate amendment)	Except with respect to (1) interest and (2) prepayments by farm syndicates, present law is unclear as to the proper timing of a deduction for prepaid items by cash method taxpayers. In the case of interest, deductions are allowed only for the year to which the interest relates. A similar rule applies to prepaid expenses of farm syndicates.

House Bill	Senate Amendment

House Bill

Limits the account balance to the amount expected to be paid before 12 months after the close of the taxable year.

Effective date.—Effective for taxable years beginning after March 31, 1984.

Revenue effect.—Increases revenues by less than $10 million annually.

Senate Amendment

No provision.

House Bill

Tax shelter organizations will not be permitted to deduct any amount prior to the time it would be properly deductible under the accrual method of accounting.

Tax shelter organizations are defined as—

(1) partnerships and other enterprises (other than regular corporations) interests in which are offered for sale in a registered offering;

(2) partnerships or other entities in which more than 35 percent of the losses are allocated to limited partners or limited entrepreneurs (For this purpose, individuals who have actively participated in the management of the enterprise would not be treated as limited partners or entrepreneurs); and

(3) any entity, plan, or arrangement having the principal purpose of tax avoidance or evasion.

Effective date.—Amounts with respect to which a deduction would be allowable under present law after March 31, 1984.

Revenue effect.—

Fiscal Years

(Millions of dollars)

1984	+123
1985	+277
1986	+88
1987	+106
1988	+127
1989	+152
Sum of 1984–87	+594

Senate Amendment

Farmers (other than farm syndicates) will not be allowed to deduct any amount paid for feed or other supplies prior to the time the feed or other supplies are used or consumed if more than 50 percent of the farming expenses are prepaid.

Exceptions.—(1) If an eligible farmer fails the 50-percent test due to extraordinary or unusual circumstances.

(2) If an eligible farmer satisfies the 50-percent test on the basis of the three preceding years.

Eligible farmer generally means any person whose residence is on a farm or who has a principal occupation of farming.

Effective date.—Same as House bill.

Revenue effect.—

Fiscal Years

(Millions of dollars)

1984	+10
1985	+22
1986	+7
1987	+8
1988	+10
1989	+12
Sum of 1984–87	+47

Item	Present Law
51. Deferred payment transactions (sec. 41 of the House bill and sec. 25 of the Senate amendment)	
(a) Time for inclusion or deduction of deferred interest	*(a)* Deferred interest (original issue discount) is generally not taken into income by a cash method lender or deducted by a cash method borrower until it is actually received or paid, unless the debt investment is publicly traded or is issued for property which is publicly traded. If the instrument or property is publicly traded, lenders must recognize a portion of the deferred interest income and borrowers may deduct a portion of the deferred interest expense annually during the loan period.
(b) Measurement of interest and principal	*(b)* If the parties to a deferred payment sale fail to state interest at least at a safe-harbor simple interest rate fixed by regulation, interest is imputed at a higher compound rate. Imputed interest is allocated among deferred payments in proportion to the amount of the payment. Provides special rules in case of sales of farms for less than $1 million by individuals and certain small businesses.

House Bill

(a) Makes the original issue discount (OID) rules (annual inclusion and deduction) applicable to discount interest on debt instruments issued for nontraded property, use of property, and services.

Also requires that, in deferred payment sales of nontraded property where exceptions apply, interest be stated and paid at least at a compound rate which approximates a market rate or interest will be imputed at a higher rate.

Exceptions.—Sales of farms for less than $1 million by individuals and certain small businesses, sales of principal residences, sales involving total payments of $250,000 or less, annuity transactions, and certain sales of patents.

Effective date.—Transactions after December 31, 1984, except with respect to which there was a binding commitment on March 1, 1984. As to transactions entered after March 1, 1984, and before January 1, 1985, certain limitations contained in the general provisions relating to accrual of interest and the basis of property will apply.

(b) Tests the adequacy of the interest element in a deferred payment sale against a self-adjusting compound interest rate, and imputes interest at a higher rate if the stated interest is inadequate. Retains special rules of present law. In addition, exceptions are provided for sales in which sales price is $3,000 or less, annuities, and certain sales of patents.

Effective date.—Transactions after December 31, 1984, subject to the same transition rules applicable to OID provisions.

Revenue effect.—Revenue effect.—

Fiscal Years

(Millions of dollars)

1984	+114
1985	+431
1986	+868
1987	+1,335
1988	+1,802
1989	+2,349
Sum of 1984-87	+2,748

Senate Amendment

(a) Same as House bill, except—

(1) exempts from OID rules borrowers who issue discount obligations the proceeds of which are used to purchase nonbusiness or noninvestment property;

(2) exempts from OID rules loans of $10,000 or less between members of the same family; and

(3) the interest element of a deferred rent transaction is included under a separate provision of the Code (see item 52 below relating to deferred payments for use of property and services).

Effective date.—Same as House bill.

(b) Same as House bill, except exempts borrowers who issue discount obligations the proceeds of which are used to purchase nonbusiness or noninvestment property.

Effective date.—Same as House bill except agreements made pursuant to a binding commitment on February 28, 1984, are not subject to the new provisions.

Revenue effect.—

Fiscal Years

(Millions of dollars)

1984	[1]
1985	+228
1986	+721
1987	+1,253
1988	+1,789
1989	+2,349
Sum of 1984-87	+2,202

[1] Less than $10 million.

Item	Present Law
52. Deferred payments for use of property and services (sec. 74 of the Senate amendment)	A cash method lessor includes rent in income only when payment is received, while an accrual method lessee deducts a portion of the rent in each year of the lease, irrespective of when rent is paid. Where a lease provides for current payments of rents, but at disproportionately higher levels in the later years of the lease term (i.e., "backloads" or "steps" the rents), payment of portions of the true rent allocable to the earlier years is in substance being deferred until later years, when the deferred amounts are repaid with interest. It is unclear under present law under what circumstances uneven rent payments will be treated as resulting in deferred rent.

House Bill	Senate Amendment
No provision.	Requires that both the rent element and the interest element of a deferred rent transaction be included in the income of the lessor and deducted by the lessees annually, unless rent is paid before the end of the year following the calendar year in which the property is used. A transaction involving stepped rents is treated as a deferred rent transaction if any periodic increase is not commercially reasonable. In general, whether a rent increase is commercially reasonable is determined on the basis of all the facts and circumstances. *Special rules for sale-leaseback transactions.*—In the case of a sale-leaseback transaction involving payment of stepped rents, an annual increase will be considered as not commercially reasonable if it exceeds the greatest of (1) the percentage increase in the Consumer Price Index (or other index specified by regulation) during the period between the payments, (2) the Federal short-term rate in effect at the time the lease is entered into, or (3) the increase in specified costs with respect to the property payable by the lessor to unrelated parties during the period between the payments. Floor amendment by Sen. Dole, adopted by voice vote, permits leases in sale-leaseback transactions providing for even "steps" of up to 5 years to qualify as commercially reasonable annual increases (computed on a compound basis), may satisfy the commercial reasonableness test. Similar rules are to be provided by regulation for deferred payment transactions involving services and for "front-loaded" payment transactions. *Effective date.*—Agreements entered into after March 15, 1984, other than agreements entered into pursuant to a written binding commitment on March 15, 1984. Under a transition rule, in the case of leases where there was written evidence of a firm plan before March 15, 1984, to lease property which had not been placed in service before that date, the parties will be required to report rental income and rental deductions no less than a specified schedule regardless of the actual payments made under the agreement. In addition, an exception is provided for a particular lease that was being completed on March 15, 1984.

Item	Present Law
52. Deferred payments for use of property and services—Cont.	
53. Capitalization of construction period interest and taxes (sec. 72 of the Senate amendment)	In general, no immediate deduction is allowed for real property construction period interest and taxes. The capitalized interest and taxes are amortized generally over 10 years. This rule does not apply to (1) low-income housing, (2) residential real property (other than low-income housing) acquired, constructed, or carried by a corporation (with certain exceptions), or (3) real property if the property is not held generally in a trade or business.
54. Start-up expenses (sec. 73 of the Senate amendment)	Generally, expenses incurred prior to the establishment of business are not deductible currently since they are not incurred in carrying on a trade or business or while engaging in a profit-seeking activity. A taxpayer may elect to treat start-up expenses as deferred expenses that may be deducted ratably over a period of not less than 60 months (sec. 195). Present law is unclear whether a specific item should be capitalized, expensed, or amortized under section 195.

House Bill	Senate Amendment

Revenue effect.—

Fiscal Years

(Millions of dollars)

1984	+60
1985	+290
1986	+560
1987	+782
1988	+1,046
1989	+1,158
Sum of 1984–87	+1,692

House Bill	Senate Amendment
No provision.	Corporations generally will be required to capitalize (and amortize over 10 years) construction period interest and taxes for residential real property (other than low-income housing).

Effective date.—Interest or taxes paid or incurred in taxable years beginning after December 31, 1984, for the construction of residential real property begun after March 15, 1984.

Revenue effect.—

Fiscal Years

(Millions of dollars)

1984	....
1985	+67
1986	+164
1987	+220
1988	+242
1989	+236
Sum of 1984–87	+451

House Bill	Senate Amendment
No provision.	Taxpayers will be required to treat start-up expenditures as deferred expenses. Taxpayers will be allowed to amortize such expenditures over a period of not less than 60 months

Effective date.—Taxable years beginning after June 30, 1984.

Revenue effect.—

Fiscal Years

(Millions of dollars)

1984	....
1985	+23
1986	+36
1987	+31
1988	+26
1989	+19
Sum of 1984–87	+90

Item	Present Law
G. Tax Straddles	
55. Repeal of exception from straddle rules for stock options and certain stock (sec. 101 of the House bill and sec. 75 of the Senate amendment)	
(a) General rule	*(a)* Losses from positions in actively traded personal property are deferred to the extent of unrecognized gain on offsetting positions in a straddle. Other limitations apply to straddles. Exchange-traded stock options and stock are exempt from the straddle rules.
(b) Capital gain treatment	*(b)* Gain from the sale of stock is long-term if the taxpayer satisfies the long-term holding period requirement even if short-term loss is realized on offsetting options.
(c) Certain stock in offsetting positions	*(c)* Stock is outside the straddle rules even if the taxpayer avails himself of a corporation to take positions offsetting those directly held by the taxpayer.
56. Section 1256 extended to certain options (sec. 102 of the House bill and sec. 76 of the Senate amendments)	
(a) Mark-to-market	*(a)* Regulated futures contracts (RFCs) are marked to market at the close of the taxable year and all RFC gain or loss is taxed, if the contracts are capital assets, as 60 percent long-term and 40 percent short-term capital gain or loss (60/40 treatment). Options are not taxed as RFCs. Option gain or loss is capital gain or loss to investors.
(b) Options dealers	*(b)* Options dealers derive ordinary income or loss from options transactions. Options dealers are treated as dealers of the property subject to the option. Options that are part of a hedging transaction if properly identified are not subject to the straddle rules.

House Bill	Senate Amendment
(a) Exchange-traded stock options and stock would be subject to the straddle rules. An exemption would apply to a straddle consisting only of stock and a short sale of stock. An exemption would apply to covered call options that are not "deep-in-the-money". (A deep in the money option is one where the strike price is relatively low compared to the value of the underlying stock so that there is a strong likelihood that the option will be exercised.)	*(a)* Same as House bill as to stock options. Only stock that is offset by a stock option would be subject to the straddle rules. Certain covered call options with a strike price of exactly $50 and certain options on low-priced stock would be exempt under the Senate amendment but not the House bill.
Effective date.—Positions established after October 31, 1983.	*Effective date.*—Positions established on or after January 1, 1984. (Floor amendment by Sen. Dole, adopted by voice vote).
(b) Long-term capital gain from the sale of stock would be treated as short-term to the extent of short-term loss from an in-the-money call option granted by the taxpayer and outstanding while the stock is held.	*(b)* Same as House bill.
Effective date.—Positions established after March 1, 1984.	*Effective date.*—Same as House bill.
(c) Stock in a corporation formed or availed of to take positions offsetting those held directly by the taxpayer would be subject to the straddle rules even though the stock is not actively traded.	*(c)* Same as House bill but would permit hedging exemption to apply to offsetting positions held by different members of an affiliated group (not including foreign affiliates).
Effective date.—Positions established on or after May 23, 1983.	*Effective date.*—Same as House bill.

House Bill	Senate Amendment
(a) Mark-to-market and 60/40 treatment would be extended to all options traded on an exchange or board of trade, other than equity options. Equity options are stock options and options on certain narrow-based stock indexes.	*(a)* Same as House bill, except that equity options include any equity based options, including all options on stock indexes.
(b) Mark-to-market and 60/40 treatment would be extended to options dealers for equity options— (1) Options to be treated as capital assets to options dealers, other than options that are part of a hedging transaction. (2) Dealer status as to property subject to an option determined without regard to dealer status as to the option.	*(b)* Same as House bill.

Item	Present Law
56.—Cont.	
(c) Capitalization of carrying costs	*(c)* Costs of carrying a position that is part of a straddle are required to be capitalized but only to the extent they exceed taxable interest from the carried position.
57. Regulations under section 1092(b) (sec. 103 of the House bill and sec. 77 of the Senate amendment)	Losses on stock and securities are disallowed under the wash sale rule when substantially identical stock or securities are acquired within 30 days before or after the sale. Certain gains are required to be treated as short-term, certain losses are required to be treated as long-term, and the holding period of property may terminate when the taxpayer enters a short sale. The Treasury Department is authorized to issue regulations prescribing similar rules with respect to positions in a straddle.
58. Limitation on losses from hedging transactions (sec. 104 of the House bill and sec. 78 of the Senate amendment)	The loss limitation and other straddle rules do not apply to losses incurred in a hedging transaction. Hedging losses may be used to reduce income from unrelated activities.
59. Clarification that section 1234 applies to options on regulated futures contracts and cash settlement options (sec. 105 of the House bill and sec. 79 of the Senate amendment)	
(a) Cash settlement options	*(a)* Gain or loss from terminating options in property by sale, exchange or expiration are capital gain or loss to one who is not a dealer in options. It is not clear whether this treatment applies if the option settles only in cash, e.g., an option based on an index.

House Bill	Senate Amendment
(3) Limited partners and limited entrepreneurs ineligible for 60/40 treatment on equity options.	
(c) No provision.	*(c)* Carrying costs subject to capitalization would be reduced by dividends on stock included in a straddle.
Effective date.—Positions entered into after October 31, 1983 for options on RFCs. Positions entered into after date of enactment for all other options. Taxpayers may elect to apply to positions held on date of enactment, or to all positions held during the taxable year which includes the date of enactment. Stock option dealers who make the full year election may elect to pay tax on portion of stock option gain accrued as of the beginning of the year in 2 to 5 annual installments.	*Effective date.*—Same as House bill, except that election to pay tax in 2 to 5 annual installments applies to ordinary income from stock that is offset by a stock option in addition to the option gain. The identification requirement under the hedging exemption will not apply to stock or a stock option for 60 days after the date of enactment.
The regulatory authority would be modified to require regulations with respect to straddles as may be necessary to carry out the purpose of the loss deferral rules, including rules applying the principles of the wash sale and short sale provisions. Regulations are to be prescribed within 6 months from the date of enactment.	Same as House bill.
Effective date.—None.	*Effective date.*—Regulations as applied to a position in a mixed straddle would be effective as of January 1, 1984. (Floor amendment by Sen. Dole, adopted by voice vote.)
Hedging losses to the extent they do not exceed unrecognized hedging gains are allowed as deductions only against income from the trade or business in which the hedge was entered into. Disallowed losses are carried forward indefinitely. If the hedging transaction relates to property other than stock or securities, only losses of individuals and certain closely held corporations are limited.	Same as House bill, except only hedging losses allocable to limited partners or limited entrepreneurs would be affected and would be allowed only against income from the trade or business allocable to the limited partner or limited entrepreneur.
Effective date.—Taxable years beginning after December 31, 1984.	*Effective date.*—Same as House bill.
(a) Present law would be clarified to provide expressly for the same treatment for cash settlements options that applies to options in property.	*(a)* Same as House bill.

Item	Present Law
(b) Regulated futures contracts	*(b)* If an option is exercised, any gain or loss with respect to the option becomes gain or loss with respect to the property acquired or disposed of on exercise. This may not be the treatment applicable when an option on an RFC is exercised but it is also unclear whether gain or loss from the option is recognized at the time of exercise.
60. Wash sale rules to apply to losses on certain short sales (sec. 80 of the Senate amendment)	Losses on the sale of stock or securities are disallowed if substantially identical property is acquired by the taxpayer within 30 days before or 30 days after the sale. In the case of a short sale, generally acquisitions within 30 days before or after the closing of the short sale cause disallowance of any loss from the short sale under the wash sale rule.
61. Time for identification by taxpayers of certain transactions (sec. 81 of the Senate amendment)	Under the straddle rules, an RFC forming part of a mixed straddle must be identified as forming part of such straddle by the close of the day on which it is acquired to qualify for the mixed straddle election. RFCs and other positions must be identified by the close of the acquisition date to qualify for the hedging exemption or for the identified straddle rule. Securities held by a securities dealer must be identified as held for investment by the close of the acquisition date to qualify for capital gain treatment.
Revenue effect of provisions relating to tax straddles	

House Bill	Senate Amendment
(b) No provision. All options on RFCs would be marked to market.	*(b)* Equity based options include options on stock index RFCs that would not be marked to market. Gain or loss would be recognized upon the exercise of these options (and would not receive 60/40 treatment).
Effective date.—Options purchased or granted after October 31, 1983.	*Effective date.*—Same as House bill.
No provision.	The wash sale rule is expanded to require disallowance of losses on the closing of short sales if, within 30 days before or after the closing, substantially identical stock or securities are sold or the taxpayer enters another short sale of substantially identical stock or securities.
	Effective date.—Applies to short sales of stock or securities after date of enactment.
No provision.	Regulations are authorized under which an earlier time than the close of the date of acquisition could be prescribed for certain identification requirements of present law. Such regulations are authorized with respect to the mixed straddle election, the hedging exemption, the identified straddle rule, and the qualification of securities held by a dealer for capital gain treatment.
	Effective date.—Applies to items identified after the date of enactment.

Revenue effect.— (House Bill)

Fiscal Years

(Millions of dollars)

1984	+406
1985	+163
1986	+82
1987	+60
1988	+48
1989	+39
Sum of 1984–87	+711

Revenue effect.— (Senate Amendment)

Fiscal Years

(Millions of dollars)

1984	+22
1985	+427
1986	+152
1987	+70
1988	+58
1989	+45
Sum of 1984–87	+671

Item	Present Law
H. Pension and Welfare Benefit Plan Provisions)	
62. Deduction limits for qualified pension plans (sec. 85 of the Senate amendment)	
(a) 25-percent deduction limit	*(a)* If an employer maintains a qualified defined benefit or money purchase pension plan and an annuity, profit-sharing, or stock bonus plan for the same employees, the employer's deduction for plan contributions is limited to the greater of (1) 25 percent of compensation of the participants or (2) the amount necessary to satisfy the minimum funding requirement in the pension plans. The 25-percent limit does not apply if only a defined benefit and money purchase pension plan are maintained.
(b) Overall deduction limit	*(b)* No overall percentage-of-compensation limit applies to employer deductions for qualified plan contributions.
(c) Combined limit on contributions and benefits	*(c)* In the case of an employee participating in a qualified defined benefit and a defined contribution plan of the same employer, the sum of the fractions of the separate contribution and benefit limits for each plan is subject to an overall limit, which TEFRA generally reduced from 1.4 to 1.25.

Item	Present Law
63. Provisions relating to top-heavy pension plans (sec. 86 of the Senate amendment)	
(a) Combined limit on contributions and benefits in super top-heavy plans	*(a)* In the case of a top-heavy plan, the combined limit on contributions and benefits under a defined contribution and a defined benefit plan is reduced from 1.25 to 1.0, unless additional minimum contributions or benefits are provided to non-key employees. The 1.0 limit applies to a key employee in a super top-heavy plan whether or not additional minimum benefits or contributions are provided. A plan is top-heavy if more than 60 percent of benefits are for key employees and super top-heavy if more than 90 percent are for key employees.

House Bill	Senate Amendment
No provision.	*(a)* The 25-percent deduction limit is applied where an employer maintains a defined benefit and a money purchase pension plan for the same employees. The limit is not less than the amount required by the minimum funding standard for the defined benefit plan.
	(b) In no event can an employer's deduction for contributions to all qualified plans exceed 100 percent of the aggregate compensation of all participants.
	(c) The combined limit on contributions and benefits is raised to 1.4, if no plan of an employer is top heavy or integrated with social security after June 30, 1982.
	Effective date.—Years beginning after December 31, 1984.
	Revenue effect.—

Fiscal Years

(Millions of dollars)

1984	
1985	+18
1986	+65
1987	+116
1988	+165
1989	+182
Sum of 1984-87	+199

House Bill	Senate Amendment
No provision.	*(a)* The special rules for super top-heavy plans are repealed.

Item	Present Law
63. Provisions relating to top-heavy pension plans—Cont.	
(b) Definition of key employee	*(b)* The definition of a key employee includes any officer of an employer without regard to the compensation earned by the officer.
(c) Separated employees	*(c)* For purposes of determining whether a plan is top-heavy, the accrued benefits of non-key employees who have separated from service generally continue to be counted.
(d) Salary reduction arrangements	*(d)* Amounts contributed pursuant to a salary reduction arrangement are not counted for purposes of the top-heavy plan requirements in determining the level of required minimum benefits or contributions.
(e) Governmental plans	*(e)* Governmental plans must be amended to include provisions that are operative if the plan becomes top heavy.
(f) Simplified amendment procedures	*(f)* The top-heavy plan provisions may not be satisfied by language that incorporates the top-heavy plan requirements by reference.

(b) The definition of a key employee is amended to exclude officers who earn less than twice the dollar limit on contributions to a defined contribution plan ($60,000).

(c) The accrued benefits of an employee who has received no compensation for 5 years are disregarded for purposes of testing whether a plan is top heavy.

(d) Amounts contributed pursuant to a salary reduction arrangement (including a cash-or-deferred arrangement) are counted for purposes of the top-heavy plan requirements.

(e) Governmental plans are exempted from the top-heavy plan requirements.

(f) If the Secretary fails to publish final regulations by January 1, 1985, the Secretary is to publish plan language that can be adopted by an employer to meet the top-heavy plan requirements. If the Secretary does not issue plan language, the employer is permitted to incorporate the top-heavy plan requirements by reference.

Effective date.—Generally effective for plan years beginning after December 31, 1983. The provisions relating to separated employees and salary reduction arrangements are effective for plan years beginning after December 31, 1984.

Revenue effect.—

Fiscal Years

(Millions of dollars)

1984	−31
1985	−89
1986	−107
1987	−120
1988	−134
1989	−150
Sum of 1984–87	−347

Item	Present Law
64. Distribution rules for qualified pension plans (secs. 491 and 613(g) of the House bill and secs. 87 and 88 of the Senate amendment)	
(a) Distributions prior to age 59½	*(a)* An additional 10-percent income tax is imposed on distributions to a participant before age 59½ (unless on account of death or disability) from a qualified plan to the extent the amounts are attributable to years in which the participant was a key employee in a top-heavy plan.
(b) Before-death distribution rules	*(b)* A participant's benefits must commence no later than (i) the taxable year in which the participant attains age 70½ or (ii) the taxable year in which the participant retires (if later). In the case of a key employee participating in a top-heavy plan, distributions must commence in the taxable year in which the participant attains age 70½. Distributions may be based on the joint life expectancy of the participant and spouse, but not on the joint life expectancy of the participant and a nonspouse beneficiary. Similar rules apply to distributions under individual retirement arrangements (IRAs).
(c) After-death distribution rules	*(c)* If a participant dies before the entire balance to the credit of the participant has been distributed, amounts payable to a nonspouse beneficiary generally must be paid within 5 years of the participant's death.
(d) Qualifying rollover distributions	*(d)* If the entire balance to the credit of an employee is paid to the employee or the surviving spouse of the employee in a qualifying rollover distribution under a qualified plan, all or any portion of the distribution may be rolled over, tax-free, within 60 days of the date of the distribution to another qualified plan or an IRA. Similar rules apply to a total distribution under a tax-sheltered annuity contract.

House Bill	Senate Amendment
(a) No provision.	*(a)* The 10-percent additional income tax is applied to a participant only to the extent the distribution is attributable to years in which the participant was a 5-percent owner without regard to whether the plan was top heavy.
(b) No provision.	*(b)* The provision amends the distribution rule applicable to key employees to apply only to 5-percent owners without regard to whether a plan is top heavy. Thus, in the case of a 5-percent owner, distributions must commence no later than the taxable year in which the participant attains age 70½. Permits payments of all required before-death distributions to be made over the joint life expectancy of the participant and a nonspouse beneficiary. Permits life expectancy to be recalculated periodically.
(c) Provides an exception to the 5-year rule for certain qualified dependents of the participant or surviving spouse.	*(c)* Provides that a defined benefit plan may make payments over life expectancy of beneficiary. Permits certain plans to satisfy the 5-year rule by distributing an immediate annuity contract for the life of the beneficiary.
(d) Allows tax-free rollovers to an IRA of a distribution of at least 50 percent of the balance to the credit of an employee in a qualified plan or tax-sheltered annuity contract. Similar plans of the employer are aggregated for purposes of applying the 50-percent test.	*(d)* Same as House bill, except that similar plans are not aggregated for purposes of applying the 50-percent test.
Effective date.—Distributions made after the date of enactment.	*Effective date.*—Generally effective for plan years beginning after December 31, 1984. For governmental plans, effective for plan years beginning after December 31, 1986. For collectively bargained plans, effective for plan years beginning on or after the earlier of (1) January 1, 1987, or (2) the expiration of a collective bargaining agreement.
Revenue effect.—Negligible.	*Revenue effect.*—Increase revenues by less than $5 million annually.

Item	Present Law
65. Pension plans with substantially all benefits derived from employee contributions (sec. 119 of the House bill and sec. 89 of the Senate amendment)	Under present law, a plan may be a qualified plan even though substantially all of the benefits under it are derived from employee contributions. Investment earnings on employee contributions are not taxed until distributed. Distributions from a qualified plan before the time annuity benefits begin are treated first as a return of nondeductible employee contributions to the extent of such contributions.
66. Repeal of estate tax exclusion for qualified pension plan benefits (sec. 90 of the Senate amendment)	TEFRA reduced the estate tax exclusion for certain benefits under qualified plans and certain other retirement arrangements to $100,000, for decedents dying after December 31, 1982.

House Bill	Senate Amendment
A plan does not qualify if substantially all of the benefits are derived from employee contributions other than deductible employee contributions.	If substantially all benefits under a plan are derived from employee contributions, then distributions from or under the plan will be considered taxable benefits first. A loan made from such a plan to a participant is treated as a distribution under the plan.
Effective date.—Effective for plan years beginning after March 31, 1984.	*Effective date.*—Effective for amounts received or loans made on or after the 90th day after the date of enactment.
Revenue effect.—	***Revenue effect.***—

House Bill

Fiscal Years

(Millions of dollars)

1984	*
1985	+1
1986	+2
1987	+5
1988	+9
1989	+16
Sum of 1984–87	+8

*Negligible.

Senate Amendment

Fiscal Years

(Millions of dollars)

1984	*
1985	+1
1986	+2
1987	+2
1988	+4
1989	+6
Sum of 1984–87	+5

*Negligible.

House Bill	Senate Amendment
No provision.	Repeals the separate estate tax exclusion for retirement benefits.
	Effective date.—Effective with respect to decedents dying after December 31, 1984. A grandfather rule is provided for both the new change and the TEFRA provision with respect to certain participants whose benefits are in pay status on the effective date of either provision if an irrevocable election was made.
	Revenue effect.—

Senate Amendment

Fiscal Years

(Millions of dollars)

1984	....
1985	....
1986	+50
1987	+50
1988	+50
1989	+50
Sum of 1984–87	+100

Item	Present Law
67. Affiliated service groups and employee leasing arrangements (sec. 613(j) of the House bill and sec. 91 of the Senate amendment)	
(a) Affiliated service groups	*(a)* All employees of employers that are members of an affiliated service group are treated as employed by a single employer for purposes of the tax-qualification requirements for qualified plans.
(b) Employee leasing arrangements	*(b)* For certain of the tax-law rules relating to qualified plans and simplified employee pensions (SEPs), certain leased employees are treated as employees of the lessee. Under a safe-harbor rule, a leased employee is not treated as an employee of the lessee if certain requirements are met.
68. Standards for cash-or-deferred arrangements (sec. 120 of the House bill)	A cash or deferred arrangement is subject to special tests which provide that the amount that highly compensated employees can elect to defer depends upon the level of deferrals by other employees. The special tests do not permit employer-provided social security benefits to be taken into account. However, proposed Treasury regulations permit a cash or deferred arrangement to satisfy the general nondiscrimination standards applicable to qualified pension plans in lieu of the special tests. The general nondiscrimination standards permit employer-provided social security to be taken into account.

House Bill	Senate Amendment
(a) No provision.	*(a)* In determining whether a group of employers constitutes an affiliated service group, more comprehensive attribution-of-ownership rules are provided to include "brother-sister" relationships.
(b) Clarifies the present-law definition of a leased employee to include only those individuals who are not otherwise employees of the lessee.	*(b)* Same as House bill.
Effective date.—Effective for plan years beginning after December 31, 1983.	*Effective date.*—The affiliated service group provision is effective for plan years beginning after December 31, 1984. The employee leasing arrangement provision is effective for plan years beginning after December 31, 1983.
Revenue effect.—None.	*Revenue effect.*—Negligible.
A cash or deferred arrangement is not a qualified cash or deferred arrangement unless the special tests applicable to such an arrangement are satisfied. If an arrangement fails to satisfy the special tests, amounts deferred would not be excluded from gross income, but the plan of which the arrangement is a part would not be disqualified if it meets the usual rules for qualification. All plans of an employer required to be aggregated for nondiscrimination purposes are aggregated for purposes of applying the special tests. *Effective date.*—Plan years beginning after December 31, 1984. *Revenue effect.*—Negligible.	No provision.

Item	Present Law
69. Welfare benefit plans (secs. 111-115 of the House bill and secs. 95, 96 and 98 of the Senate amendment)	
(a) Employer deductions for benefit plan contributions	
(1) Funded benefit plans	*(a)*(1) An employer's contribution to a fund that is part of a welfare benefit plan generally is deductible in the year it is made rather than at the time the benefit is provided.
(2) Deferred compensation and benefits	(2) Deductions for contributions to a non-qualified deferred compensation plan are not allowed until an amount is includible in the employee's income.

House Bill	Senate Amendment
(a)(1) An employer's deduction for a contribution to a funded welfare benefit plan generally is allowed only at the time it would be allowed to a cash method taxpayer who provided benefits under an unfunded plan. This rule generally allows a deduction when the benefit is provided, or, in the case of a facility, at the time allowed under usual rules for deductions for capital expenditures (e.g. ACRS).	*(a)*(1) No provision. (Sec. 890 of the Senate amendment (item 215) provides that the employer's deduction for contributions to a funded or unfunded plan providing deferred educational benefits is allowed only at the time the benefit is includible in the employee's income (or would be includible but for provisions excluding the benefits from income).)
A deduction also is allowed for an addition to a reserve for death, accident, sickness (including disability), unemployment, severance, and group-legal benefits:	(No deduction is allowed for additions to reserves for deferred educational benefits.)
(i) *General limit.*—Generally, the limit on the size of the reserve is 75 percent of the average annual payments for these benefits during the current year and the preceding year.	
(ii) *Incurred claims.*—A higher limit is allowed, under Treasury regulations, if the general limit is not high enough to cover incurred but unpaid claims that are expected to be paid before the end of the succeeding year.	
(iii) *Collective bargaining.*—A higher limit is allowed for liabilities under collective bargaining agreements if needed.	
Effective date.—Contributions paid or accrued after March 31, 1984, in taxable years ending after that date. For collectively bargained plans in effect on March 1, 1984 (or ratified on or before that date), does not apply to years beginning before the later of the termination of the last collective bargaining agreement under the plan or January 1, 1986.	
(2) Extends this rule to apply to (A) arrangements which defer compensation and (B) unfunded plans or arrangements providing for deferred benefits.	(2) No provision. (The above provision applies to both funded and unfunded deferred educational benefit plans.)
Effective date.—Amounts paid or incurred after March 31, 1984, in taxable years ending after that date.	

Item	Present Law
69. Welfare benefit plans—Cont.	
(b) Excise taxes on funded benefit plans	*(b)* No provision.

(b) No provision.

(b)(1) *Tax on excess reserves of top heavy funds.* A nondeductible excise tax is imposed on an employer in a year in which the employer maintains a top-heavy welfare benefit fund which has an excess reserve. The tax is equal to the sum of (a) highest rate of corporate tax in effect at the time the fund becomes top heavy (46 percent for 1984) times the excess reserve amount at that time, and (b) interest, on this amount, from the year the reserve was accumulated to the present year.

(2) *Excess reserve amount.*—The reserves in excess of a limit are considered excess reserves. The limit is the sum of—

(A) 3 times the average annual benefits paid by the fund during the current year and the preceding year to employees for total and permanent disability, and

(B) One-third of the average annual benefits paid by the fund during the current and preceding years for medical care, severance pay, and supplemental unemployment compensation.

(3) *Top heavy status.*—A fund is top heavy for a year if more than 50 percent of any class of benefits is provided to key employees, except that:

(A) An educational benefit or a dependent care benefit does not cause a plan to be top heavy unless the benefit fails to qualify for exclusion from gross income under applicable provisions of the Code.

(B) A benefit in the form of use of a facility does not cause a plan to become top heavy (a separate excise tax is imposed with respect to top heavy use of a facility (see below)).

(4) *Key employee.*—The following employees are key employees:

(A) An owner of more than 5 percent of the employer,

(B) An officer of the employer (determined under the rules for top-heavy pension plans), and

(C) A member of the family of a key employee.

Key employee status is permanent.

Item	Present Law
69. Welfare benefit plans—Cont.	
(c) Taxation of income of tax-exempt benefit organizations	
(1) Income in excess of reserve limits	*(c)*(1) The income of tax-exempt organizations, including supplemental unemployment compensation benefit trusts (SUB) and group legal services organizations (GLSO) generally is not subject to tax. However, a tax does apply to the unrelated business income of such organizations. In addition, the other income of a voluntary employee's beneficiary association (VEBA) is subject to the tax on unrelated business income if it is not set aside for an exempt purpose. No specific limit is provided on the amount that may be set aside for an exempt purpose.
(2) Requirements for tax-exempt status (i) Proportions of benefits for certain employees	(2)(i) A tax-exempt VEBA is required to benefit at least two employees. The proportion of benefits available to groups of employees is not tested.

(5) *Employer tax on facilities.*—A welfare benefit fund which is top-heavy with respect to any class of benefits (including use of facilities) is subject to an excise tax equal to the product of the fair market value of any facility used to provide benefits and the highest rate of corporate tax (46 percent for 1984).

(6) *Employee taxes on facilities.*—

(i) If key employees have more than 25 percent of the value of the use of a facility under a funded welfare benefit plan for a year, then the value of that use is subject to an excise tax at the highest income tax rate for individuals (50 percent for 1984).

(ii) The tax does not apply to a facility providing educational assistance or dependent care assistance.

(7) *Employee tax on other benefits.*—The value of all benefits provided under a top-heavy welfare benefit fund (other than the use of facilities) is subject to an excise tax at the highest income tax rate applicable to individuals (50 percent for 1984).

Effective date.—Years beginning after December 31, 1984.

House Bill: ***(c)***(1) Income of a VEBA, SUB, or GLSO is subject to the tax on unrelated business taxable income to the extent that benefit plan reserves exceed the reserve limit (see item ***(a)***(1), above) for the year.

Senate Amendment: ***(c)***(1) No provision.

House Bill: (2)(i)—*General rule.*—A VEBA, SUB, or GLSO is not tax-exempt if more than 25 percent of any class of benefits is provided to an individual who—

(A) is one of the 5 highest paid officers,

(B) owns more than 10 percent of the value of the employer, or

(C) is one of the 10 percent highest paid employees.

Senate Amendment: (2)(i)—*General rule.*—Same as House bill, except that—

The test is applied to benefits provided to an individual who—

(A) is an officer of the employer (top heavy pension plan definition),

(B) owns more than 5 percent of the employer, or

(C) is a member of the family of an individual in (A) or (B),

Status as an individual in (A), (B) or (C) is permanent.

Item	Present Law
69. Welfare benefit plans—Cont.	
(ii) Nondiscrimination	*(2)(ii)—General rule.*—No part of the net earnings of a tax-exempt VEBA may inure to the benefit of any private shareholder or individual other than through the payment of permissible benefits. Under Treasury Regulations, a VEBA violates this standard if it does not meet rules prohibiting discrimination in favor of employees who are officers, shareholders, or highly compensated. The eligibility criteria for VEBA membership and benefits under a VEBA may not be established or administered in a manner that limits membership or benefits to officers, etc., or entitles them to benefits that are disproportionate to benefits for other employees.
(3) Reporting requirements	(3) No provision.

House Bill	Senate Amendment
Basis of test.—Under Treasury regulations, certain benefits (such as medical benefits) are to be tested on the basis of availability. Other benefits are to be tested on the basis of actual benefits received.	*Basis of test.*—Benefits provided are not determined by reference to actual benefit payments in any case.
Collectively bargained plans.—The provision does not apply to a collectively bargained plan.	*Collectively bargained plans.*—The provision does not apply to a multiemployer collectively bargained plan.
Applicable benefits.—The provision applies to all classes of benefits.	*Applicable benefits.*—The provision does not apply to benefits in the form of the use of a facility, educational assistance, or dependent care assistance.
(2)(ii)—*General rule.*—A VEBA or GLSO meets the nondiscrimination standard required for tax exempt status only if, under the plan of which it is a part, each class of benefits meets a nondiscrimination test as to membership and benefits provided. A life insurance, disability, severance pay, or supplemental unemployment benefit is not discriminatory merely because the benefit provided bears a uniform relationship to compensation of covered employees. This nondiscrimination standard does not apply to a class of benefits for which a nondiscrimination standard is provided by another provision of the Code.	(2)(ii)—*General rule.*—Same as House bill, except that if, the Code provides any standards under which a class of VEBA, SUB or GLSO benefits is excludible from gross income, then the organization satisfies the requirements for tax exemption only if the class of benefits meets the standards for exclusion.
Collectively bargained plans—The standard does not apply to benefits, provided under collectively bargained plans.	*Collectively bargained plans*—The provision does not apply to a multiemployer collectively bargained plan.
(3) A VEBA, SUB, or GLSO is not tax-exempt unless it notifies the IRS of its claim of such status.	(3) An employer who maintains a VEBA, SUB, or GLSO is to report on whether it meets the nondiscrimination and the concentration of benefits standards.
Effective date.—Taxable years beginning after December 31, 1984.	***Effective date.***—Same as House bill.

Item	Present Law
69. Welfare benefit plans—Cont.	
(d) Treatment of gain on employer's sale of property to welfare benefit fund	*(d)* Gain from the sale of depreciable property between certain related taxpayers is treated as ordinary income. An employer and a welfare benefit fund to which the employer contributes are not treated as related parties.
70. Medical benefits provided by pension plans (sec. 116 of the House bill and sec. 97 of the Senate amendment)	Medical benefits provided under a qualififed defined benefit pension plan are not taken into account in applying the overall limits on contributions and benefits, or in determining whether the plan is top heavy.

House Bill	Senate Amendment

House Bill

(d) Treats as related parties a VEBA, SUB, GLSO, or social club and an employer which controls the organization.

Effective date.—Sales or exchanges after December 31, 1984.

Revenue effect.—

Fiscal Years

(Millions of dollars)

1984	+28
1985	+158
1986	+190
1987	+234
1988	+283
1989	+343
Sum of 1984-87	+610

Senate Amendment

(d) Same as the House bill, except also applies to welfare benefit funds which are not tax-exempt organizations.

Effective date.—Same as House bill.

Revenue effect.—

Fiscal Years

(Millions of dollars)

1984	
1985	+20
1986	+48
1987	+60
1988	+72
1989	+90
Sum of 1984-87	+128

House Bill

Contributions to provide medical benefits to a 5-percent owner of an employer are taken into account in applying the overall limits.

Effective date.—Years beginning after March 31, 1984.

Revenue effect.—Increase of less than $10 million annually.

Senate Amendment

Same as House bill, except the rule applies only to a top-heavy pension plan.

Effective date.—Years beginning after the date of enactment.

Revenue effect.—Increase of less than $5 million annually

Item	Present Law
I. Foreign Provisions	
71. Income from factoring trade receivables (sec. 131 of the House bill and sec. 121 of the Senate amendment)	*(a)* A seller who sells goods for the buyer's receivable (promise to pay) may sell that receivable to a third party—a factor—at a discount. A U.S.-owned factor in a tax haven may earn income that is eligible for deferral or that can be sheltered by excess foreign tax credits.
	(b) No provision.
	(c) When a foreign subsidiary makes a loan to its U.S. parent (or otherwise invests in "U.S. property") the entire amount of that investment is taxable as a dividend to the U.S. parent (to the extent of the subsidiary's previously untaxed earnings and profits). It is unclear whether this rule applies when a foreign factoring subsidiary buys receivables from its U.S. parent. Thus, the foreign factoring subsidiary may transfer untaxed cash to its U.S. parent by buying the parent's receivables.

House Bill	Senate Amendment
(a) Taxes the U.S. owner of a foreign factoring subsidiary on income earned when the subsidiary collects a receivable (1) bought from a related person, if (2) the related person had taken the receivable in exchange for inventory or services. There is no tax if factoring income (and other tax-haven type income) is less than 10 percent of the subsidiary's gross income.	*(a)* Generally same as House bill, except there is no 10-percent exception and the rules apply to companies in U.S. possessions.
(b) Treats income from a related U.S. person's receivables (from domestic and foreign sales) as U.S. source income.	*(b)* Same as House bill, except income from factoring a related U.S. person's export receivables (other than export receivables from a sale through a DISC or FSC) is 50-percent U.S. source and 50-percent foreign source.
(c) Treats payments from a foreign subsidiary to a related U.S. person for receivables (from domestic and foreign sales) as investments in U.S. property.	*(c)* Same as House bill, except investments in export receivables (other than export receivables from a sale through a DISC or FSC) are not treated as an investment in U.S. property.
Effective date.—Transfers after March 1, 1984.	***Effective date.***—Same as House bill.
Revenue effect.—	***Revenue effect.***—

House Bill — *Fiscal Years*

(Millions of dollars)

1984	(1)
1985	+313
1986	+547
1987	+590
1988	+637
1989	+689
Sum of 1984-87	+1,450

[1] Negligible.

Senate Amendment — *Fiscal Years*

(Millions of dollars)

1984	(1)
1985	+306
1986	+534
1987	+576
1988	+622
1989	+672
Sum of 1984-87	+1,416

[1] Negligible.

Item	Present Law
72. Taxation of certain transfers of property outside United States (sec. 132 of the House bill and sec. 122 of the Senate amendment)	
(a) Transfers of appreciated property	*(a)* Certain transfers of appreciated property to foreign corporations in reorganizations and liquidations, which would otherwise be tax-free, are taxable unless the taxpayer proves to the satisfaction of the Internal Revenue Service that avoidance of Federal income tax was not one of the principal purposes of the transfers. Under Internal Revenue Service ruling guidelines, (1) transfers of property for use in an active trade or business abroad generally are not taxed; (2) transfers of assets containing built-in gain (such as inventory and accounts receivable) generally are taxed; and (3) tax-free transfer of certain intangible property abroad is permitted, even if the development of the property generated significant U.S. tax benefits.
(b) Transfer of foreign branch with previously deducted losses	*(b)* Ruling guidelines require recognition of gain on the transfer of a foreign loss branch to a foreign corporation, to the extent of previously deducted losses. If the losses contributed to an overall foreign loss that reduced U.S. source income, however, the guidelines defer to a statutory rule that requires not only recognition of gain but also recharacterization of the gain as U.S. source income.
(c) Treatment of liquidating distributions made by a domestic corporation to foreign persons	*(c)* No provision.

House Bill	Senate Amendment
(a)(1) Transfers of appreciated property abroad generally are taxed unless the property is transferred for use in an active trade or business outside the United States. (2) Certain transfers of assets containing built-in gain are taxed automatically. (3) Transfers of intangibles for less than full consideration are treated as sales for taxable contingent payments.	*(a)* Same as House bill, with technical modifications.
(b) Codifies the ruling guidelines.	*(b)* Same as House bill, with technical modifications.
(c) Regulations will specify occasions when a domestic corporation will recognize gain on distributions of appreciated property to foreign persons.	*(c)* A domestic corporation will recognize gain on distributions of appreciated property to foreign persons except when regulations provide otherwise. (Floor amendment by Sen. Dole, adopted by voice vote.)
Effective date.—Transfers after December 31, 1984.	***Effective date.***—Same as House bill, except does not apply to transfers with respect to which a ruling request was filed with the Internal Revenue Service before March 1, 1984.
Revenue effect.—	***Revenue effect.***—Same as House bill.

Fiscal Years

(Millions of dollars)

1984	......
1985	......
1986	+12
1987	+127
1988	+324
1989	+540
Sum of 1984-87	+139

Item	Present Law
73. Original issue discount in case of foreign investors (sec. 134 of the House bill and sec. 124 of the Senate amendment)	Foreign investors are subject to tax on OID upon receipt of coupon interest or disposition or retirement. Calculation of accrual and treatment of partnership debt and noncapital assets are unclear.
74. Use of territories to avoid U.S. tax on foreign investors (sec. 137 of the House bill)	Payments of U.S. source interest, dividends, and other passive income to foreign investors are generally subject to a 30-percent U.S. withholding tax. The United States does not tax payments of passive income to corporations organized in Guam, the Northern Mariana Islands, or the U.S. Virgin Islands. Some argue that foreigners who wish to invest in the United States may avoid both U.S. and territorial tax by channeling their investments through conduit corporations in these territories. Temporary Treasury regulations subject dividends and interest paid by territorial conduit corporations to territorial withholding tax. Guam is contesting these regulations in court.
75. Foreign collapsible corporations (sec. 138 of the House bill and sec. 126 of the Senate bill)	Generally, a shareholder's gain on sale or liquidation of a collapsible corporation must be reported as ordinary income. However, a shareholder of a collapsible foreign corporation can obtain capital-gain treatment if the corporation consents to recognize ordinary income on its noncapital assets when realized, even if the consent is given under circumstances that render enforcement of the consent impractical.
76. Foreign investment companies	
(a) Application of accumulated earnings tax to U.S.-owned foreign corporations (sec. 140 of the House bill and sec. 130 of the Senate amendment)	*(a)* The accumulated earnings tax may not apply to two tiers of foreign corporation when the parent corporation is widely held by U.S. persons and the subsidiary corporation (wholly owned by the parent corporation) earns U.S. source income or U.S. business income.

House Bill	Senate Amendment
Foreign investors will calculate accrual of OID like U.S. persons, whoever issued the debt, and whether or not the debt is a capital asset in the foreign investor's hands.	Same as House bill, with technical modifications.
Effective date.—Generally applies to payments made on or after the 60th day after date of enactment.	*Effective date.*—Same as House bill.
Revenue effect.—Negligible.	*Revenue effect.*—Same as House bill.
Interest, dividends, and other passive income paid from U.S. sources to a corporation organized in Guam, the Marianas, or the Virgin Islands will be subject to U.S. tax unless 75 percent or more of its beneficial owners are local or U.S. residents and unless its payments of interest and dividends to foreigners are subject to territorial tax.	No provision.
Effective date.—Payments after March 1, 1984.	
Revenue effect.—Revenue gain of less than $10 million annually.	
Under regulations, a collapsible foreign corporation cannot make a valid consent that would preclude taxation of its shareholders at ordinary income rates.	Same as House bill, with technical modification.
Effective date.—Date of enactment.	*Effective date.*—Same as House bill.
Revenue effect.—Gain of less than $10 million per year.	*Revenue effect.*—Same as House bill.
(a) If 10 percent or more of the earnings and profits of a foreign corporation has a U.S. source or is effectively connected with a U.S. business, its interest payments and a pro rata portion of its dividends are treated as U.S. source in the hands of a U.S.-owned foreign corporation (e.g., the parent) for the purpose of the accumulated earnings tax.	*(a)* Same as House bill, with technical changes.
Effective date.—Distributions received by a U.S.-owned foreign corporation on or after May 23, 1983. For U.S.-owned foreign corporations in existence on May 23, 1983, the bill applies to taxable years beginning after 1984.	*Effective date.*—Same as House bill.

Item	Present Law
(b) Definition of foreign investment company (sec. 139 of the House bill and sec. 127 of the Senate amendment)	*(b)* 50-percent U.S.-owned foreign companies registered under the Investment Company Act or engaged primarily in investing or trading in securities (with certain exceptions) are defined as foreign investment companies, sales of whose shares are taxed at ordinary income rates.
77. Resourcing U.S. source income—converting U.S. source income into foreign source income (sec. 141 of the House bill and sec. 128 of the Senate amendment)	All U.S. source income of U.S. taxpayers is subject to U.S. tax. The United States subjects foreign source income of U.S. persons to U.S. tax, but allows a credit for foreign taxes paid on foreign source income. U.S. taxpayers can "resource" (convert the source of) some U.S. income by paying interest, insurance premiums, or other amounts to a foreign corporation. When this corporation distributes dividends to its U.S. owners, the dividends are foreign source income. The U.S. owners may pay no U.S. tax and no foreign tax on this artifically converted foreign source income. The same result can occur when a controlled foreign corporation earns tax-haven-type income that causes an inclusion in the income of its U.S. shareholders (under Subpart F).

House Bill	Senate Amendment
(b) Redefines foreign investment companies as companies engaged primarily in investing or trading in securities or commodities (or interests in either).	Same as House bill.
Effective date.—Sales and exchanges on or after September 29, 1983. For stock held on that date, it applies to sales and exchanges more than one year after date of enactment.	*Effective date.*—Same as House bill, except October 31, 1983 is substituted for September 29, 1983.
Revenue effect.—Revenue gain of less than $10 million per year.	*Revenue effect.*—Same as House bill.
For purposes of the foreign tax credit limitation, when 50-percent U.S.-owned corporations whose U.S. source income (including U.S. business income) is 10 percent or more of gross income over a three-year period pay interest or dividends to a U.S. taxpayer, the portion of the payment attributable to U.S. source income will be U.S. source income. The same result will apply to inclusions under Subpart F.	Same as House bill, but specifies pro rata method of calculating amounts attributable to U.S. source income.
Effective date.—(1) Income earned by paying corporations after date of enactment. (2) Generally does not apply to interest earned on term obligations held on March 1, 1984.	*Effective date.*—(1) Generally, the same as House bill. (2) Except for foreign finance subsidiaries, does not apply to interest earned on term obligations held on March 7, 1984. The term obligation rule does not apply to foreign finance subsidiaries; instead, the amendment exempts interest earned by foreign finance subsidiaries until 1992 if interest arises from loans whose source of funds is (i) debt outstanding on March 7, 1984 (or outstanding on March 31, 1984, pursuant to a binding commitment on March 7) or (ii) its equity on March 31, 1984.
Revenue effect.—	*Revenue effect.*—

House Bill — Revenue effect

Fiscal Years

(Millions of dollars)

1984	+24
1985	+81
1986	+93
1987	+102
1988	+113
1989	+124
Sum of 1984–87	+300

Senate Amendment — Revenue effect

Fiscal Years

(Millions of dollars)

1984	+13
1985	+60
1986	+64
1987	+70
1988	+76
1989	+82
Sum of 1984–87	+207

Item	Present Law
78. Recharacterization of interest income as dividend income (sec. 142 of the House bill and sec. 129 of the Senate amendment)	A U.S. taxpayer's foreign source passive interest income cannot escape both U.S. and foreign tax under the United States' separate foreign tax credit limitation. That limitation prevents foreign taxes on non-interest income from offsetting U.S. tax on foreign source interest income. U.S. taxpayers seek to circumvent this rule by having foreign subsidiaries or regulated investment companies (RICs) earn interest income (for example, by depositing money in foreign banks). Under regulations, when the U.S. taxpayer is taxable on the earnings of the foreign subsidiary or RIC, its income may be dividend income, not interest income. Thus, artificially recharacterized "non-interest" income may escape both U.S. and foreign tax.

House Bill	Senate Amendment
(a) For purposes of applying the separate foreign tax credit limitation on interest, the bill treats foreign dividends as interest to the extent that the paying corporation's earnings and profits arise from passive interest. This rule applies only if 10 percent or more of the paying corporation's earnings and profits for a three-year base period arise from passive interest.	*(a)* Generally, same as the House bill.
(b) Applies only to 50-percent U.S.-owned corporations.	*(b)* Applies to 50-percent U.S. owned foreign corporations and to any RIC.
(c) Does not affect interest paid by subsidiaries earning passive interest.	*(c)* Same as the House bill.
Effective date.—Distributions after the date of enactment except distributions attributable to interest earned on term obligations held on March 1, 1984.	*Effective date.*—Distributions attributable to interest earned by distributing corporations in taxable years beginning after the date of enactment. Except for foreign finance subsidiaries grandfathered under the resourcing rule, the amendment does not apply to distributions attributable to interest earned on term obligations held on March 7, 1984. All payors get fresh start for three-year base-period test: first year that counts is first taxable year beginning on or after date of enactment.

Revenue effect.—

Fiscal Years

(Millions of dollars)

	House Bill	Senate Amendment
1984	+50	
1985	+63	+67
1986	+89	+118
1987	+113	+129
1988	+137	+142
1989	+157	+157
Sum of 1984–87	+315	+314

Item	Present Law
79. Definition of resident alien (sec. 451 of the House bill)	All individuals who are not U.S. citizens are either resident aliens or nonresident aliens of the United States. Residence depends on an alien's subjective intent. Resident aliens, like U.S. citizens, are subject to U.S. tax on worldwide income (although the foreign tax credit may reduce or eliminate U.S. tax on foreign source income). Nonresident aliens are generally subject to U.S. tax only on income that arises in the United States and on income from U.S. businesses. When an individual changes his status from resident alien to nonresident alien (or vice versa), his or her taxable year consists of two separate periods. During one period, the United States will tax worldwide income; during the other period, the United States will normally tax only U.S. source income.
80. Treatment of community property income of nonresident aliens (sec. 452 of the House bill)	A married couple both of whom are nonresident aliens may use foreign community property laws to split the U.S. earned income of one spouse for computing U.S. tax liability.

House Bill	Senate Amendment
An alien will be a resident if: (a) he is a lawful permanent resident of the United States (the *"green card test"*), or (b) the sum of (1) the days present during the current year, (2) one-third times the days present during the preceding year, and (3) one-sixth times the days present during the second preceding year equals or exceeds 183 (the *"substantial presence test"*). Presence as a commuter from Canada or Mexico will not count. Presence for fewer than 31 days in a year precludes residence under the substantial presence test for that year. *Status exceptions.*—The substantial presence test will not count days of diplomats (indefinitely), teachers or trainees (generally for 2 years only), or students (generally for 5 years only). The test will not apply to hospital patients who enter the United States for reasons other than medical treatment. *"Closer connections/tax home" exception.*—The substantial presence test will not apply to individuals present for fewer than 183 days during the year who establish closer connections with a foreign country than with the United States and a tax home there for the year. This exception will not be available for any applicant for an immigrant visa. *Beginning and termination of residence.*— (a) Residence under the green card test will begin on the day the alien entered the United States. (b) De minimis presence before start or after termination of substantial presence will generally be disregarded under the substantial presence test. A taxpayer who has not established a taxable year for any period prior to the time he becomes taxable in the United States will be taxed on a calendar year basis. ***Effective date.***—Taxable years beginning after December 31, 1984. For the substantial presence test, days of presence in 1983 will count only for aliens who had been residents (under existing law) in 1983 and 1984; days of presence in 1984 will count only for residents (under existing law) in 1984. ***Revenue effect.***—Increase fiscal year budget receipts by $10 million annually.	No provision.
Ends the ability of nonresident alien individuals to use foreign community property laws to split the U.S. earned income of one spouse. ***Effective date.***—Taxable years beginning after December 31, 1984. ***Revenue effect.***—Revenue gain of less than $5 million annually.	No provision.

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Item	Present Law
81. Foreign personal holding company rules (sec. 453 of the House bill and sec. 131(a)(b), and (c) of the Senate bill)	*(a)* To determine whether a foreign corporation is a foreign personal holding company, a U.S. person is considered to own the stock of his nonresident alien spouse, blood relatives, or partners. *(b)* Interposition of foreign entities between U.S. taxpayers and foreign personal holding companies arguably prevents application of the foreign personal holding company rules. *(c)* Foreign personal holding company income includes dividends and interest from related corporation operating active business in the recipient's country. Controlled foreign corporation rules do not taint this kind of income.
82. Ordinary income treatment on disposition of stock of certain foreign corporations under Code section 1248 (sec. 454 of the House bill)	*(a)* When a U.S. person disposes of stock of a controlled foreign corporation, some of his gains may be taxed as ordinary income, not as a capital gain (Code section 1248). There may sometimes be double counting of ordinary income and foreign tax credits. *(b)* There may be different treatment of a U.S. person's indirect ownership of a controlled foreign corporation and a U.S. person's direct ownership.
83. Stapled stock; stapled entities (sec. 456 of the House bill)	*(a)* Shares in one corporation may be transferable only in tandem with shares of a "sister" corporation. These shares are "stapled." *(b)* A U.S. corporation owning a foreign corporation may avoid the controlled foreign corporation rules and the anti-boycott rules by spinning off the foreign corporation. Management may retain control if the stock of the two corporations is stapled. *(c)* U.S. corporations may avoid restrictions on RICs and REITs by stapling their stock with stock of other U.S. entities.

House Bill	Senate Amendment
(a) Ends attribution of ownership of stock owned by a nonresident alien to the alien's U.S. blood relatives.	*(a)* Includes House provision; also ends attribution of stock owned by a nonresident alien to the alien's U.S. partners who are not shareholders (or relatives of shareholders) in the foreign corporation.
(b) Disregards the interposition of foreign partnerships and other foreign entities between U.S. taxpayers and foreign personal holding companies.	*(b)* Same as House bill.
(c) No provision.	*(c)* Removes dividends and interest from related corporation that operates trade or business in the recipient's country from foreign personal holding company income calculation.
Effective date.—Taxable years beginning after December 31, 1983. A transitional rule to allow certain existing structures until the end of 1984 to unwind is provided.	*Effective date.*—Taxable years beginning after March 15, 1984. Same transitional rule as House bill.
Revenue effect.—Negligible.	*Revenue effect.*—Same as House bill.
(a) Prevents double counting of ordinary income and foreign tax credits on account of a foreign corporation. *Effective date.*—Applies to transactions occurring after date of enactment (or after October 9, 1975, at taxpayer's election). *(b)* Treats a U.S. person's indirect ownership of a controlled foreign corporation like direct ownership. *Effective date.*—Applies to transactions occurring after date of enactment. *Revenue effect.*—Negligible.	No provision.
(a) New rules apply to entities 50 percent or more of which can be transferred only in tandem with interests in another entity. *(b)* Generally, where a foreign and a domestic corporation are stapled entities, the foreign corporation will be treated as domestic. A foreign entity stapled on June 30, 1983, can elect to be treated as the subsidiary of its U.S. sister rather than as a U.S. corporation; stapled entities cannot claim non-U.S. status by virtue of a treaty unless they were entitled to treaty benefits on June 30, 1983. *(c)* All stapled entities will be treated as one in determining whether any one is a REIT or RIC.	No provision.

Item	Present Law
83. Stapled stock; stapled entities—cont.	*(d)* U.S. corporations may seek multiple surtax exemptions, accumulated earnings tax credits, etc., by stapling.
84. Excise tax on foreign insurers (sec. 135 of the Senate amendment)	The United States imposes excise taxes on premiums paid to foreign insurers not doing business in the United States. The rates are (per dollar of premium): 4 cents for casualty contracts, 1 cent for life contracts, and 1 cent for all reinsurance. The tax is collected by return. Payments to some insurers are exempt by treaty, but reinsurance premiums paid by treaty-protected insurers are subject to the tax (unless the recipient is exempt by treaty).
85. Insurance services performed in country of risk (sec. 136 of the Senate amendment)	Income of a controlled foreign corporation from the performance of services for a related person outside the country of its incorporation is currently taxable to its U.S. shareholders. Regulations may deem the place of performance of insurance services to be the location of the insurance company's office so that income from insuring related parties' risks may not be currently taxable to the insurer's U.S. shareholders.

House Bill	Senate Amendment
(d) In determining controlled corporation status or stock ownership, one stapled corporation will be treated as owning the other. In addition, the Secretary may prescribe regulations to prevent tax avoidance or evasion through stapling. *Effective date.*—Generally, the date of enactment. However, for interests stapled on June 30, 1983, the provision will not apply until January 1, 1985 (January 1, 1987, in the case of a stapled foreign corporation). This provision will not apply to certain Puerto Rican corporations or REITS whose interests were stapled on June 30, 1983. *Revenue effect.*—Increase revenues by less than $5 million annually.	
No provision.	Makes the rate on casualty reinsurance equal to that on casualty insurance (4 cents per dollar), based on premiums retained. Does not override treaty exemptions. Imposes withholding mechanism. *Effective date.*—Premiums paid after date of enactment. *Revenue effect.*— *Fiscal Years* (Millions of dollars) 1984 ... (1) 1985 ... +21 1986 ... +34 1987 ... +39 1988 ... +44 1989 ... +49 Sum of 1984–87 ... +94 1 Less than $10 million.
No provision.	Specifies that income from the performance of insurance services by a controlled foreign corporation for a primary insured who is related to the insurer arises in the country where the risk is located. This income will be taxable currently to the corporation's U.S. taxpayers. *Effective date.*—Taxable years of controlled foreign corporations beginning after date of enactment. *Revenue effect.*— *Fiscal Years* (Millions of dollars) 1984 ... (1) 1985 ... 5 1986 ... 10 1987 ... 11 1988 ... 12 1989 ... 13 Sum of 1984–87 ... 26 1 Less than $5 million.

Item	Present Law
86. Foreign investment in U.S. real property—withholding (sec. 141 of the Senate amendment).	Under the Foreign Investment in Real Property Tax Act of 1980, foreign investors in U.S. real property interests are taxable by the U.S. on the gain realized when they dispose of the interest just as are similarly situated U.S. persons. This rule is to be enforced through information reporting. The legislation overrides certain nonrecognition provisions of the Code to insure U.S. taxation of the gain.

House Bill	Senate Amendment
No provision.	*(a)* Taxation of foreign investors on disposition of U.S. real property interests will be enforced through withholding. Foreign investor owes any tax not collected by withholding. *(b)* Withholding duty will apply to purchasers of U.S. real property interests from foreign owners, and certain of their agents, but only if the purchaser or his agent has actual knowledge or has received formal notice that the seller was foreign. U.S. partnerships, trustees, executors, and certain foreign corporate transferors have duty to withhold. *(c)* Agents for the transferor will have to withhold if they had reason to believe, or notice, and failed to notify the transferee. They have duty to make reasonable inquiry about seller's status, but reliance in good faith on seller's representation negates duty to withhold. *(d)* Withholding will not apply to a purchaser buying a principal residence for $200,000 or less, or to sale of stock on an established U.S. market. *(e)* Amount withheld is least of— (1) capital gains rate times price, (2) maximum tax liability on sale (after proof of basis), and (3) amount U.S. withholding agent controls. *(f)* The Secretary can reduce or eliminate withholding on request in certain other cases. *(g)* The Secretary is authorized to remove current reporting obligations where withholding is required. ***Effective date.***—Withholding for amounts paid on or after 30 days after enactment. ***Revenue effect.***— *Fiscal Years* (Millions of dollars) 1984 ... +44 1985 ... +40 1986 ... +10 1987 ... +10 1988 ... +11 1989 ... +14 Sum of 1984-87 ... +104

Item	Present Law
87. Phase-out of 30-percent withholding tax on portfolio interest paid to foreign investors (sec. 142 of the Senate amendment)	Payments of passive income (interest, dividends, etc.) to foreign investors are subject to a 30-percent U.S. withholding tax. Some treaties reduce this tax; in the case of interest, some treaties eliminate the tax. TEFRA requires registration of debt obligations unless— (1) They are sold under procedures reasonably designed to prevent sale or resale to U.S. persons (2) interest is payable only outside the U.S. and (3) they indicate that U.S. holders are subject to tax penalties. U.S. estate tax applies to obligations of U.S. corporations, but not to obligations of foreign corporations.

House Bill	Senate Amendment
No provision.	Reduces the 30-percent withholding tax on portfolio interest paid to foreign investors.

The rates are:

Balance of 1984	5%
1985	4%
1986	3%
1987	2%
1988 (Jan. 1–June 30)	1%
July 1, 1988 and thereafter	0%

The reduction does not apply to interest paid to banks, controlled foreign corporations, or 10-percent or greater owners of the payor.

U.S. corporations that assume debt of foreign affiliates pay interest that is eligible for tax reduction if they meet compliance requirements that affiliate would have had to meet (without necessarily meeting all the TEFRA requirements that would have applied to the U.S. corporation).

Repeals the U.S. estate tax on obligations eligible for reduced withholding rates.

Effective date.—Applies to interest received after date of enactment (and to estates of decedents dying after date of enactment).

Revenue effect.—

Fiscal Years

(Millions of dollars)

1984	
1985	−38
1986	−67
1987	−100
1988	−150
1989	−188
Sum of 1984–87	−205

Item	Present Law
J. Compliance Provisions	
88. Promoter lists (sec. 151 of the House bill and sec. 145 of the Senate amendment) ***(a) General rule***	There is no requirement that promoters and sellers of tax shelters maintain lists.
(b) Definition of tax shelter	
(c) Penalty	
89. Registration of tax shelters (sec. 146 of the Senate amendment)	There is no requirement that tax shelters register with the IRS.

House Bill	Senate Amendment
(a) General rule.—Anyone who organizes or sells an interest in a tax shelter must keep a list, in the manner and to the extent provided in regulations, of each person who was sold an interest.	*(a) General rule.*—Tax shelter promoters must maintain lists of investors in each separate promotion. Exceptions are provided from the listing requirement for promotions of partnerships or S corporations. Also, the Secretary is to provide regulations to eliminate duplicative lists.
(b) Definition of tax shelter.—Any plan or arrangement that the Secretary determines by regulations as having the potential for tax avoidance or evasion.	*(b) Definition of tax shelter.*—Any plan or arrangement with respect to which representations of tax benefits are made.
(c) Penalty.— (1) $50 for each failure to include a person on a list; (2) Maximum in any calendar year is $50,000.	*(c) Penalty.*—Same as House bill.
Effective date.—Date of enactment.	*Effective date.*—December 31, 1984.
No provision.	*(a) In general.*—Anyone who organizes a tax shelter must register the shelter with the IRS by supplying information that briefly describes the investment and identifies the promoter. *(b) Definition of tax shelter.*— (1) Any investment with respect to which representations are made that the investment will result in deductions in excess of income, or credits in excess of half the income attributable to the investment in any of the first 5 years, and (2) Which is (i) required to be registered with a Federal or state agency, or (ii) offered to sophisticated investors (i.e. when the aggregate amount invested exceeds $200,000 and there are 10 or more investors). (3) Secretary can provide exemptions from registration requirement. *(c) Deadline for registration.*—The earlier of (i) 15 days after shelter is first offered for sale, or (ii) December 31 of year it is first offered for sale. *(d) Identification numbers.*—Must be furnished by promoters to investors and must be furnished by investors on returns.

Item	Present Law
89. Registration of tax shelters—Cont.	
90. Returns relating to mortgage interest and cash received in trade or business (sec. 152 of the House bill and sec. 147 of the Senate amendment)	
(a) Mortgage interest	*(a) Mortgage interest* There is no requirement that recipients of mortgage interest report interest received to the IRS.
(b) Cash	*(b) Cash* Under the Bank Secrecy Act, certain banks and other financial institutions are required to report cash transactions of more than $10,000.

House Bill	Senate Amendment
	(e) Penalties.— (1) For failure to register—$500 plus 1% of amount invested that exceeds $1,000,000. (2) For failure to furnish identification number by promoters to investors—$100 for each failure. (3) For failure to furnish identification number by investors—$50 for each failure, unless due to reasonable cause. *Effective date.*—Generally, interests offered for sale on or after September 1, 1984, that will aggregate in excess of $200,000 and that may be invested in by 10 or more investors on or after September 1, 1984; Secretary has authority to postpone.
(a) Mortgage interest.— (1) *In general.* A person engaged in a trade or business (or a governmental agency) who, in the course of the trade or business, receives interest on obligations secured by real property must report to the IRS payments from a payor aggregating $600 or more and provide the payor with a statement.	*(a) Mortgage interest.—* (1) *In general.*—Same as House bill, except that the threshold is $2,300.
(2) *Penalties.*—Present law penalties for other failures to file information returns and furnish statements apply (generally, $50 per failure except in cases of intentional disregard).	(2) *Penalties.*—Same as House bill.
Effective date.—Amounts received after December 31, 1984, except that no penalty is imposed on persons reporting for failures to furnish identification numbers with respect to an obligation in existence on December 31, 1984, for amounts received before January 1, 1986.	*Effective date.*—Amounts received after December 31, 1984.
(b) Cash.— No provision.	*(b) Cash.—* (1) *In general.*—A person engaged in a trade or business who receives in the course of the trade or business $10,000 or more in cash or foreign currency in 1 or more related transactions must report it to the IRS and provide a statement to the payor.

Item	Present Law
90. Returns relating to mortgage interest and cash received in trade or business—Cont.	
91. Returns relating to foreclosures and abandonments of security (sec. 153 of the House bill and sec. 148 of the Senate amendment)	
(a) In general	There is no specific requirement of reporting on foreclosures and abandonments of security.
(b) Exceptions	
(c) Penalties	
92. Increase in penalty for promoting abusive tax shelters (sec. 154 of the House bill and sec. 149 of the Senate amendment)	A promoter who, in connection with the organization or sale of a tax shelter, makes false or fraudulent statements or gross valuation overstatements is liable for a penalty of the greater of $1,000 or 10% of the income derived from the organization or sale.

House Bill	Senate Amendment
	(2) *Exception.*—Amounts required to be reported under the Bank Secrecy Act are excepted from this reporting requirement. (3) *Penalties.*—Present law penalties for other failures to file information returns and statements apply (generally, $50 per failure except in cases of intentional disregard). ***Effective date.***—December 31, 1984.
(a) In general.— Any person (including a government agency) who in connection with a trade or business— (1) acquires in full or partial satisfaction of indebtedness any interest in property that is security for the indebtedness, or (2) has reason to know that property that is security for the indebtedness is abandoned, must report the foreclosure or abandonment to the IRS and provide a statement to the payor.	***(a) In general.***— Generally, same as House bill. Additionally, a taxpayer allowed a bad debt deduction or an addition to a reserve for bad debts must report the deduction or addition to the IRS and provide a statement to the payor.
(b) Exceptions.— (1) No reporting if the indebtedness is less than $15,000. (2) No reporting on consumer loans for personal property.	***(b) Exceptions.***— No provision.
(c) Penalties.—Present law penalties for other failures to file information returns and statements apply (generally, $50 per failure except in cases of intentional disregard). ***Effective date.***—Foreclosures and abandonments after December 31, 1984.	***(c) Penalties.***—Same as House bill. ***Effective date.***—Same as House bill.
Modification of existing penalty.— Increases 10% to 20%. ***Effective date.***—Date of enactment.	***Modification of existing penalty.***— (1) Increases 10% to 20%, and (2) Increases $1,000 to $2,000. (3) Applies penalty to statements in connection with the operation of the tax shelter. ***Effective date.***—Actions occurring after date of enactment.

Item	Present Law
93. Increased rate of interest for tax shelter cases (sec. 150 of the Senate amendment)	Interest must be paid by the taxpayer on underpayments of tax and by the United States on overpayments of tax at the statutory rate. There is no increased rate for tax shelter cases.
94. Provisions relating to individual retirement accounts (sec. 157 of the House bill and sec. 152 of the Senate amendment)	*(a) In general.*—The trustee of an IRA is required to report to the IRS and the individual on contributions withdrawals made. *(b) Penalty.*—Each failure to provide a report on contributions or withdrawals is subject to a $10 penalty. *(c) Deadline for contributions.*—Contributions must be made by the due date (including extensions) of the return for the year to which the contributions relate.
95. Returns relating to exchanges of partnership interests (sec. 158 of the House bill.)	A sale or exchange of a partnership interest generally is treated as a sale or exchange of a capital asset. However, sales or exchanges of partnership interests involving unrealized receivables or appreciated inventory will result in ordinary income (to the extent of the receivables and inventory) to the transferor. There is no reporting required on these exchanges.

House Bill	Senate Amendment
No provision.	In the case of tax shelter items, the rate of interest paid to taxpayers on refunds or due the IRS on underpayments is 150 percent of statutory rate (generally the prime rate, compounded daily). This rule applies to items arising from any plan or arrangement the principal purpose of which is the avoidance or evasion of tax in which more than 34 persons participate. *Effective date.*—Interest accruing after December 31, 1984.
(a) Identify years.—The report must identify the years to which IRA contributions relate. *Effective date.*—Contributions made after April 15, 1984 for taxable years beginning after December 31, 1983.	*(a) Identify years.*—Same as House bill. *Effective date.*—Contributions made after 30 days after enactment for taxable years beginning after December 31, 1983.
(b) Penalty.—Increases penalty to $50 for each failure to provide a report on contributions or withdrawals. *Effective date.*—Date of enactment.	*(b) Penalty.*—Same as House bill. *Effective date.*—Same as House bill.
(c) Deadline for contributions.—No provision.	*(c) Deadline for contributions.*—Contributions must be made by due date of return (without extensions). *Effective date.*—Contributions made more than 30 days after enactment for taxable years beginning after December 31, 1983.
(a) In general.—Transferor must notify partnership, and partnership must report to the IRS, the transferor, and the transferee on any exchange of a partnership interest involving unrealized receivables or inventory. *(b) Penalties.*—Present law penalties for other failures to file information returns with the IRS and furnish statements to taxpayers apply (generally, $50 per failure except in cases of intentional disregard). *Effective date.*—Exchanges after December 31, 1984.	No provision.

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Item	Present Law
96. Statements required in case of certain substitute payments (sec. 159 of the House bill and sec. 153 of the Senate amendment)	If in a short sale there is a payment of interest or dividends on the borrowed obligation, the borrower generally is required to make a payment to the lender of the obligation in lieu of the interest or dividends (a "substitute payment"). There is no reporting required on substitute payments if a broker lends securities of a customer held in street name in connection with a short sale. Absent reporting, a deduction (such as the dividends received deduction) may be claimed twice, even though only the purchaser in the short sale is entitled to the deduction.
97. Modifications to charitable contribution rules and incorrect valuation penalties (sec. 154 of the Senate amendment)	
(a) Substantiation requirements	*(a)* A charitable contribution is deductible only if verified in the manner required by Treasury regulations (Code sec. 170(a)(1)). Present law does not expressly require donors to obtain appraisals on gifts of property, and does not require donees who resell donated property to furnish information reports to the IRS.
(b) Modifications to incorrect valuation penalty	*(b)* Present law imposes a graduated penalty for valuation overstatements on income tax returns (sec. 6659), including overvaluations of charitable donations, as follows— (1) for claimed valuations of 150–200 percent of the corrrect value, 10 percent of the tax understatement; (2) for claimed valuations of 200–250 percent of the correct value, 20 percent of the tax understatement; and (3) for claimed valuations exceeding 250 percent of the correct value, 30 percent of the tax understatement.

House Bill	Senate Amendment
(a) General rule.—Reporting to the taxpayer is required if— (1) a broker lends securities for use in a short sale, and (2) the broker receives a payment relating to the securities on behalf of the customer.	*(a) General rule.*—Same as House bill, except that transactions similar to short sales are also included.
(b) Payments covered.— Dividends.	***(b) Payments covered.***— (1) Dividends, (2) Tax-exempt interest, and (3) Other items the Secretary prescribes by regulations.
(c) Copy to Secretary.— No provision.	***(c) Copy to Secretary.***— Regulations authority to require copy to Secretary.
Effective date.—Payments after December 31, 1984.	***Effective date.***—Same as House bill.
No provision.	*(a)* Individual donors must obtain an independent appraisal (and attach a summary of the appraisal to the return) where the claimed value of donated property, other than publicly traded securities, exceeds certain dollar amounts (generally, $2,000). For failure to comply, unless there was reasonable cause, the taxpayer's deduction is reduced by the greater of (i) the amount of appreciation or (ii) 10 percent of the deduction otherwise allowable. If the donee charity sells property for which an appraisal is required within two years after receipt, the donee must file an information report on such sale with the IRS (with a copy to the donor). ***Effective date.***—Contributions made after 1984. ***(b)*** The section 6659 penalty is modified by deleting the exception for property held for more than five years, and by extending the penalty to incorrect valuations for estate and gift tax purposes. ***Effective date.***—Returns filed after 1984.

Item	Present Law
97. Modifications to charitable contribution rules and incorrect valuation payments—Cont.	The penalty does not apply if the tax underpayment is less than $1,000, or to overvaluations of property held by the taxpayer for more than five years. The IRS may waive the penalty for good faith valuations having a reasonable basis.
(c) Disallowance rule for charitable deduction overvaluations	*(c)* Present law does not provide deduction disallowance rules for overvaluations of donated property in addition to overvaluation penalties.
Revenue effect for item 97	
98. Disclosure of returns and return information to certain cities (sec. 155 of the Senate amendment)	Disclosure of returns and return information can be made to States for tax administration purposes provided that appropriate safeguards against disclosure are ensured. Disclosure to cities is not permitted.
99. Failure to request change of method of accounting (sec. 157 of the Senate amendment)	A taxpayer is not permitted to change its accounting method without the consent of the Secretary. Some taxpayers using an improper method argue there is no requirement to request permission to change from an improper to a proper method. They assert the failure of the Secretary to consent to a change in method as a defense to any penalty arising from use of the improper method.

House Bill	Senate Amendment
	(c) A sliding-scale charitable deduction disallowance rule applies (in addition to the overvaluation penalty) if the claimed value of donated property, other than publicly traded securities, exceeds certain dollar amounts (generally $2,000) and exceeds the correct value by at least 50 percent, as follows— (1) for claimed valuations of 150–175 percent of the correct value, one-half of the appreciation is disallowed; (2) for claimed valuations of 175-200 percent of the correct value, all the appreciation is disallowed; and (3) for claimed valuations exceeding 200 percent of the correct value, no deduction is allowed. *Effective date.*—Returns filed after 1984. ***Revenue effect.***— *Fiscal Years* (Millions of dollars) 1984 .... 1985 +14 1986 +40 1987 +46 1988 +52 1989 +57 Sum of 1984–87 +100
No provision.	Any city with a population in excess of 2,000,000 which imposes a wage or income tax may, if the Secretary so provides, receive returns and return information for the same purposes and with the same safeguards as are required from a State under present law. *Effective date.*—Date of enactment.
No provision.	If the taxpayer does not request a change in accounting method, the absence of the Secretary's consent cannot be asserted as a defense to any penalty or addition to tax. *Effective date.*—Taxable years beginning after date of enactment.

Item	Present Law
100. Interest on certain additions to tax (sec. 158 of the Senate amendment)	Interest on penalties and additions to tax is generally imposed only for the period from the date of notice and demand to the date of payment. An interest-like element is added to the negligence and fraud penalties for the period from the last day prescribed for payment of the tax to the date of assessment (or payment, if earlier). No comparable element is added to the failure to file, gross valuation overstatement, and substantial understatement penalties.
101. Penalty for fraudulent withholding exemption certificate or failure to supply information (sec. 159 of the Senate amendment)	An individual who supplies false or fraudulent withholding information or willfully fails to supply information is subject to a criminal penalty, which is in lieu of any other penalty (except a civil fine).
102. Mailing of deposits of taxes (sec. 160 of the Senate amendment)	Employers are required to deposit taxes in any designated financial institution. They may treat a deposit as timely made if it is mailed as required 2 days prior to the due date. The mailing of deposits to remote depositories can result in delays of up to 2 weeks.
103. Penalty for frivolous proceedings before the Tax Court (sec. 161 of the Senate amendment)	Pre-TEFRA, the Tax Court had discretionary authority to award damages of up to $500 for proceedings instituted merely for delay. TEFRA raised the maximum to $5,000 and expanded the basis of the award to include proceedings maintained for delay. These changes did not apply to cases pending at the time of TEFRA's enactment; thus, some taxpayers have been able to continue dilatory actions without risking the increased penalty.
104. Furnishing of TIN under backup withholding (sec. 162 of the Senate amendment)	Under the Interest and Dividend Tax Compliance Act of 1983, backup withholding applies unless a taxpayer's identification number is supplied "in the manner required." The 1983 Act contemplated that new TINs would be supplied under penalties of perjury in the case of interest, dividends, and payments by brokers.

House Bill	Senate Amendment
No provision.	Interest is imposed on the amount of the following penalties as of the due date of return: (1) failure to file (sec. 6651(a)(1)); (2) gross valuation overstatement (sec. 6659); and (3) substantial understatement (sec. 6661). *Effective date.*—Interest accrued after enactment with respect to penalties assessed after date of enactment.
No provision.	Eliminates the provision excluding application of other penalties. Thus, prosecutions for willful evasion are not barred where prosecution for a false certificate is also possible. *Effective date.*—For acts or failures to act after date of enactment.
No provision.	Deposits in excess of $20,000 by large employers must be made by the date due, regardless of method of delivery. *Effective date.*—For deposits required to be made after June 30, 1984.
No provision.	Expanded damages can also be awarded against taxpayers with proceedings pending before the Tax Court as of 120 days after the date of enactment (regardless of when instituted). *Effective date.*—120 days after date of enactment.
No provision.	Codifies existing regulations by providing that the Secretary's authority to require that a TIN be furnished under penalties of perjury is restricted to: (1) interest; (2) dividends; (3) patronage dividends; and (4) amounts subject to broker reporting. *Effective date.*—Date of enactment.

Item	Present Law
105. Reporting of State and local tax refunds (sec. 155 of the House bill and sec. 163 of the Senate amendment)	*(a) General rule.*—State and local governments must report to the IRS all tax refunds greater than $10. In addition, they must furnish a statement reporting the amount of the refund to the taxpayer in January of the year following the year of the refund. ***(b) Penalties.***—There are no civil penalties for failure to report State and local refunds to the IRS or to the taxpayer.
106. Tax shelter study (sec. 164 of the Senate amendment)	No specific provision.
107. Clarification of change of venue for certain tax offenses (sec. 165 of the Senate amendment)	There is a conflict among the United States courts of appeal regarding the availability of transfer of venue when the mails are used as part of the offense being prosecuted. Some hold that transfer is required only when the sole basis for venue in a particular district is receipt by the IRS of mailed materials. Others hold that transfer is permitted when the mails are used as part of the offense, even though venue is not based on the mailing.

House Bill	Senate Amendment
(a) General rule.—Codifies existing regulations by providing that— (1) No reporting to the IRS or to the taxpayer of refunds if the taxpayer did not itemize deductions. (2) Maintains present law requirement that statement be furnished in January for refunds to itemizers.	*(a) General rule.*— (1) Maintains present law requirement of reporting to IRS and taxpayer of all tax refunds. (2) Provides exception to January rule; statements to taxpayers can be provided with the payment of the refund.
(b) Penalties.—No provision.	*(b) Penalties.*—Present law penalties for failure to furnish other statements to taxpayers apply (generally, $50 per failure except in cases of intentional disregard.)
Effective date.—Payments of refunds made after December 31, 1982.	*Effective date.*—Payments of refunds made after enactment.
No provision.	Requires the Secretary to submit a report to Congress by December 1, 1984, on various aspects of tax shelters, including minimum tax imposed on investments, "at-risk" and "recapture" rules, basis adjustment for tax credits, and deductibility of artificial accounting losses.
No provision.	Provides that transfer of venue is required only when the sole basis for venue in a particular district is receipt by IRS of mailed materials. *Effective date.*—Date of enactment.

Item	Present Law
108. Tax Court provisions	
(a) Certified public accountants and enrolled agents authorized to represent taxpayers in small tax cases (sec. 475(a) of the House bill)	*(a)* In any Tax Court proceeding, a taxpayer may appear pro se or be represented by any person admitted to practice before the Tax Court.
(b) Annuities for survivors of Tax Court judges (sec. 476 of the House bill)	*(b)* If a Tax Court judge is survived by a dependent child or children, an annuity is provided.
(c) Tax Court Commissioners (secs. 477 and 478 of the House bill)	*(c)* Proceedings involving less than $5,000 may be assigned to Commissioners to make a decision.
(d) Publicity of Tax Court proceedings (sec. 479 of the House bill)	*(d)* Reports of the Tax Court and evidence received by the Court are open to public inspection.
(e) Elimination of mandatory retirement age for Tax Court judges (sec. 480 of the House bill)	*(e)* Tax Court judges must retire upon attaining age 70. After retirement, judges who have served at least 10 years receive retirement pay generally equal to the salary of active judges and may continue to hear cases. Retired judges are not considered in determining whether the authorized maximum number of judges (19) has been reached, and retirement plan payments are not considered wages for purposes of social security taxes.

Revenue effect of compliance provisions (except charitable provisions—item 97)

House Bill	Senate Amendment
(a) Allows certified public accountants and enrolled agents to represent a taxpayer in a small tax case.	*(a)* No provision.
(b) The maximum limits on annuities for surviving children will be increased to the level provided surviving children of U.S. District Court judges.	*(b)* No provision.
(c) Provides that other proceedings may be assigned to be heard by Commissioners, but no decision with respect to these proceedings may be made by a Commissioner. The title of "Commissioner" will be changed to "Special Trial Judge."	*(c)* No provision.
(d) Clarifies that the Court may prevent the disclosure of trade secrets and other confidential information.	*(d)* No provision.
(e) Tax Court judges may retire at any time after attaining age 70.	*(e)* No provision.
Effective date.—Generally effective upon enactment.	

House Bill

Revenue effect.—

Fiscal Years

(Millions of dollars)

1984	......
1985	+20
1986	+92
1987	+175
1988	+232
1989	+255
Sum of 1984–87	+287

Senate Amendment

Revenue effect.—

Fiscal Years

(Millions of dollars)

1984	−2
1985	+84
1986	+176
1987	+248
1988	+292
1989	+302
Sum of 1984–87	+506

Item	Present law
K. Depreciation Provisions	
109. Depreciation of real property (sec. 171 of the Senate amendment)	Under ACRS, real property may generally be recovered over 15 years.
110. Rehabilitation tax credits (sec. 171 of the Senate amendment)	
(a) 30-year old buildings	*(a)* 15-percent credit, and depreciable basis is reduced by full credit.
(b) 40-year old buildings	*(b)* 20-percent credit, and depreciable basis is reduced by full credit.
(c) Certified historic structures	*(c)* 25-percent credit, and depreciable basis is reduced by only 50 percent of credit.

House Bill	Senate Amendment
No provision.	Real property (other than low-income housing) may not be recovered over a period of less than— (a) 20 years for property placed in service by the taxpayer in 1984, after March 15; (b) 19 years for property placed in service by the taxpayer in 1985, and (c) 18 years for property placed in service by the taxpayer after 1985. (Floor amendment by Sen. Boschwitz reducing Finance Committee 20-year period, agreed to by vote of 62–19.)

House Bill: No provision.

Senate Amendment:

Real property (other than low-income housing) may not be recovered over a period of less than—

(a) 20 years for property placed in service by the taxpayer in 1984, after March 15;

(b) 19 years for property placed in service by the taxpayer in 1985, and

(c) 18 years for property placed in service by the taxpayer after 1985.

(Floor amendment by Sen. Boschwitz reducing Finance Committee 20-year period, agreed to by vote of 62–19.)

Effective date.—Property placed in service by the taxpayer after March 15, 1984.

Present law is retained for (i) property construction of which was commenced by the taxpayer before March 16, 1984, (ii) property acquired pursuant to a contract binding the taxpayer on March 15, 1984, or (iii) either such property conveyed by the·taxpayer to another taxpayer so long as not placed in service by the conveying taxpayer before the conveyance. However, no property placed in service by a taxpayer after December 31, 1986 will qualify under present law.

Revenue effect.—

Fiscal Years

(Millions of dollars)

1984	+80
1985	+393
1986	+966
1987	+1,670
1988	+2,412
1989	+3,190
Sum of 1984–87	+3,109

House Bill: No provision.

Senate Amendment:

(a) 10-percent credit; no change in basis reduction.

(b) 15-percent credit; no change in basis reduction.

(c) 25-percent credit, with full basis reduction.

Effective date.—Same as for depreciation changes.

(Floor amendment by Sen. Boschwitz, agreed to by vote of 62–19, as part of real property depreciation amendment.)

Item	Present Law
110. Rehabilitation tax credits—Cont.	
111. Depreciation recapture in case of installment sale (sec. 172 of the Senate amendment)	Gain on the sale of depreciable property is treated as ordinary income to the extent of all or part of depreciation deductions allowed. The installment sale rules provide that depreciation recapture is postponed until principal payments are made.
112. Movies (sec. 173 of the Senate amendment)	
(a) Depreciation	*(a)* Availability of ACRS is unclear.
(b) Investment tax credit	*(b)* Availability of regular ITC is unclear. A special ITC rule applies to movies primarily for use for public entertainment or educational purposes.
(c) Basis adjustment and general at-risk rules	*(c)* No special provision.

House Bill	Senate Amendment
	Revenue effect.— *Fiscal Years* (Millions of dollars) 1984 ... +18 1985 ... +56 1986 ... +103 1987 ... +153 1988 ... +181 1989 ... +207 Sum of 1984–87 ... +330
No provision.	All depreciation recapture income fully recognized currently in an installment sale of either real or personal property. (Floor amendment adding personal property recapture income, by Sen. Boschwitz, agreed to by vote of 62–19, as part of real property depreciation amendment.) *Effective date.*—Dispositions after March 15, 1984 (April 13, 1984, in the case of personal property). Exception for dispositions pursuant to (i) a contract binding the taxpayer on March 22, 1984 (April 12, 1984, in the case of personal property), and (ii) an agreement in principal before March 23, 1984. (Floor amendment to effective date for real property by Sen. Armstrong, agreed to by voice vote.) *Revenue effect.—* *Fiscal Years* (Millions of dollars) 1984 ... +48 1985 ... +108 1986 ... +206 1987 ... +212 1988 ... +218 1989 ... +230 Sum of 1984–87 ... +574
No provision.	*(a)* ACRS not available: use of income forecast or similar method required. *(b)* Regular ITC not available. Special ITC rule remains as under present law. *(c)* ITC basis adjustment rules apply but not the general at-risk rules.

Item	Present Law
112. Movies—Cont.	
113. Sound recordings (sec. 173 of the Senate amendment)	
(a) Depreciation	*(a)* Availability of ACRS is unclear.
(b) Investment tax credit	*(b)* Availability of ITC is unclear.
(c) ITC basis adjustment and general at-risk rules	*(c)* No special provision.

House Bill	Senate Amendment
	Effective date.—Same as for ERTA's ACRS rules. Exception for movies placed in service prior to December 31, 1984, if 20 percent of production costs expended prior to March 16, 1984, and if ACRS was claimed. (Floor amendment relating to exception by Sen. Wilson, agreed to by voice vote.) ***Revenue effect.***—Increase revenue by less than $10 million annually.
No provision.	*(a)* Taxpayers are given the option to depreciate sound recording under income forecast method and take no ITC, or to depreciate it under 3-year ACRS and take a 6-percent ITC. *(b)* See above. Basis includes contingent amounts (e.g., percentage royalties) incurred in 1st or 2nd year if they are written off separately under 3-year ACRS rules. (Floor amendment relating to contingent amounts by Sen. Wilson, approved by voice votes.) *(c)* Rules reducing depreciable basis for 50 percent of ITC apply but not the general at-risk rules. *Effective date.*—Sound recordings placed in service after March 15, 1984. ***Revenue effect.***—

Fiscal Years

(Millions of dollars)

1984	+5
1985	+10
1986	+10
1987	+10
1988	+10
1989	+10
Sum of 1984-87	+35

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Item	Present Law
L. Domestic Relations Tax Reform	
114. Treatment of transfer of property between spouses or incident to divorce (sec. 421 of the House bill)	Gain is recognized on transfers of property in exchange for the release of marital claims.
115. Alimony (sec. 422 of the House bill)	Alimony paid under divorce or separation instruments is deductible by the payor and includible in the income of the payee. *(a)* Alimony must be in discharge of a legal obligation because of family or marital relationship; the payment may not discharge a principal sum, with an exception for certain payments which exceed 10 years. *(b)* No requirement to furnish name or social security number of payee.

House Bill	Senate Amendment
Transfers of property between spouses or incident to divorce will generally be non-taxable, carryover basis transactions. *Effective date.*—Applies to transfers after date of enactment (other than transfers pursuant to instruments in effect on that date where the parties do not elect to have the provisions apply). The parties may elect to have the provision apply to transfers after December 31, 1983. *Revenue effect.*—Reduce revenues by less than $5 million annually.	No provision.
(a) Present law requirements are repealed; requirements to qualify as alimony will be as follows: (1) Payment must be in cash; (2) Payor and payee who are divorced or legally separated may not be members of same household at time of payment; (3) Payment must be terminable at death of payee spouse; and (4) The parties do not designate the payment as not being alimony. Deduction for payments made during first year which exceed average payments made during second and third year by more than $15,000 would be recaptured. Also recapture where second year payments exceed third year payments by more than $15,000. No recapture where either party dies or where payee spouse remarried by end of third year. Does not apply to temporary support decrees. *(b)* Payee must furnish payor with social security number and payor must furnish name and social security number of payee to IRS; a $50 penalty for failure to comply. *Effective date.*—Applies generally to decrees and agreements executed after 1984.	No provision.

Item	Present Law
115. Alimony—Cont.	
116. Dependency exemption (secs. 424 and 427 of the House bill)	A $1,000 deduction is allowed for dependent child of taxpayer; to qualify as dependent of taxpayer, taxpayer must furnish over one-half of support. *(a)* Special rules are provided for divorced or legally separated parents or parents separated under written separation agreement where the two parents provide more than one-half the support. *(b)* Under the special rules, custodial parent is allowed dependency exemption except that either: (1) If decree or agreement provides that the non-custodial parent is entitled to deduction and that parent provides at least $600 support, the non-custodial parent is treated as providing over one-half support; or (2) If non-custodial parent furnishes at least $1200 support, that parent is presumed to furnish over one-half support unless custodial parent clearly establishes otherwise. *(c)* Medical expense deduction allowed for expenses of dependent child. *(d)* Numerous different rules relating to status of married individuals living apart.

House Bill	Senate Amendment

Revenue effect.—

Fiscal Years

(Millions of dollars)

1984	
1985	−8
1986	−49
1987	−12
1988	+25
1989	+11
Sum of 1984–87	−69

No provision.

(a) Special rules will be extended to all situations where parents are living apart at all times during last 6 months of calendar year.

(b) Under the special rules, custodial parent will be allowed dependency exemption unless that parent signs a declaration that he or she will not claim exemption for the taxable year and non-custodial parent attaches the declaration to his or her return.

Pre-1985 agreements described under (1) of present law will be grandfathered.

(c) Treats child as dependent of both parents for purposes of medical expense deduction.

(d) Provides that parents living apart for the last 6 months of year can be treated as unmarried or head-of-household if the other eligibility tests are met. Eligibility for unmarried status, head-of-household status, earned income credit, and credit for dependent care not lost where custodial parent waives right to claim dependency exemption.

Item	Present Law
116. Dependency exemption—cont.	*(e)* Child is not eligible as dependent if gross income exceeds $1,000 unless under age 19 or a student.
117. Innocent spouse relieved of liability in certain cases (sec. 425 of the House bill)	*(a)* Spouse filing joint return may be relieved of liability for tax if (1) more than 25 percent omission from gross income attributable to other spouse, (2) the spouse establishes that he or she had no knowledge, or reason to know, of unreported income, and (3) it would be inequitable to hold the spouse liable, taking into account whether the spouse significantly benefited from the omission. *(b)* Community income is treated as income of both spouses. Exception applies where spouses live apart for the entire year, file separate returns, and one spouse has earned income which is not transferred to other spouse.
118. Gift and estate tax liability for transfers of property incident to divorce (sec. 426 of the House bill)	No gift tax liability for transfers of property to spouse in settlement of marital or property rights pursuant to written agreement where divorce occurs within 2 years after agreement.

House Bill	Senate Amendment
(e) Income received by a permanently and totally disabled individual at sheltered workshop school will be disregarded in determining dependency exemption. *Effective date.*—Taxable years beginning after December 31, 1984. *Revenue effect.*—Negligible.	
(a) Item (1) amended to apply to substantial understatements resulting from (i) omitted income and (ii) deductions, basis, and credits with no basis in law or fact. Substantial understatement will be understatement of tax exceeding $500. *(b)* Rule is extended to situations where a spouse establishes that he or she did not know, or have reason to know, of item of community income, and it is inequitable to include the item in that spouse's income. *Effective date.*—All taxable years to which the Internal Revenue Codes of 1939 and 1954 apply. *Revenue effect.*—Negligible.	No provision.
Provides estate tax deduction for transfers pursuant to these written agreements. Extends the period to enter into an agreement to one year after divorce. *Effective date.*—Applies to gifts made and estates of decedents dying after date of enactment. *Revenue effect.*—Negligible.	No provision.

Item	Present Law
M. Miscellaneous Reform Provisions	
119. Tax benefit rule (sec. 161 of the House bill and sec. 175 of the Senate amendment)	Present law excludes from income amounts recovered which previously were deducted but did not produce a tax benefit. The exclusion fails to properly reflect economic reality in certain cases.

House Bill	Senate Amendment
(a) Clarifies the application of the tax benefit rule with respect to the recovery of amounts previously deducted.	*(a)* Same as House bill.
(b) Provides for an increase in tax when amounts relating to credits are recovered.	*(b)* No provision.
Effective date.—Amounts recovered after December 31, 1983.	***Effective date.***—Same as House bill.
Revenue effect.—	***Revenue effect.***—Same as House bill.

Fiscal Years

(Millions of dollars)

1984	....
1985	+229
1986	+253
1987	+274
1988	+300
1989	+330
Sum of 1984–87	+756

Item	Present Law
120. Interest-free and below-market interest rate loans (sec. 162 of the House bill and sec. 176 of the Senate amendment)	Interest-free or below-market interest rate loans without consideration, such as loans between family members, generally result in gifts for Federal tax purposes. The income tax treatment of interest-free or below market interest rate loans is not clear.

House Bill	Senate Amendment
(a) In general.— Interest-free and below-market interest rate loans are recharacterized as arms-length transactions with the parties treated as if— (1) the borrower paid interest to the lender that may be deductible to the borrower and is included in income by the lender; and (2) the lender (a) made a gift subject to the gift tax, (b) paid a dividend includible in income, (c) paid compensation, or (d) made some other payment in accordance with the substance of the transaction. Interest is computed at a statutory rate that reflects the rate on marketable obligations of the United States with comparable maturities. Demand loans are treated as short-term obligations.	***(a) In general.—*** Same as the House bill, except that it applies to— (1) transactions that are in the nature of gifts, dividends and payments of compensation, and (2) to other transactions only as provided in regulations.
(b) Exceptions and limitations.— (1) Under regulations to be prescribed, the provision does not apply if it is established to the satisfaction of the Secretary that the loan does not have as one of its principal purposes the avoidance of Federal taxes. It is anticipated that a loan by a parent to a child to pay for the child's current educational expenses, or by an employer to an employee to pay for reasonable business expenses that will be incurred by the employee, generally would not have as one of its principal purposes the avoidance of Federal taxes.	***(b) Exceptions and limitations.—*** (1) In the case of a gift loan, no income or gift tax consequences if the aggregate amount owed does not exceed $10,000. Thus, if the statutory interest rate for a particular loan is 10 percent, there is generally no income or gift tax consequences if the amount of foregone interest does not exceed $1,000 for the year.
(2) In the case of a family loan the amount of interest treated as paid by the borrower to the lender cannot exceed to the amount of income, if any, realized by the borrower which is attributable to the loan.	(2) In the case of a gift loan, no income tax consequences if the borrower's net investment income does not exceed $1,000 and the aggregate amount owed by the borrower to the lender does not exceed $100,000. (3) In the case of a gift loan, if the borrower has net investment income in excess of $1,000, but the aggregate amount owed does not exceed $100,000, interest will be treated as paid by the borrower to the lender, but the amount imputed cannot exceed the amount of the borrower's net investment income. (4) No income tax consequences with respect to any person providing services (including independent contractors) if the aggregate amount owed is $10,000 or less. (5) The exceptions and limitations are generally inapplicable if a principal purpose is the avoidance of Federal taxes.
Effective date.—Effective with respect to term loans made, or amounts outstanding on demand loans, after March 1, 1984. An exception is provided for amounts outstanding on term loans on March 1, 1984, which are repaid within 60 days after the date of enactment.	***Effective date.***—Effective with respect to term loans made after February 1, 1984, or to amounts outstanding on demand loans after the date of enactment.

Item	Present Law
120. Interest-free and below-market interest rate loans—Cont.	
121. LIFO conformity rules (sec. 163 of the House bill and sec. 177 of the Senate amendment)	The "Last-In-First-Out" (LIFO) method of inventory accounting may not be used for tax purposes unless it is also used in reporting to shareholders, partners, other proprietors, beneficiaries, or for credit purposes. One court has held (in the *Insilco* case) that a subsidiary corporation may use the LIFO method for tax purposes, even though its parent company does not use the LIFO method in its consolidated financial statements for the group.
122. Limitations with respect to property which is partially used for personal purposes and for luxury automobiles (sec. 166 of the House bill and secs. 179 and 188 of the Senate amendment)	The portion of the cost of an asset attributable to business use is eligible for the investment tax credit (generally 6 percent on automobiles) and ACRS (automobiles are 3-year property), or, alternatively, for expensing (up to a specified dollar limit). A portion of the investment credit and expensing deduction may be recaptured if the portion of the asset attributable to business use declines after the first year it is placed in service. No such recapture rule applies to ACRS deductions.
(a) Automobiles	

House Bill	Senate Amendment

Revenue effect.—

Fiscal Years

(Millions of dollars)

1984	+108
1985	+126
1986	+143
1987	+150
1988	+158
1989	+166
Sum of 1984–87	+527

Revenue effect.—Same as House bill.

No member of an affiliated group of corporations that issue financial statements on a consolidated basis may use the LIFO method for tax purposes unless the consolidated financial statements use the LIFO method.

Effective date.—Taxable years beginning after date of enactment.

Revenue effect.—

Fiscal Years

(Millions of dollars)

1984	....
1985	+105
1986	+185
1987	+200
1988	+200
1989	+200
Sum of 1984–87	+490

Same as the House bill, except the provision also applies to a group of corporations that issue financial statement on a combined basis.

Effective date.—Same as the House bill.

Revenue effect.—Same as the House bill.

(a) Automobiles—

(1) *Percentage presumption*: At least 50 percent of use treated as personal unless taxpayer establishes otherwise.

Effective date.—Taxable years beginning after December 31, 1984.

(2) *Percentage of use required for ACRS and ITC*: No provision.

(a) Automobiles—

(1) *Percentage presumption*: No provision.

(2) *Percentage of use required for ACRS and ITC or expensing*:

(i) At least 90 percent of mileage must be for business purposes;

(ii) If 90-percent test not met, the taxpayer

(A) May not claim ACRS, ITC, or expensing, and

Item	Present Law
122. (Cont.)	
(b) Property other than automobiles	

(B) Must use standard mileage to determine his allowable deductions for (1) ACRS, ITC, and expensing, and (2) operating expenses.

(iii) Automobiles kept at the residence which is not the principal place of the taxpayer's principal business more than 14 nights a year (except by outside salesmen) automatically on standard mileage;

(iv) Use by another person not included in 90-percent business use unless—

(A) directly connected with taxpayer's trade or business;

(B) gives rise to income to other person; or

(C) fair rent is paid to taxpayer.

(v) Must meet 90-percent test for both of first 2 years to claim ACRS, expensing, and ITC;

(vi)(A) ACRS, expensing, and ITC recaptured if business use falls below 90 percent after the first two years;

(B) Amount of ACRS and expensing recaptured is the excess of fair market value over adjusted basis.

Effective date.—Property placed in service or leases entered into after March 15, 1984.

House Bill	Senate Amendment
(3) *Basis limitation:* For purposes of credits, ACRS deductions and expensing, basis of passenger automobiles is limited to $21,000, adjusted for inflation;	(3) *Basis limitation:* Same as House bill, except basis is limited to $15,000, rather than $21,000. (Floor amendment by Sen. Baucus, agreed to by voice vote.)
Effective date.—Property placed in service after March 1, 1984.	*Effective date.*—Property placed in service after March 15, 1984.
(b) Property other then automobiles.— No provision.	***(b) Property other than automobiles***

(1) At least 90 percent of use must be for business purposes to be eligible for ACRS, expensing, and ITC.

(2) If 90-percent test not met, taxpayer must use 12-year straight line depreciation.

(3) Applies to:

(i) Property used for transportation (except automobiles);

(ii) Entertainment and recreation property;

(iii) Computers; or

(iv) Other property listed in regulations.

(4) Use by another person not included in 90-percent business use unless:

(i) Directly connected with taxpayer's trade or business;

(ii) Gives rise to income to other person; or

(iii) Fair market rent is paid to taxpayer.

Item	Present Law
122. (Cont.)	
(c) Compliance	*(c) Compliance.—* The taxpayer must substantiate any travel expenses by adequate records or other evidence corroborating his own statements. These records must show the amount, time and place, and business purpose of the travel expenses.
123. Transfers of depreciable property between related parties. (sec. 167 of the House bill)	Transfers of depreciable property between related parties are denied capital gains and installment sales treatment. Related parties include (1) husband and wife and (2) partnerships and corporations which are 80 percent controlled by one taxpayer.
124. Treatment of certain related party transactions (sec. 168 of the House bill and sec. 180 of the Senate amendment)	*(a)* Denies a deduction for business expenses and interest by an accrual basis taxpayer owed to a related cash basis taxpayer if payment not made within 2½ months after close of taxable year. *(b)* Present law does not apply to transactions between a partner and partnership.

(5) Must meet 90-percent test for both of first 2 years to claim ACRS, expensing, and ITC.

(6) ACRS, expensing, and ITC proportionately recaptured if business use falls below 90 percent after the first two years.

Effective date.—Property placed in service after March 15, 1984.

House Bill:

(c) Compliance.—

No provision.

Senate Amendment:

(c) Compliance

(1) Extends present law substantiation requirements to automobiles and property included in ***(b)*** (above) and requires maintenance of contemporaneous records.

(2) Return preparers must verify that adequate contemporaneous records have been kept supporting deductions before signing returns.

Effective date.—Property placed in service after March 15, 1984.

House Bill:

Revenue effect.—

Fiscal Years

(Millions of dollars)

1984	+20
1985	+79
1986	+130
1987	+160
1988	+180
1989	+194
Sum of 1984–87	+389

Senate Amendment:

Revenue effect.—

Fiscal Years

(Millions of dollars)

1984	+102
1985	+386
1986	+731
1987	+918
1988	+948
1989	+979
Sum of 1984–87	+2,137

House Bill:

For purposes of this rule—

(1) treats patent application as depreciable property, and

(2) treats a person and a trust in which the person has an interest (other than remote contingent interest) as related.

Effective date.—Transactions after March 1, 1984.

Revenue effect.—Increase revenues by less than $5 million annually.

Senate Amendment:

No provision.

House Bill:

(a) Provides that a deduction for expenses of an accrual basis taxpayer owed to a related cash basis taxpayer is allowed only when amount paid.

(b) Applies new accrual rule to amounts accrued by a partnership to its partners and persons related to its partners (and vice versa).

Senate Amendment:

(a) Same as House bill.

(b) Same as House bill, except the provision does not apply to certain de minimis cases involving resyndications of low-income housing.

Item	Present Law
124. Treatment in certain related party transactions (Cont.)	*(c)* Present law does generally not apply to transactions between related corporations.
125. Losses on sales and exchanges of property used in a trade or business (sec. 181 of the Senate amendment)	Generally, gains and losses on the sales or exchange of business property plus the gains and losses on the involuntary conversion of business property and capital assets are treated as long-term capital gains and losses if there are net gains for the taxable year and are treated as ordinary losses if there are net losses for the taxable year.

House Bill	Senate Amendment
(c) Applies the present law rules denying losses between related parties as well as the new accrual rules to transactions between controlled corporations (using a 50-percent control test). Does not apply to sales to a controlled DISC.	*(c)* Same as House bill, except that losses from sales and exchanges between controlled corporations result in deferral (rather than denial) of losses until the related corporation disposes of property outside the group in a recognition transaction. No DISC exception.
Effective date.—(1) Accrual rules will apply to taxable years beginning after December 31, 1983, unless pursuant to a binding contract in effect on September 29, 1983.	***Effective date.***—(1) Same as House bill.
(2) Expansion of related party rules will apply to transactions after September 29, 1983, unless pursuant to a contract binding on that date. In the case of sales to a controlled foreign corporation, the provision will apply March 1, 1984.	(2) Same as House bill, except (i) partnership rules will apply to taxable years beginning after December 31, 1983, and (ii) no special rule applies to controlled foreign corporations.

Revenue effect.— (House Bill)

Fiscal Years

(Millions of dollars)

1984	+50
1985	+114
1986	+185
1987	+264
1988	+350
1989	+433
Sum of 1984–87	+613

Revenue effect.— (Senate Amendment)

Fiscal Years

(Millions of dollars)

1984	+46
1985	+109
1986	+176
1987	+253
1988	+346
1989	+416
Sum of 1984–87	+584

House Bill: No provision.

Senate Amendment: Net losses from the sale or exchange of business assets will be treated as capital losses to the extent of net section 1231 gains for the prior three years and will be carried back to offset these gains. Also net gains will be treated as ordinary to the extent of net section 1231 losses for the prior three years.

Effective date.—Taxable years beginning after December 31, 1984.

Revenue effect.—

Fiscal Years

(Millions of dollars)

1984	....
1985	+27
1986	+76
1987	+109
1988	+168
1989	+230
Sum of 1984–87	+212

Item	Present Law
126. Disallowance of certain expenses where taxpayer uses property similar to property owned by taxpayer (sec. 182 of the Senate amendment)	Deductions for personal expenses are disallowed.
127. Capital gains on coal royalties from related parties (sec. 183 of the Senate amendment)	May be possible to reduce the overall tax on coal mining operations by having a separate land-holding company acquire coal reserves and lease them for a retained arm's-length royalty to the company which actually conducts mining operations. Under such an arrangement, the royalties would be deductible by the operating company, and the amount of the royalties received by the land company (after subtracting cost depletion and certain expenses) would qualify for capital gain treatment. If the benefits of capital gain treatment exceeded the loss from foregoing percentage depletion on the coal in question, the overall tax on the operation would be reduced.
128. Public utility dividend reinvestment plans (sec. 184 of the Senate amendment)	Shareholders may exclude from income up to \$750 (\$1,500 in the case of joint return) of stock distributions from public utility corporations under qualified dividend reinvestment plans. Provision expires after 1985.

House Bill	Senate Amendment
No provision.	Clarifies that taxpayers cannot claim tax deductions and credits with respect to property used by other persons by virtue of tax-motivated transactions designed to enable the taxpayers to obtain the personal use of similar property. *Effective date.*—The use of property after February 22, 1984. *Revenue effect.*—Negligible.
No provision.	Provides that royalties received from related parties are not eligible for capital gains treatment. *Effective date.*—Royalties paid after September 30, 1985. (Floor amendment by Sen. Specter delayed date from date of enactment, agreed to by voice vote). *Revenue effect.*—

Fiscal Years

(Millions of dollars)

1984	....
1985	....
1986	+27
1987	+36
1988	+40
1989	+44
Sum of 1984–87	+63

House Bill	Senate Amendment
No provision.	Repeals this provision, effective after 1984. *Effective date.*—Distributions made after December 31, 1984. *Revenue effect.*—

Fiscal Years

(Millions of dollars)

1984	....
1985	+167
1986	+278
1987	....
1988	....
1989	....
Sum of 1984–87	+445

Item	Present Law
129. Taxation of Federal Home Loan Mortgage Corporation (Freddie Mac) (sec. 186 of the Senate amendment)	
(a) Tax status of Freddie Mac	*(a)* Under its enabling statute, Freddie Mac is exempt from Federal, State and local taxes.
(b) Net operating loss carrybacks	*(b)* Corporations are generally allowed to carry net operating losses back 3 years and forward 15 years. The Federal National Mortgage Association (Fannie Mae) is allowed to carry NOL's back 10 years and forward 5 years, other than losses resulting from mortgage dispositions.
(c) Dividends received deduction	*(c)* Corporations are entitled to a deduction for a portion of dividends received from a domestic corporation. This deduction is not allowed for dividends received from a tax-exempt entity.

House Bill	Senate Amendment

No provision.

(a) Repeals Federal tax exemption; does not affect State or local tax treatment.

(b) Same as provided for Fannie Mae.

(c) Allows savings institutions a deduction for a portion of dividends received from a Federal Home Loan Banks which are attributable to taxable Freddie Mac income.

The deduction is allowed for that part of a dividend which is equivalent to the ratio of:

(1) dividends received by the Home Loan Bank from Freddie Mac, to

(2) earnings and profits of the Home Loan Bank.

No deduction is allowed for dividends attributable to pre-1985 Freddie Mac income.

Effective date.—January 1, 1985.

Transition rules.—Pre-January 1, 1985 appreciation and earnings and profits grandfathered.

Treatment of Participation Certificates (PCs).—

No grandfather for any built-in profit component on PCs or similar securities sold by Freddie Mac before 1985.

If profits interest in a PC is sold between March 15, 1984 and January 1, 1985, gain is realized by Freddie Mac on January 1, 1985.

Revenue effect.—

Fiscal Years

(Millions of dollars)

1984	....
1985	+67
1986	+109
1987	+142
1988	+185
1989	+240
Sum of 1984-87	+318

Item	Present Law
130. Application of related party rules to section 265(2) (sec. 187 of the Senate amendment).	Disallows a deduction for interest on debt used to purchase or carry tax-exempt obligations. The application of this rule to related parties is unclear.

House Bill	Senate Amendment
No provision.	Disallows a deduction for interest on debt which is used to purchase or carry tax-exempt obligations owned by: (1) the taxpayer's spouse or (2) an 80-percent owned entity with respect to the taxpayer. *Effective date.*—Interest on: (1) term obligations incurred after date of enactment, and (2) demand obligations outstanding 60 days after enactment. *Revenue effect.*—Increase of less than $5 million per year.

Item	Present Law
131. Individual estimated tax (secs. 411-414 of the House bill and sec. 185 of the Senate amendment)	
(a) Amount of payment required	*(a)* Penalty is imposed on underpayment of individual estimated tax. Amount of underpayment is based on difference between payments (including withholding) made and 80 percent of tax shown on return.
(b) Exceptions to penalty	*(b)* No penalty is imposed if payment equals amount based on: (1) tax shown on preceding year's return; (2) 80 percent of current year's tax computed on income to date placed on annualized basis; (3) 90 percent of tax on income to date; (4) tax on prior year's facts and current year's rates and exemptions.
(c) Waiver of penalty	*(c)* Penalty may not be waived.
(d) Alternative minimum tax	*(d)* Estimated payments of the alternative minimum tax are not required.
(e) Credit of overpayments	*(e)* The IRS had ruled (Rev. Rul. 83-111) that overpayments may not be credited to estimated tax payments earlier than the date election to credit payment is made. (This ruling has been revoked by Rev. Rul. 84-58).

House Bill	Senate Amendment
(a) Underpayment will be based on lesser of (1) 80 percent of tax shown on return, (2) 100 percent of tax shown on preceding year's return, or (3) 80 percent of current year's tax computed on income to date placed on an annualized basis.	*(a)* No provision.
(b)—	*(b)* No provision.
(1) See (a) above. (2) See (a) above.	
(3) Repeals exception. (4) Repeals exception.	
(c) Penalty may be waived as the result of casualty, disaster or circumstances where imposition of tax would be inequitable.	*(c)* Same as House bill, except that penalty also may be waived for reasonable cause during first 2 years after taxpayer retires upon reaching age 62 or becomes disabled.
(d) Estimated tax payments of the alternative minimum tax will be required.	*(d)* Same as House bill.
(e) Overrules Revenue Ruling 83-111.	*(e)* No provision.
Effective dates.—Items (a), (b), (c), and (d) apply to taxable years beginning after December 31, 1984. Item (e) is effective January 1, 1984.	*Effective dates.*—Same as House bill.
Revenue effect.—	*Revenue effect.*—

House Bill — *Fiscal Years*

(Millions of dollars)

1984	(1)
1985	+746
1986	−6
1987	−9
1988	−15
1989	−21
Sum of 1984–87	+731

[1] Loss of less than $5 million.

Senate Amendment — *Fiscal Years*

(Millions of dollars)

1984	
1985	+611
1986	+37
1987	+40
1988	+42
1989	+45
Sum of 1984–87	+690

Item	Present Law
132. At risk provisions (secs. 431 and 432 of the House bill)	
(a) Investment tax credit "at risk" rules	*(a)(1)* Present law generally limits the amount of property on which a taxpayer (other than a non-closely held corporation) may claim the investment tax credit to the amount the taxpayer is "at risk". Real estate and certain corporate leasing activities are exempt from this rule.
	(2) There is an exception for loans from persons in the commercial lending business who are unrelated to the seller or to the taxpayer where the taxpayer is at least 20 percent at-risk at all times.
	(3) Present law allows a lessor to pass the credit through to the lessee. The application of the at-risk rules to these leases is unclear.
(b) "At-risk" rules for losses	*(b)(1)* Present law limits the losses from an activity which a taxpayer (other than a non-closely held corporation) may claim to the amount the taxpayer is at risk in the activity.
	(2) Certain activities are not aggregated for purposes of the at-risk rules.
	(3) A taxpayer is not at risk for amounts borrowed from a related party.

House Bill	Senate Amendment
(a)(1) Generally clarifies present law by revising the rules so as to directly disallow the credit with respect to property financed with nonrecourse borrowing.	No provision.
(2) Generally retains this exception. Adds an exception for recourse loans to a subchapter S corporation where the loan is from an unrelated commercial lender and the property is used in an active trade or business with at least 3 full-time non-owner employees, including one full-time employee managing the business.	
(3) In the case of a pass-through lease, the at-risk rule will continue to apply to the lessor. In addition, the lessee must be liable to make payments the present value of which at the beginning of the lease (assuming the rate of interest used in computing interest on tax underpayments) must equal or exceed 30 percent (18 percent in the case of 3-year property) of the value of the property.	
(b)(1) An active trade or business of a closely held subchapter C corporation (other than a personal holding company or personal service corporation) will not be subject to any at-risk rules. A trade or business will be required to have three full-time, non-owner employees, one full-time employee actively managing the business, and "out-of-pocket" business expenses must exceeding 15 percent of gross income. Losses from an active business may not offset income of personal holding company or personal service company that is member of same affiliated group.	
(2) Certain activities will be aggregated if the taxpayer actively participates in the management of each activity.	
(3) A taxpayer can be at risk for amounts borrowed from a related party.	
Effective date.—Item (a) applies to property placed in service after date of enactment (or as if enacted by ERTA, if taxpayer so elects); item (b) applies to taxable years beginning after December 31, 1983.	
Revenue effect.—Negligible.	

Item	Present Law
A. Taxation of Life Insurance Companies (sec. 211 of both House bill and Senate amendment)	
133. Definition of life insurance companies	
(a) Deficiency reserves	*(a)* To qualify as a life insurance company, a company must hold more than 50 percent of its total reserves as life insurance reserves. The terms "life insurance reserves" and "total reserves" specifically do not include deficiency reserves.
(b) Election to treat noncancellable A&H as cancellable A&H	
134. General deductions	
(a) In general	*(a)* Life insurance companies are allowed deductions for increases in reserves, claims paid, policyholder dividends paid, as well as deductions generally allowable for businesses.
(b) Dividends received from subsidiaries	*(b)* The dividends received deduction allowed life insurance companies must be allocated between the company and the policyholders according to a proration fraction. The proration fraction also applies to 100-percent dividends, i.e., those dividends received from controlled subsidiaries that give rise to a 100-percent dividends received deduction.

House Bill	Senate Amendment
(a) Generally, the present law definition is retained. Deficiency reserves continue to be specifically excluded from life insurance and total reserves.	*(a)* Same as House bill, except the specific exclusion of deficiency reserves is deleted; instead deficiency reserves are not reflected in the tax reserve computation.
(b) No provision.	*(b)* A mutual life company may elect to treat all individual noncancellable A&H contracts as cancellable for purposes of the qualification fraction. Stock life subsidiaries of an electing parent will be taxed as mutual companies, and both the income and assets of the parent will be counted in determining the amount of any small life insurance company deduction.
(a) Generally retains present law.	*(a)* Same as House bill.
(b) Dividends received from unrelated corporations continue to be subject to proration. 100-percent dividends are not subject to proration except to the extent paid out of tax-exempt interest and dividends other than 100-percent dividends.	*(b)* Same as House bill, except: (1) 100-percent dividends from a P&C subsidiary will not be prorated if the subsidiary's surplus does not exceed 30 percent of assets and tax-advantaged investments do not exceed 60 percent of assets; (2) 100-percent dividends from life subsidiaries will not be subject to proration if all affiliated life companies apply proration on a consolidated basis; and (3) 100-percent dividends from reinsurance subsidiaries may be excluded from the general proration rule under regulations (if Treasury issues such regulations). Dividends paid out of pre-1984 earnings by subsidiaries using these special rules for exclusion from or application of proration will not be taken into account in computing statement gains from operations under the ownership differential provision. (Floor amendment by Sen. Bradley, adopted by voice vote.) *Termination.*—After 1986, the provision will be the same as in the House bill.

Item	Present law
135. Special deductions	
(a) Special life insurance company deduction	*(a)* The tax on one-half of underwriting gains (the excess of gain from operations over taxable investment income) is deferred until distributed to policyholders. Companies also can reduce taxable income through special deductions for nonparticipating contracts and group life and accident and health contracts, or through revaluing preliminary term reserves.
(b) Small life insurance company deduction	*(b)* There is a small company deduction of $25,000 that is available to all companies. Also, although not limited to small companies, the deferral of tax on one-half of underwriting income, the revaluation of reserves under section 818(c), and the special deductions of nonparticipating and group life and A&H contracts significantly reduce the tax burden of many small companies.
(c) Computation of tentative LICTI	
(d) Tentative LICTI for a controlled group	
(e) Adjustments in tentative LICTI	

House Bill

(a) All life companies are allowed a deduction in an amount equal to 25 percent of their otherwise taxable income arising out of insurance business (i.e., tentative LICTI). The deduction applies after the deduction for policyholder dividends and small companies.

(b) Small companies are permitted a deduction equal to 60 percent of the first $3 million of otherwise taxable income (i.e., tentative LICTI). This percentage figure is reduced to zero as taxable income increases from $3 million to $15 million.

Only companies with less than $500 million in assets qualify for the deduction. Eligibility is determined on the basis of a controlled group.

(c) The amount of tentative LICTI is determined without regard to all items attributable to noninsurance income. Noninsurance business is any trade or business that is not an insurance business. Any business that is not an insurance business but is of a type traditionally carried on by life companies for investment purposes is treated as insurance business.

(d) In determining the amount of the special and small life insurance company deductions, all life insurance companies that are members of the same controlled group are treated as one life insurance company.

(e) The Secretary may prescribe proper adjustments to the tentative LICTI computation so that a loss from operations of any controlled group member will reduce tentative LICTI of the group only once.

Senate Amendment

(a) Same as House bill, except the special life insurance company deduction is 20 percent of tentative LICTI.

(b) Same as House bill, except for a special 1-year (1984) transition rule under which only assets of affiliated financial institutions or insurance companies are aggregated to determine eligibility if—

(i) there is no life-nonlife consolidation;

(ii) the group did not acquire a life company after September 27, 1983; and

(iii) contributions to capital of life company members during 1984 do not exceed aggregate dividends paid by the life members.

(c) Same as the House bill, except any activity that is not an insurance business is treated as insurance business if it is a type traditionally carried on by life companies and (1) is carried on for investment purposes but only if the carrying on of the activity (other than real estate) is not an active trade or business, or (2) involves the performance of administrative services.

For purposes of computing LICTI for a company, noninsurance gains and losses are treated as if they were gains or losses of a nonlife company filing a consolidated return with the life company (i.e., the company's noninsurance losses will be subject to the 35 percent limitation of sec. 1503(c)).

(d) Same as the House bill, except that a loss member of a controlled group may elect to not have its losses taken into account in determining the amount of the special life insurance company deduction for other members of the controlled group that do not consolidate with the loss member for the taxable year. If the election is made, the amount of loss that would have offset gain of the member of the controlled group not filing a consolidated return will be reduced by 20 percent if the loss is ever used to offset nonlife income.

(e) The Secretary may prescribe proper adjustments to the tentative LICTI computation to prevent any excess detriment or benefit (whether from year-to-year or otherwise) arising from the provision regarding the computation of tentative LICTI for a controlled group.

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Item	Present Law
(f) Alternative life insurance company deduction	
136. Policyholder reserves	
(a) In general	*(a)* Taxable income is computed by allowing, in effect, deductions for increases in the year-end reserves required under State law. There are special rules for adjusting reserves for purposes of the tax on investment income, revaluing preliminary term reserves to net level reserves, and deducting additional contingency reserves for group accident and health, and group life contracts.
(b) Net level reserves for noncancellable A&H	
(c) Term life and annuity benefits	
(d) States which determine annuity reserves without reduction for surrender charges	

House Bill	Senate Amendment
(f) No provision.	*(f)* A 4-year transition rule allows a company to elect a deduction based in part on first-year premiums for directly issued individual ordinary life or individual noncancellable accident and health contracts in lieu of the special and small life insurance company deductions. The amount of the premium that can be taken into account for the alternative deduction is limited to 200 percent of the net level premium, assuming annual premiums are paid until age 95. The alternative deduction must be elected by everyone within a controlled group and, if revoked at any time, cannot be re-elected. Losses arising from the deduction can be used only against life income. The deduction will not apply for taxable years beginning in 1988 or thereafter.
(a) Companies are allowed a deduction for reserve increases (reduced by the policyholders' share of tax-exempt interest) for certain enumerated items. With respect to life insurance reserves for any contractual benefit, the amount of the increase will be to the higher of (1) the net surrender value, or (2) the reserve calculated using specified methods, interest rate, and mortality assumptions for such benefit.	*(a)* Same as House bill, except as described below.
(b) A company using, as of December 31, 1982, the net level method for statutory reserves for all its noncancellable accident and health contracts may use that method for tax purposes, so long as it continues to use that method for such statutory reserves.	*(b)* No provision.
(c) No provision.	*(c)* For contracts issued before January 1, 1989, under plans of insurance existing on January 1, 1984, term life and annuity benefit riders will be treated as separate contracts for purposes of computing tax reserves.
(d) A company domiciled in a State that continuously requires annuity reserves to be computed without reduction for surrender charges may compute its tax reserves in the same manner.	*(d)* No provision.

Item	Present Law
137. Special rules for variable contracts	
(a) In general	*(a)* Special rules require separate accounting for asset funds underlying variable annuity contracts. These rules do not apply to variable life insurance contracts. Under one specific rule, capital gains recognized by the company on the sale of assets underlying nonqualified annuity contracts are taxed at the company level, although the gains are credited to the policyholder. There is a second tax on these amounts when distributed to the policyholder. Variable pension plan contracts do not have a double tax on the capital gains, because gains are eliminated at the company level.
(b) Investment diversification	
138. Limitation on deduction for policyholder dividends paid by mutual companies ("ownership differential")	
(a) In general	*(a)* Under the 1959 Act, assets held for policyholders in their capacity as owners of the company are not identified in any way. The Act does, however, distinguish between investment assets held with respect to liabilities to policyholders and other investment assets. Investment income earned in excess of contractual liabilities to policyholders is taxed at the company level through the limitation on policyholder dividends.
(b) Transition rule for high surplus mutuals	

House Bill	Senate Amendment
(a) Continues the present law tax treatment of variable annuities and extends the same treatment to variable life insurance.	*(a)* Eliminates the capital gain at the company level on assets underlying variable contracts.
(b) No provision.	*(b)* Treasury is given authority to prescribe diversification standards for investments of variable contract separate accounts in order for such contracts to be treated as life or annuity contracts, except that: (1) the separate account for variable life contracts may be invested solely in U.S. Treasury securities; and (2) separate accounts may hire independent investment advisors.
(a) No limitation is placed on the deduction of policyholder dividends or similar amounts by stock life insurance companies. The deduction for policyholder dividends paid by a mutual company is reduced by an amount equal to a differential earnings rate on the company's equity base. If the reduction amounts exceed the amount of policyholder dividends paid by the company, the excess may offset any reserve deductions.	*(a)* Same as House bill.
(b) In computing their differential earnings amount, mutuals with an equity to asset ratio in excess of 130 percent of the average of such ratio for the 50 largest mutual companies need not take into account their excess equity. Excess equity not taken into account cannot exceed $50 million for 1984. The excess equity not taken into account (and the $50 million cap) are phased down 20 percent each year until the full equity is taken into account.	*(b)* Same as House bill, but without the $50 million cap.

Item	Present Law
(c) Special rule for tax reserve equity adjustment for excess interest life contracts	
(d) Reduction of equity for mutual successor of fraternal benefit society	
139. Allocation authority over reinsurance agreements	A temporary provision of TEFRA permits Treasury to reallocate income and deductions in coinsurance transactions between related parties (within the meaning of sec. 1239(b)) to prevent the avoidance of Federal income tax through reinsurance transactions.
140. Definition of policyholders' share and company's share	Present law allocates each and every item of investment income (together with any tax benefits) between the policyholders and the company. The policyholders' share of each item is in the same proportion to the whole item as the company's policyholder and other contract liabilities bear to investment yield.
141. Effective dates; transition and special rules *(a) General effective date (sec. 215 of both House bill and Senate amendment)*	

House Bill	Senate Amendment
(c) No provision.	*(c)* In determining the equity of life subsidiaries of mutuals, the reserve computation rule for excess interest guaranteed beyond the taxable year does not apply for any life insurance contract issued before January 1, 1985, under a plan of insurance in existence on July 1, 1983.
(d) No provision.	*(d)* A mutual life insurance company that assumed the surplus of a fraternal benefit society in 1950 can reduce its equity base each year by the value of the assumed surplus (plus earnings thereon).
Extends Treasury's allocation and recharacterization authority to reinsurance agreements between related parties (within the meaning of sec. 482) or between unrelated parties, if one of the parties is acting, with respect to the covered contracts, as an agent or conduit for another party to the reinsurance agreement.	Same as House bill, except that the recharacterization and allocation authority where one party is acting as a conduit between related parties is made explicit.
Effective date.—January 1, 1984. Does not apply with respect to any *contract* issued before September 27, 1983, which is reinsured before that date under a reinsurance agreement entered into before that date even if risks covered by the reinsurance arise after September 26, 1983.	*Effective date.*—Same as House bill, except the provision does not apply with respect to any *risk* arising and reinsured before September 27, 1983, under a reinsurance agreement entered into before such date.
Tax-exempt interest and intercorporate dividends received deduction (not including dividends received that are 100 percent excludable) are allocated to policyholders according to a proration fraction. That fraction is (1) amounts paid or credited to policyholders as customers (i.e., amounts in the nature of interest, deductible policyholder dividends), divided by (2) net investment (i.e., gross investment income less specified investment expenses).	Same as House bill, except there is a different proration fraction: (1) the sum of required interest, the deductible portion of excess interest, the deductible portion of any amount credited to pension or annuity contracts not in a payout period, and the gross investment income's proportionate share of policyholder dividends, divided by (2) 90 percent of gross investment income.
(a) General effective date.—Taxable years beginning after December 31, 1983.	*(a)*—Same as House bill.

Item	Present Law
(b) Transition rules (sec. 216 of both House bill and Senate amendment)	
(1) Recomputation of reserves	
(2) Fresh start	
(3) Reinsurance transactions and reserve strengthening after September 27, 1983	
(4) Allocation of the fresh start benefit	

House Bill	Senate Amendment
(b) (1) As of the beginning of the first taxable year beginning after December 31, 1983, reserves for any contact are recomputed for purposes of life insurance company taxation.	*(b) (1)* Same as House bill, but the recomputation is also made for purposes of taxing property and casualty companies. There is an additional provision to describe how reserves for property and casualty companies should be recomputed using premiums earned.
(2) Any tax on income arising from the prescribed recomputation of reserves is waived for life insurance companies.	*(2)* The tax waiver is extended to any insurance company required to recompute reserves under the bill.
(3) (i) The fresh start provision does not apply to any reserve transferred (or expenses transferred) under a reinsurance agreement entered into, modified, or terminated after September 27, 1983, and before January 1, 1984 (or to any reserve strengthening reported on a return filed after September 27, 1983, for taxable years ending before January 1, 1984). (ii) Any income included because of recomputation of such reserves (or any income attributable to transferred expenses) is not taken into account in determining the amount of the special and small life insurance company deductions.	*(3)*(i) Generally, any reinsurance agreement entered into, any modification of a reinsurance agreement, or any reserve strengthening reported on a return filed for a taxable year ending after September 27, 1983, and before the first day of the first taxable year beginning after December 31, 1983, shall not be taken into account for Federal income tax purposes until such first day. (ii) The general rule does not apply for purposes of qualification as a life insurance company or for purposes of determining distributions out of a policyholders' surplus account. (iii) The general rule of disregarding reserve strengthening does not apply if the reserve computation employs a reserve practice used for purposes of the most recent annual statement filed before September 27, 1983, for the type of contract requiring the reserve. (iv) Any election of sec. 818(c) after September 27, 1983, will not take effect unless more than 95 percent of the reserves computed under the 818(c) election are attributable to risks under contracts issued under a plan of insurance first filed after March 1, 1982, and before September 28, 1983.
(4) No provision.	*(4)* The fresh start benefits with respect to reserves subject to a reinsurance agreement entered into during 1982 or 1983 are allocated between the ceding company and the assuming company depending on the duration of the contract between the parties after December 31, 1983. Any income or deductions arising under the allocation provision are spread over 10 years.

Item	Present Law
(5) Election not to recompute reserves	
(c) Other special rules (sec. 217 of both House bill and Senate amendment)	
(1) Determination of tentative LICTI for companies with acquisitions in 1980, 1981, 1982, and 1983	
(2) Treatment of hybrid stock/mutual companies	
(3) Special rule to treat ownership of stock acquired by debt financing as noninsurance business	
(4) Forgiveness of Phase III tax if distribution arises from a Federal Reserve divestiture order	*(4)* Distributions from a company's policyholder surplus account are subject to tax.
142. Underpayments of estimated tax for 1984 (sec. 218 of Senate amendment)	Corporate taxpayers are required to pay tax quarterly on an estimated basis. In the case of an underpayment of estimated tax, an additional amount is due, determined at the deficiency interest rate on the amount of the underpayment for the period of underpayment.

House Bill	Senate Amendment
(5) No provision.	*(5)*(i) Company with less than $500 million in assets may elect not to recompute its reserves for existing business and may use instead statutory reserves for such business for tax purposes. (ii) If a company has made the election under (i), and also qualifies for the full small company deduction, it may elect to compute tax reserves for contracts issued after 1983 and before 1989 according to a formula that adjusts statutory reserves depending on the difference between the prevailing interest rate and the assumed interest rate.
(c)—	*(c)—*
(1) For 1984 and 1985, companies that acquired assets of 1 or more insurance companies after 1979 and before April 1, 1983, in transactions that resulted in a stepped-up basis may increase the bases on which they compute their special and small company deductions by the amount of the amortization deductions related to the acquisition.	*(1)* Same as House bill, except (i) the provision is limited to certain companies domiciled in Texas, Alabama, and Oklahoma, and (ii) the provision applies for all taxable years beginning after 1983.
(2) A hybrid stock-mutual company will be taxed as part stock and part mutual.	*(2)* A hybrid company will be taxed as a stock life insurance company.
(3) No provision.	*(3)* The ownership by a life insurance company of the stock of another corporation will be treated as noninsurance business for purposes of computing tentative LICTI if (1) the stock was acquired on January 14, 1981, (2) was acquired through debt financing, and (3) ownership of the stock is through a partnership. (Senate floor amendment by Sen. Huddleston, adopted by voice vote.)
(4) Generally, the same as present law.	*(4)* Exempts from tax a distribution from policyholders' surplus account if the distribution arises by reason of a divestiture of reinsurance business, pursuant to a Federal Reserve order to do so by September 1, 1984.
Generally, the same as present law.	No penalty is imposed on the underpayment of an installment of estimated tax required to be paid before enactment, to the extent the underpayment was created or increased by any life insurance company provision of the bill if the underpayment is paid in full on or before the payment date for the next installment.

Item	Present Law
B. Taxation of Life Insurance Products	
143. Definition of life insurance (sec. 221 of both House bill and Senate amendment)	
(a) In general	*(a)* There is no statutory definition of "insurance" or "life insurance." Death proceeds paid under a life insurance contract to a beneficiary are exempt from income tax. Income earned on the cash surrender value of a contract is not taxed currently to the policyholder, and is taxed upon termination of the contract prior to death to the extent the cash surrender value exceeds the policyholders' investment in the contract (the aggregate premiums paid). For 1982 and 1983, death proceeds from flexible premium contracts (e.g., universal life) are treated as life insurance if either of two tests are met: (1) the cash value test or (2) the premium/corridor test.
(b) Consequences of failure	*(b)* Under an IRS ruling, contracts that fail to meet the temporary guidelines are treated as a combination of term life insurance and an annuity.
(c) Effective date and transition rules	

House Bill	Senate Amendment
(a) There is a statutory definition of life insurance for tax purposes that uses the pattern of the temporary provisions (for 1982 and 1983) for flexible premium contracts.	*(a)* Same as House bill, except for certain technical clarifications in the computational rules.
(b) Contracts that fail are treated as a combination of term life insurance and a currently taxable deposit fund.	*(b)* Contracts that fail are treated as a combination of term life insurance and an annuity as of the date of failure. Upon failure, an excise tax of 10 percent of the net surrender value of the contract is imposed on the company.
*(c) **Effective date.***—The provision is effective for contracts issued after December 31, 1983.	*(c) **Effective date.***—Contracts issued after December 31, 1984, except increasing death benefit policies (1) issued under post-March 14, 1984, plans of insurance, or (2) having premium funding more rapid than 10-year level premiums.
Transition rules.—Contracts issued during 1984, qualify: (1) if they meet the present-law flexible premium contract tests (whether or not they are flexible premium contracts); (2) if not flexible premium contracts, they would meet the new definition by substituting 3 percent for 4 percent in the cash value test and treating the maturity date as the latest permitted in the contract (but not less than 20 years after date of issue or age 95, if earlier); or (3) if they meet a statutory description of irreplaceable life.	Special rule allows the sale of certain single premium increasing death policies until June 1, 1984, where face amount is $5,000 or less, and there is no more than 1 policy sold per customer. (Floor amendment by Sen. Evans, adopted by voice vote.) Extension of the flexible premium contracts provision for 1 year.
Also, existing plans of insurance that have at least a 20-pay premium requirement, are grandfathered if they meet the cash value accumulation test by substituting 3 percent for 4 percent.	Same provision for grandfathered contracts under existing plans of insurance as in the House bill.

Item	Present Law
144. Annuity contracts (sec. 222 of both House bill and Senate amendment)	
(a) In general	*(a)* After the annuity starting date each payment is treated as part a payment of income out of the contract and part a return of capital. Distributions prior to the annuity starting date are treated as being made first out of income and then as out of the policyholder's investment in the contract. Distributions of income from annuity contracts within 10 years of investment are subject to a penalty tax equal to 5 percent of the amount includible in income, with certain exceptions.
(b) Treatment of annuity contract at death	*(b)* Upon death of the contractholder prior to annuitization, the beneficiary generally inherits the rights of the contractholder.
145. Policyholder loans (sec. 223 of House bill)	No deduction is allowed for: (1) interest on policyholder loans pursuant to a plan which contemplates systematic borrowing, and (2) interest to purchase or carry a single premium contract. Exceptions apply if— (1) 4 out of the first 7 premiums are paid without borrowing, (2) the total interest subject to limitation is less than $100, (3) borrowing is incurred because of unforeseen substantial income loss or increased financial obligations, or (4) borrowing is incurred in a trade or business.

House Bill	Senate Amendment
(a) Retains present law with respect to the taxation of income from an annuity contract. However, the exception from the penalty for income on investments held more than 10 years is eliminated.	*(a)* Same as House bill.
(b) If the annuity has not been annuitized upon the death of the contractholder, the income in the contract is includible in the final return of the contractholder.	*(b)* If an annuity has not been annuitized upon death of the contractholder, the following rules apply: (1) if a nonspousal beneficiary, income must be distributed within 5 years after death of holder; (2) if a spousal beneficiary, the spouse assumes the same rights as the holder; (3) if the beneficiary is a minor child dependent, income must be distributed by the time the child reaches age 26; and (4) if the beneficiary is a dependent handicapped individual, income must be annuitized by age 25.
Effective date.—Effective for contracts issued after 6 months after the date of enactment.	*Effective date.*—Same as House bill.
In addition to present law, provides an overall limitation for deduction of interest on policyholder loans of the deficiency rate times— (1) $250,000 for individuals, (2) $500,000 for joint returns, and (3) $500,000 for each qualified individual insured in a trade or business. A qualified individual is one who has whole life coverage of at least 10 percent of the amount of coverage on the individual with the greatest coverage. Unused limitations may be carried over. *Effective date.*—The new provision applies only to policies issued after September 27, 1983.	No provision.

Item	Present Law
146. Group-term insurance (sec. 224 of House bill and sec. 223 of Senate amendment)	Under present law, an employee can exclude from income the cost of $50,000 of group-term life insurance provided by the employer. Retired employees do not have to include any of group-term insurance. Cost of group-term life insurance is determined on the basis of a uniform cost table prescribed by regulations. The exclusion is not available to key employees covered under discriminatory group-term life insurance plans.
147. Treatment of certain exchanges of insurance policies (sec. 224 of the Senate amendment)	Present law allows tax-free exchanges of life insurance or endowment contracts. For this purpose, life insurance and endowment contracts are defined, in part, as contracts with a life insurance company (as defined for tax purposes).
148. Studies (sec. 241 of House bill and sec. 231 of Senate amendment)	

Revenue effect of life insurance provisions

House Bill	Senate Amendment
Retired employees are subject to the $50,000 cap.	Same as House bill.
The nondiscrimination rules are extended to retired employees. Employees or retired employees disqualified under discriminatory plans are not able to use the uniform cost table.	
Effective date.—Taxable years beginning after December 31, 1983. New provisions do not apply to individuals covered by plans of group-term insurance in existence on September 27, 1983 (or comparable successor plans), to the extent of their coverage guaranteed for retirement on that date.	*Effective date.*—Same as House bill, except: New provisions do not apply to any plan in existence on January 1, 1984 (or comparable successor plans), with respect to an individual retiring under such plan if such individual had attained age 55 on or before January 1, 1984. The grandfather provision will not apply in the case of any individual retiring after March 15, 1987, if the plan is discriminatory after such date.
Generally, the same as present law.	Extends the definition of life insurance and endowment contract to cover contracts issued by any company taxed as an insurance company. *Effective date.*—Effective for all exchanges before, on, or after the date of enactment.
Requires that studies of the effect of the new life insurance provisions be made by Treasury, in consultation with the staffs of Ways and Means, Senate Finance, and Joint Committee on Taxation. The final report is to be submitted by January 1, 1989, with interim reports by July 1, 1986, 1987, and 1988.	Same as House bill, except that the studies are to be made by Treasury staff.

House Bill — *Revenue effect.*—

Fiscal Years

(Millions of dollars)

1984	−252
1985	−481
1986	−553
1987	−664
1988	−756
1989	−861
Sum of 1984–87	−1,950

Senate Amendment — *Revenue effect.*—

Fiscal Years

(Millions of dollars)

1984	−122
1985	−357
1986	−401
1987	−480
1988	−533
1989	−607
Sum of 1984–87	−1,360

Item	Present Law
A. General Charitable Deduction Rules	
149. Charitable deduction rules	
(a) Charitable deduction rules applicable to public charities (sec. 812 of the Senate amendment)	
(1) Percentage limitations on deductibility of contributions by individuals	*(1)* Contributions of cash or ordinary-income property to public charities or operating foundations—50 percent of the donor's AGI. Contributions of capital-gain property to public charities or operating foundations—30 percent of donor's adjusted gross income (AGI).
(2) Carryover of contribution amount exceeding percentage limitation	*(2)* Excess contributions to public charities or operating foundations—Five-year carryover.

House Bill	Senate Amendment
No provision.	

(1) Increases 50-percent limitation (for contributions of cash or ordinary-income property) to 60 percent.

(2) Extends five-year carryover period to 15 years.

Effective date.—Contributions made after 1984.

Revenue effect.—

Fiscal Years

(Millions of dollars)

1984	....
1985	−8
1986	−26
1987	−29
1988	−29
1989	−28
Sum of 1984–87	−63

Item	Present Law
(b) Charitable deduction rules applicable to nonoperating foundations (sec. 302 of the House bill and sec. 302 of the Senate amendment)	
(1) Percentage limitations on deductibility of contributions by individuals	*(1)* All contributions (cash, ordinary-income property, or capital-gain property) to nonoperating (grantmaking) foundations—20 percent of the donor's AGI.
(2) Carryover of contribution amount exceeding percentage limitation	*(2)* Excess contributions to grantmaking foundations—No carryover.

House Bill	Senate Amendment
(1) Increases percentage limitation on deductibility of contributions of cash or ordinary-income property to grantmaking foundations to 30 percent of the donor's AGI. Retains 20-percent limitation for contributions of capital-gain property.	*(1)* Provides the same percentage limitations for contributions to grantmaking foundations as apply for public charities or operating foundations. Thus, contributions made after the date of enactment to grantmaking foundations of cash or ordinary-income property will be subject to a 50-percent AGI limitation (raised to 60 percent, for post-1984 contributions, by sec. 812 of the Senate amendment), and contributions to grantmaking foundations of capital-gain property will be subject to a 30-percent limitation.
Effective date.—Contributions made after 1984.	*Effective date.*—The conformity of the percentage limitations (sec. 302) applies to contributions made after the date of enactment (changed from effective date of contributions made after 1984 by floor amendment by Sen. Nunn, agreed to by voice vote). The increase in the percentage limitation for contributions of cash or ordinary-income property (sec. 812) applies to contributions made after 1984.
(2) Provides five-year carryover for excess contributions to grantmaking foundations.	*(2)* Provides the same carryover for excess charitable contributions to grantmaking foundations as for excess contributions to public charities, effective on the date of enactment (sec. 302). Thus, excess contributions to grantmaking foundations made after the date of enactment will have a five-year carryover, and such excess contributions made after 1984 will have a 15-year carryover (pursuant to sec. 812 of the Senate amendment, described above).
Effective date.—Contributions made after 1984.	*Effective date.*—The conformity of the carryover period (sec. 302) applies to contributions made after the date of enactment (changed from effective date of contributions made after 1984 by floor amendment by Sen. Nunn, agreed to by voice vote). The extension of the carryover period to 15 years for all contributions (sec. 812) applies to contributions made after 1984.

Item	Present Law
149.(*b*)—cont.	
(3) Amount deductible for contributions of appreciated capital-gain property	*(3)* Donations to grantmaking foundations—The donor's basis in the property plus 60 percent of the appreciation (i.e., 60 percent of the excess of fair market value over the donor's basis). Donations to public charities or operating foundations—Full fair market value (subject to special rule for unrelated-use tangible personal property).

House Bill	Senate Amendment
(3) Allows deduction at full fair market value for contributions to grantmaking foundations of up to 10 percent of the stock of a corporation if market quotations for the stock are readily available.	*(3)* Allows the same deductible amount for charitable contributions of capital-gain property to grantmaking foundations as for such contributions to public charities (i.e., deduction at full fair market value, subject to the special rule for unrelated-use tangible personal property).
Effective date.—Contributions of qualified stock made after 1984 and before 1995.	*Effective date.*—Contributions made after the date of enactment (changed from effective date of contributions made after 1984 by floor amendment by Sen. Nunn, agreed to by voice vote).

House Bill

Revenue effect.—

Fiscal Years

(Millions of dollars)

1984	....
1985	−10
1986	−23
1987	−25
1988	−28
1989	−32
Sum of 1984–87	−58

Senate Amendment

Revenue effect.—

Fiscal Years

(Millions of dollars)

1984	−13
1985	−22
1986	−24
1987	−26
1988	−29
1989	−33
Sum of 1984–87	−85

Item	Present Law
B. Private Foundation Excise Tax Provisions	
150. Reduction in excise tax on investment income if charitable payout increases (sec. 304 of House bill)	Private foundations are subject to a two-percent excise tax on their net investment income for the taxable year (Code sec. 4940).
151. Limitation on grant administrative expenses as qualifying distributions (sec. 305 of the House bill)	A private foundation generally must make charitable payouts ("qualifying distributions") at least equal to five percent of the fair market value of its investment assets (Code sec. 4942). Administrative expenses incurred in making grants to other charities or in directly carrying on charitable activities count, without limitation, toward satisfying the payout requirement, and hence may reduce the amounts which the foundation actually distributes to charitable beneficiaries.
152. Definition of disqualified persons (sec. 307(b) of the House bill and sec. 306(a) of the Senate amendment)	All lineal descendants (and their spouses) of a substantial contributor to a foundation themselves constitute "disqualified persons" (Code sec. 4946(d)). Status as a disqualified person is important because holdings of disqualified persons are aggregated with those of the foundation for purposes of the business holdings limitations, and because a disqualified person is precluded from engaging in certain business transactions with the foundation.
153. Modification to limitations on foundation support of voter registration drives (sec. 307(a) of the House bill)	A foundation may support a section 501(c)(3) organization conducting a voter registration drive only if the tax-exempt organization conducting the drive meets certain support and expenditure requirements, and if the voter registration activities are nonpartisan, not confined to one specific election period, and conducted in at least five States (Code sec. 4945(f)).
154. Reliance on IRS classifications of donees (sec. 305 of the Senate amendment)	Treasury regulations and IRS rulings specify circumstances under which donor foundations may rely on IRS classifications of donee organizations as public charities, so that the grantor need not exercise expenditure responsibility over grants to such donees.

House Bill	Senate Amendment:
The excise tax on investment income is reduced to one percent for the year if the foundation's payout for charitable purposes (computed as a five-year average) is increased by an equivalent amount. *Effective date.*—Taxable years beginning after 1984.	No provision.
The amount of administrative expenses incurred by a foundation in making grants or contributions can be counted toward satisfying the charitable payout requirement only up to 15 percent of the amount of grants or contributions made by the foundation, computed on the basis of a five-year average. The limitation does not apply to any administrative expenses incurred by a foundation directly for the active conduct by the foundation of exempt activities, or in making program-related investments. *Effective date.*—Taxable years beginning after 1984.	No provision.
Lineal descendants more distant than great-grandchildren will not be treated as disqualified persons. *Effective date.*—January 1, 1985.	Lineal descendants more distant than grandchildren will not be treated as disqualified persons. *Effective date.*—January 1, 1985.
The five-State requirement is dropped; all other requirements of present law are retained (e.g., that the voter registration drive is nonpartisan and not confined to one election period). *Effective date.*—January 1, 1984.	No provision.
No statutory provision (but committee report directs Treasury to amend its regulations to permit greater reliance on IRS classifications).	Grantor foundation generally may rely on IRS classification prior to publication by IRS of notice of change in donee's status. *Effective date.*—Grants made after 1984.

Item	Present Law
155. Divestiture of post-1969 holdings acquired by gift or bequest (sec. 308 of the House bill and sec. 307 of the Senate amendment)	If a foundation acquires, by gift or bequest after May 26, 1969, business holdings exceeding permitted limitations (generally, 20 percent), the foundation must reduce its holdings to the permitted level within five years (Code sec. 4943(c)(6)).
156. Divestiture of grandfathered holdings (sec. 311 of Senate amendment)	If on May 26, 1969, a foundation (together with disqualified persons) had business holdings exceeding permitted limitations (generally, 20 percent), the amount of foundation/disqualified person holdings must be gradually reduced in two phases under the following timetable (Code sec. 4943): *Phase One* If the 1969 holdings exceeded 95 percent, 20 years to reduce to 50 percent (May 26, 1989 deadline). If the 1969 holdings were greater than 75 percent but less than 95 percent, 15 years to reduce to 50 percent (May 26, 1984 deadline). If the 1969 holdings were greater than 50 percent but less than 75 percent, 10 years to reduce to 50 percent (May 26, 1979 deadline). *Phase Two* Combined holdings of foundation and disqualified persons must be reduced, in certain cases, to 35 percent within 15 years after end of Phase One. In addition, the foundation itself may not hold more than 25 percent of the voting stock, dependent on whether disqualified persons own more than two percent.

House Bill	Senate Amendment
The IRS may allow an additional five-year period for disposition of an unusually large gift or bequest (after 1969) of either diverse or complex business holdings, on a showing by the foundation of diligent efforts to divest during the initial period but that divestiture had not been possible because of the size and complexity or diversity of the holdings.	Generally, the same provision as in the House bill, but the Senate amendment adds as justifications for failure to divest within the initial period a Federal or State court order, or Federal or State law, which effectively precluded divestiture; also, the additional period is extended beyond five years if such a court order is then in effect. The Senate amendment expressly requires that the divestiture plan be submitted to the relevant State Attorney General.
Effective date.—Business holdings as to which the initial five-year divestiture period ends after October 31, 1983.	*Effective date.*—Same as House bill.
No provision.	Holdings acquired prior to May 27, 1969 in a business enterprise are exempt from the section 4943 divestiture rules if— (1) the management of the foundation and the management of the business enterprise are sufficiently unrelated, (2) no disqualified person who was not a foundation manager on March 12, 1984 can become a foundation manager after that date, (3) no disqualified person receives compensation (other than reasonable directors fees) from both the foundation and the business enterprise, (4) the foundation continues to meet the charitable payout rules of present law, and (5) the foundation and any disqualified persons comply with the section 4943 rules applicable to any holdings in the enterprise acquired after May 26, 1969. *Effective date.*—Date of enactment.

Item	Present Law
157. Treatment of ESOP as disqualified person for section 4943 rules applicable to grandfathered holdings (sec. 314(d) of the Senate amendment)	The owner of more than 20 percent of a corporation which is a substantial contributor to a private foundation constitutes a disqualified person (Code sec. 4946(a)(1)(C)), and the stock it owns is therefore aggregated with that of the foundation for purposes of the section 4943 business holdings limitations.
158. Exemption for certain gambling income from UBIT (sec. 312 of the House bill)	An exemption from the unrelated business income tax is provided for certain bingo games conducted by tax-exempt organizations (Code sec. 513(f)).
Revenue effect of private foundation excise tax, UBIT provisions (items 150–158)	

House Bill	Senate Amendment
No provision.	An employee stock ownership plan described in Code sec. 4975(e)(7) is excepted from the definition of disqualified person, only for section 4943 purposes, with respect to grandfathered business holdings acquired pursuant to a pre-1969 will. *Effective date.*—Taxable years beginning after enactment.
The bingo exemption is extended to certain games of chance which, under State law, can be conducted only by nonprofit organizations. *Effective date.*—Games of chance conducted after June 30, 1981.	No provision.
Revenue effect.[1]—	*Revenue effect.*[2]—Reduce revenue by less than $5 million annually.

Fiscal Years

(Millions of dollars)

1984	....
1985	−23
1986	−23
1987	−22
1988	−22
1989	−21
Sum of 1984-87	−68

[1] Including the following provisions which are identical in the House bill and Senate amendment: exemption for certain operating foundations from excise tax on investment income and expenditure responsibility rules; technical amendments to payout rules; abatement of first-tier taxes in certain cases; disclosure of telephone number in annual newspaper notice; modification of "downward ratchet" rule; aggregation rule for 95-percent ownership divestiture requirement; divestiture period for certain acquisitions by disqualified persons; technical correction concerning Herndon Foundation; self-dealing exemption for certain stock transactions; and termination of status as substantial contributor.

[2] Including the private foundation provisions which are identical in the House bill and Senate amendment (see note 1).

Item	Present Law
159. Designation of enterprise zones (secs. 411–413 of the Senate amendment)	No provision.
(a) Designation process	
(b) Number and time of designation	
(c) Period of effect	
(d) Area requirements for designation	

House Bill	Senate Amendment
No provision.	*(a) Designation process.*—An area is nominated as an enterprise zone by one or more local governments and the State or States in which it is located. The Secretary of Housing and Urban Development (Secretary), after consultation with other federal officials, designates enterprise zones from the pool of nominations. *(b) Number and time of designations.*—No more than 75 enterprise zones may be designated. Designations must be made within the 3-year period beginning January 1, 1985, or, if later, the first day of the first month after the effective date of regulations governing the designation process. No more than 25 zones may be designated during each of the 3 12-month periods falling within the 3-year designation period. At least one-third of the zones must be outside a metropolitan statistical area, within jurisdictions of local government having a population under 50,000, or found to be rural areas. *(c) Period of effect of designation.*—Any designation will remain in effect from the designation date to the earliest of December 31 of the year 24 years later, the date stipulated in the nomination application, or the date it is revoked by the Secretary because the State or local government is not complying with commitments it made in submitting the nomination. The designation is not effective until an inventory of historic properties within the area is submitted. *(d) Area requirements for designation.*—A designation generally may not be made unless the area has— (1) a continuous boundary; (2) a population of at least 1,000 (4,000 if any part of a nonrural area is located in a metropolitan statistical area of 50,000 or more people) or is substantially within the jurisdiction of an Indian government or reservation; (3) pervasive poverty, unemployment and general distress, and is located wholly within an area which meets the requirements for Federal urban development action grants (UDAG); and (4) generally, an unemployment rate of at least 1½ times the national rate, a 20-percent or higher poverty rate in each census tract, a 20-percent or greater decline in population between 1970 and 1980, or at least 70 percent of households have incomes under 80 percent of the median income in the jurisdiction of the nominating local government.

Item	Present Law
(e) State and local government commitments	
(f) Criteria for making designations	
(g) Reporting requirements	
(h) Interaction with other Federal programs	
160. Tax credit for zone employers (sec. 421 of the Senate amendment)	No special tax incentives are provided to employers based on the location of employees or change in employment. However, the targeted jobs credit is available on an elective basis for wages paid to individuals who (1) begin work for an employer before January 1, 1985, and (2) are included in one of nine categories of individuals who are economically disadvantaged or handicapped or who receive public assistance. The credit generally is 50 percent of the first $6,000 of wages paid in the first year of employment and 25 percent in the second year of employment.

House Bill	Senate Amendment
	(e) State and local government commitments required for designation.—A designation may not be made unless the local governments and State in which an area is located commit themselves to a specified course of action for reducing burdens borne by employers and employees in the area. Substantial noncompliance with the commitments may result in the designation being revoked. *(f) Criteria for making designations.*—In choosing among nominated areas, the Secretary is required to give special preference where the nominating governments have made the strongest and highest quality of contributions to a course of action, taking into account the fiscal capacity of the State and local government. The Secretary also required to give preference to areas and nominations that have certain other characteristics, including high levels of poverty, unemployment and general distress, and most effective guarantees that proposed courses of action will be carried out. *(g) Reporting requirements.*—The Secretary must submit reports at 4-year intervals concerning the effects of designating areas as enterprise zones. *(h) Interaction with other Federal programs.*—Any reduction in State or local taxes under a required commitment will be disregarded for purposes of determining the eligibility for, or the amount of, assistance under any federal program, including general revenue sharing. Designation of an enterprise zone will not constitute an action which makes available assistance under the Uniform Relocation Assistance and Real Property Acquisition Policies Act of 1970 or which triggers requirements of the National Environmental Policy Act or other provisions of Federal law relating to the protection of the environment.
No provision.	Employers are eligible for a two-part nonrefundable tax credit. Unused credits may be carried back 3 years and forward 15 years or the remaining life of the zone, whichever is larger. The deduction for wages is reduced by the amount of the credit.

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Item	Present Law
(a) Credit for increased enterprise zone employment	
(b) Credit for wages paid to disadvantaged individuals	
(c) Qualified wages	
(d) Qualified employees	
161. Tax credit for zone employees (sec. 422 of the Senate amendment)	No provision.

House Bill	Senate Amendment
	(a) Credit for increasing enterprise zone employment.—The first part of the credit is equal to 10 percent of the excess of qualified wages paid or incurred to qualified employees in all enterprise zones, other than wages taken into account for the second part of the credit, over qualified wages paid in the zones during the base period, which generally is the 12-month period before zone designation. For purposes of this credit, qualified wages for each employee may not exceed 2½ times the FUTA wage base (currently $7,000) in effect for the calendar year. *(b) Credit for wages paid to disadvantaged individuals.*—The second part of the credit is available with respect to wages paid to qualified disadvantaged employees (members of economically disadvantaged families and individuals qualifying for AFDC and general assistance), other than those with respect to whom an employer is claiming the targeted jobs credit, who are hired after the date of zone designation. The credit is available for a total of seven years of employment for each employee and is equal to 50 percent of qualified wages for services performed during the first 36 months of work in an enterprise zone; the credit rate is reduced by 10 percentage points for each succeeding 12-month period. *(c) Qualified wages.*—For purposes of both parts of the credit, qualified wages generally include amounts subject to FUTA (Federal Unemployment Tax Act), without regard to any dollar limit. *(d) Qualified employees.*—For purposes of both parts of the credit, a qualified employee is any employee (1) 90 percent or more of whose services directly relate to the conduct of trade or business in an enterprise zone and (2) least 50 percent of whose service for the employer is performed within a zone.
No provision.	Qualified employees, as defined for purposes of the tax credit for employers, are entitled to a nonrefundable tax credit equal to 5 percent of qualified wages for the taxable year. For purposes of this credit, qualified wages may not exceed 1½ times the FUTA wage base (currently $7,000) in effect for the taxable year. The credit is not available for wages received from governments.

Item	Present Law
162. Investment tax credit for zone property (sec. 431 of the Senate amendment)	***Regular investment tax credit.***—A regular investment tax credit is allowed for investment in tangible personal property and other tangible property (generally not including buildings) used in connection with manufacturing, production, or certain other activities. The amount of the credit is 6 percent for eligible property in the 3-year recovery class and 10 percent for other eligible property. ***Qualified rehabilitation expenditures.***—A 15-percent tax credit is allowed for qualified rehabilitation expenditures on nonresidential buildings at least 30 years old (20 percent for buildings at least 40 years old and 25 percent for certified historic buildings). ***Carryover of unused credits.***—Unused credits may be carried back 3 years and forward 15 years.
163. Capital gains taxation (secs. 441–444 of the Senate amendment)	
(a) Elimination of capital gains taxation	***(a) Capital gains taxation.***— *Noncorporate capital gains.*—For a noncorporate taxpayer, 40 percent of net capital gain (i.e. the excess of net long-term capital gain over net short-term capital loss) is includible in adjusted gross income. *Corporate capital gains.*—An alternative tax rate of 28 percent applies to a corporation's net capital gain if the tax computed using that rate is lower than the corporation's regular tax. (The highest regular corporate tax rate is 46 percent for income over $100,000).

House Bill	Senate Amendment
No provision.	*(a) Zone personal property.*—An additional investment tax credit is allowed for tangible property (other than 15-year real property) acquired and first placed in service by the taxpayer in an enterprise zone and used predominantly in the active conduct of a trade or business in the zone. The amount of the additional credit is 3 percent for 3-year recovery property and 5 percent for 5-year property, 10-year property and 15-year public utility property. *(b) New zone construction property.*—An additional 10-percent credit is available for 15-year real property acquired or constructed by the taxpayer in an enterprise zone, used predominantly in the active conduct of a trade or business (including the rental of real estate) within the zone, and for which the original use commences with the taxpayer. *(c) Carryover of unused credits.*—Unused credits attributable to the additional enterprise zone percentages are carried forward for 15 years or the remaining life of the enterprise zone, whichever is longer. *(d) Recapture.*—A portion of the additional credit for enterprise zone property is recaptured if, within a specified period, the taxpayer disposes of the property or removes it from or ceases to use it in a trade or business within the enterprise zone.
No provision.	*(a) Elimination of capital gains taxation.*—The tax on net gain from sales or exchanges of qualified enterprise zone property otherwise eligible for long-term capital gain treatment is eliminated. Qualified enterprise zone property includes (1) real or tangible personal property used predominantly in the active conduct of a trade or business in an enterprise zone or (2) an interest in a qualified enterprise zone business. A qualified enterprise zone business is one which derives at least 80 percent of its gross receipts from the active conduct of a trade or business within an enterprise zone and substantially all of the tangible assets of which are located within a zone.

Item	Present Law
(b) Minimum taxes	*(b) Minimum taxes.*—The reduced tax rates for capital gains are treated as preference items for purposes of the corporate and noncorporate minimum taxes.
164. Industrial development bonds (IDBs) (sec. 451 of the Senate amendment)	Interest on State and local issues of industrial development bonds (IDBs) is exempt from tax only if the bonds satisfy certain conditions. In general, interest on IDBs is tax-exempt if (1) the proceeds of the bonds are used to finance specified exempt activities, or (2) the bonds are small issue IDBs. *Small issue IDBs.*—The small issue exemption applies to issues of $1 million or less used for the acquisition, construction, or improvement of land or depreciable property. Alternatively, the amount of the issue, when added to capital expenditures made over a 6-year period and used by related users located within the same county or municipality, must not exceed $10 million. The small issue exemption will not apply with respect to obligations issued after December 31, 1986. *Cost recovery for property financed with tax-exempt IDBs.*—Subject to certain exceptions, the cost of property financed with tax-exempt IDBs must be recovered on a straight-line basis rather than by accelerated cost recovery (ACRS).
165. Tax simplification (sec. 461 of the Senate amendment)	No specific provision.

House Bill	Senate Amendment
	The tax exemption is not available to the extent that the gain is not properly allocable to periods during which the property or business is qualified enterprise zone property. In addition, with respect to a sale, or exchange of an interest in a qualified zone business, the tax exemption is not available to the extent the gain is attributable to (1) any property contributed to the business within the previous 12 months, (2) any interest in a business which is not a qualified business, or (3) any other intangible property not properly attributable to an active trade or business within an enterprise zone. ***(b) Minimum taxes.***—Net capital gain attributable to qualified enterprise zone property is excluded from classification as a tax preference for purposes of the corporate and noncorporate minimum taxes.
No provision.	The December 31, 1986, termination of the small issue exemption and the restrictions on cost recovery for property financed with tax-exempt IDBs do not apply to bonds used to finance enterprise zone property.
No provision.	It is the sense of Congress that the Internal Revenue Service should, in every way possible, simplify the administration and enforcement of the enterprise zone tax provisions.

Item	Present law
166. Regulatory flexibility (secs. 471–473 of the Senate amendment)	The Regulatory Flexibility Act requires Federal regulatory agencies to publish analyses of the economic impact on entities under its coverage of any proposed regulations and to discuss alternatives to those regulations. Special attention is to be given to small entities.
167. Foreign trade zones (sec. 481 of the Senate amendment)	Each port of entry, as designated by the Secretary of the Treasury, is entitled to at least one foreign trade zone, into which goods may be imported duty free, provided that applications for such zones are approved by the Foreign Trade Zone Board.
Effective date of enterprise zone provisions	
Revenue effect of enterprise zone provisions	

House Bill	Senate Amendment
No provision.	***Regulatory Flexibility Act.***—The definition of small entity is expanded to include any qualified zone business, any government designating an area as an enterprise zone, and any not-for-profit enterprise operating within a zone. ***Waiver of rules.***—Federal agencies are given discretionary authority, at the request of a State or local government, to relax or eliminate any regulatory requirements within enterprise zones except those affecting civil rights, safety and public health, or those required by statute. ***HUD coordination.***—The Secretary of HUD is required to promote the coordination of programs under his jurisdiction and carried on in an enterprise zone.
No provision.	The Secretary of the Treasury and the Foreign Trade Zone Board are required to expedite and give preference to any application for the establishment of a port of entry and foreign trade zone within an enterprise zone.
	Effective date.—The provisions relating to designations of enterprise zones, regulatory flexibility and foreign trade zones are effective on the date of enactment. The tax provisions generally are effective for taxable years ending after December 31, 1985.
	Revenue effect.—The effect of the enterprise zone provisions on receipts will depend on the number, size, and characteristics of the zones designated by the Secretary of Housing and Urban Development. Treasury Department estimates are as follows:

Fiscal Years

(Millions of dollars)

1984	....
1985	−98
1986	−420
1987	−775
1988	−1,017
1989	−1,051
Sum of 1984-87	−1,293

Item	Present Law
Fringe Benefits (Title V of the House bill and sec. 829 of the Senate amendment)	
168. General rule; moratorium	Gross income, for income tax purposes, includes all income from whatever source derived. Certain fringe benefits, such as health benefits, are excluded from gross income by statute. A moratorium first enacted in 1978 prohibited issuance of Treasury regulations relating to the income tax treatment of nonstatutory fringe benefits; the moratorium expired on December 31, 1983. Social security and other employment taxes apply to "wages," which includes all remuneration from employment, generally including the cash value of all remuneration paid in any medium other than cash. Certain fringe benefits, similar to those excluded by statute from gross income, are excluded from wages by statute.
169. No-additional-cost service	See item 168, above.

House Bill	Senate Amendment
Provides a statutory exclusion from income and employment taxes for: (1) no-additional-cost services, (2) qualified employee discounts, (3) working condition fringes, (4) de minimis fringes, (5) employer-operated athletic facilities, and (6) qualified tuition reductions provided to employees. Any fringe benefit that does not qualify for a statutory exclusion is includible in gross income, and subject to employment taxes, at the excess of its fair market value over any amount paid by the recipient for the benefit. Amendments are made to the rules excluding benefits paid under cafeteria plans. The rules of the bill do not make any change in existing statutory or regulatory exclusions for benefits for military personnel.	Extends through 1985 the moratorium on issuance of Treasury regulations relating to the income tax treatment of nonstatutory fringe benefits. The extended moratorium applies with respect to certain campus housing provided to employees by educational institutions during 1984 and 1985.
A service provided to an employee is excluded if: (1) the employer incurs no substantial cost (including foregone revenue) in providing the service; (2) the service is provided by the employer or another business with whom the employer has a written reciprocal agreement, and is of the same type ordinarily sold to the public in the line of business in which the employee works; (3) the service is provided to a current or retired employee, or a spouse or dependent child of either, or a widow(er) or dependent children of a deceased employee; and (4) for certain highly compensated employees, nondiscrimination requirements are met (see item 175, below).	See item 168, above.

Item	Present Law
170. Qualified employee discount	See item 168, above.
171. Working condition fringe	See item 168, above.

House Bill	Senate Amendment
A discount on merchandise provided to an employee is excluded to the extent it does not exceed the employer's gross profit percentage (in the relevant line of business). The exclusion does not apply to discounts on real property or on personal property of a kind commonly held for investment. A discount on services provided to an employee is excluded to the extent it does not exceed 20 percent of the selling price of the services to nonemployee customers (with no gross profit percentage restriction). The following conditions generally must be satisfied for the exclusion to apply: (1) the property or service is provided by the employer and is of the same type ordinarily sold to the public in the line of business in which the employee works, (2) the property or service is provided to a current or retired employee, a spouse or dependent child of either, or to a widow(er) or dependent children of a deceased employee, and (3) for certain highly compensated employees, nondiscrimination requirements are met (see 175, below). Under a special rule, the exclusion applies to discounts provided by a department store to employees of another employer (such as a cosmetic firm) who makes over-the-counter sales of merchandise within the store. A grandfather rule relaxes the line-of-business limitation for employees of members of an affiliated group which consists primarily of a retail department store, if, as of October 1, 1983, such employees were entitled to discounts at the store.	See item 168, above.
Property or services provided to an employee are excluded to the extent that they would be deductible as ordinary and necessary business expenses (under Code secs. 162 or 167) if the employee had paid for them. Under a special rule, all of an auto salesman's automobile use in the dealer's sales area is excluded if the use is provided primarily to facilitate the salesman's performance of services and there are substantial restrictions on personal use. The bill excludes, as a working condition fringe, the value of free or reduced-cost parking provided to employees on or near the employer's business premises. The exclusion is available to highly compensated employees only if such parking is available on a nondiscriminatory basis (except that preferential parking assignments for highly compensated employees can be	See item 168, above.

Item	Present Law
171. Working condition fringe (cont.)	
172. De minimis fringe	See item 168, above.
173. Athletic facilities	See item 168, above.
174. Qualified tuition reduction	Gross income does not include scholarships or fellowships, subject to certain limitations, unless such amounts are paid as compensation for services or for studies or research primarily for the benefit of the grantor. Treasury regulations provide that remission of the tuition of a child of a faculty member provided by another education institution under a tuition-exchange plan constitutes a scholarship.
175. Nondiscrimination requirements	

House Bill	Senate Amendment
made for business reasons, and that assignment of locations within a parking facility need not be on a nondiscriminatory basis).	
Property or services not otherwise tax-free are excluded if their value is so small, considered in the aggregate, as to make accounting for the benefits unreasonable or administratively impracticable. Subsidized eating facilities operated by the employer also are excluded as a de minimis fringe if located on or near the employer's business premises, if revenue equals or exceeds direct operating costs, and if (for certain highly compensated employees) nondiscrimination requirements are met (see item 175., below)	See item 168, above.
An exclusion is allowed for the value of athletic facilities provided and operated by an employer for use of its employees.	See item 168, above.
A reduction in tuition provided to an employee of an educational institution is excluded if: (A)(1) the tuition is for education below the graduate level provided by the employer or by another educational institution, (2) the education is provided to a current or retired employee, a spouse or dependent child of either, or to a widow(er) or dependent children of a deceased employee, and (3) nondiscrimination requirements are met (see item 175, below), or (B) the tuition is for education at the graduate level provided by the employer to a teaching or research associate or assistant at that institution. Under a special rule, availability of a tuition reduction benefit only to faculty members is not a discriminatory classification for purposes of the (A)(3) requirement above.	See item 168, above.
The exclusions for no-additional-cost services, qualified employee discounts, free parking, subsidized eating facilities, and qualified tuition reduction are available to officers, owners, or highly compensated employees only if the property or service is provided on substantially the same terms to each member of a group of employees defined under a reasonable classification, set up by the employer, which does not discriminate in favor of officers, owners, or highly compensated employees.	

Item	Present Law
176. Cafeteria plans	Otherwise nontaxable benefits offered under a plan which offers a choice between taxable and nontaxable benefits ("cafeteria plan") are excluded from income only if certain conditions are met.
177. Coordination with other fringe benefit exclusions	Various fringe benefits, such as day care and uninsured health benefits, are excluded from income if specific conditions are met, including certain nondiscrimination requirements.
Effective dates of fringe benefits provisions	
Revenue effect of fringe benefits provisions	

House Bill	Senate Amendment
A cafeteria plan may not offer taxable benefits other than cash or group-term life insurance which is taxable because the amount exceeds $50,000, or nontaxable benefits other than benefits specifically excluded under the Code. (However, the plan could not offer scholarships, educational assistance, vanpooling, or the benefits described in items 169–174, above.)	See item 168, above.
No fringe benefit (other than a de minimis fringe) is excluded under the bill if another section of the Code provides rules for the tax treatment of that general type of benefit.	See item 168, above.
Effective dates.—Generally is effective on January 1, 1984, except that the tuition reduction provision applies with respect to education furnished after June 30, 1984.	*Effective dates.*—Extension of moratorium is effective on enactment, and applies for 1984 and 1985. The campus housing provision is effective for lodging furnished during 1984 and 1985.
Revenue effect.— (see table below)	*Revenue effect.*—Loss of less than $5 million annually for fiscal year 1984–87; negligible thereafter.

House Bill, *Revenue effect.*—

Fiscal Years

(Millions of dollars)

1984	−4
1985	−16
1986	−35
1987	−42
1988	−45
1989	−48
Sum of 1984–87	−97

Item	Present Law
178. Technical Corrections (title VI of the House bill)	

House Bill	Senate Amendment
The bill contains technical, clerical, and conforming amendments to provisions enacted by the Tax Equity and Fiscal Responsibility Act of 1982, the Subchapter S Revision Act of 1982, the Highway Revenue Act of 1982, the Social Security Amendments of 1983, and other recently enacted tax legislation. The amendments are meant to carry out the intent of Congress in enacting the original legislation. *Revenue effect.*—Negligible.	No separate title. (The Senate amendment contains several technical corrections to individual items which are described in the appropriate place in the conference comparison.)

Item	Present Law
179. Foreign sales corporations (Title V of the Senate Amendment)	
(a) General	*(a) General.—* (1) Present law provides tax deferral for the exporting income of Domestic International Sales Corporations (DISCs) and their shareholders. (2) The amount of the deferral is limited to 42.5 percent of DISC income that exceeds average export income in a base period. (Most recent data show that the average DISC deferral for all DISCs is 34 percent of DISC income or 17 percent of combined taxable income.) Deferral is provided for both export profits and export investment income. (3) A DISC typically is a domestic subsidiary of a U.S. company engaged in exporting property produced in the U.S.
(b) Deferred income/Exempt income	*(b) Deferred income.*—Deferral of tax is provided for income from— (1) the sale or lease for use outside the U.S. of export property; (2) services related or subsidiary to the sale or lease of export property; (3) managerial services provided to unrelated DISCs to aid them in deriving export receipts, provided that at least 50 percent of the gross receipts of the DISC that provides the services are from exporting; and (4) interest on any obligation that is a qualified export asset.
(c) Export property	*(c) Export property.*—DISC benefits are provided for property manufactured, produced, grown, or extracted in the U.S. *Exceptions:* (1) DISC benefits are not allowed for— (i) subsidized property; (ii) property in short supply; or (iii) oil, gas, coal, uranium, and other depletable minerals. (2) Deferral on sale of military goods is half the amount otherwise allowed.
(d) Amount of benefit	*(d) Amount of benefit.—* (1) Basic rule is deferral of tax on 42.5 percent of export profits. No deferral on nonexport profits.

House Bill	Senate Amendment
No provision.	
	(a) General.— (1) Exempts from tax a portion of the export income of a Foreign Sales Corporation (FSC) if certain foreign presence and economic process tests are met. (2) Generally, 17 percent of export income will be exempt from tax if optional administrative pricing rules are used to allocate income to the FSC, or 34 percent if FSC income is based on arm's length (sec. 482) transfer pricing rules. Exemption is provided for export profits but not for export investment income. (3) A FSC will generally be a foreign subsidiary (a corporation organized outside the U.S. customs area) that meets certain foreign presence tests.
	(b) Exempt income.—Exemption is provided for income from— (1) same as DISC; (2) same as DISC; (3) managerial services provided to an unrelated DISC or FSC to aid it in deriving export receipts, even if the FSC has no other export receipts (i.e., same as DISC plus income of FSCs providing only export management services); (4) no exemption for passive income.
	(c) Export property.—FSC benefits are provided for property manufactured, produced, grown, or extracted in the U.S. *Exceptions:* (1) FSC benefits are not allowed for— (i) same as DISC; (ii) same as DISC; or (iii) oil and gas (unlike DISC, benefits allowed for coal, uranium, and other depletable minerals). (2) Exemption on sale of military goods is half the amount otherwise allowed (same as DISC).
	(d) Amount of benefit.— (1) Basic rule is exemption of tax on 17 percent of export profits. No exemption on nonexport profits or passive income.

Item	Present Law
	(i) If transfer prices are based on 50 percent of combined taxable income, deferral is up to 21.25 percent of income earned by DISC and parent on the transaction. (ii) If transfer prices are based on 4 percent of gross receipts, total deferral is no more than 1.7 percent of gross receipts. (iii) If transfer prices are based on sec. 482 rules, deferral is up to 42.5 percent of DISC income.
	(2) Incremental rules limit the tax deferral to income attributable to export gross receipts that exceed the average gross receipts in a base period. These rules do not apply to small DISCs.
(e) Transfer pricing	***(e) Transfer pricing.***—DISC deferral available on percentage of income allocated to it under special transfer pricing rules. Transfer prices are based on— (1) Special rules: (i) 50 percent of combined taxable income; (ii) 4 percent of gross receipts; or (2) General rule: Arm's-length prices (sec. 482)
(f) Qualifications	***(f) Qualifications.***—A DISC must meet the following requirements:
(1) Location	(1) *Location.*—A DISC is a domestic corporation.
(2) Foreign presence	(2) *Foreign Presence.*—None.
(3) Election	(3) *Election.*—A DISC must elect to be a DISC.

(i) If transfer prices are based on 23 percent of combined taxable income, exemption is 17 percent of combined taxable income (17/23 of FSC income).

(ii) If transfer prices are based on 1.85 percent of gross receipts, exemption is 1.35 percent of gross receipts (17/23 of FSC income).

(iii) If transfer prices are based on sec. 482 rules, exemption is limited to 34 percent of FSC income.

(2) No incremental rule.

(3) No exemption is provided on 6 percent of FSC income (difference between 23 percent of combined taxable income and 17 percent exempt portion).

(e) Transfer pricing.—FSC exemption is available for income allocated to it under special transfer pricing rules. Transfer prices are based on—

(1) Administrative rules:

(i) 23 percent of combined taxable income;

(ii) 1.85 percent of gross receipts; or

(2) Same as DISC

The Administrative pricing rules may be used only if the FSC (or its agent) performs all the activities of the economic processes test (see ***(g)***(2)).

(f) Qualifications.—A FSC must meet the following requirements:

(1) *Location.*—

(i) A FSC must be organized outside the U.S. customs area.

(ii) If a FSC is organized in a foreign country, that country must be either a party to an exchange of information agreement with the U.S., or an income tax treaty partner if the Treasury certifies that the exchange of information program under the treaty is satisfactory.

(2) *Foreign presence.*—

(i) Have at least one director who is not a U.S. resident.

(ii) Maintain an office outside U.S. customs territory.

(iii) Keep tax records at that office (and in U.S.).

(3) *Election.*—A FSC must elect to be a FSC.

Item	Present Law
(4) Controlled group	(4) *Controlled group.*—None.
(5) Taxable year	(5) *Taxable year.*—A DISC's taxable year need not conform to the taxable year of any shareholders. (Taxpayers may get up to 11 months additional deferral on DISC income if the DISC's taxable year ends after the shareholder's taxable year, because deemed distributions are includible in the shareholder's income on the last day of the DISC's taxable year).
(6) *Gross receipts and assets tests*	(6) *Gross receipts and assets tests.*—To qualify for tax deferral, the DISC must satisfy the following requirements: (1) at least 95 percent of the corporation's gross receipts must be qualified export receipts, and (2) at least 95 percent of the corporation's assets must be qualified export assets (generally inventories of export property, trade receivables, producer's loans or obligations such as those issued by the Export-Import Bank to finance export sales).
(g) Foreign management/economic processes	***(g) Foreign management/economic processes.***—No foreign presence or economic process requirements.
(h) Burden of proof	***(h) Burden of proof.***—No provision.

(4) *Controlled group.*—A FSC may not be a member of a controlled group of which a DISC is a member.

(5) *Taxable year.*—The taxable year of a DISC or FSC must conform to the taxable year of the majority shareholder.

(6) *Gross receipts and assets tests.*—None.

(A small FSC must also satisfy all the above requirements.)

(g) Foreign management/economic processes.—FSC benefits are provided only if the management of the corporation takes place outside the U.S., and if the economic processes with respect to each transaction take place outside the U.S.:

(1) Management of corporation is outside the U.S. if all meetings of the board of directors and shareholders are outside the U.S., the principal bank account is outside the U.S., and all dividends and certain expenses are paid out of this bank account.

(2) Economic processes are treated as outside the U.S. if (1) the FSC (or its agent) participates outside the U.S. in the solicitation, negotiation, or making of the contract, and (2) if the foreign direct costs of the transaction incurred by the FSC equal or exceed 50 percent of the total direct costs (or 85 percent of direct costs of 2 activities). For purposes of this test, the costs of 5 activities are considered: advertising or sales promotion, processing of orders, transportation, billing, and assumption of credit risk.

(h) Burden of proof.—The burden of proof that the foreign presence and economic processes tests are satisfied will be shifted to the Secretary of the Treasury if an officer of the corporation signs an affidavit stating that the requirements have been met (and how they have been met). The officer must be a citizen and resident of the United States, and the statement must be made under penalty of perjury.

Item	Present Law
(i) Small business	*(i) Small business.—*
(1) Small FSC	(1) Not applicable
(2) Small DISC	(2) *Small DISC.*—Incremental rules do not apply to DISCs with adjusted taxable income of $100,000 or less.
(j) Deferred DISC income	*(j) Deferred DISC income—*
	(1) No tax forgiven.
	(2) Tax on accumulated DISC income may be deferred indefinitely until the income is actually distributed or the DISC fails to satisfy the gross receipts or assets test.
(k) Transfer of assets	*(k) Transfer of assets.*—No provision.
(l) Export Trade Corporations	*(l) Export Trade Corporations.*—Export trade corporations (ETCs) are controlled foreign corporations that are allowed to defer a portion of their income from exporting. In 1971, the ETC provisions were replaced by DISC. Only ETCs in existence at that time are allowed to continue operating as ETCs. There are about 10 ETCs in existence today. If an ETC fails to meet the requirements to continue operating as an ETC, the previously untaxed income will continue to be deferred provided the income is invested in export assets.

(i) Small business.—

(1) *Small FSC.*—The provision applies to the export income (up to $5 million of export gross receipts) of a corporation that elects to be a small FSC. A small FSC must be a foreign corporation that meets the requirements of (f). However, a small FSC is not required to satisfy the foreign presence and economic process tests in (g).

A FSC may not elect to be a small FSC if it is a member of a controlled group that includes a FSC (unless the other FSC also elects to be a small FSC).

(2) *Small DISC.*—A small DISC may continue to defer income attributable to $10 million or less of export gross receipts. The incremental rules would not apply. An interest charge that is tied to the T-bill rate is imposed on the amount of tax deferred.

(j) Deferred DISC income.—

(1) Tax is forgiven on accumulated DISC income. This forgiveness will apply only to actual distributions made after December 31, 1984, by a DISC (or former DISC) that is a qualified DISC on December 31, 1984.

(2) Not applicable.

(k) Transfer of assets.—Assets of a DISC generally may be transferred tax-free to a FSC.

(l) Export Trade Corporations (ETCs).—

(1) Tax is forgiven on the previously untaxed income of an ETC if the company elects to discontinue operating as an ETC.

(2) Assets of an ETC generally may be transferred tax-free to a FSC owned by the ETC's shareholders.

(3) Tax is not forgiven on the previously untaxed income of an ETC that does not qualify as an ETC on December 31, 1984, even though the income is invested in qualified assets.

Item	Present Law
(m) Cooperatives	*(m) Cooperatives.*—A cooperative is allowed to be a shareholder of a DISC. However, farmers who are members of cooperatives do not generally benefit directly or indirectly from DISC deferral. The cooperative does not benefit from the deferral because deferred DISC income is generally not available to satisfy the particular working capital requirements of the cooperative. The farmers do not benefit directly because if the deferred income is distributed to the cooperative, it must be distributed currently (and taxed) to the farmer.
(n) Special rules	
Effective date and transition rules	

(m) Cooperatives.—Provides indirect benefits to farmers who are members of cooperatives that export agricultural products. Farmers will not be taxed on exempt income until it is actually distributed. Thus, the cooperative may use the exempt income as working capital. (Normally, a cooperative must use income that has been taxed (at the farmer level), but not distributed, as working capital.)

(n) Special rules.—

(1) A FSC may not claim benefits under an income tax treaty between the U.S. and a foreign country.

(2) No tax may be imposed on foreign trade income by a possession of the U.S.

Effective date and transition rules.—

(1) The bill applies to transactions after December 31, 1984.

(2) Taxable year of any DISC which includes January 1, 1985, will close on December 31, 1984, at which time there will be a deemed distribution of DISC income that normally would be deemed distributed at the end of the DISC's taxable year. Thus, shareholders may be including in income almost 2 years of DISC earnings in the current year. These distributions will be spread over 4 years. (The revenue gain from eliminating the deferral due to the DISC having a different taxable year than its shareholders contributes to revenue neutrality over the short term.)

(3) Provides exceptions from foreign presence and economic process requirements for certain long-term contracts entered into before January 1, 1985.

Revenue effect.—

Fiscal Years

(Millions of dollars)

1984	....
1985	−51
1986	−48
1987	+21
1988	+72
1989	−115
Sum of 1984–87	−78

Item	Present Law
180. Mortgage subsidy bonds (secs. 711 and 712 of the House bill and secs. 701–704 of the Senate amendment)	
(a) Extension	*(a)* The authority to issue qualified mortgage subsidy bonds terminated on December 31, 1983.
(b) Allocation of State ceiling	*(b)(1)* The State ceiling, generally, is allocated by the State legislature. As a transitional rule to the Mortgage Subsidy Bond Tax Act of 1980, the governor was given authority to allocate the State ceiling until the legislature met in its first regular session after 1980. *(b)(2)* If the governor or State legislature does not adopt an alternative method, 50% of the State ceiling is allocated among local issuers based upon the average mortgage volume in the area of the local issuer during the 3 preceding years. The remaining 50 percent is allocated to the State.
(c) Reporting requirements	*(c)* No provision.
(d) Policy statement	*(d)* No requirement.
(e) Statistical areas	*(e)* Purchase price limitations are based upon median prices for a statistical area. Statistical area is defined to include a standard metropolitan statistical area.

House Bill	Senate Amendment
(a) Provides a 5-year extension of qualified mortgage bonds (until December 31, 1988).	*(a)* Provides a 4-year extension of qualified mortgage bonds (until December 31, 1987).
Effective date.—Bonds issued after December 31, 1983.	*Effective date.*—Bonds issued after the date of enactment.
(b)(1) Provides that, where a State had a formula to allocate the State ceiling for 1983 which expired on December 31, 1983, that allocation method shall remain in effect until State legislation provides otherwise.	*(b)(1)* Same as the House bill. In addition, provides that the governor of the Commonwealth of Kentucky will have the power to allocate the State ceiling until December 31, 1986.
(b)(2) If the governor or State legislature does not adopt an alternative method, to allocate the State ceiling, 50% of the State ceiling is allocated among local issuers on the basis of the relative populations of the local issuers.	*(b)(2)* Same as present law.
(c) Requires issuers to report to the Treasury information on qualified mortgage bond issues.	*(c)* Same as the House bill, except also requires report on the extent funds are made available to low-income recipients.
(d) No requirement.	*(d)* States Congressional policy that mortgage subsidy bonds be used to benefit lower income families to greatest extent possible. Requires elected officials of issuing jurisdictions to make a report by the end of the year preceding year of issue specifying the policy of the issuer in distributing proceeds of qualified mortgage bonds or mortgage credit certificates and how prior usage has achieved Congressional policy goals. Requires Treasury, in consultation with HUD, to make an annual report to Congress on use of qualified mortgage bonds and mortgage credit certificates relative to program goals.
Effective date.—Bonds issued after December 31, 1983.	*Effective date.* Bonds issued after December 31, 1984.
(e) No provision.	*(e)* Provides that Kansas City, Missouri and Kansas City, Kansas (and surrounding counties) are to be treated as one metropolitan statistical area for tax and all other purposes of Federal law.
	Effective date. —Date of enactment.

Item	Present Law
(f) Qualified veterans' mortgage bonds	*(f)(1)* Unlimited amounts of general obligation bonds may be issued to finance mortgages for residences of veterans. *(f)(2)* The authority to issue qualified veterans' mortgage bonds has no sunset date.
(g) Limited equity cooperatives	*(g)* Tenant-shareholders of cooperative housing corporations are allowed a deduction for rents paid to the cooperative equal to their allocable share of interest and taxes paid by the cooperative. Cooperative housing corporations are eligible to use tax-exempt financing under the rules applicable to owner-occupied housing (i.e., qualified mortgage bonds).
(h) Advance refunding of qualified veterans' mortgage bonds	*(h)* Neither qualified mortgage subsidy bonds nor qualified veterans' mortgage bonds may be advance refunded.
(i) Termination of effective date provisions of the Mortgage Subsidy Bond Tax Act of 1980	*(i)* The Mortgage Subsidy Bond Tax Act of 1980 was enacted generally to direct the subsidy from the use of tax-exempt bonds for housing to those individuals who have the greatest need for the subsidy, to increase the efficiency of the subsidy, and to reduce the overall revenue loss to the Federal Government from the use of tax-exempt bonds for housing. The 1980 Act provided a number of transition rules designed to permit issuers who were in the process of issuing bonds during Congress' consideration of that Act to issue those mortgage subsidy bonds without regard to the rules in the 1980 Act. In addition, the Act provided a general grandfather rule under which the limitations did not apply to bonds issued before January 1, 1981, for which loan commitments were made, or construction begun, within 1 year from the issue date.

House Bill	Senate Amendment
(f)(1) Provides that, beginning in 1985, the volume of qualified veterans' mortgage bonds issued by a State during the preceding year is counted towards the State ceiling for qualified mortgage bonds for the current year.	*(f)(1)* No provision, and includes a sense of the Senate resolution that veterans' mortgage bonds not be considered in applying the State ceiling on mortgage bonds.
(f)(2) Provides that the authority to issue qualified veterans' mortgage bonds terminates on December 31, 1988.	*(f)(2)* No provision, and includes a sense of the Senate resolution that no sunset date be enacted for qualified veterans' mortgage bonds. (Floor amendment by Senator Murkowski, adopted by voice vote.)
Effective date.—Generally to qualified veterans' mortgage bonds issued after December 31, 1983.	
(g) Provides that limited equity cooperative housing corporations can elect to be eligible for tax-exempt financing under the rules applicable to multi-family residential rental property (i.e., 20% of units must be for individuals who have incomes below 80% of the average area income) in which case (1) the tenant-shareholders of the cooperative will not be entitled to a deduction for interest and taxes paid by the cooperative and (2) the volume of such bonds will count toward the State ceiling applicable to qualified mortgage bonds.	*(g)* No provision, but specifies that mortgage credit certificates may be issued to residents of cooperatives who otherwise qualify under the program.
Effective date.—Bonds issued after December 31, 1983.	
(h) No provision.	*(h)* Allows the State of Oregon to advance refund up to $300 million of qualified veterans' mortgage bonds. ***Effective date.***—Date of enactment.
(i) No provision.	*(i)* Provides that mortgage subsidy bonds for owner-occupied housing issued after June 15, 1984, and before January 1, 1985, pursuant to the transitional rules of the 1980 Act will not be tax-exempt unless that State allocates a portion of its 1984 State ceiling to that issue. In addition, provides that most of the transitional rules of the 1980 Act will terminate after December 31, 1984. (Floor amendment by Senator Pryor (adopted by voice vote) changed the date to June 15, 1984, from April 21, 1984, and changed the method of allocating of State ceilings for this provision.)
Revenue effect.—Combined with mortgage credit certificates (see below).	***Revenue effect.***—Combined with mortgage credit certificates (see below).

Item	Present Law
181. Mortgage credit certificates (sec. 712 of the House bill and sec. 702 of the Senate amendment)	
(a) In general	*(a)* Before January 1, 1984, State and local governments were allowed to issue limited amounts of tax-exempt bonds to finance mortgages on owner-occupied residences. Generally, at least 90% of the lendable proceeds were required to be used to finance mortgage loans to individuals who had not owned a present interest in their principal residence within the 3 preceding years. The purchase price of residences was required to be less than 110 percent (120 in targeted areas) of the average area purchase price. At least 20 percent of lendable proceeds generally were required to be made available for financing in targeted areas for at least one year. The State volume ceiling for qualified mortgage bonds was the greater of— (1) 9 percent of the average area mortgage originations for single family, owner-occupied residences in the State during the preceding 3 years, or (2) $200 million.
(b) Size of credit	*(b)* No provision.
(c) Volume of credits	*(c)* No provision.
(d) Eligibility for credits	*(d)* No provision.

House Bill	Senate Amendment
(a) Provides that States may trade in their authority to issue qualified mortgage bonds (reenacted, as described in item 180 above) in order to issue mortgage credit certificates (MCCs). Home purchasers receiving MCCs are entitled to a non-refundable income tax credit equal to a specified percentage of the interest that the home purchaser pays during the taxable year on the mortgage on his residence. The amount of the homebuyer's interest deduction is reduced by the amount of the MCC for that year. Excess credits may be carried forward.	*(a)* Same as the House bill, except that there is no carryforward of unused credits.
(b) The maximum credit is 50% and the minimum is 10%.	*(b)* Same as the House bill.
(c)(1) The amount of MCCs that a State may issue for any year is equal to 15% of the amount of qualified mortgage bond authority that the State trades in for that year.	*(c)(1)* Same as House bill, except that the trade-in rate is 20% instead of 15%.
(c)(2) The maximum amount of qualified mortgage bond authority that a State could trade in for a particular year may not exceed 9% of the average annual amount of mortgages originated in the State during the preceding 3 years.	*(c)(2)* No 9% ceiling.
(c)(3) A phase-in rule limits the amount of qualified mortgage bond authority that may be traded in during the first 5 years.	*(c)(3)* Same as House bill, except phase-in applies for 4 years and bill specifies that phase-in applies at State (as opposed to local) level.
(d)(1) Eligibility for MCCs is limited to the same individuals who are eligible for qualified mortgage bonds: the individual must be a first-time homebuyer, the purchase price of the residence generally may not exceed 110% of the average area purchase price, the residence must be the principal residence of the individual, the mortgage must be a new mortgage, and the mortgage may be assumed under certain conditions.	*(d)(1)* Generally the same as the House bill, except the purchase price limitation is reduced to 90% of the average area purchase price.
(d)(2) No income limitations are imposed.	*(d)(2)* There is an annual income limitation under which the amount of the credit is limited to $.25 for each dollar by which the greater of $20,000 or 100% of the area median income (adjusted for family size) exceeds the taxpayer's income.

Item	Present Law
(e) Other requirements	*(e)* No provision.
(f) Administration of MCC program	*(f)* No provision.
(g) Termination of MCCs	*(g)* No provision.
Revenue effect of mortgage subsidy bond provisions and mortgage credit certificates	

House Bill	Senate Amendment
(d)(3) Qualified mortgage bond targeted area rules (i.e., 20% of lendable proceeds in targeted areas and 120% purchase price rule) apply to MCCs.	*(d)(3)* No targeted area rules for MCCs.
(d)(4) No specific provision for manufactured housing (i.e., mobile homes).	*(d)(4)* Manufactured housing (i.e., mobile homes) is specifically made eligible for MCCs.
(e)(1) No credit is allowed for interest on mortgages financed with tax-exempt bonds.	*(e)(1)* Same as the House bill.
(e)(2) MCCs must be issued under a plan that does not limit the mortgage to specified lenders.	*(e)(2)* Same as the House bill, except that Senate amendment permits rule to be waived by Treasury regulations.
(e)(3) MCCs may be limited to residences in a particular development if the developer certifies that the price is not increased because of the MCC.	*(e)(3)* No provision.
(f) The House bill contemplates administration of the MCC program by the State and local governments. Individuals granted MCCs but who are not eligible will not be entitled to the credits. States will be responsible for ensuring that total amount of MCCs and qualified mortgage bonds does not exceed State ceiling. Where State issues excess MCC's, the State's mortgage bond ceiling for succeeding year is reduced by two times the excess issuance.	*(f)* The Senate amendment contemplates central administration of the MCC program through the Treasury, which will oversee the total amount of MCCs and qualified mortgage bonds that each State has issued. Eligibility of a particular individual for an MCC will be based upon certifications provided by the homebuyer and the lender, with penalties to apply in case of misstatements. The Treasury is authorized to enter into contracts with any person to provide services in administering the MCC program. Permits certain fees to be charged to cover program costs. Imposes penalties for noncompliance with program requirements.
(g) Authority to trade in qualified mortgage bond authority for MCCs expires on December 31, 1988.	*(g)* No specific provision, but authority to issue qualified mortgage bonds terminates on December 31, 1987.
Effective date.—Effective for interest paid or accrued after December 31, 1983, on indebtedness incurred after that date.	***Effective date.***—Effective beginning with credits issued in 1985 using authority traded-in for 1984.

House Bill

Revenue effect.—

Fiscal Years

(Millions of dollars)

1984	−61
1985	−248
1986	−521
1987	−815
1988	−1,103
1989	−1,301
Sum of 1984–87	−1,645

Senate Amendment

Revenue effect.—

Fiscal Years

(Millions of dollars)

1984	−53
1985	−242
1986	−557
1987	−916
1988	−1,185
1989	−1,250
Sum of 1984–87	−1,768

Item	Present Law
182. Private activity bonds (secs. 721–726 of the House bill and secs. 711–713, 715–719, and 721–722 of the Senate amendment)	Generally, interest on State and local government obligations is exempt from Federal income tax; however, industrial development bonds (IDBs) are taxable except when issued for certain specified purposes. Interest on IDBs is tax-exempt if the bonds are issued to finance the following activities ("exempt purpose" IDBs): (1) projects for low-income residential rental property, (2) sports facilities, (3) convention or trade show facilities, (4) airports, docks, wharves, mass commuting facilities, and parking facilities, (5) sewage and solid waste disposal facilities, and facilities for the local furnishing of electric energy or gas, (6) air or water pollution control facilities, (7) certain facilities for the furnishing of water, (8) qualified hydroelectric generating facilities, (9) qualified mass commuting vehicles, and (10) local district heating and cooling facilities. In addition, the interest on certain IDBs issued for the purpose of acquiring or developing land as a site for an industrial park is exempt from taxation. Present law also permits tax-exemption for interest on certain "small issue" IDBs if the proceeds are used for the acquisition of land or depreciable property. A small issue cannot exceed $1 million ($10 million if certain capital expenditures are counted). Present law also allows tax-exempt financing for student loans and organizations that qualify for tax-exemption under section 501(c)(3) (such as private, nonprofit hospitals and private, nonprofit educational institutions).
(a) Volume limitations	*(a)* Present law imposes no limitations on the face amount of private activity bonds that a State or local government may issue.

(a) Limits the maximum face amount of private activity bonds that a State and local governments may issue annually to $150 per capita in each State (reduced to $100 per capita after 1986 to reflect the scheduled expiration of the small-issue exception).

Private activity bonds include IDBs and student loan bonds (any bond whose proceeds are used, directly or indirectly, to finance loans to individuals for educational purposes).

Unless State otherwise allocates the ceiling, 50 percent of State ceiling goes to State and 50 percent to local jurisdictions on a per capita basis.

Issuing authorities may elect to carry over for up to 3 years a portion of their annual ceiling for a specified project (6 years for pollution control projects).

Provides a one-year phased reduction to $150 per capita for States whose 1983 volume exceeded that amount.

(a) Imposes no per capita volume limitations, and includes a Sense of the Senate resolution that no such limitations be enacted. (Floor amendment by Sen. Stennis, adopted by voice vote.)

Item	Present Law
182(*a*)(cont.)	
(b) Restrictions on cost recovery deductions	*(b)(1)* Property financed with tax-exempt bonds generally is restricted to straight-line cost recovery deductions over the applicable ACRS periods.
	(b)(2) Full ACRS deductions are allowed for multifamily residential rental property, municipal sewage or solid waste facilities, certain air or water pollution control facilities, and certain facilities with respect to which a UDAG grant is made.
(c) Denial of tax-exemption to Federally guaranteed bonds.	*(c)* No general statutory restrictions of Federal guarantees of tax-exempt bonds; however, tax-exemption is denied to certain obligations used to finance energy production facilities where— (1) Payment of principal or interest is guaranteed (in whole or in part) by U.S. under a program with the principal purpose of encouraging production or conservation of energy; or

House Bill	Senate Amendment
Exceptions.—The following private activity bonds are not subject to the volume limitations: (1) IDBs to finance multifamily residential rental property and bonds exempt under sec. 11(b) of the U.S. Housing Act of 1937. (2) IDBs to finance convention or trade show facilities or airports, docks, wharves, or mass commuting facilities (including mass commuting vehicles) if financed facility is owned for tax purposes by a governmental unit. (3) Refunding bonds (other than advance refundings) if amount of such bonds does not exceed amount of refunded obligations. Also, in the case of student loan bonds, maturity date of refunding bonds may not exceed later of maturity date of refunded bonds or 15 years after issuance of refunded bonds.	
Effective date.—Bonds issued after December 31, 1983. Transitional rule provides priority of allocation for certain bonds with respect to which inducement resolutions were given before October 19, 1983.	
(b)(1) No provision.	***(b)(1)*** Extends recovery period for ACRS property restricted under present law to straight-line deductions over periods as follows: 3-year property .... 4 years 5-year property .... 7 years 10-year property .... 13 years 15-year public utility property .... 20 years 18-year residential real property .... ACRS life 18-year nonresidential real property .... 22 years
(b)(2) Requires straight-line cost recovery deductions over applicable ACRS periods for property, other than multifamily residential rental property, that presently is eligible for full ACRS deductions.	***(b)(2)*** No provision.
Effective date.—Property placed in service after December 31, 1983, to the extent financed with tax-exempt bonds issued after October 18, 1983. Transitional rule exempts facilities with respect to which (1) a binding contract to incur significant expenditures was entered into before October 19, 1983, or (2) construction began before October 19, 1983 (and original use of facility begins with taxpayer).	*Effective date.*—Property placed in service after June 30, 1984, to the extent financed with tax-exempt bonds issued after March 15, 1984. Transitional rule exempts facilities with respect to which (1) a binding contract to incur significant expenditures was entered into before March 15, 1984, or (2) construction began before March 15, 1984 (and original use of facility begins with taxpayer).
(c) Denies tax-exemption to bonds that are Federally guaranteed. Federally guaranteed includes bonds where—	***(c)*** Denies tax-exemption to bonds benefitting from the following Federal guarantees (in addition to present law restrictions)—
(1) Payment of principal or interest is guaranteed directly or indirectly by U.S. or any agency or instrumentality thereof;	(1) No provision.

Item	Present Law
182(*c*)(cont.)	(2) Payment of principal or interest is to be made (in whole or in part) with funds provided under a similar energy program of the U.S., a State, or a political subdivision of a State.

House Bill	Senate Amendment
(2) A significant portion of bond proceeds is to be used to make Federally guaranteed loans;	(2) No provision.
(3) A significant portion of bond proceeds is to be invested in Federally insured deposits (FDIC, FSLIC, NCUA, etc.);	(3) Same as House bill.
(4) No specific provision, but SBA guarantees are included in the general prohibition on Federal guarantees (except as provided below).	(4) A significant portion of proceeds is to be used for a facility also benefitting from SBA guarantee (or subordination) under SBA— (i) pollution control loan guarantee program, or (ii) certified development loan program.
Special rules.—Entity with statutory authority to borrow from U.S. is treated as U.S. instrumentality; exceptions are provided for D.C. and possessions bonds other than private activity bonds.	
Exceptions.—Includes exceptions as follows:	*Exceptions.*—Includes exceptions as follows:
(1) FHA, VA, FNMA, FHLMC, GNMA guarantees;	(1) No provision.
(2) Sallie Mae guarantees;	(2) No provision.
(3) SBA guarantees under— (i) SBA pollution control program, (ii) No provision, but only if the SBA charges a fee for making the guarantee. Fee must be at least 1% of the amount guaranteed;	(3) SBA guarantees under— (i) SBA pollution control program, or (ii) SBA certified development loan program, but only if the SBA charges a fee for making the guarantee. Fee must equal at least 1% of the amount guaranteed, and fee must be "reasonable," as determined by the Secretary of the Treasury.
(4) Proceeds invested for initial temporary period, in bona fide debt service fund, in qualified reserve fund, in SLGs, or other investments permitted by Treasury regulations;	(4) Same as House bill.
(5) Proceeds loaned to Federally insured financial institutions under a loans-to-lenders program; and	(5) No provision.
(6) IDBs for low-income residential rental property, bonds issued under section 11(b) of Housing Act of 1937, and mortgage subsidy bonds (except where proceeds invested in federally insured deposits or accounts.	(6) No provision.
Effective date.—Generally, bonds issued after December 31, 1983; FDIC, FSLIC, etc. restrictions apply to bonds issued after April 14, 1983.	***Effective date.***—FDIC, FSLIC, etc. restrictions apply to bonds issued after April 15, 1983, except bonds issued pursuant to a contract binding at all times after March 3, 1983. SBA guarantee rules apply to bonds issued after date of enactment.

Item	Present Law
(d) Arbitrage restrictions	*(d)* Present law includes rules which limit the amount of arbitrage (i.e., the difference between the interest rate paid on tax-exempt bonds and the rate of income earned on investments made with the bond proceeds). Under these rules, the maximum income permitted to be earned generally cannot exceed the interest rate paid on the bonds by more than ⅛th of 1 percentage point. Unlimited amounts of income can be earned on all bond proceeds for a temporary period and on reasonably required reserves. Where the issuer elects not to have unlimited income during a temporary period, the maximum permitted earnings are increased to ½ of 1 percentage point over the interest rate paid on the bonds. In addition, the case of program-related investments (such as student loans), the maximum permitted earnings is increased to 1½ percentage points over the interest rate paid on the bonds. Finally, in the case of student loan bonds, the Federal student assistance payment (SAP) is excluded from the arbitrage computation, so that permitted arbitrage is 1½ percentage points plus the SAP. Under these rules, certain costs also are excluded from the arbitrage limitation, so that these costs can be earned in addition to the permitted spreads. Present law permits issuers to retain any arbitrage earned under these rules. *Qualified mortgage bonds.*—Present law also provides additional arbitrage rules in the case of qualified mortgage bonds. Under these rules, the maximum permitted difference between the earnings rate on mortgages and interest rate paid on the bonds is 1⅛ percentage points. No costs, including costs related to the bond issue, are excluded from this arbitrage limitation, so all costs must be covered within the 1⅛ percentage points. Subject to certain temporary period exceptions, all bond proceeds, other than proceeds invested in debt service reserves not in excess of 150% of the debt service on the bonds, must be invested in mortgages. In addition, any arbitrage earned on nonmortgage investments must be either paid to the mortgagors (i.e., homebuyers) or to the Federal Government.
(e) Limitations on acquisition of land and existing facilities	*(e)* Acquisition of land and existing facilities may be financed with tax-exempt bonds to the extent the land or facilities are (1) used for an exempt purpose or (2) the requirements of the small-issue exception are satisfied.

House Bill	Senate Amendment
(d)(1) In general.—Provides that arbitrage rules similar to the arbitrage rules applicable to qualified mortgage bonds are to apply to industrial development bonds and student loan bonds.	*(d)(1) In general.*—Provides additional arbitrage rules for industrial development bonds, as follows: (i) After the initial temporary period, and except for temporary periods related to debt service, all bond proceeds must be applied to the governmental purpose of the issue (except for an amount which may not exceed 150% of the annual debt service on the bonds). (ii) Arbitrage earned on investments that are not acquired in order to carry out a governmental purpose (i.e, all nonpurpose obligations) must be paid to the Federal Government. At least every 5 years, 90 percent of the arbitrage earned to that date must be paid, with any remaining balance paid 30 days after the bonds are retired. Exceptions are provided if arbitrage is less than $100,000 or if the loan proceeds are expended for governmental purposes within 6 months from the date of issue.
(d)(2) Student loan bonds.—As noted in (d)(1), same arbitrage rules will apply to student loan bonds as apply to IDBs. Also, provides that, as under present law, SAP payments are excluded from the arbitrage computation.	*(d)(2) Student loan bonds.*—Treasury may prescribe new arbitrage regulations for student loan bonds. These new regulations may provide that (1) the exceptions for temporary period and reasonably required reserve funds and the special treatment of student assistance payments will not apply and (2) the new arbitrage rules discussed in (d)(i) will apply to student loan bonds.
Exceptions.—Exceptions from the new arbitrage rules are provided for—	*Exceptions.*—Exceptions are provided for—
(1) Bonds for financing of multifamily residential rental property (including bonds issued under section 11(b) of the U.S. Housing Act),	(1) Bonds for financing of multifamily residential rental property,
(2) Bonds to refund student loan bonds issued before January 1, 1986,	(2) Bonds to refund student loan bonds issued before the effective date of the new Treasury regulations,
(3) No provision.	(3) Bonds for financing of municipal sewage and solid waste facilities.
Effective date.—Except for student loan bonds, the amendment is effective with respect to bonds issued after December 31, 1983.	*Effective date.*—Generally, bonds issued after the December 31, 1984.
In the case of student loan bonds, the amendment is effective with respect to bonds issued after December 31, 1985.	The new arbitrage regulations for student loan bonds would be effective with respect to bonds issued after the later of— (i) the date that the Higher Education Act of 1965 expires or is extended, or (ii) six months after the date of publication of the regulations.
(e) Acquisition of land or existing facilities with either exempt-purpose or small-issue IDBs is restricted as follows: (1) *Nonagricultural land*—Tax-exemption denied if 25 percent or more of proceeds of issue are used for nonagricultural land.	*(e)* No provision.

Item	Present Law
182 *(e)* (cont.)	
(f) Elimination of IDB-financing for certain facilities	*(f)* No list of facilities for which tax-exempt financing generally is prohibited. However, interest on small-issue IDBs is not exempt if— (1) more than 25 percent of the proceeds of the issue are used to provide a facility the primary purpose of which is, retail food and beverage service, automobile sales or service, or the provision of recreation or entertainment; or (2) any portion of the proceeds of the issue is to be used to provide the following: any private or commercial golf course, country club, massage parlor, tennis club, skating facility (including roller skating), racquet sports facility (including handball and racquetball courts), hot tub facility, suntan facility, or racetrack.

House Bill	Senate Amendment
(2) *Agricultural land*—Permits tax-exempt financing up to $250,000 per first-time farmer for agricultural land (and facilities located on such land). (3) *Existing facilities*—Permits tax-exempt financing only if amount equal to at least 15 percent of cost of building (and equipment therefor) is spent for rehabilitation of building (and equipment).	
Effective date.—Bonds issued after December 31, 1983. Transitional rule exempts property where (1) binding contract to incur significant expenditures was entered into before October 19, 1983, or (2) construction began before October 19, 1983 (and original use of facility begins with taxpayer).	
(f)(1) Eliminates tax-exemption for interest on all types of IDBs (exempt purpose, industrial park, and small issue) if any portion of the proceeds of an issue are used for— (i) any airplane, (ii) a skybox, or other private luxury box, (iii) any facility primarily used for gambling, or (iv) any store the principal business of which is sale of alcoholic beverages for consumption off-premises.	***(f)(1)*** Same as House bill.
(f)(2) No provision.	***(f)(2)*** Also eliminates tax-exemption for interest on all types of IDBs (exempt purpose, industrial park, and small issue), if— (i) any portion of the proceeds of an issue is used to finance a health club facility, or (ii) more than 20 percent of the proceeds of an issue is used to finance facilities in any one of the following categories: (A) office equipment; (B) medical and health facilities (other than hospitals); (C) facilities used by doctors, lawyers, accountants, or similar professions; or (D) parking facilities. *Exception*—The restrictions in (i) and (ii) above do not apply to certain projects with respect to which a UDAG grant is made. (Additional restrictions added by floor amendment by Sen. Stennis, agreed to by voice vote.)
Effective date.—Bonds issued after December 31, 1983. Transitional rule exempts property where (1) binding contract to incur significant expenditures was entered into before October 19, 1983, or (2) construction began before October 19, 1983 (and original use of facility begins with taxpayer).	***Effective date.***—Same as the House bill, except for additional restrictions (in ***(f)(2)***). Additional restrictions apply to bonds issued after April 13, 1984. Transitional rule related to additional restrictions exempts property where binding contract existed or construction began before April 14, 1984.

Item	Present Law
(g) Repeal of advance refunding for qualified public facilities	*(g)* Advance refunding of IDBs generally is prohibited. Advance refunding issues are bonds issued more than 180 days before retirement of the original bonds. Advance refundings are permitted for certain convention and trade show facilities, airports, docks, wharves, and mass commuting facilities.
(h) Amendments to small-issue exception	
(h)(1) Extension of small-issue exception sunset	*(h)(1)* The tax-exemption for small-issue IDBs is scheduled to expire for bonds issued after December 31, 1986.
(h)(2) Aggregate limit per taxpayer for small-issue exception	*(h)(2)* No overall limitation per beneficiary for small-issue exception.
(h)(3) Aggregation of issues for single project	*(h)(3)* It is possible under present law to divide the ownership of a single building or project in such a manner that it is treated as multiple buildings or projects each of which qualifies for small-issue IDB financing (under the $1 million, or elective $10 million, volume limitations).

House Bill	Senate Amendment
(g) Repeals the provision permitting advance refundings for certain convention and trade show facilities, airports, docks, wharves, and mass commuting facilities.	*(g)* No provision.
Effective date.—Refunding bonds issued after the date of enactment.	
(h)(1) No provision.	*(h)(1)* Extends the small-issue exception through December 31, 1990.
(h)(2) Interest on small-issue IDBs is not tax-exempt if face amount of issue allocated to any beneficiary (when increased by outstanding tax-exempt IDBs of the beneficiary) exceeds $40 million. Beneficiary means any person who is a user of the financed facilities.	*(h)(2)* Generally the same as House bill except for allocation rules and exceptions to restriction noted below.
Allocation rules.— (i) Entire amount to beneficiary using more than 50 percent of facility; or (ii) If no one uses over 50 percent, equally among all beneficiaries using at least 25 percent (but no more than 50 percent to any one beneficiary); and (iii) To extent not allocated in (1) or (2), to owner/lessor of facility.	*Allocation rules.*— (i) To each user of 5 percent or more of facility, the percentage of the face amount of the issue equal to percentage of facility he uses; and additionally (ii) To lessor, portion of face amount of issue equal to percentage of facility with respect to which he is lessor.
Exception.—Exempts from the $40 million limitation— (i) Bonds to refund outstanding issues, (ii) No provision. (iii) No provision.	*Exceptions.*—Exempts from the $40 million limitation— (i) Same as House bill, (ii) Bonds to finance manufacturing and certain related facilities (including equipment therefore), and (iii) Bonds to finance facilities with respect to which a UDAG grant is made. (Exceptions (ii) and (iii) added by floor amendment by Sen. Stennis, adopted by voice vote.)
Effective date.—Bonds issued after December 31, 1983. Transitional rule exempts property where (1) binding contract to incur significant expenditures was entered into before October 19, 1983, or (2) construction began before October 19, 1983 (and original use of facility begins with taxpayer).	*Effective date.*—Same as House bill.
(h)(3) Two or more issues to be used with respect to a single project are treated as one issue in applying the small-issue volume limitations. A project is defined as a single building, an enclosed shopping mall, or a strip of offices, stores, etc. using substantial common facilities. A principal user of any single issue is treated as a principal user with respect to the aggregated issue.	*(h)(3)* Same as House bill, except includes warehouses in the types of related buildings that may be treated as a project.

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Item	Present Law
182 *(h)* (cont.)	
(h)(4) Clarification that residential property may be in a mixed use structure	*(h)(4)* Exempt purpose IDBs may be issued to finance low- and moderate-income residential rental property. Present law is unclear as to whether an entire building must consist of such housing in order for interest on the bonds to be tax-exempt.
(h)(5) Increase in small-issue IDB capital expenditure limitation for facilities with respect to which a UDAG grant is made.	*(h)(5)* In lieu of the $1 million small issue IDB volume limitation, election may be made to issue up to $10 million of such bonds, if certain capital expenditures over a 6-year period are counted towards the $10 million limitation. The $10 million limitation is increased to $20 million in the case of a project with respect to which a UDAG grant is made.
(i) Extension of substantial user rules	*(i)* Interest on IDBs (exempt purpose, industrial park, and small issue) is not tax-exempt if the bonds are held by a substantial user of the facilities financed by the bonds or a related party. Related parties include family members, fiduciaries, and corporations or partnerships subject to common control.
(j) Extension of certain requirements of the Internal Revenue Code to bonds exempt from tax pursuant to other provisions of law	*(j)(1)* Interest on bonds issued by the District of Columbia, by U.S. possessions, and under section 11(b) of the Housing Act of 1937 is exempt from tax by virtue of provisions outside of the Internal Revenue Code, and such bonds are not subject to the Code requirements for tax-exemption. The Surface Transportation Assistance Act of 1982 provided that any tax-exemption for such bonds is deemed to be by reason of section 103. Arguably, this provision was repealed because of the order in which that Act and another Act were signed into law. (Sec. 622(b) of the House bill clarifies that this provision was not intended to be repealed.) *Estate tax treatment.*—A court has ruled that the section 11(b) bonds are exempt from Federal estate tax. Bonds on which the interest is exempt under Code section 103 are not exempt from estate tax.

House Bill	Senate Amendment
Effective date.—Bonds issued after December 31, 1983. Transitional rules exempt projects (1) with respect to which a binding contract to incur significant expenditures was entered before October 19, 1983, (2) on which construction began before October 19, 1983 (and the original use of the facility begins with the taxpayer).	*Effective date.*—Same as House bill.
(h)(4) Clarifies that a part of a building qualifying as low- and moderate-income residential rental property may be used for nonresidential purposes, but limits tax-exempt financing to portion of building used for such housing.	*(h)(4)* No provision.
Effective date.—Bonds issued after December 31, 1983.	
(h)(5) Increases $20 million limitation to $25 million for facilities with respect to which a UDAG grant is made.	*(h)(5)* No provision.
Effective date.—Bonds issued after December 31, 1983.	
(i) Expands the definition of related party to include all partners of a partnership and spouses and dependent children of partners.	*(i)* Same as House bill, but also treats all shareholders of an S Corporation and spouses and dependent children of such shareholders as related persons.
Effective date.—Bonds issued after December 31, 1983.	*Effective date.*—Same as House bill.
(j)(1) Subjects all bonds for which tax-exemption is provided outside of the Internal Revenue Code to the following rules: (i) volume limitations on private activity bonds; (ii) restrictions on Federal guarantees; (iii) rules governing IDBs and mortgage subsidy bonds; (iv) arbitrage rules; (v) public approval and information reporting requirements; and (vi) requirement that bonds be in registered form.	*(j)(1)* Generally, the same as House bill, except for volume limitations and other rules not included in Senate amendment generally.

Item	Present Law
182 *(j)* (cont.)	*(j)(2)* The Virgin Islands and American Samoa are not authorized to issue IDBs.
(k) Prohibition on use of tax-exempt bonds for consumer loans (sec. 718 of the Senate amendment)	*(k)* Present law does not provide limitations on the use of the proceeds of tax-exempt bonds for private purposes except in the case of bonds where the proceeds are used in taxable trades or businesses (i.e., industrial development bonds) or where the proceeds are used to provide financing for owner-occupied housing (i.e., mortgage subsidy bonds).
Revenue effect of private activity bond provisions	

House Bill	Senate Amendment
(j)(2) No provision.	*(j)(2)* Authorizes the Virgin Islands and American Samoa to issue IDBs, subject to the restrictions of the Code.
Effective date.—Bonds issued after December 31, 1983.	*Effective date.*—Same as House bill.
(k) No provision.	*(k)* Provides that tax-exempt bonds may not be used to make loans or finance loans to persons that are not governmental units or tax-exempt organizations. *Exceptions.*—Exceptions are provided for: (1) bonds issued before October 1, 1986, to finance student loans receiving special allowance payments, (2) bonds issued after September 30, 1986, to finance any student loans, (3) mortgage subsidy bonds, (4) industrial development bonds, (5) bonds whose proceeds are used to finance any governmental tax or general assessments, (6) bonds whose proceeds are used to acquire obligations other than obligations for the governmental purpose giving rise to the issue (i.e., nonpurpose obligations) to the extent permitted under the arbitrage rules, and (7) Texas veterans' land bond program (for bonds issued before March 15, 1987) (Floor amendment by Senator Bentsen, adopted by voice vote.)
	Effective date.—Generally, to bonds issued after the date of enactment.

House Bill

Revenue effect.—

Fiscal Years

(Millions of dollars)

1984	+30
1985	+142
1986	+364
1987	+600
1988	+731
1989	+824
Sum of 1984-87	+1,136

Senate Amendment

Revenue effect.—

Fiscal Years

(Millions of dollars)

1984	+41
1985	+183
1986	+447
1987	+625
1988	+479
1989	+178
Sum of 1984-87	+1,296

Item	Present Law
183. Miscellaneous tax-exempt bond provisions	
(a) Tax-exempt obligations issued by Pennsylvania State University (sec. 731 of the House bill)	*(a)* Interest on obligations is excluded from gross income where the obligations are issued by or on behalf of a State or local government. The determination of whether an entity is a State or local government depends upon whether that entity has sovereign powers or is controlled by an entity with sovereign powers.
(b) Clarification of public approval requirement in the case of certain public airports (sec. 725 of the House bill)	*(b)* Issuance of private activity tax-exempt bonds must be approved by a public hearing and elected official, or by a voter referendum. Facilities located in more than one jurisdiction must satisfy the public approval requirements in all such jurisdictions.
(c) Principal users of certain solid waste disposal facilities (sec. 714 of the Senate amendment)	*(c)* Unlimited amounts of tax-exempt IDBs can be issued to finance solid waste disposal facilities. Under Treasury regulations, facilities cease being solid waste disposal facilities when the solid waste is processed to produce the first marketable product. In the case of solid waste that is burned to produce heat, the first marketable product is steam. Facilities for processing beyond the first marketable product can be financed with tax-exempt IDBs only under the small-issue exemption. In determining whether the requirements of the small-issue exception are satisfied, the capital expenditures of all principal users of financed facilities must be taken into account.
(d) Tax-exempt financing for Power Authority of the State of New York (sec. 720 of the Senate amendment)	*(d)* Under present law, tax-exempt financing is available for the acquisition of facilities which are used in taxable business of an electric utility only if the service area of the utility does not exceed two contiguous counties (or a city and one contiguous county) or the bond meets the requirements of the small-issue exception.

House Bill	Senate Amendment
(a) Provides that the Pennsylvania State University is to be treated as a State governmental unit for purposes of issuing tax-exempt obligations. *Effective date.*—Obligations issued after December 31, 1953. *Revenue effect.*—Loss of less than $10 million annually.	*(a)* No provision.
(b) Provides that in the case of airports located in more than one jurisdiction, but owned and operated by the jurisdiction issuing the tax-exempt bonds, only the issuing jurisdiction is required to satisfy the public approval requirements of present law. *Effective date.*—Bonds issued after December 31, 1983. *Revenue effect.*—No revenue effect.	*(b)* No provision.
(c) No provision.	*(c)* Provides that the purchaser of all of the steam output of a specified solid waste disposal facility is not to be treated as a principal user of the solid waste disposal facility for purposes of the small issue exemption. *Effective date.*—Bonds issued after December 31, 1983. *Revenue effect.*—Loss of less than $5 million annually.
(d) No provision.	*(d)* Provides that tax-exempt bonds may be issued to finance facilities for the Power Authority of the State of New York (PASNY) if there is no mark up by the purchasing utility of the electricity from PASNY when the purchasing utility sells the electricity to its ratepayers. *Effective date.*—Bonds issued after the date of enactment and certain bonds issued after December 31, 1969 the interest on which was tax-exempt when issued.

Item	Present Law
183 *(d)* (cont.)	
(e) Tax-exempt financing for acquisition of railroad track and rights-of-way of bankrupt railroads (sec. 720 of the Senate amendment)	*(e)* Tax-exempt financing is available for the acquisition of facilities which are used in taxable businesses of railroads only if the requirements of the small-issue exception are satisfied.
(f) Exemption from local furnishing rule for Long Island Lighting Company and Bradley Lake Hydroelectric Facility (secs. 723 and 728 of the Senate amendment)	*(f)* Tax-exempt financing is available for the acquisition of facilities which are to be used in the taxable business of an electric utility only if the service area of the utility does not exceed two contiguous counties (or a city and one contiguous county) or if the requirements of the small-issue exception are satisfied.

House Bill	Senate Amendment

Revenue effect.–Fiscal Years

(Millions of dollars)

1984	−1
1985	−4
1986	−10
1987	−14
1988	−16
1989	−17
Sum of 1984–1987	−29

House Bill: *(e)* No provision.

Senate Amendment: *(e)* Provides that tax-exempt bonds may be issued to finance the acquisition of railroad track and rights-of-way from bankrupt railroads where the Federal Railroad Administration provides joint financing for such facilities.

Effective date.—Bonds issued after December 31, 1983.

Revenue effect.—Negligible loss annually.

House Bill: *(f)* No provision.

Senate Amendment: *(f)* Provides an exception from the local furnishing rule for—

(1) an electric utility whose service area consists of two contiguous counties except for an adjoining peninsula in a third county where residents of the peninsula use less than 3% of the output of the utility (LILCO), and

(2) an electric utility facility initially authorized by the Federal government in 1962 if the facility receives at least 25 percent of its financing from an exempt person, if the facility is located in a noncontiguous State, and if the electric energy generated by the facility is purchased by a rural electric cooperative (Bradley Lake Hydroelectric Facility).

(Floor amendments by Senators D'Amato and Moynihan (LILCO) and Senators Stevens and Murkowski (Bradley Lake), adopted by voice vote.)

Effective date.—Bonds issued after December 31, 1983.

Revenue effect.—

Fiscal Years

(Millions of dollars)

1984	−1
1985	−18
1986	−71
1987	−124
1988	−137
1989	−130
Sum of 1984–1987	−214

Item	Present Law
(g) Exemption from restriction on financing, food and beverage facilities for certain catering facility (sec. 716 of the Senate amendment)	*(g)* TEFRA provided that interest on small-issue IDBs is not tax-exempt if more than 25 percent of the proceeds of an issue is used to finance any retail food and beverage service facility.
(h) Review of Department of Education determinations on tax-exempt student loan bonds (sec. 726 of the Senate amendment)	*(h)* The Student Loan Consolidation and Technical Amendments Act of 1983 eliminates combined Federal guarantees and tax-exemption for interest on student loan bonds unless the Department of Education approves issuance of the bonds.
(i) Issuance of taxable bonds by agencies issuing qualified scholarship funding bonds (sec. 719 of the Senate amendment)	*(i)* Interest on qualified scholarship funding bonds is tax-exempt. Such bonds are bonds issued by State authorities meeting prescribed requirements, including the requirement that the authorities be organized exclusively to acquire student loan notes funded with tax-exempt bonds.
(j) Study of role of tax-exempt student loan bonds (sec. 719 of the Senate amendment)	*(j)* No provision.

House Bill	Senate Amendment
(g) No provision.	*(g)* Provides that a facility the primary purpose of which is to provide catering services and meeting rooms for groups of 2,500 or more individuals is not treated as a facility the primary purpose of which is providing retail food and beverage services. ***Effective date.***—Bonds issued after December 31, 1983. ***Revenue effect.***—Loss of less than $5 million annually.
(h) No provision.	*(h)* Provides for review and filing of a report by the Department of the Treasury with respect to any adverse determinations by the Department of Education regarding issuance of tax-exempt student loan bonds. (Floor amendment by Sen. Pressler, adopted by voice vote) ***Effective date.***—Bonds issued after December 31, 1983. ***Revenue effect.***—Negligible loss annually.
(i) No provision.	*(i)* Permits issuance of taxable bonds by student loan bond issuers without prejudice to their ability to issue tax-exempt bonds. ***Effective date.***—Bonds issued after December 31, 1983. ***Revenue effect.***—Negligible loss annually.
(j) No provision.	*(j)* Requires study of appropriate role of tax-exempt bonds in financing student loans by GAO and CBO. Study due 9 months after enactment.

Item	Present Law
184. Heavy vehicle use tax (secs. 1201 and 1203 of the House bill and secs. 601-603 of the Senate amendment)	
(a) Tax rate	*(a)*— Under 33,000 lbs.—no tax; 33,000-55,000 lbs.—$50, plus $25 per 1,000 lbs. over 33,000 lbs; 55,000-80,000 lbs.—$600, plus $40 (rising to $52 by 1988) per 1,000 lbs. over 55,000 lbs.; Over 80,000 lbs.—$1,600 (rising to $1,900 by 1988).
(b) Rules for small owner-operators— (1) Tax rate for year beginning July 1, 1984. (2) Tax rate after June 30, 1985. (3) 5,000-mile exemption and proration for theft or casualty, generally effective July 1, 1984.	*(b)*— (1) $3 per 1,000 lbs. (vehicles under 26,000 lbs. exempt) (2) Same as general rate in preceding year. (3) Not effective until July 1, 1985, for small owner-operators.
(c) Reduced rate for certain logging vehicles	*(c)* None.
(d) Increased mileage exemption for certain agricultural vehicles	*(d)* Any vehicle exempt for year if mileage is under 5,000 miles, beginning July 1, 1984. No special rule for agricultural vehicles.
(e) Study requirements	*(e)* None.

House Bill	Senate Amendment
(a)— Under 55,000 lbs.—no tax; 55,000-72,000 lbs.—$150, plus $20 per 1,000 lbs. over 55,000 lbs.; Over 72,000 lbs.—$500.	*(a)*— Under 55,000 lbs.—no tax; 55,000-80,000 lbs.—$75, plus $21 per 1,000 lbs. over 55,000 lbs.; Over 80,000 lbs.—$600.
(b)— (1) Lesser of present law rate or general rate. (2) Same as general rate. (3) Effective July 1, 1984.	*(b)* Same as House bill.
(c) No provision.	*(c)* Tax rate is one-half the rate otherwise applicable, for State-registered vehicles which haul harvested products from forest.
(d) Same as present law.	*(d)* Same as present law, except State-registered agricultural vehicles which haul farm commodities to or from the farm are exempt if mileage is under 7,500 miles. (Floor amendment by Sens. Trible and Dole, adopted by voice vote.)
(e) Secretary of Transportation to report within 1 year on whether trucks over 80,000 lbs. bear a fair share of use tax.	*(e)*(1) Secretary of Transportation to report within 1 year on effect of use tax on trans-border trucking. (2) Also, National Academy of Sciences to study weight-distance tax and report within 18 months. (Floor amendment by Sen. Hatfield, adopted by voice vote.)
Effective date.—July 1, 1984.	***Effective date.***—Same as House bill.
Revenue effect.—	***Revenue effect.***—

Fiscal Years

(Millions of dollars)

Fiscal year	House Bill	Senate Amendment
1984	−230	−244
1985	−548	−562
1986	−616	−635
1987	−675	−697
1988	−581	−601
1989	....	....
Sum of 1984-87	−2,069	−2,138

Item	Present Law
185. Highway diesel fuel tax (sec. 1202 of the House bill and sec. 611 of the Senate amendment)	
(a) Tax rate	*(a)* 9 cents a gallon, through September 30, 1988.
(b) Rebate for light diesel vehicles	*(b)* None.
(1) Qualifying vehicle	
(2) Manner of rebate	
(c) Exemption for diesel fuel used in buses	*(c)* Exemption is 9 cents a gallon (i.e., no tax) for diesel fuel used in intercity, local or school buses (privately-operated buses) or sold to State or local government or nonprofit school for its use (noncommerical vehicles).
186. One-year extension of refund of taxes on fuels used by qualified taxicabs (sec. 612 of the Senate amendment)	A refund or credit of 4 cents per gallon of taxes paid is provided for motor fuels used in taxicabs of above-average fuel economy if ride sharing is allowed; this expires after September 30, 1984.

House Bill	Senate Amendment
(a) Increases by 5.5 cents a gallon (the diesel differential) to 14.5 cents a gallon, through September 30, 1988.	*(a)* Increases by 6 cents a gallon (the diesel differential) to 15 cents a gallon, through September 30, 1988.
(b) A rebate of the diesel differential is provided:	*(b)* A rebate of the diesel differential is provided:
(1) Vehicle must have at least 4 wheels and be 10,000 lbs. or less.	(1) Vehicle must have at least 4 wheels and be 8,000 lbs. or less. (Floor amendment by Sen. Dole, agreed to by voice vote.)
(2) Rebate is a fixed amount ($96 for new car, $180 for new truck, purchased before 1988) equal to estimated diesel differential to be paid over expected life of vehicle. Applies pro rata for model year 1979–1983 vehicles. Rebate claimed one time on income tax form.	(2) Rebate equals actual amount of diesel differential paid and is claimed annually on income tax form.
(c) Exemption is 14.5 cents a gallon (i.e., no tax) for privately-operated buses and noncommercial vehicles.	*(c)* Exemption is 9 cents a gallon (i.e., tax equals 6 cents a gallon) for privately-operated buses, 15 cents a gallon (i.e. no tax) if such buses are operated for a State or local government, and 15 cents a gallon for noncommercial vehicles. (Floor amendment by Sen. Dole, agreed to by voice vote.)
Effective date.—July 1, 1984.	***Effective date.***—Same as House bill.
Revenue effect.—	***Revenue effect.***—

Fiscal Years

(Millions of dollars)

Year	House Bill	Senate Amendment
1984	+84	+143
1985	+498	+702
1986	+637	+668
1987	+647	+670
1988	+696	+676
1989	+45	−52
Sum of 1984–87	+1,866	+2,183

House Bill	Senate Amendment
No provision.	Extends existing 4-cents-per-gallon refund or credit for fuels used in qualified taxicabs for one year, through September 30, 1985. Also, Secretary of the Treasury to study the refund provision and report before January 2, 1985. ***Revenue effect.***—Reduction of $2 million in fiscal year 1985 and a negligible amount in 1986.

Item	Present Law
187. Partial exemption for certain alcohol fuels derived from natural gas (sec. 613 of the Senate amendment)	Alcohol fuels at least 85-percent pure are exempt from the 9-cents-per-gallon excise tax on special motor fuels if derived from a source other than natural gas or petroleum. These fuels are subject to the tax if derived from natural gas or petroleum.
188. Increase in excise tax exemption for alcohol fuels mixtures, etc. (sec. 614 of the Senate amendment)	*(a)* Gasohol (generally, a mixture of 90 percent gasoline and 10 percent alcohol) is exempt from 5 cents per gallon of the 9-cents-per-gallon excise taxes on gasoline and diesel fuels. This is a 50-cents-per-gallon exemption for the alcohol (see (b) and (c) below). *(b)* A 50-cents-per-gallon income tax credit is provided for alcohol used in gasohol or as a motor fuel. *(c)* A 50-cents-per-gallon tariff is imposed on alcohol imported into the U.S. for use as a fuel. *(d)* Alcohol used in an alcohol fuels mixture qualifies for the excise tax exemption and income tax credit only if the alcohol is derived from a source other than petroleum, natural gas, or coal.

House Bill	Senate Amendment
No provision.	Alcohol fuels at least 85-percent pure that are derived from natural gas are exempted from one-half (i.e., 4½ cents per gallon) of the excise tax on special motor fuels. The full rate of tax continues to apply to these fuels, if derived from petroleum. *Effective date.*—Sales after June 30, 1984. *Revenue effect.*—Reduction of less than $1 million annually.
No provision.	*(a)* Excise tax exemption is increased to 6.75 cents per gallon of gasohol. This is a 67.5-cents-per-gallon exemption for the alcohol (see (b) and (c) below). *(b)* Alcohol fuels credit is increased to 67.5 cents per gallon. *(c)* Tariff on alcohol imported for use as a fuel is increased to 67.5 cents per gallon. (Floor amendment by Sen. Dole, agreed to by voice vote, increased the excise tax exemption from 6 cents per gallon as provided in the Finance Committee amendment; income tax credit and tariff were increased from 60 cents per gallon.) *(d)* Clarifies that alcohol derived from peat is treated as derived from coal (hence, does not quality as alcohol for purposes of gasohol and income tax credit rules). *Effective date.*—July 1, 1984. *Revenue effect.*—

Fiscal Years

(Millions of dollars)

1984	−17
1985	−98
1986	−113
1987	−132
1988	−152
1989	−11
Sum of 1984–87	−360

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Item	Present Law
189. Excise tax exemption for piggyback trailers (sec. 621 of the Senate amendment)	Highway trailers designed principally for trailer-on-flatcar service by rail (piggyback trailers) are subject to the 12-percent retail excise tax on heavy trailers. Rail trailers (roadrailers) designed for use both as a highway vehicle and a railroad car are exempt after December 2, 1982.

House Bill	Senate Amendment
No provision.	Piggyback trailers are exempt from 12-percent retail tax and prior law 10-percent manufacturers tax. ***Effective date.***—Trailers sold to ultimate consumers after December 2, 1982. ***Revenue effect.***—

Fiscal Years

(Millions of dollars)

1984	−14
1985	−10
1986	−12
1987	−13
1988	−14
1989	....
Sum of 1984–87	−49

Item	Present law
A. Estate and Gift Tax Provisions **190. Installment payments of estate tax attributable to interests in closely held businesses (sec. 812 of the House bill and sec. 801 of the Senate amendment)**	*(a)* Estate tax attributable to interests in active closely held business operations may be paid in installments over up to 14 years. A special 4-percent interest rate is provided for limited amounts of tax, and principal payments may be deferred for up to 5 years (except in cases where the executor elects to include certain stock owned indirectly through family members in determining qualification for the provision). *(b)* Only active business assets of proprietorships are considered in determining qualification for installment payments; both active assets and passive investment assets of partnerships and corporations are considered.
191. Repeal of generation-skipping transfer tax (sec. 802 of the Senate amendment)	Tax is imposed on transfers in which interests in property are divided between more than one generation younger than that of the transferor; the tax applies to transfers that would otherwise escape estate tax for one or more generations.

House Bill	Senate Amendment
(a) Allows executors to elect to look through a single passive holding corporation owning non-readily tradable stock in a second, active business, corporation to determine whether estate qualifies for the installment payment provision. The special 4-percent interest rate and 5-year deferral of principal payments are not available if the look-through provision is elected.	*(a)* Same as House bill, except also allows look through of multiple tiers of holding companies if at least 20 percent of the value of each corporation to be looked through is included (directly or indirectly) in decedent's estate.
(b) Holding company assets other than qualified stock attributable to the value of assets actually used in an active business (including working capital) are disregarded in determining qualification for installment payments.	*(b)* Same as House bill, except expands rule to assets of all partnerships and corporations.
Effective date.—Estates of individuals dying after the date of enactment.	*Effective date.*—Same as House bill.
Revenue effect.—	***Revenue effect.***—

House bill:

Fiscal Years

(Millions of dollars)

1984	......
1985	−5
1986	−7
1987	−10
1988	−12
1989	−15
Sum of 1984–87	−22

Senate amendment:

Fiscal Years

(Millions of dollars)

1984	(1)
1985	−13
1986	−19
1987	−24
1988	−29
1989	−36
Sum of 1984–87	−56

[1] Loss of less than $5 million.

House Bill	Senate Amendment
No provision.	Repeals the generation-skipping transfer tax.
	Effective date.—Transfers after June 11, 1976 (the date the tax was originally effective).
	Revenue effect.—

Fiscal Years

(Millions of dollars)

1984	−5
1985	−10
1986	−10
1987	−10
1988	−10
1989	−10
Sum of 1984–87	−35

Item	Present Law
192. Treatment of certain disclaimers (sec. 803 of the Senate amendment)	A disclaimer is a refusal to accept an interest in property; if a disclaimer is qualified for tax purposes, the interest is treated as if it never passed to the person making the disclaimer (i.e., the person is not treated as making a gift). Treasury regulations, adopted on November 15, 1958, provided rules for making qualified disclaimers, effective for disclaimers made before that date as well as afterwards. The regulations required property interests to be disclaimed within a reasonable time after creation of the interest, regardless of when the interest actually became possessory, and to be made before acceptance of any benefits of the property. The 1958 regulations were replaced by similar statutory rules, effective for transfers occurring after 1976.
193. Eligibility of certain usufructs for estate tax marital deduction (sec. 804 of the Senate amendment)	Executors may elect to treat certain income interests ("QTIP property") as eligible for the estate tax marital deduction if— (1) the surviving spouse is entitled to all income, payable at least annually, (2) no person has a power to appoint any part of the property to anyone other than the spouse during the spouse's life. A usufruct for life is an interest under the Louisiana Civil Code that is equivalent to a common law life estate. Present law is unclear whether usufruct interest for life under the Louisiana Civil Code is eligible as QTIP property.
194. Special estate tax credits (sec. 805 of the Senate amendment)	
(a) Estate of Nell J. Redfield	*(a)* No provision.
(b) Estate of Elizabeth Schultz Rabe	*(b)* No provision.

House Bill	Senate Amendment
No provision.	Extends (until 90 days after enactment) the period for disclaiming property interests transferred before November 15, 1958, if (1) the person making the disclaimer has not accepted any benefits of the property and (2) the disclaimer otherwise satisfies the present-law requirements. *Effective date.*—Date of enactment. *Revenue effect.*— *Fiscal Years* (Millions of dollars) 1984 ... −10 1985 ... −30 1986 ... (1) 1987 ... (1) 1988 ... (1) 1989 ... (1) Sum of 1984–87 ... −40 [1] Loss of less than $5 million.
No provision.	Clarifies that a usufruct for life, including a usufruct in consumable property, qualifies as QTIP property. *Effective date.*—Effective as if included in ERTA (the statute that originally allowed QTIP elections). *Revenue effect.*—Loss of less than $5 million annually.
(a) No provision in H.R. 4170, but the House has passed H.R. 1428 which provides a similar credit. *(b)* No provision in H.R. 4170, but the House has passed H.R. 2389 which provides a similar credit.	*(a)* Provides a special estate tax credit for certain property included in the Estate of Nell J. Redfield if the property is transferred to the U.S. for inclusion in the Toiyabe National Forest within 90 days of enactment. *(b)* Provides a special estate tax credit for certain property included in the Estate of Elizabeth Schultz Rabe if the property is transferred to the U.S. for inclusion in the Toiyabe National Forest within 90 days of enactment. *Effective date.*—Date of enactment. *Revenue effect.*—One-time loss of $22 million.

Item	Present Law
195. Permit perfection of estate tax current use valuation elections (sec. 20 of the Senate amendment)	Permits estates comprised largely of real property used in farming or other closely held businesses to elect to value property based on current use, rather than full fair market value. All persons with an interest in specially valued property must agree, in writing, to election.
196. No gain recognized from net gifts made before March 4, 1981 (sec. 802 of the House bill)	Gift tax is the liability of the person making the gift. Satisfaction of a person's debt or other liability generally results in income to the person relieved of the liability. The Supreme Court, in *Diedrich* v. *Commissioner* (457 U.S. 191 (1982)), ruled that a net gift, i.e., a gift in which gift tax is paid by the donee of the transferred property, results in income to the donor to the extent this gift tax exceeds the donor's basis in the property.
197. Reformation of charitable split-interest trusts (sec. 441 of the House bill and sec. 809 of the Senate amendment)	Trusts having both charities and noncharities as beneficiaries generally must be structured as a unitrust or annuity trust to qualify for a charitable deduction. Trusts created before December 31, 1978 (including trusts created in wills executed before that date) could be reformed (amended) to satisfy the unitrust, etc., requirements if judicial proceedings were begun before January 1, 1982, and the trust were amended within 30 days after completion of the proceedings.

House Bill	Senate Amendment
No provision.	Requires Treasury to develop procedures permitting perfection of notices of election and agreements that contain errors as filed (Floor amendment by Sen. Dixon, agreed to by voice vote.) ***Effective date.***—Estates of individuals dying after 1976. ***Revenue effect.***—Negligible.
Payment of gift tax by a donee does not result in income to the donor of a net gift where the gift was made before March 4, 1981. ***Effective date.***—Date of enactment. ***Revenue effect.***—Loss of less than $5 million annually.	No provision.
Provides a permanent rule allowing reformations of certain improperly drafted instruments subject to certain restrictions. ***Effective date.***—Generally applies to reformations made after December 31, 1978. ***Revenue effect.***—Decrease fiscal year budget receipts by less than $5 million annually.	Same as the House bill, except also provides that a reformation occurs to the extent that, pursuant to trust provisions, property passes directly to charity before due date of estate tax return. ***Effective date.***—Same as House bill. ***Revenue effect.***—Same as House bill.

Item	Present Law
198. Alternate valuation date (sec. 442 of the House bill and sec. 805A of the Senate amendment)	*(a)* Executors may elect to value all property in a decedent's gross estate 6 months after the decedent's date of death rather than on the date of death.
	(b) The alternate valuation election must be made on a timely filed estate tax return.

House Bill	Senate Amendment
(a) The alternate valuation election is limited to estates where making the election— (1) decreases the total value of the gross estate, and (2) decreases the estate's Federal estate tax liability.	*(a)* The alternate valuation election is limited to estates where— (1) the estate tax shown on the return exceeds the unified credit, and (2) the executor determines in good faith that the value of the assets for which no charitable or marital deduction is allowed is decreased.
(b) The election may be made on the first estate tax return filed (even if not timely).	*(b)* Same as House bill, except no election may be made if return is more than one year late, or the principal purpose of the late filing is to make the election. (Floor amendment by Senators Baker and Sasser, agreed to by voice vote.)
Effective date.—Applies with respect to individuals dying after date of enactment.	***Effective date.***—Same as House bill, except that the provision also applies to estates of certain decedents dying before the date of enactment if a late return was filed and executor so elects.
Revenue effect.—Increase revenues by $10 million annually, beginning in fiscal year 1985.	***Revenue effect***—Same as House bill.

Item	Present Law
B. Charitable Deduction Provisions	
199. Expansion of definition of qualified conservation contributions (sec. 806 of the Senate amendment)	A charitable deduction is allowable for certain contributions of partial interests in real property for conservation purposes. Surface mining must be precluded on property with respect to which a deductible contribution is made.
200. Collection of amounts for U.S. Olympic Committee (sec. 807 of the Senate amendment)	No procedure for collecting amounts for nongovernmental organizations through Federal tax returns.

House Bill	Senate Amendment
No provision.	Deduction allowed where surface mining is not precluded provided— (1) surface and mineral estates in the property have been separated at all times since June 12, 1976, and (2) probability of surface mining on the property is so remote as to be negligible. *Effective date.*—Date of enactment. *Revenue effect.*—

Fiscal Years

(Millions of dollars)

1984	−25
1985	−25
1986	−25
1987	−25
1988	−25
1989	−25
Sum of 1984-87	−100

House Bill	Senate Amendment
No provision.	Individuals may forego $1 of their income tax refund ($2 on a joint return), or may pay an additional $1 in tax ($2 on a joint return), to be transferred (less collection costs) by the Treasury to the U.S. Olympic Committee. Establishes the U.S. Olympic Trust Fund to administer the monies. *Effective date.*—Returns filed for 1984 through 1988. *Revenue effect.*—None.

Item	Present Law
201. Charitable expense deduction for use of passenger automobile (sec. 808 of the Senate amendment)	In determining the amount of the charitable contribution deduction attributable to use of a car in providing services to a charity, the taxpayer may deduct actual "out-of-pocket" expenses, or may use a standard rate. At present, this rate is set by the IRS at nine cents a mile.

House Bill	Senate Amendment
No provision.	The standard mileage rate used in determining the amount of a taxpayer's charitable contribution deduction for the use of a passenger automobile (if the actual expense method is not used) is increased to 12 cents a mile. *Effective date.*—Taxable years beginning after 1984. ***Revenue effect.***— *Fiscal Years* (Millions of dollars)

Fiscal year	Millions of dollars
1984	......
1985	−5
1986	−37
1987	−43
1988	−51
1989	−60
Sum of 1984-87	−85

Item	Present Law
C. Exempt Organizations	
202. Acquisition indebtedness of certain educational institutions and organizations managing property for tax-exempt organizations; tax-exemption for such organizations (sec. 865 of the Senate amendment)	
(a) Unrelated business income tax on debt-financed property	*(a)* A tax-exempt organization's unrelated trade or business income (including income from debt-financed property) is subject to Federal income tax. A special exception applies to debt-financed real property owned by a qualified pension trust if such property meets certain restrictions.
(b) Title-holding companies	*(b)* A company that holds title to property for a tax-exempt organization is entitled to tax exemption. Present law is unclear whether a title-holding company may have more than one parent.

House Bill	Senate Amendment
No provision.	

(a) The special exception for debt-financed property is extended to certain educational institutions and title-holding companies. The following additional restrictions are imposed on any property to qualify for the special debt--financed property exception: (1) if the organization is a partner in a partnership, all partners must be eligible for the exception and (2) the seller may not provide financing with respect to the acquisition of the property.

Effective date.—Effective with respect to indebtedness incurred after the date of enactment.

(b) A title-holding company may have more than one parent. However, no individual who provides investment advice to the title-holding company may be an officer, etc., of the title-holding company.

Effective date.—Effective for taxable years beginning after December 31, 1984.

Revenue effect.—

Fiscal Years

(Millions of dollars)

1984	−24
1985	−46
1986	−58
1987	−73
1988	−91
1989	−114
Sum of 1984-87	−201

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Item	Present Law
203. Church audits (sec. 872 of the Senate amendment)	
(a) Investigation of church tax liability	*(a)* No special requirements before commencing investigation of a church.
(b) Notice required before examining church records	*(b)* IRS may examine church books of account (i.e., accounting and bookkeeping records) only if (1) IRS regional commissioner believes examination is necessary, and (2) IRS notifies church at least 30 days prior to examination.
(c) Scope of examination of church records	*(c)* Church books of account may be examined only to the extent necessary to determine the amount (if any) of tax liabilities of the church or its contributors or employees.
(d) Definition of protected church records	*(d)* Special audit procedures apply to examination of church books of account, including accounting and bookkeeping records kept in the regular course of church business.
(e) Third-party records (e.g., bank accounts)	*(e)* Third-party records (e.g., records held by a bank) are not specially protected; under general third-party summons rules, church must be notified before IRS examines such records.
(f) Limitation on duration of church audit	*(f)* No provision.
(g) Statute of limitations	*(g)* IRS must assess tax, or proceed without assessment, within three years after return is filed. No limitation applies (1) if no return is filed, (2) in case of false or fraudulent return or willful tax evasion.

House Bill	Senate Amendment
No provision.	
	(a) Investigation may be commenced only if IRS regional commissioner reasonably believes— (1) that organization does not qualify for tax-exemption as a church, or (2) that church is engaged in taxable activities. Before commencing investigation, IRS must provide notice containing specified information to church.
	(b) Expands present law rule to require a second notice containing specified information to church. As part of this notice, IRS must offer the church a meeting to seek to resolve issues. Concurrently with second notice to church, IRS regional counsel must be notified of proposed examination and may file a nonbinding objection to the examination.
	(c) Expands present law rule to apply to church records (including books of account and other records) as defined under the amendment.
	(d) Special procedures apply to all regularly kept church corporate and financial records; procedures do not apply to records previously filed with a public official, or to third-party records (e.g., bank accounts). (see item *(e)* below).
	(e) Same as present law, but prohibits IRS from revoking exemption or imposing tax on church, on basis of third-party records, without following church audit procedures.
	(f) IRS generally required to make a determination within two years of commencement of church audit. *(g)* Three-year limitation generally applies to church tax liabilities whether or not a return was filed.

Item	Present Law
(h) Declaratory judgment regarding tax-exempt status	*(h)* Organizations (including churches) may bring a declaratory judgment action in any case involving a determination of tax-exempt status under section 501(c)(3) after (i) final adverse determination by IRS or (ii) failure to make a determination within 270 days of request for such.
(i) Regional counsel approval of final determinations	*(i)* No provision.
(j) Prevention of repeated audits	*(j)* IRS must provide special notice before inspecting any taxpayer's records twice for same tax year.
(k) Scope of church audit procedures	*(k)* Code applies special procedures to examinations concerning unrelated business income of churches. Treasury regulations generally extend these rules to examinations concerning tax-exempt status.
(l) Remedy for IRS violation of audit procedures	*(l)* No statutory provision, but violation of statutory procedures is generally a defense (but not an absolute defense) in a proceeding to gain access to protected records.
204. Exemption for certain local organizations of police and firefighters (sec. 831 of Senate amendment)	Certain police and firefighter organizations in Minnesota which provide pension and other benefits to members have received IRS determinations providing exemption from Federal income tax.

House Bill	Senate Amendment
	(h) Court may enter declaratory judgment once IRS issues a revenue agent's final report ("30-day letter") proposing to revoke a church's tax-exempt status. *(i)* IRS regional counsel is required to approve, in writing, issuance of adverse determination letter or deficiency notice to church. *(j)* IRS assistant commissioner also required to approve, in writing, any second audit of a church resulting from same activities, unless first audit had specified results. *(k)* Expands statutory procedures to investigations of church tax-exempt status. These procedures do not apply to investigations of individuals' tax liability (e.g., liabilities of individual contributors) and do not prevent routine inquiries to a church (e.g., regarding employment taxes or income tax withholding matters). *(l)* Specifies that IRS failure to follow proper audit procedures is a defense (but not an absolute defense) in a proceeding to gain access to church records. *Effective date.*—Investigations, examinations, or proceedings commencing after date of enactment. *Revenue effect.*—Negligible.
No provision.	Provides income tax exemption to an organization (other than a qualified pension plan) for police and firefighter organizations that provide benefits in lieu of government-funded benefits and that meet the requirements applicable to qualified pension plans maintained by a State or local government (floor amendment by Sens. Boschwitz and Durenberger, agreed to by voice vote). *Effective date.*—Effective for taxable years beginning after August 23, 1981. *Revenue effect.*—Negligible.

Item	Present Law
205. UBIT exemption for renting of membership lists by Federally chartered corporations (sec. 897 of the Senate amendment)	The U.S. Court of Claims held in 1981 that income received by the Disabled American Veterans from other exempt organizations and commercial businesses for the use of mailing lists is subject to the unrelated business income tax (UBIT). Similarly, the IRS has ruled that amounts received by an exempt charitable organization from the regular sale of its membership or mailing lists to business firms and charities are subject to the UBIT.

House Bill	Senate Amendment
No provision.	An exemption from the UBIT is provided for amounts received by certain Federally chartered corporations (named in 36 U.S. Code sec. 1101) for renting or exchanging lists of their donors or members with organizations contributions to which are eligible for charitable deductions (floor amendment by Sen. Pryor, agreed to by voice vote). The 60 some organizations benefitting from the provision include various veterans, scouting, scientific, and literary groups. ***Effective date.***—Taxable years ending after the date of enactment. ***Revenue effect.***—Loss of less than $5 million annually.

Item	Present Law
D. Excise Tax Provisions	
206. Sport fishing equipment excise tax (secs. 817–819 of Senate amendment)	
(a) Items subject to 10-percent tax	*(a)* A 10-percent excise tax is imposed on the sale of fishing rods, creels and reels, and artificial lures, baits and flies (including parts and accessories).
(b) Items subject to 3-percent tax	*(b)* No items.
(c) Imposition of tax	*(c)* Imposed at manufacturer's level (includes producer or importer).
(d) Time of payment	*(d)* Treasury regulations generally require monthly or semi-monthly payment of tax. If excise tax liability is more than $2,000 in any month, then deposits must be made semi-monthly during the following quarter.

House Bill	Senate Amendment
No provision in H.R. 4170; however, the following provisions are in H.R. 2163, as passed by the House:	
(a) The 10-percent tax is expanded to various additional articles of sport fishing equipment, supplies and accessories, *including tackle boxes.*	*(a)* The 10-percent tax is expanded to various additional articles of sport fishing equipment, supplies and accessories (same as in the House bill, H.R. 2163, *except for tackle boxes,* as noted below).
Effective date.—Articles sold after December 31, 1983.	*Effective date.*—Articles sold after September 30, 1984.
(b) A special 3-percent tax is imposed on electric outboard boat motors.	*(b)* Special 3-percent tax is imposed on: (i) electric outboard boat motors; (ii) tackle boxes; and (iii) certain fish finders—sonar devices suitable for finding fish, *except* graph recorders, digital type or meter readout devices (up to a maximum tax of $30 per item).
Effective date.—Articles sold after December 31, 1983.	*Effective date.*—For tax on electric outboard motors, articles sold after September 30, 1984; for tax on tackle boxes and fishfinders, sales after September 30, 1985.
(c) Retains present law. (The Ways and Means Committee Report indicates that the IRS is to enforce actively present constructive sales price rules to ensure that the incidence of the tax be equivalent for all manufacturers, producers and importers, regardless of form of business organization.)	*(c)* Replaces the manufacturer's tax with a tax on the *last sale before retail,* with rules similar to present constructive sales price rules involving sales between related parties. A special rule applies where the last sale before retail occurs before importation, imposing the tax on the importer at the point of entry.
	Effective date.—Articles sold after September 30, 1984.
(d) Payment is on quarterly basis: March 31, June 30, September 24, and date prescribed by Treasury regulations, for respective prior calendar quarter's tax liability.	*(d)* Small manufacturers having gross sales receipts of $100,000 or less for preceding calendar year allowed to pay tax in full with quarterly tax return (i.e., are excused from the present deposit requirements).
Effective date.—Articles sold after December 31, 1983.	*Effective date.*—Articles sold after September 30, 1984.

Item	Present Law

Revenue effect of sport fishing excise tax

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207. Aquatic Resources Trust Fund and Land and Water Conservation Fund (sec. of the Senate amendment)

(a) Establishment of Trust Fund

(a) No special trust fund for sport fish restoration or Federal boating safety programs. However,

(1) *the sport fish restoration program* is funded by an appropriation of amounts equivalent to specific tax revenues, currently referred to as the "Dingell-Johnson" fund; and

(2) *the Federal boating safety program* is financed through an appropriation to a special "fund" not having the status of a trust fund (the National Recreational Boating Safety and Facilities Improvement Fund, "Boating Safety Fund").

(b) Financing of Trust Fund

(b)(1) The sport fish restoration program is financed by amounts from the general fund equivalent to the prior fiscal year's revenue from the 10-percent excise tax on fishing equipment.

(Revenues from import duties on sport fishing equipment and yachts and pleasure craft go to the general fund.)

(b)(2) The Federal boating safety program is financed from revenues attributable to the 9-cents-per-gallon excise tax on motorboat fuels, up to $45 million per fiscal year for 1983–1988. The Boating Safety Fund balance may not exceed $45 million at any time.

House Bill	Senate Amendment

Revenue effect (of H.R. 2163).—

Fiscal Years

(Millions of dollars)

	Gross [1]	Net budget receipts
1984	+8	+6
1985	+12	+9
1986	+12	+9
1987	+13	+10
1988	+13	+10
1989	+13	+10
Sum of 1984–87	+45	+34

[1] Funds for Sport Fish Restoration Program.

No provision in H.R. 4170, but H.R. 2163, as passed by the House contains provisions identical to those in the Senate amendment (except for effective date).

Revenue effect.—

Fiscal Years

(Millions of dollars)

	Gross [1]	Net budget receipts
1984		
1985	+16	+12
1986	+17	+13
1987	+19	+14
1988	+19	+14
1989	+20	+15
Sum of 1984–87	+52	+39

[1] Funds for Sport Fish Restoration Program.

(a) Establishes the Aquatic Resources Trust Fund, combining funding for the sport fish restoration and boating safety programs with two separate accounts:

(1) *Sport Fish Restoration Account;* and

(2) *Boating Safety Account.*

(Special funding, as noted in (b) below, is provided for each account.)

(b)(1) Sport fish restoration program is to be financed by revenues attributable to (i) expanded excise tax on sport fishing equipment, (ii) motorboat fuels tax receipts (to extent exceed amounts used for boating safety and Land and Water Conservation Fund programs (see below); and (iii) import duties on sport fishing equipment and yachts and pleasure craft.

(b)(2) Same as present law.

Item	Present Law
207. (Cont.)	
(c) Fund expenditure purposes	*(c)(1) The sport fish restoration program* provides matching funds for State fish restoration and management projects (under 16 U.S.C. sec. 777b). A portion (8%) of the annual appropriation is available to that Secretary for administrative expenses relating to the program. The balance of the program appropriation is allocated: (i) 40 percent in the ration in which the area of each State, including coastal and Great Lake waters, bears to the total of all States; and (ii) 60 percent in the ratio which the number of persons holding licenses to fish for sport or recreation in the State bears to the number of such persons in all States. Monies remain available generally for 2 fiscal years. *(c)(2) The boating safety program* provides financing for Federal-State recreational boat safety and facilities improvements projects. Amounts are allocated one-third for boating safety programs and two-thirds for boating facilities improvement programs. Expenditures may be made out of the Boating Safety Fund through March 31, 1984.
(d) Land and Water Conservation Fund	*(d)* Land and Water Conservation Fund is a separate account in Treasury; receives certain motorboat fuels tax and other non-tax revenues.

House Bill	Senate Amendment
	(c)(1) Expands and redefines the purposes for which sport fish restoration program monies may be spent, as follows: (i) allowable Interior Department administrative expenses reduced to 6%; (ii) funds accruing to program must be allocated equitably between marine sport and freshwater fishing projects; (iii) each State must allocate a minimum of 10% of its allocation to projects that improve public access to recreational boating waters; (iv) permits States to use up to 10% of their allocation for acquatic resource education programs; and (v) provides that monies remain available until spent. *(c)(2)* Reallocates boating safety program monies (i) two-thirds for State boating safety programs and (ii) one-third for the U.S. Coast Guard (including the Coast Guard Auxiliary) to defray the costs of services provided by it for recreational boating safety. (Amounts will no longer be available under this program for boating facilities improvement programs (now to be included under the sport fish restoration program).) Expenditures may be made out of the Account through March 31, 1989. *(d)* Reduces motorboat fuels tax revenues received by Fund to $1 million per fiscal year.
Effective date (of H.R. 2163).—October 1, 1983.	***Effective date.***—October 1, 1984.

Item	Present Law
208. Excise tax on certain arrows (sec. 821 of the Senate amendment)	An 11-percent manufacturers excise tax is imposed on the sale by manufacturer or importer of any bow having a draw weight of 10 pounds or more and of any arrow measuring 18 inches overall or more in length. Revenues attributable to this tax are appropriated to the Federal Aid to Wildlife Program ("Pittman-Robertson" fund) for support of State wildlife programs.
209. Exemption of certain helicopter operations from aviation excise taxes (sec. 823 of the Senate amendment)	Helicopters used in logging and hard mineral exploration are exempt from the aviation fuels and ticket taxes when not using ADAP or Federal-aid airway facilities.
210. Superfund excise tax corrections (sec. 824 of the Senate amendment)	An excise tax is imposed on certain specified chemicals to fund the Hazardous Substance Response Trust Fund. Proposed regulations would apply this tax to— (1) light hydrocarbons added to motor fuels, and (2) metal compounds occurring temporarily during refining processes. An exemption for fertilizer is administered using a certification procedure.

House Bill	Senate Amendment
No provision in H.R. 4170; but H.R. 2163, as passed by the House, contained a provision identical to the Senate amendment (except for effective date). *Effective date.*—Sales after December 31, 1983. ***Revenue effect.***—Negligible increase.	Expands the tax on arrows to include those less than 18 inches in length which are suitable for use with a taxable bow (i.e., for crossbows). *Effective date.*—Sales after September 30, 1984. ***Revenue effect.***—Negligible increase.
No provision.	Expands present exemption to apply to helicopters engaged in oil and gas exploration. *Effective date.*—April 1, 1984. ***Revenue effect.***— *Fiscal Years* (Millions of dollars) 1984 ... −3 1985 ... −4 1986 ... −4 1987 ... −5 1988 ... −2 1989 ... . Sum of 1984–87 ... −16
No provision.	(1) Light hydrocarbons added to gasoline, diesel fuel, and aviation fuel are exempt from the tax. (2) Cupric sulfate, cupric oxide, cuprous oxide, lead oxide, zinc chloride, zinc sulfate, and barium sulfide are exempt if they have only a transitory presence during smelting, refining, or extracting metal from ore. (Floor amendment by Sen. Mattingly, adopted by voice vote, added barium sulfide). (3) The certification procedure for the fertilizer exemption is eliminated. *Effective date.*—As if included in the Hazardous Substance Response Revenue Act of 1980. ***Revenue effect.***—None.

Item	Present Law
E. Employee Benefits	
211. Nonqualified stock options (sec. 826 of the Senate amendment)	Generally, employees recognize income upon the exercise of an employee stock option to the extent the value of the stock exceeds the price paid. Employers are allowed a corresponding deduction.
212. Incentive stock options (sec. 827 of the Senate amendment)	Incentive stock options allow an employee to receive capital gains on the sale of stock acquired on the exercise of an option, rather than ordinary income at the time of exercise. The option price of an incentive stock option must equal or exceed the fair market value of the stock at the time the option is granted. The "spread" on the exercise of an incentive stock option is an item of tax preference for purposes of the minimum tax.

House Bill	Senate Amendment
No provision.	Income and deductions with respect to certain employee options would be deferred until the stock is disposed of. In order to qualify, the option must meet the following requirements: (1) The option price must at least equal fair market value of the stock on the date of issue. (2) The option may be transferrable only by reason of death. (3) The option must be exercised after the exercise of all earlier granted options. (4) Certain notification procedures must be met. The maximum value of stock for which options which may be granted in any one year is $100,000 (reduced by value of stock under incentive stock options). The option program may not discriminate in favor of 5-percent owners or highly paid officers. The amount deferred on exercise is an item of tax preference. ***Effective date.***—Options exercised after date of enactment. ***Revenue effect.***—Loss of less than $5 million annually (less than $10 million in 1987).
No provision.	Disregards "lapse restrictions" in determining the fair market value of stock; treats the modification of an option making it nontransferable as the grant of a new option, thus requiring the fair market value to be determined on the modification date. ***Effective date.***—Generally, options granted, exercised or modified (as the case may be) after March 20, 1984. If option granted after March 20, 1984, pursuant to corporate action taken before that date, the amendments will not apply if the option is issued before September 20, 1984 (or, in the case of the minimum tax, if the option is exercised before December 31, 1984). (Floor amendment by Sen. Hawkins, adopted by voice vote.) ***Revenue effect.***—Negligible revenue increase.

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Item	Present Law
213. Certain section 83(b) elections (sec. 894 of the Senate amendment)	Property transferred to an employee in connection with the performance of services is includible in income (to the extent the value of the property exceeds the amount paid) in the first taxable year the property is transferable and not subject to a substantial risk of forfeiture (sec. 83). A taxpayer may elect, within 30 days of the transfer of property, to include in gross income the excess of the value of the property (determined without regard to restrictions) over the amount paid, for the year the transfer occurs (sec. 83(b)). A recent Tax Court decision held that section 83 may apply where the employee paid fair market value for the property (determined without regard to restrictions). *Alves* v. *Commissioner,* 79 T.C. 864 (1982).
214. Employee achievement awards (sec. 828 of the Senate amendment)	A taxpayer may take a business expense deduction for a payment that is excluded from the recipient's gross income as a gift under Code section 102 only within certain dollar limitations, generally $25 per recipient during a year. Under a provision enacted in ERTA, an employer's deduction limitation is $400 in the case of a business gift of an item of tangible personal property which is awarded to an employee for length of service, safety achievement, or productivity. The business gift deduction is increased to $1,600 for such an employee award under a nondiscriminatory plan provided that the average cost of all plan awards in the year does not exceed $400.

House Bill	Senate Amendment
No provision.	Allows a taxpayer to make the election under section 83(b) with the first tax return filed after date of enactment with respect to transfers of property made after June 30, 1976 and before the date of enactment, if the taxpayer paid fair market value for the property (determined without regard to restrictions), and the employer consents to the election. (Floor amendment by Sen. Tsongas, adopted by voice vote.) *Effective date.*—Date of enactment. *Revenue effect.*—Negligible.
No provision.	Provides a new income-tax exclusion to employees for awards received from an employer for productivity, safety, or length of service, in the form of watches, clocks, certain emblematic jewelry or rings, certain personal accessories, and other traditional retirement or nonretirement awards. The exclusion, and the employer's deduction, for the cost of awards to a particular employee during the year are limited to $1,600 in each achievement category (i.e., a maximum of $4,800 in cost) for awards under a qualified award plan, or $400 in each category (maximum of $1,200) for other awards. Other restrictions, including nondiscrimination rules, apply. Any excess of the lesser of the employer's cost for or the value of such awards over the exclusion dollar limits will be expressly includible in the employee's gross income, as will the value of nontraditional employee achievement awards or any other awards to employees. *Effective date.*—Awards made after the date of enactment. *Revenue effect.*—

Fiscal Years

(Millions of dollars)

1984	−23
1985	−55
1986	−89
1987	−144
1988	−205
1989	−229
Sum of 1984–87	−311

Item	Present Law
215. Exclusion for educational assistance benefits; deferred educational benefits (sec. 890 of the Senate amendment)	*(a) Educational assistance.*—Employer-provided educational assistance benefits were excluded from gross income for income tax purposes and from wages for FICA and FUTA purposes under a provision which expired on December 31, 1983. *(b) Deferred educational benefits.*—Deductions for contributions to a nonqualified deferred compensation plan are not allowed until an amount is includible in the employee's income. However, contributions to a fund that is part of a welfare benefit plan generally are deductible in the year made, regardless of the time a benefit is provided. In a recent case *(Greensboro Pathology),* a court held that a plan to pay future college tuition of employees' children was a welfare benefit plan, rather than a deferred compensation plan.
216. Application of cash or deferred arrangement rules to pre-ERISA money purchase pension plans (sec. 804 of the House bill)	Through 1979, the tax treatment of cash or deferred profit-sharing plans and money purchase pension plans with salary reduction arrangements in existence on June 27, 1974, was grandfathered under the law before January 1, 1972. The Revenue Act of 1978 provided rules for all profit-sharing or stock bonus plans with cash or deferred arrangements. No new rules were provided by the 1978 Act for pre-ERISA money purchase pension plans with salary reduction arrangements.

House Bill	Senate Amendment
(a) Educational assistance.—No provision. (H.R. 2568, as reported on November 10, 1983, by the Ways and Means Subcommittee on Select Revenue Measures, would extend the exclusion to apply to taxable years beginning before January 1, 1986, would require employers with an educational assistance plan to provide the IRS with an annual information report, and would require a Treasury study on the effect of the exclusion.)	*(a) Educational assistance.*—Extends the exclusion to apply to taxable years beginning before January 1, 1986.
(b) Deferred educational benefits.—No provision. (H.R. 2568, as reported, treats a plan for providing deferred educational benefits as a plan of deferred compensation, thus generally delaying deductions for plan contributions until the benefit is includible in the employee's income (or would be includible but for provisions excluding the benefits from income).)	*(b) Deferred educational benefits.*—Treats a plan for providing deferred educational benefits as a plan of deferred compensation, thus generally delaying deductions for plan contributions until the benefit is includible in the employee's income (or would be includible but for provisions excluding the benefits from income). *Effective date.*—Educational assistance provision applies to taxable years beginning after December 31, 1983, and before January 1, 1986. Deferred educational benefits provision applies to taxable years ending after December 31, 1983. *Revenue effect.*— *Fiscal Years* (Millions of dollars) 1984 ... −7 1985 ... −39 1986 ... +1 1987 ... +22 1988 ... +24 1989 ... +26 Sum of 1984–87 ... −23

House Bill	Senate Amendment
Applies the cash or deferred arrangement rules to money purchase pension plans for salary reduction arrangements in existence on June 27, 1974, only if employer and employee contributions do not exceed the limits under the plan's contribution formula on June 27, 1974. *Effective date.*—Applies to plan years beginning after the date of enactment. The rules in effect prior to ERISA apply for plan years beginning after December 31, 1979, and before the date of enactment. *Revenue effect.*—Negligible.	No provision.

Item	Present Law
217. Dollar limits on benefits under qualified pension plans for airline pilots (sec. 813 of the House bill)	TEFRA required that, if benefits begin before age 62, the dollar limit on benefits under a qualified pension plan be actuarially reduced to reflect the value of early payment. Federal regulations require that commercial airline pilots retire after attaining age 60.
218. Elimination of retroactive application of amendments made by Multiemployer Pension Plan Amendments Act of 1980 (MPPAA) (sec. 111 of the Senate amendment)	The MPPAA was enacted on September 26, 1980, but imposed withdrawal liability on employers for withdrawals from multiemployer pension plans after April 28, 1980.
219. Treatment of certain distributions from a qualified terminated plan (sec. 112 of the Senate amendment)	A distribution from a qualified plan does not qualify for tax-free rollover to an IRA unless it consists of the balance to the credit of the employee under the plan and is made within one taxable year of the recipient.
220. Special rule for Trans-Alaskan pipeline employees (sec. 113 of the Senate amendment)	In the event of a partial termination of a qualified plan, the rights of all affected employees to benefits accrued to the date of the partial termination must be nonforfeitable to the extent funded.

House Bill	Senate Amendment
Reduction for early retirement applies only to those commercial airline pilots whose benefits begin before age 60. The dollar limit on benefits at age 60 is increased to $90,000 for commercial airline pilots. *Effective date.*—Effective as if enacted in TEFRA. *Revenue effect.*—Revenue loss of less than $5 million annually.	No provision.
No provision.	The effective date of the withdrawal liability provisions of the MPPAA is changed to September 26, 1980. In the case of an employer who had a binding sale agreement on September 26, 1980, the effective date is changed to December 31, 1980. *Effective date.*—Effective on the date of enactment. *Revenue effect.*—Negligible.
No provision.	Provides special relief for certain qualified pension plan distributions received during 1976 and 1977 and transferred to an IRA. The amounts transferred are eligible for tax-free rollover treatment. *Effective date.*—Effective upon the date of enactment. *Revenue effect.*—Negligible.
No provision.	A partial termination does not occur in the case of a turnover of employees under a plan in the State of Alaska occurring between December 31, 1975, and January 1, 1980, in connection with the completion of the Trans-Alaskan Oil Pipeline construction project. *Effective date.*—Effective on the date of enactment. *Revenue effect.*—Negligible.

Item	Present Law
221. Distribution requirements for plans, accounts, and annuities of an insurer in rehabilitation proceedings (sec. 114 of the Senate amendment)	Distributions under a qualified plan generally must commence in the later of the year in which a participant (1) retires or (2) attains age 70½. Distributions under an IRA must commence no later than the year in which the individual attains age 70½. If the IRA distribution rules are not satisfied, a 50-percent excise tax is applied to the amount that should have been distributed.
222. Extension of time for repayment of qualified refunding loans (sec. 115 of the Senate amendment)	A transition rule was provided under the TEFRA rules relating to loans from qualified pension plans for certain "qualified refunding loans," which were required to be repaid by August 14, 1983.
223. Pension portability involving telecommunications divestiture (sec. 116 of the Senate amendment)	Under the rules for qualified plans, all employees of related employers are treated as employed by a single employer. Consequently, an employee's service with any company that is a member of a controlled group of corporations is treated as service with every other company that is a member of the group. Also, an employee's service with a predecessor employer is treated as service with a successor employer. Generally, two or more employers may agree to provide for transferability of pension and service credits (portability) under their plans even though they were never related. Under the modified final judgment requiring the divestiture of AT&T subsidiaries, with regard to an employee's service with AT&T or any of its subsidiaries subject to the judgment, an employee's service performed before 1985 is treated as service for each other employer subject to the judgment. Under the judgment, however, post-1984 service for one of the employers subject to the judgment is not to be taken into account as service by any of the other employers subject to the judgment.

House Bill	Senate Amendment
No provision.	An amount is not required to be distributed under the usual rules for qualified pension plans or IRAs to the extent that the amounts are held by an insurer that, on March 15, 1984, is engaged in a rehabilitation proceeding under applicable State insurance laws (e.g., Baldwin-United). Applies only for the period during which the insurer is engaged in the proceedings. *Effective date.*—Effective on March 15, 1984. *Revenue effect.*—Negligible.
No provision.	Extends the period for making and repaying a qualified refunding loan to January 1, 1985, with respect to individuals who are not key employees. *Effective date.*—Effective as if enacted in TEFRA. *Revenue effect.*—Negligible.
No provision.	The determination of credited service and accrued benefits for years after 1984 of an employee who transfers between companies subject to the judgment is to be governed by the provisions of the modified final judgment which apply to service during 1984. With respect to such employees, in computing the limits on contributions and benefits, all entities subject to the modified final judgment are to be aggregated. Also, applies the 1984 provisions for the allocation of assets among the plans of the former subsidiaries to years after 1984. Exempts the employees of Sandia Corp., of Albuquerque, N.M. from coverage under the provision. (Floor amendment by Sen. Domenici, adopted by voice vote.) *Effective date.*—Generally applies on the date of enactment. The provision limiting contributions and benefits is effective for years ending after December 31, 1983. *Revenue effect.*—Negligible.

Item	Present Law
F. Employee Stock Ownership Plans	
224. Employee stock ownership provisions (secs. 101–108 of the Senate amendment)	
(a) Tax-free rollover on sale to employees	*(a)* Gain realized on the sale of employer securities to an ESOP generally are taxed at capital gains rates.
(b) Deductions for dividends paid on ESOP stock	*(b)* Dividends paid on stock held by an ESOP are not deductible by the employer corporation.
(c) Partial exclusion of interest earned on ESOP loans	*(c)* Interest received by a bank or other financial institution on an ESOP loan generally is taxable income.
(d) Reduced tax rate for sales of stock to certain corporations with employee ownership	*(d)* Gain realized on the sale of employer securities to an ESOP generally are taxed at capital gains rates.
(e) Extension of time for payment of estate tax liability where liability assumed by ESOP	*(e)* Where the value of an interest on a closely held business exceeds 35% of the adjusted gross estate, an executor may elect to pay the estate tax liability in installments.
(f) Estate tax exclusion for sales to employees	*(f)* Gains from the sale of employer securities to employees are includible in the gross estate.
(g) Charitable contributions to ESOPs	*(g)* Charitable contribution deductions are not allowed for donations of employer securities to an ESOP.

House Bill	Senate Amendment
(a) No provision.	*(a)* Permits a tax-free rollover of the proceeds from the sale of a business to an ESOP or eligible worker-owned cooperative, provided the proceeds are reinvested in the securities of another business within one year.
(b) No provision.	*(b)* A corporate deduction is allowed for dividends paid on ESOP stock, provided the dividends are paid out currently to employees or used to repay an ESOP loan. No dividend exclusion is provided to the employee.
(c) No provision.	*(c)* A bank, insurance company, or other commercial lender is permitted an exclusion from income for 50 percent of the interest received on loans to a leveraged ESOP, the proceeds of which are applied by the plan to acquire employer securities.
(d) No provision.	*(d)* The capital gain exclusion for individuals is increased from 60 to 80 percent for investments held for at least 3 years in companies in which 50 percent of the stock is owned by at least 50 percent of the non-management employees.
(e) No provision.	*(e)* Liability for estate taxes may be assumed by an ESOP in return for a transfer from the estate of stock of an equal value, provided the company sponsoring the ESOP guarantees payment of the taxes.
(f) No provision.	*(f)* An exclusion from the gross estate is allowed for 50 percent of the proceeds realized on the sale of employer securities to an ESOP or to certain worker-owned cooperatives.
(g) No provision.	*(g)* For income, gift, and estate tax purposes, an ESOP is treated as a charitable organization, provided donated stock is not allocated to the donor, family members of the donor, or 25 percent or more shareholders.

Item	Present Law
224. (cont.)	
(h) Freeze of increase in ESOP credit (sec. 15 of both the House bill and the Senate amendment)	*(h)* The one-half of one percent payroll-based tax credit for ESOPs is scheduled to increase to three-quarters of one percent in 1985.
Revenue effect of ESOP provisions	

House Bill	Senate Amendment
(h) Limitation is frozen at 0.5 percent in 1985, 1986, and 1987.	*(h)* Limitation is 0.5 percent in 1985, and 0.75 percent in 1986 and 1987.
	Effective date.—Years beginning after December 31, 1984.
Revenue effect.—	***Revenue effect.***—

House Bill

Fiscal Years

(Millions of dollars)

1984	....
1985	+365
1986	+626
1987	+749
1988	+365
1989	+64
Sum of 1984-87	+1,740

Senate Amendment

Fiscal Years

(Millions of dollars)

1984	....
1985	+301
1986	+160
1987	−67
1988	−158
1989	−266
Sum of 1984-87	+394

Item	Present Law
G. Individual Retirement Account (IRA) Provisions	
225. Spousal individual retirement arrangements (sec. 100 of the Senate amendment)	The IRA deduction limit is increased from \$2,000 to \$2,250 if an individual makes IRA contributions of at least \$250 for a noncompensated spouse.
226. Nondeductible IRA contributions (sec. 231 of the House bill)	Except for certain tax-free rollovers, no nondeductible contributions may be made to an IRA without incurring an annual 6-percent excise tax on the excess contributions. All withdrawals from an IRA are includible in gross income.

House Bill	Senate Amendment
No provision.	Increases the IRA deduction limit for a married couple to (1) \$2,750 for taxable years beginning in 1985 and 1986, (2) \$3,250 for taxable years beginning in 1987 and 1988, (3) \$3,750 for taxable years beginning in 1989 and 1990, and (4) \$4,000 for taxable years beginning in 1991 and thereafter. *Effective date.*—Taxable years beginning after December 31, 1984. ***Revenue effect.***— *Fiscal Years* (Millions of dollars) 1984 .... 1985 −118 1986 −331 1987 −455 1988 −652 1989 −720 Sum of 1984–87 −904
Nondeductible IRA contributions of up to \$1,750 annually are not treated as excess contributions subject to the 6-percent excise tax. The first withdrawals from an IRA are treated as coming out of earnings on the nondeductible contributions, second as out of the nondeductible contributions, and then out of other amounts. *Effective date.*—Contributions made in taxable years beginning after December 31, 1983. ***Revenue effect.***— *Fiscal Years* (Millions of dollars) 1984 −15 1985 −66 1986 −141 1987 −227 1988 −321 1989 −423 Sum of 1984–87 −449	No provision.

Item	Present Law
227. Alimony treated as compensation (sec. 100 of the Senate amendment)	Certain alimony received by a divorced spouse can be taken into account under the IRA deduction limits.
228. IRA withdrawals by dislocated workers (sec. 898 of the Senate amendment)	Distributions from an IRA made before age 59½ (other than those attributable to disability or death) are subject to an additional 10-percent income tax.

House Bill	Senate Amendment
No provision.	Treats all alimony received by a divorced spouse as compensation for purposes of the IRA deduction limit. *Effective date.*—Taxable years beginning after December 31, 1984. *Revenue effect.*—Revenue loss of less than $5 million annually.
No provision.	Permits a dislocated worker to withdraw amounts from an IRA without incurring the additional 10-percent income tax. A dislocated worker must (1) have at least 20 quarters of social security coverage and (2) have exhausted all rights to compensation under State law. (Floor amendment by Sen. Quayle, adopted by voice vote.) *Effective date.*—Date of enactment. *Revenue effect.*—

Fiscal Years

(Millions of dollars)

1984	....
1985	−12
1986	−10
1987	−6
1988	−6
1989	−6
Sum of 1984-87	−28

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Item	Present Law
H. Administrative Provisions	
229. Financial reporting of the investment tax credit (sec. 838 of the Senate amendment).	Under the Revenue Act of 1971, a taxpayer must use the same method of accounting for the investment tax credit in all reports subject to the jurisdiction of a Federal agency unless the Treasury approves a change to another method.
230. Report on regulated futures contract litigation (sec. 839 of the Senate amendment).	Straddle losses from regulated futures contracts claimed for periods governed by the law in effect before the 1981 straddles legislation enacted by ERTA remain the subject of litigation and audit activity by the Internal Revenue Service.
231. Statute of limitations relating to contributions to the capital of a corporation (sec. 842 of the Senate amendment).	A contribution in aid of construction to a regulated public utility that is not included in the utility's rate base, and that is expended before the end of the second taxable year following the year of receipt, is not included in gross income. If it is not expended by the end of the second year, it is includible in income in the year of receipt. The statute of limitations is 3 years (absent fraud) from the filing of the return.

House Bill	Senate Amendment
No provision.	Repeals the present law provision requiring Treasury approval of a change of financial reporting method for the ITC. *Effective date.*—Date of enactment of the Revenue Act of 1971. *Revenue effect.*—None.
No provision.	Requires the Treasury Department to report to the Finance Committee and the Ways and Means Committee by October 1, 1984 on progress in reducing the backlog of cases involving the treatment of futures contracts under pre-1981 law.
No provision.	Extends the statute of limitations for the year of receipt to 3 years from the end of the second year following the year of receipt. *Effective date.*—Failures to meet the expenditure rule occurring after December 31, 1984. *Revenue effect.*—Negligible.

Item	Present Law
I. Income Tax Credits	
232. Residential renewable energy tax credits (sec. 855 of the Senate amendment).	Individuals allowed 40 percent tax credit on expenditures up to $10,000 ($4,000 maximum credit) for renewable energy property (i.e., solar, wind, and geothermal property) made through 1985, in or on a taxpayer's principal residence. Unused credits at the end of 1985 carried forward through 1987.
233. Business energy tax credits (sec. 855 of the Senate amendment).	
(a) Solar, wind, geothermal and ocean thermal property	*(a) Solar, wind, geothermal and ocean thermal property.*—15 percent energy credit through 1985.
(b) Geothermal property	*(b) Rules for geothermal property.*—Defined as equipment necessary to transmit or use energy from an underground reservoir consisting of natural heat stored in rocks, liquid or vapor, having a temperature exceeding 50 degrees Celsius (122 degrees Fahrenheit). (Same definition applies to residential geothermal sources.)
(c) Dual purpose equipment	*(c) Dual purpose equipment.*—Equipment serving both geothermal and nongeothermal functions does not qualify, except emergency backup systems are not disqualified.
(d) Biomass property	*(d) Biomass property.*—10 percent energy credit available through 1985. Qualified property produces a qualified fuel from an alternate substance.

House Bill	Senate Amendment
No provision.	Extends residential renewable energy credits without change from present law, for 2 additional years, through 1987. Unused credits carried forward through 1989. *Effective date.*—Date of enactment. *Revenue effect.*— *Fiscal Years* (Millions of dollars) 1984 ... +3 1985 ... +32 1986 ... +4 1987 ... −494 1988 ... −665 1989 ... −134 Sum of 1984–87 ... −455
No provision.	*(a) Solar, wind, etc., property.*—Credit extended at 15 percent rate for 3 years, through 1988. *(b) Rules for geothermal property.*—Qualifying temperature reduced to 40 degrees Celsius (104 degrees Fahrenheit), as measured at wellhead or at intake to distribution system. (Change also applies to residential geothermal sources.) *(c) Dual purpose equipment.*—Equipment serving dual functions qualifies up to percentage of geothermal use if at least 50 percent is geothermal use. Geothermal equipment qualifies for regular investment credit, if geothermal use is at least 50% and remaining energy use is by an alternate substance, i.e., not oil, gas, or their products. (Floor amendment by Sen. Symms, agreed to by voice vote.) *(d) Biomass property.*—Credit extended for 3 years through 1988. Qualified fuel also will include methane-containing gas produced by anaerobic digestion from nonfossil waste materials at farms, agricultural facilities, and first processing of agricultural products. Qualified property will not include property of a taxpayer in the forest or paper products industries.

Item	Present Law
233. Business energy tax credits (cont.)	
(e) Shale oil hydrogenation equipment	*(e) Shale oil equipment.*—The 10 percent energy credit for shale oil equipment through retorting process and equipment for hydrogenation or other processes subsequent to retorting in vicinity of extraction site expired after 1982 except for an affirmative commitment rule. Hydrogenation equipment is not eligible for the credit under the affirmative commitment rule.
(f) Tar sands equipment	*(f) Tar sands equipment.*—No provision.
(g) Affirmative commitment rule	*(g) Affirmative commitment.*—Energy credits available beyond expiration date for projects requiring 2 or more years for completion if (1) all engineering studies completed and all necessary permits filed before 1983, (2) binding contracts for 50 percent of specially designed equipment entered into before 1986, and (3) the project is completed and placed in service before 1991.
(h) Photovoltaics	*(h) Photovoltaics.*—Photovoltaics cells are eligible for the 15 percent solar credit through 1985.

(e) Shale oil equipment.—Hydrogenation equipment that qualified before the 1983 expiration will continue to qualify under the affirmative commitment rule, below.

(f) Tar sands equipment.—The 10 percent energy credit is made available for tar sands equipment, which includes mining, quarrying and extraction equipment through extraction of oil and other processing—including hydrogenation—but not equipment used in refining. The Senate committee report indicates an intended termination date of December 31, 1988. The amended affirmative commitment rules (below) will apply.

(g) Affirmative commitment.—Rules extended for synthetic fuels involving coal, tar sand, and shale oil if (1) studies and permit filings completed before 1987, (2) binding contracts for 50 percent of specially designed equipment entered into before 1990, and (3) project completed and placed in service before 1993.

Longer period for solar, wind, geothermal and ocean thermal property.—The expiration date for renewable property would be extended for one additional year through 1989 if (1) studies and permit filings completed before January 1, 1989, and (2) binding contracts entered into for 50 percent of specially designed equipment before July 1, 1989.

Effective date.—Date of enactment unless specified otherwise.

(h) Photovoltaics.—In lieu of the 15 percent credit provided through 1988 under the bill, a photovoltaic credit would be provided at a 25-percent rate for 1985 and 1986, a 20-percent rate for 1987, and a 15-percent rate for 1988.

Qualified property includes (1) equipment which is an integral part of a system that converts sunlight directly into electricity, and (2) structures for housing or supporting eligible equipment. Photovoltaic equipment not eligible for solar or wind energy credits and does not include public utility property. At-risk rules apply. (Floor amendment by Sen. Domenici, agreed to by voice vote.)

Effective date.—January 1, 1985, for property placed in service on or after that date.

Item	Present Law
233. Business energy tax credits (cont.)	
234. Definition of new energy property (sec. 174 of the Senate amendment)	*(a)* Only new property can qualify for energy property tax credits. For regular ITC, a 3-month rule treats property as new if it is leased within 3 months after originally being placed in service. No 3-month rule applies in determining whether property is new for energy tax credit purposes. *(b)* For investment credit purposes, new section 38 property includes property subject to a lease if such property is leased within 3 months after originally being placed in service. Under this language, ITC may be available to a taxpayer buying property from the person who placed it in service even if the buyer leases it to a third party within 3 months.
235. Targeted jobs credit (sec. 856 of the Senate amendment)	
(a) Extension of credit	The targeted jobs credit is available for wages paid to individuals who (1) begin work for an employer before January 1, 1985, (2) are included in one of 9 categories of individuals who are economically disadvantaged, or handicapped or who receive public assistance. The credit generally is 50 percent of the first $6,000 of wages paid in the first year of employment and 25 percent in the second year of employment.
(b) Authorization of appropriations	An authorization of appropriations for funds to administer the certification of eligible individuals expires after fiscal year 1984.

House Bill	Senate Amendment

Revenue effect.—

Fiscal Years

(Millions of dollars)

1984	−3
1985	−29
1986	−178
1987	−282
1988	−302
1989	−233
Sum of 1984–87	−492

House Bill	Senate Amendment
No provision.	*(a)* The 3-month rule applicable in determining whether property is new for investment credit purposes applies for energy credit purposes as well. (Floor amendment by Sen. Armstrong, agreed to by voice vote.)
	(b) Limits 3-month rule to case where person who originally placed property in service sells the entire property and leases it back within 3 months of original in-service date. (Floor amendment by Sen. Dole, agreed to by voice vote.)
	Effective date.—Property placed in service after April 11, 1984.
	Revenue effect.—Negligible.
No provision.	*(a) Extension of credit.*—Extends the credit to apply to individuals who begin work for the employer before January 1, 1988.
	(b) Authorization.—Extends the authorization through fiscal year 1987.

Item	Present Law
(c) Certification requirement	To claim the targeted jobs credit for wages paid to a targeted group member, an employer must receive or request a certification that a new employee is a member of a targeted group on or before the day the individual begins work for the employer.
236. Earned income credit (sec. 868 of the Senate amendment).	Certain individuals or couples with children are allowed a refundable tax credit equal to 10% of the first \$5,000 of earned income, for a maximum credit of \$500. The maximum credit is phased down to zero as income increases from \$6,000 to \$10,000.

House Bill	Senate Amendment
	(c) Certification.—Extends the deadline for requesting certification to 5 days after the individual begins work for the employer, if the individual has received a "voucher" (i.e., a preliminary determination of targeted group eligibility) on or before the day the individual begins work for the employer. (Floor amendment by Sen. Gorton, adopted by voice vote.)

Effective date.—Date of enactment.

Revenue effect.—

Fiscal Years

(Millions of dollars)

1984	....
1985	−147
1986	−590
1987	−1,029
1988	−1,126
1989	−768
Sum of 1984–87	−1,766

House Bill	Senate Amendment
No provision.	Increases the rate of the credit to 10.5% and thus, the maximum credit to $525. Also raises the income level at which the credit is fully phased out to $11,000.

Effective date.—Taxable years beginning after December 31, 1984.

Budget effect.[1]—

Fiscal Years

(Millions of dollars)

1984	....
1985	−8
1986	−222
1987	−205
1988	−187
1989	−173
Sum of 1984–87	−435

[1] Includes both outlay increases and revenue reductions.

Item	Present Law
237. Investment tax credit for soil and water conservation expenditures; increase in cost recovery period for single purpose agricultural structures (secs. 892 and 893 of Senate amendment).	
(a) Soil and water conservation credit	*(a)* Certain soil and water conservation expenditures may be deducted rather than charged to the basis of land; maximum deduction is 25 percent of gross farming income.
(b) Single purpose agricultural structures	*(b)* Single purpose agricultural and horticultural structures qualify as 5-year property for ACRS purposes.

House Bill	Senate Amendment
No provision.	*(a)* Provides a 10-percent investment credit for soil and water conservation expenditures certified by the Soil Conservation Service; credit is available only to persons in the business of farming; expenditures for which a credit is claimed may not be deducted under present expensing provision but count toward 25-percent maximum on expensing; regular investment credit basis adjustment, recapture, and carryover rules apply, credit also may not exceed 25 percent of farming income.

Effective date.—Taxable years beginning after December 31, 1984.

(b) Single purpose agricultural and horticultural structures are treated as 15-year real property, depreciable at a rate no more rapid than the 150 percent declining balance method.

Effective date.—Property placed in service by the taxpayer after date of enactment.

Exceptions if taxpayer had a binding contract, or had commenced construction, on date of enactment.

(Floor amendment, covering (a) and (b), by Sen. Grassley, agreed to by voice vote.)

Revenue effect.—

Fiscal Years (Millions of dollars)	
1984	+2
1985	−3
1986	−7
1987	+13
1988	+39
1989	+66
Sum of 1984–87	+5

Item	Present Law
238. Alternative test for definition of qualified rehabilitated building (sec. 860 of the Senate amendment).	A building qualifies for the rehabilitation credits only if (among other requirements) at least 75% of the building's external walls are retained as such following the rehabilitation.

House Bill	Senate Amendment
No provision.	Provides alternative to 75-percent-of-external-wall test, as follows: (1) 50 percent of external walls retained in place as such; (2) 75 percent of external walls retained in place as external or internal walls; and (3) 75 percent of internal structure framework retained in place. *Effective date.*—Expenditures after December 31, 1983, in taxable years beginning after that date. *Revenue effect.*—Loss of less than $5 million annually.

Item	Present Law
J. Incremental Research Tax Credit and Incentives for Vocational Education	
239. Research tax credit (sec. 882 of the Senate amendment)	A 25-percent tax credit applies to the excess of qualified research expenditures incurred by a taxpayer during the year in carrying on a trade or business over the average of the taxpayer's research expenditures in a three-year base period. (Code sec. 44F). The credit is scheduled to terminate after 1985. The section 44F credit provision generally defines research by cross-reference to Code section 174, under which a current deduction is allowed for research and development costs in the experimental or laboratory sense. The amount of the section 174 deduction is not reduced by any amount of the section 44F credit. Expenditures eligible for the credit consist of— (1) "in-house" expenditures for research wages and supplies used in research, plus certain amounts paid for research use of computers, laboratory equipment, or other personal property; (2) 65 percent of amounts paid by the taxpayer for contract research conducted on its behalf; and (3) if the taxpayer is a corporation, 65 percent of its expenditures (including grants or contributions) for basic research to be performed by universities or certain scientific research organizations.

House Bill	Senate Amendment
No provision.	The 25-percent incremental research credit is made permanent. A statutory definition of credit-eligible research expenditures is provided. The new definition is intended to target the credit to technological innovations developed through a process of experimentation relating to new or improved function or performance (rather than to style, taste, cosmetic, or seasonal design factors). The costs of computer software developed for the taxpayer's internal use are eligible for the credit only if the software is used in research or certain production processes, or in limited circumstances where meeting a high threshold of innovation as defined in Treasury regulations. A new 25-percent nonincremental credit is provided for the excess of (1) 65 percent of corporate contract expenditures or grants for basic research at universities or other qualified organizations over (2) the sum of the greater of two fixed maintenance-of-effort floors (relating to 1981-83 research expenditures) plus an amount relating to university nonresearch contributions in a base period. Certain other modifications are made to the university basic research provision. Qualified research expenditures of startup corporations, of existing corporations for new trades or businesses, and of certain partnerships will become eligible for the credit in certain circumstances.

Effective date.—Taxable years beginning after 1984.

Revenue effect.—

Fiscal Years

(Millions of dollars)

1984	....
1985	+4
1986	−549
1987	−1,121
1988	−1,536
1989	−1,721
Sum of 1984-87	−1,666

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Item	Present Law
240. Deduction for certain research equipment donations by corporations to universities (sec. 883 of the Senate amendment)	Corporations are allowed an augmented charitable deduction for donations of newly manufactured scientific equipment to universities for research use in the physical or biological sciences (Code sec. 170(e)(4)). This increased deduction is generally for the sum of (1) the corporation's costs of producing the donated property (basis) plus (2) one-half of the difference between the property's fair market value and the donor's cost basis in the property, but cannot exceed twice the basis of the property.

House Bill	Senate Amendment
No provision.	The augmented charitable deduction provision for corporate donations of research equipment is expanded— (1) to cover donations of used (as well as new) equipment, replacement parts, and new computer software, and to cover technological (as well as scientific equipment; (2) to allow certain educational (as well as research) uses for donated equipment; (3) to include as eligible donees a tax-exempt association of universities, and (by floor amendment by Sen. Kennedy, agreed to by voice vote) certain State-owned instrumentalities associated with universities; and (4) to cover equipment produced or assembled (as well as equipment manufactured) by the donor. Except for software and replacement parts, property qualifies only if worth more than $250. Used property qualifies only if donated within three years after first used by the donor corporation. The augmented deduction for used property will equal 150 percent of the donor's original basis, less accumulated depreciation (e.g., for fully depreciated equipment, 50 percent of the original basis), or fair market value if less.

Effective date.—Taxable years beginning after 1984.

Revenue effect.—

Fiscal Years

(Millions of dollars)

1984	....
1985	−50
1986	−100
1987	−125
1988	−150
1989	−175
Sum of 1984–87	−275

Item	Present Law
241. Payments and loan forgiveness received by graduate science students (sec. 884 of the Senate amendment)	Gross income generally does not include amounts received as a scholarship at a university or as a fellowship grant, other than as compensation (Code sec. 117). In general, income is realized when indebtedness is cancelled (sec. 61 (a) (12)).
242. Deduction for vocational education equipment donations to certain donees (sec. 810 of the Senate amendment)	In general, the amount of charitable deduction for a donation of inventory property is limited to the donor's basis in the property (Code sec. 170(e)). The augmented deduction rule for corporate donations of newly manufactured scientific equipment to universities for research does not apply to donations of vocational education equipment (see item 240).

House Bill	Senate Amendment
No provision.	Gross income will not include amounts received by graduate students in certain scientific fields as a scholarship, fellowship grant, or qualified student loan forgivenesss, notwithstanding that the recipient is required to perform future teaching services for any of a broad class of universities, provided that such amounts are not received as compensation. *Effective date.*—Taxable years beginning after 1984. *Revenue effect.*—Reduces budget receipts by less than $5 million annually.
No provision.	An augmented charitable deduction is provided for corporate donations of newly manufactured technical and scientific equipment for certain vocational education uses, if the value of the donated item exceeds $250, and if certain other requirements are satisfied. (The augmented deduction is not available for donations of computer software, microcomputers, or certain other computers.) The eligible donees are public community colleges and public technical institutes, and (by floor amendment by Sen. Boren, agreed to by voice vote) certain area vocational education schools. The augmented deduction is generally for the sum of (1) the corporation's costs of producing the donated property (basis) plus (2) one-half of the difference between the property's fair market value and the donor's cost basis in the property, but cannot exceed twice the basis of the property. *Effective date.*—Contributions made after 1984. *Revenue effect.*— *Fiscal Years* (Millions of dollars) 1984 .... 1985 −29 1986 −51 1987 −56 1988 −63 1989 −69 Sum of 1984-87 −136

Item	Present Law
243. Vocational education instruction tax credit (sec. 811 of the Senate amendment).	No special tax credit relating to vocational education instruction.
244. Extension of moratorium on application of research and experimental expense allocation regulation (sec. 873 of the Senate amendment)	The foreign tax credit is limited so that it cannot offset U.S. tax on U.S. source taxable income. In general, the Code requires allocation of all expenses between U.S. and foreign source gross income to determine U.S. and foreign source income. A suspended Treasury Regulation (§ 1.861–8) rule requires taxpayers with foreign source income from products in an area in which the taxpayers do U.S. research to allocate part of their U.S. research expense against the foreign income. In 1981, Congress suspended this rule for 2 years, so that U.S. research generally offsets only U.S. income. The moratorium generally expires for taxable years beginning after August 13, 1983.

House Bill	Senate Amendment
No provision.	A tax credit is allowed to a corporation for providing qualified teachers from its employees for postsecondary vocational education courses or for hiring qualified vocational education instructors on a temporary basis. The amount of the credit is $100 for each course taught by an employee (up to five courses), plus $100 for each instructor temporarily hired by the corporation, subject to an overall limitation of $20,000 per year. *Effective date.*—Taxable years beginning after 1984. *Revenue effect.*— *Fiscal Years* (Millions of dollars) 1984 .... 1985 −2 1986 −5 1987 −6 1988 −7 1989 −8 Sum of 1984-87 −13
No provision.	Extends the moratorium for two more years, so that U.S. research expenses generally offset only U.S. source income. *Effective date.*—Not provided. *Revenue effect.*— *Fiscal Years* (Millions of dollars) 1984 −61 1985 −127 1986 −66 1987 .... 1988 .... 1989 .... Sum of 1984-87 −254

Item	Present Law
K. Capital Gains and Losses	
245. Decrease in capital loss offset against ordinary income (sec. 858 of the Senate amendment)	*(a)* Capital losses are deductible in full against capital gains. For individuals, the excess of capital losses over capital gains can be deducted against only $3,000 (or specially defined taxable income, if less) of ordinary income each year, with unlimited carryovers to future years. *(b)* Post-1969 long-term losses must be reduced by 50 percent when being deducted against ordinary income.
246. Decrease in holding period for long-term capital gains (sec. 859 of the Senate amendment)	Gains or losses on capital assets held for more than one year are considered long-term capital gains or losses. For individuals, 60 percent of the net capital gain is excluded from income. Corporations have the option of paying an alternative tax of 28 percent on net long-term capital gain.

House Bill	Senate Amendment
No provision.	*(a)* Decreases the amount of ordinary income against which capital losses may be deducted by individuals to $1,000 (or specially defined taxable income, if less).
	(b) Treats pre-1970 loss carryovers under rules for post-1969 losses.
	Effective date.—Taxable years beginning after December 31, 1984.
	Revenue effect.—

Fiscal Years

(Millions of dollars)

1984	....
1985	[1]
1986	+588
1987	+614
1988	+652
1989	+691
Sum of 1984–87	+1,202

[1] Gain of less than $10 million.

House Bill	Senate Amendment
No provision.	Decreases the holding period for long-term capital gains from one year to six months.
	Effective date.—Assets acquired after February 29, 1984.
	Revenue effect.—

Fiscal Years

(Millions of dollars)

1984	[1]
1985	–160
1986	–281
1987	–299
1988	–319
1989	–341
Sum of 1984–87	–640

[1] Loss of less than $10 million.

Item	Present Law
L. Miscellaneous Housing Provisions	
247. Disaster loss deduction rules (sec. 803 of the House bill).	Nonbusiness casualty losses over $100 are allowed as itemized deductions to the extent exceeding 10 percent of the taxpayer's adjusted gross income. Generally, the deduction is available only when the storm, flood, earthquake, etc. causes actual physical damage to the taxpayer's property.
248. Cooperative housing corporations (secs. 862 and 891 of the Senate amendment)	
(a) Pass-through of interest and tax deductions	*(a)* Tenant-stockholders in cooperative housing corporations may deduct their proportionate share of mortgage interest and real estate taxes paid by cooperative. To qualify, 80 percent of cooperative's gross income must be derived from tenant-stockholders. In addition, a tenant-stockholder must have the right to occupy a house or apartment without need for approval by the cooperative. Generally, only individuals qualify as tenant-stockholders.

House Bill	Senate Amendment

Provides that taxpayers whose residences are located in a Federally declared disaster area, and who are ordered by a State or local government to demolish or relocate their residences, may deduct any loss attributable to the disaster as a casualty loss, if their residences have been rendered unsafe for use as a proximate result of the disaster.

Effective date.—January 1, 1982.

Revenue effect.—

Fiscal Years

(Millions of dollars)

1984	−15
1985	−12
1986	−12
1987	−13
1988	−13
1989	−14
Sum of 1984-87	−52

Senate Amendment: No provision.

House Bill: No provision.

Senate Amendment: *(a)* Extends tenant-stockholder treatment to non-individual entities (including corporations, trusts, etc.), even if cooperative reserves right to approve any occupant.

Item	Present Law
248. Cooperative housing corporations (cont.)	
(b) Special rule for original sellers of property to cooperative	*(b)* Certain original sellers of property (including corporations or other entities) may qualify as tenant-stockholders for up to three years, even if cooperative reserves right to approve occupancy by a nominee of such entity.
(c) Special rules regarding inheritance and foreclosure	*(c)* A bank obtaining cooperative stock by foreclosure is treated as a tenant-stockholder for up to three years, even if cooperative retains right to approve occupancy by the bank or its nominee.
(d) Proportionate deduction for property used in trade or business	*(d)* A tenant-stockholder using his unit in a trade or business is allowed a deduction for the adjusted basis of stock allocable to depreciable property. Deductions in excess of basis may not be carried over to succeeding years.
(e) Allocation of certain property taxes	*(e)* A tenant-stockholder's proportionate share of rent or taxes, for deduction purposes, is equivalent to the portion of cooperative stock owned by the tenant-stockholder.

(b) The original seller rule is made unnecessary by (a) above and is repealed.

However, the cooperative's right to approve any occupant does not affect tenant-stockholder status of an original seller of property (including an individual or a corporation or other entity).

(c) The special rule is made unnecessary by (a) above and is repealed.

However, where any person (including an individual or other entity) acquires stock in a housing cooperative by operation of law (e.g., by inheritance or foreclosure), the cooperative's right to approve any occupant does not affect tenant-stockholder status of such person.

(d) Modifies present law rule by

(1) Allowing carryover of excess deductions to succeeding taxable years, and

(2) Denying deduction for amounts paid to cooperative which are properly allocable to capital account of the cooperative.

Effective date.—Date of enactment.

Revenue effect.—Reduction of less than $10 million annually.

(e) Provides that certain special assessment property taxes (such as occur in California under Proposition 13) are deductible by the tenant-stockholder who actually pays the tax, regardless of the amount of stock owned.

(Floor amendment by Sens. Wilson and Cranston, agreed to by voice vote).

Effective date.—Taxable years beginning after December 31, 1983.

Revenue effect.—Negligible.

Item	Present Law
249. Sale-leasebacks of principal residences by taxpayers 55 or older (sec. 867 of the Senate amendment)	Qualification of a transaction involving a principal residence as a valid sale-leaseback for tax purposes is sometimes uncertain.

House Bill	Senate Amendment
No provision.	Provides a safe-harbor for sale-leasebacks of principal residences by taxpayers 55 or older. Limits the purchaser in a qualifying transaction to 40-year, straight-line depreciation. Not applicable to sale-leasebacks between related parties or certain tax shelters. (Floor amendment by Sen. Specter, eliminating from definition of tax-shelter certain privately placed limited partnerships, adopted by voice vote.) Income not to include any discounts from fair value in safe-harbor transactions. Provides rules for annuities purchased for sellers in safe-harbor transactions.

Effective date.—Sales or exchanges after date of enactment but prior to December 31, 1988.

Revenue effect.—

Fiscal Years

(Millions of dollars)

1984	....
1985	−6
1986	−20
1987	−35
1988	−56
1989	−84
Sum of 1984–87	−61

Item	Present Law
250. Deductibility of mortgage interest and taxes paid out of tax-free allowances for military personnel and ministers (sec. 870 of the Senate amendment)	Deductions are disallowed for expenses allocable to tax-exempt income (Code sec. 265(1)). In January 1983, the IRS ruled that a minister may not take deductions for mortgage interest and real estate taxes on a residence to the extent that such expenditures are allocable to tax-free housing allowances provided for ministers under section 107. This disallowance rule generally applies beginning July 1, 1983. However, for a minister who owned and occupied a home before January 3, 1983 (or had a contract to purchase a home before that date), the deduction disallowance rule will not apply until January 1, 1985, with respect to such home. In December 1983, the IRS announced that it was studying whether members of the Armed Forces are entitled to deduct interest and property taxes to the extent they receive tax-free housing allowances from the Federal Government. The IRS stated that any determination on the issue that would adversely affect military personnel would not be applied to amounts paid before 1985.
251. Rollover of gain on sale of residence for military personnel stationed overseas (sec. 895 of the Senate amendment)	No gain is recognized on sale of a personal residence to the extent that the amount of the sales price of the old residence is reinvested in a new residence within a specified period of time. This period is suspended for up to four years where the taxpayer serves on extended active duty with the Armed Forces.

House Bill	Senate Amendment
No provision.	Precludes application of Code section 265(1) disallowance rule to mortgage interest and real estate taxes paid or incurred before January 1, 1986, by a minister or member of the Armed Forces. (Floor amendment by Sen. Helms, agreed to by voice vote.) ***Revenue effect.***—Reduce revenue by a negligible amount in 1984, and by less than $5 million in 1985 and 1986.
No provision.	Provides that, in the case of a member of the Armed Forces who is stationed outside the United States or who is required to reside in government quarters, the normal nonrecognition period will not expire until the end of four years after the sale of the old principal residence or one year after the member is no longer stationed outside the United States or no longer required to reside in government quarters, whichever is later, but not to exceed eight years. (Floor amendment by Sen. Tower, agreed to by voice vote.) ***Effective date.***—Sales of residences after the date of enactment. ***Revenue effect.***—

Fiscal Years

(Millions of dollars)

1984	[1]
1985	−5
1986	−5
1987	−5
1988	−5
1989	−5
Sum of 1984-87	−15

[1] Negligible.

Item	Present Law
M. Extensions of Existing Provisions and Miscellaneous Transitional Rules	
252. Investment income from S corporations (sec. 815 of the House bill)	Investment interest deductions are generally limited to investment income plus $10,000. The treatment of income and interest expense with regard to S corporations is not entirely clear under either prior law or under the Subchapter S Revision Act of 1982. One case held that subchapter S income under prior law was investment income.
253. Extension of Payment-in-Kind Tax Treatment Act of 1983 (sec. 806 of the House bill and sec. 864 of the Senate amendment)	(*a*) The Payment-in-Kind (PIK) Tax Treatment Act of 1983 generally treats commodities received under a 1983 PIK program as if they were grown on the land withdrawn from production under the PIK program; the Act also provides that estates are not disqualified from certain special estate tax provisions solely by reason of participation in a PIK program. (*b*) USDA determined that the $50,000 limit applicable to crop diversion payments did not apply to 1983 PIK payments; USDA has applied the limit to the 1984 wheat PIK program.

House Bill	Senate Amendment
Provides that for taxable years beginning in 1983 and 1984, a taxpayer may elect to treat income (other than personal service income) from an S corporation as investment income.	No provision.
Effective date.—Taxable years 1983 and 1984.	
Revenue effect.—Negligible.	

House Bill	Senate Amendment
(*a*) Extends the PIK tax provisions to property withdrawn from production under the 1984 wheat PIK program.	(*a*) Same as House bill.
(*b*) Directs the Comptroller General to bring suit to determine if the $50,000 payment limit applies to 1984 wheat PIK payments.	(*b*) No provision. (Floor amendment by Senators Dole, Helms, and Huddleston, adopted by voice vote, deleted the requirement of a suit by the Comptroller General contained in the Finance Committee amendment.)
Revenue effect.—	*Revenue effects.*—Same as House bill.

Fiscal Years

(Millions of dollars)

1984	−7
1985	−8
1986	+15
1987	(1)
1988	(1)
1989	(1)
Sum of 1984–87	0

[1] Negligible.

Item	Present Law
254. Special leasing rules for certain coal gasification facilities (sec. 875 of the Senate amendment)	Coal gasification facilities not specifically exempted from restrictions on safe-harbor leasing enacted in TEFRA of 1982.
255. Provisions of Indian Tribal Governmental Tax Status Act of 1982 made permanent (sec. 877 of the Senate amendment)	For years 1983 and 1984 only, Indian tribal governments are treated as State governments for prescribed purposes in the Internal Revenue Code. They may not issue tax-exempt bonds, except public activity bonds to finance essential governmental functions.
256. Amortization of low-income housing rehabilitation expenditures (sec. 878 of the Senate amendment)	A taxpayer can elect (in lieu of any other method) to amortize generally up to $20,000 of rehabilitation expenditures with respect to a unit of low-income housing over a 60-month period. This provision expired on January 1, 1984.
257. Disallowance of deduction for costs of demolishing structures (sec. 879 of the Senate amendment)	Costs of demolishing buildings generally may be deducted unless the property is purchased with an intent to demolish the building; if so purchased, costs are added to basis of land. Before 1984, costs of demolishing certified historic structures were required to be added to basis of land on which structure was located.

House Bill	Senate Amendment
No provision.	Certain facilities (limited to 50 percent of facility's cost or $67.5 million, whichever is less) exempted from safe-harbor leasing restrictions enacted in TEFRA. ***Effective date.***—As if included in TEFRA. ***Revenue effect.***— *Fiscal Years* (Millions of dollars) 1984 ... −3 1985 ... −5 1986 ... −4 1987 ... −4 1988 ... −6 1989 ... −6 Sum of 1984–87 ... −16
No provision.	Makes permanent the present law provisions scheduled to expire. ***Revenue effect.***—Reduce revenue by less than $5 million annually.
No provision.	Extends the provision until January 1, 1987. ***Revenue effect.***— *Fiscal Years* (Millions of dollars) 1984 ... −2 1985 ... −7 1986 ... −18 1987 ... −32 1988 ... −43 1989 ... −34 Sum of 1984–87 ... −59
No provision.	Makes permanent the requirement that costs of demolishing certified historic structures be added to basis of land on which structure was located, and expands provision to disallow deductions for costs associated with demolition of other structures. ***Effective date.***—Demolitions after December 31, 1983. ***Revenue effect.***—Increase revenue by less than $5 million annually.

Item	Present Law
258. Eliminating architectural and transportation barriers to the handicapped (sec. 880 of the Senate amendment)	Prior to 1983, a deduction of up to $25,000 per year was allowed for the expenses of removing architectural and transportation barriers to the handicapped and elderly.

House Bill	Senate Amendment
No provision.	The deduction is reinstated for 1984 and 1985, with a maximum deduction of $35,000 per year.

Effective date.—Taxable years beginning in 1984 and 1985.

Revenue effect.—

Fiscal Years

(Millions of dollars)

1984	−8
1985	−16
1986	−7
1987	....
1988	....
1989	....
Sum of 1984–87	−31

Item	Present Law
N. Social Security Tax Provisions	
259. Tax-exempt interest in calculation of taxable social security benefits (sec. 730 of Senate amendment)	Under the 1983 Social Security Amendments, beginning in 1984, a taxpayer adds tax-exempt interest to adjusted gross income and half of social security benefits as the first step in calculating the amount of benefits subject to tax. From this sum is subtracted a $32,000 threshold ($25,000 for single individuals), and half the excess (but never more than half of benefits) is included in adjusted gross income.
260. Social security treatment of certain church employees (sec. 981 of the Senate amendment)	Effective January 1, 1984, lay employees of religious organizations (and other non-profit organizations) are subject to mandatory social security coverage, including employer and employee FICA taxes. (Prior to the 1983 amendments, employees of nonprofit organizations were exempt from social security coverage unless the organization waived, or was deemed to waive, its exemption.) FICA tax rates are 7 percent each for employers and employees (for a combined 14 percent rate) in 1984, increasing to a combined rate of 15.3 percent by 1990. A credit (0.3 percent of wages) is allowed in 1984 against employee FICA taxes. For employees of tax-exempt organizations, wages of less than $100 per calendar year are not subject to social security taxes. The tax rate applicable to self-employed individuals (SECA) equals the combined FICA rate. For 1984 through 1989, a self-employment tax credit (2.7 percent in 1984) lowers the effective SECA rate.

House Bill	Senate Amendment
No provision.	Deletes the inclusion of tax-exempt interest from the formula used to calculate the amount of taxable social security benefits. (Floor amendment by Sen. D'Amato, adopted by voice vote after motion to table failed by a vote of 32-63.)

Effective date.—Taxable years beginning after December 31, 1983.

Revenue effect.—

Fiscal Years

(Millions of dollars)

1984	−8
1985	−31
1986	−47
1987	−63
1988	−83
1989	−99
Sum of 1984-87	−149

House Bill	Senate Amendment
No provision.	Allows one-time irrevocable election by a church or qualifying church-controlled organization to exclude remuneration for all services performed for organization, other than in an unrelated trade or business, from FICA tax base.

Employees of electing organizations will be liable for self-employment (SECA) taxes with respect to excluded services.

For employees of electing organizations, wages of less than $100 per calendar year are not subject to SECA and the SECA tax base is generally conformed to FICA rules.

Information reporting.—Electing organizations remain subject to income tax withholding and reporting requirements with respect to all employees. Treasury may revoke an election for continuing failure to provide required information.

Item	Present Law
260. Social security treatment of certain church employees—Cont.	

Eligibility for election:

An election is available to—

(1) churches (including conventions or associations of churches),

(2) elementary or secondary schools controlled, operated, or principally supported by churches (or conventions or associations of churches), and

(3) church-controlled tax-exempt organizations (sec. 501(c)(3)), *except* any such organization which both

(i) offers goods, services, or facilities for sale to the general public (e.g., to persons who are not church members), other than on an incidental basis and other than at a nominal charge, and also

(ii) normally receives more than 25 percent of its support from the sum of:

(A) governmental sources, and

(B) certain receipts from admissions, sales of merchandise, performance of services or furnishing of facilities.

To make the election, an organization must state that it is opposed for religious reasons to payment of social security taxes.

Procedure for election:

An election must be made prior to the first date, more than 90 days after enactment, on which the electing organization's quarterly employment tax return would be due.

Effective date.—A timely made election will be retroactive to January 1, 1984.

Revenue effect.—

Fiscal Years

(Millions of dollars)

1984	−67
1985	−16
1986	−12
1987	−6
1988	−9
1989	−3
Sum of 1984–87	−101

Item	Present Law
261. Coverage of employees under social security and Federal retirement systems (secs. 641(j)(2) and 643(i)(4) of the House bill and secs. 982 and 983 of the Senate amendment)	
(a) Employee transfers among different branches of Federal employment	*(a)* The Social Security Amendments of 1983 provided social security coverage for newly hired Federal civilian employees effective with remuneration paid after December 31, 1983. Persons continously in the employ of the United States since December 31, 1983 (or with a break in such employment of 365 days or less) will not be covered. Legislative branch employees are covered by social security unless they were covered by the Civil Service Retirement System on December 31, 1983. Contrary to the intent of P.L. 98-21, several gaps and anomalies in this coverage are possible under current law. First, a person in Federal employment that is already covered (mainly the armed services, which have been covered since 1956) can retire from military service, enter Federal civilian service, and be exempt from social security. Conversely, a person who only technically severs his Federal civilian employment connection in order to serve a term of duty with an international organization would be treated as having had a break in service upon his return to domestic Federal service, and would be covered under the new retirement system.
(b) Legislative branch employees	*(b)* Legislative branch employees who were covered by CSRS on December 31, 1983 could withdraw from CSRS after that date and not be covered by social security, while Federal employees covered by civilian retirement systems other than CSRS on December 31, 1983 would be covered by social security if they transferred from the executive branch to the legislative branch.

House Bill	Senate Amendment
(a) In order to prevent Federal employees who had been previously covered under social security from losing coverage as a result of a break in service of less than 365 days, the bill provides that persons transferring from other government service to civilian service will be covered under social security, unless (a) the other service was in an international organization, or (b) the person is returning to civilian service after temporary military or reserve duty and is exercising his reemployment rights under chapter 43 of title 38, U.S.C. ***Effective date.***—With respect to service performed after December 31, 1983.	*(a)* No provision.
(b) The bill provides that legislative branch employees who were covered under either CSRS or another Federal civilian retirement system on December 31, 1983, but who have a break in service of less than a year after that date, will be covered by social security on their return or transfer to legislative employment, unless they elect coverage under CSRS within 45 days. This provision will also allow legislative branch employees who take periods of leave without pay, of less than a year, to return to legislative branch employment without disturbing their participation in the Civil Service Retirement System, as long as they reelect coverage within 45 days. ***Effective date.***—With respect to service performed after December 31, 1983.	*(b)* Similar to House bill, except individuals who have a break in service and elect to receive a refund of CSRS contributions would lose their exemption from social security. ***Effective date.***—Same as House bill.

Item	Present Law
(c) Nonprofit organizations covered by CSRS	(*c*) Effective January 1, 1984, employees of all nonprofit organizations are covered by social security on a mandatory basis. Employees in certain nonprofit organizations (Legal Service Corporations, for example) who are covered on a mandatory basis by the Civil Service Retirement System (CSRS) will thus be covered on a mandatory basis by social security as well. These employees are not provided relief from double-taxation under Title II of the Federal Physicians Comparability Allowance Amendments of 1983 (Public Law 98-168), known as the Federal Employees' Retirement Contribution Temporary Adjustment Act.
262. Increased enforcement of earnings test (sec. — of the House bill)	The social security earnings test reduces or eliminates social security retirement and disability benefits for beneficiaries who earn above a specified amount. Beneficiaries are now not required to file earnings reports until close of the calendar year.

House Bill	Senate Amendment
(*c*) No provision.	(*c*) Employees of nonprofit organizations who are covered on a mandatory basis by CSRS would be treated like Federal employees for purposes of social security. They would therefore be covered by social security if newly hired after January 1, 1984, or if they had a break in Federal service lasting more than 365 days. ***Effective date.***—With respect to services performed on or after January 1, 1984. ***Revenue effect.***—Negligible.
Requires Secretary to implement procedures for obtaining earnings reports several months earlier than under present law and to make earlier adjustments of benefit amounts on account of excess earnings. ***Effective date.***—Date of enactment. ***Outlay effect.***— *Fiscal Years* (Millions of dollars) 1984 .... 0 1985 .... −22 1986 .... −15 1987 .... −15 Sum of 1984–87 .... −52	No provision.

Item	Present Law
O. Miscellaneous Provisions	
263. Preferred stock eligible under section 1244 (sec. 492 of the House bill)	An ordinary loss deduction of up to $50,000 per year ($100,000 in the case of a joint return) is allowed for losses on certain common stock of small business corporations ("section 1244 stock").
264. Medical expense deduction for certain lodging (sec. 493 of the House bill)	Allows an itemized deduction for medical expenses in excess of 5 percent of adjusted gross income. Expenses eligible for deduction include costs of traveling to and from medical care facilities, but not costs of lodging while away from home to obtain medical care.
265. Deadwood (secs. 497 and 498 of the House bill)	
(a) Government retirement bonds	*(a)* Provides for the issuance of certain government retirement bonds. Treasury has terminated the sale of these bonds.
(b) Farm loss recapture	*(b)* Provides for the recapture of certain farm losses. These provisions were terminated for losses after 1975.

House Bill	Senate Amendment
Allows preferred stock to qualify as "section 1244 stock." *Effective date.*—Applies to stock issued after date of enactment. *Revenue effect.*—Reduces revenues by less than $5 million annually.	No provision.
Cost of lodging, while away from home, primarily for and essential to care provided by physician in licensed hospital or equivalent facility will be treated as a medical care expense. Limited to $50 per night per person. *Effective date.*—Taxable years beginning after December 31, 1983. *Revenue effect.*– *Fiscal Years* (Millions of dollars) 1984 ... −1 1985 ... −7 1986 ... −10 1987 ... −10 1988 ... −11 1989 ... −12 Sum of 1984–87 ... −28	No provision.
(a) Repeals the provisions of law relating to these bonds. Current holders of the bonds will be governed by present law, but can redeem the bonds at any time. *Effective date.*—Generally, obligations issued after December 31, 1983. *Revenue effect.*—None. *(b)* Repeals the farm loss recapture provisions. *Effective date.*—Taxable years beginning after December 31, 1983. *Revenue effect.*—None.	*(a)* No provision. *(b)* No provision.

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Item	Present Law
266. Employee tips (sec. 876 of the Senate amendment).	(a) A large food or beverage establishment must allocate to employees as tips the excess of 8 percent of gross receipts over tips reported by the employees to the employer. (b) IRS can reduce the percentage required to be allocated to as low as 5 percent.
267. FUTA treatment of tips (sec. 806 of House bill)	Tip income is considered wages for purposes of the Federal Unemployment Tax Act (FUTA) only to the extent paid directly to the employee by the patron, reported by the employee to the employer, and used by the employer to satisfy the minimum wage requirement of the Fair Labor Standards Act.
268. FUTA treatment of certain fishing activities (sec. 863 of the Senate amendment)	Remuneration paid to fishing boat crew members is generally subject to FUTA if the services performed are related to catching halibut or salmon for commercial purposes or if the services are performed on a vessel of more than 10 net tons. Under a provision which expired on December 31, 1982, remuneration paid to fishing boat crew members was exempt from FUTA if the remuneration depends on the boat's catch and the crew normally consists of fewer than 10 members.

House Bill	Senate Amendment
No provision.	(a) A majority of employees of the employer can petition for a reduction in the percentage required to be allocated. (b) The minimum percentage required to be allocated is reduced from 5 to 2 percent. *Effective date.*—Date of enactment. *Revenue effect.*—Negligible.
All tip income is considered wages for FUTA purposes. *Effective date.*—Tip income received after December 31, 1984. *Revenue effect.*— *Fiscal Years* (Millions of dollars) 1984 .... 1985 +16 1986 +26 1987 +28 1988 +30 1989 +32 Sum of 1984–87 +70	No provision.
No provision.	Extends the exemption through December 31, 1984. *Effective date.*—Remuneration paid in 1983 and 1984. *Revenue effect.*—Revenue loss of $1 million in fiscal years 1984 and 1985.

Item	Present Law
269. Tax refunds relating to traveling expenses at North Dakota ABM site (sec. 808 of the House bill)	No deduction is allowed for commuting costs. However, traveling expenses (transportation, meals, and lodging) incurred by a taxpayer away from home in connection with temporary employment are deductible as business expenses (Code sec. 162). Court decisions generally hold that temporary employment means employment which can reasonably be expected to last only for a short period of time. The Eighth Circuit has allowed deduction of transportation expenses incurred by a carpenter while employed during 1970–73 at an antiballistic missile (ABM) site in Nekoma, North Dakota. However, other employees at the site are barred by the statute of limitations from filing refund claims on the basis of that decision.
270. Capital construction funds for fish processing facilities (sec. 869 of the Senate amendment)	Provides taxpayers owning or leasing vessels operating in foreign or domestic commerce or in U.S. fisheries certain tax benefits for deposits into capital construction funds to be used for the acquisition, etc. of certain vessels. Benefits include: deductibility of deposits; tax-free investment of deposits; tax-free withdrawal of deposits; 50 percent of ITC otherwise available.
271. Exclusion from gross income for cancellation of certain student loans (sec. 874 of the Senate amendment)	Under a provision enacted in the 1976 Tax Reform Act, and later extended through 1982, an individual does not realize gross income from cancellation of student loans made by government agencies where the individual in return works for a certain period of time in certain professions in certain geographical areas or for certain classes of employers.

House Bill	Senate Amendment
Authorizes refunds attributable to claimed deductions of traveling expenses incurred between 1970–74 in employment at the Nekoma, North Dakota, ABM site. *Effective date.*—Taxable years ending after 1969. *Revenue effect.*—Refunds of less than $1 million.	No provision.
No provision.	Extends the benefits of present law to taxpayers owning or leasing fish processing facilities in the U.S. Benefits would also be applicable to deposits and withdrawals for U.S. fish processing facilities, including any related equipment. *Effective date.*—Effective upon enactment. *Revenue effect.*— *Fiscal Years* (Millions of dollars) 1984 ... −14 1985 ... −24 1986 ... −20 1987 ... −16 1988 ... −14 1989 ... −15 Sum of 1984–87 ... −74
No provision.	Provides a permanent exclusion from income for amounts realized by reason of cancellation of certain student loans where the recipient performs certain professional services for any of a broad class of employers. *Effective date.*—Debt cancellations after 1982. *Revenue effect.*—Revenue loss of less than $5 million annually.

Item	Present Law
272. Duck stamps (sec. 887 of the Senate amendment)	Federal anticounterfeiting laws forbid any reproduction of duck stamps because they are considered a type of Federal obligation, like a postage stamp. Current law permits limited reproduction of U.S. revenue stamps, only for philatelic, numismatic, educational, historical or newsworthy purposes, and only black and white illustrations are permitted.
273. Boundary Waters Canoe Act payments (sec. 888 of the Senate amendment)	The basis of property received as a result of a compulsory or involuntary conversion is reduced by the amount of funds received but not spent as provided by law. Equity grants have been provided to resort and recreational activities operators to assist in converting business operations to conform with restrictive rules enacted when Boundary Waters Canoe Area was designated as a wilderness area.
274. Physicians' and surgeons' mutual protection associations (sec. 866 of the Senate amendment)	Gross income of a mutual insurance company includes gross premiums. Generally, gross income does not include any contribution to capital; there are no specific provisions regarding the treatment of paid-in capital by mutual insurance companies. Premiums for liability insurance in carrying on any trade or business are deductible, but no deduction is allowed for a capital expenditure.

House Bill	Senate Amendment
No provision.	The Secretary of the Interior, with the concurrence of the Secretary of the Treasury, is authorized to license color and black and white reproductions of duck stamps for commercial purposes. The reproductions must be less than three-fourths, or more than one and one-half, of the size of the original stamp. The proceeds from such licensed reproductions would be placed in the Migratory Bird Conservation Fund. ***Effective date.***—Date of enactment. ***Revenue effect.***—Increases revenues by a negligible amount.
No provision.	The taxpayer's basis in the property is to be reduced by the amount of the equity grant but will be increased by the amount repaid on sale of the property. The property to which equity-grant payments are allocated must be placed in service before the later of two years after the date of enactment or two years after the payment is received. Amounts reinvested are excluded from income. ***Effective date.***—Payments made in taxable years beginning after December 31, 1979. A claim for credit or refund with respect to such payments may be filed within one year after the date of enactment. ***Revenue effect.***—Decreases revenues by a negligible amount in fiscal years 1984 and 1985.
No provision.	There is specific provision for how the association should treat initial payments of capital. There is an election that allows member insureds of the association to deduct a portion of the initial payment over the first six years of membership. Only associations operating and providing medical malpractice insurance under State laws prior to January 1, 1984, are eligible to use the new provisions. ***Effective date.***—Effective with respect to payments to and by the association after date of enactment. ***Revenue effect.***—Loss of less than $5 million annually.

Item	Present Law
275. Increased payments for presidential nominating conventions (sec. 896 of the Senate amendment)	The national committee of a major party is entitled to payments of up to $3 million, adjusted for inflation, for any presidential nominating convention.

House Bill	Senate Amendment
No provision.	Increases the limitation on payments to \$4 million. (Floor amendment by Sen. Baker, agreed to by voice vote.) *Effective date.*—January 1, 1984.

Item	Present Law
P. Studies	
276. Study of alternative tax systems (sec. 494 of the House bill and sec. 886 of Senate amendment)	No specific provision.
277. Study of foreign taxation of certain services (sec. 889 of the Senate amendment)	The foreign tax credit cannot offset U.S. tax on U.S. source income. The United States considers income for services performed in the United States for use in foreign countries to be U.S. income; some foreign countries consider the same income to be local income. Double taxation may arise.
Q. Credit Unions	
278. Tax exemption for the Central Liquidity Facility of the National Credit Union Administration	The Central Liquidity Facility of the National Credit Union Administration is not explicitly exempt from Federal, State and local taxes.

House Bill	Senate Amendment
Provides that the Secretary of the Treasury shall submit to Congress a study of a simplified gross income tax, within 6 months of enactment.	Provides that the Secretary of the Treasury shall submit to Congress, within 6 months after enactment, a study of alternative tax systems, including a simplified gross income tax, a consumption-based tax, a value-added or national sales tax, and broadening of the current income tax base combined with lowering of tax rates.
No provision.	Requires Treasury study of practices of foreign countries that tax services performed in the United States. Study is to include status of treaty negotiations with these countries and options to deal with the problem. Due date is August 15, 1984.
No provision.	(*a*) Provides that the Central Liquidity Facility of the National Credit Union Administration will be exempt from Federal, State and local taxation other than real property taxation. (*b*) Makes clear that the Federal tax exemption does not allow the Facility to issue obligations that are exempt from Federal taxation. ***Effective date.***—October 1, 1979 and thereafter. ***Revenue effect.***—Reduction of less than $5 million annually.

Item	Present Law
279. Cordage products	Cordage manufactured from a plastics material is classified in the Tariff schedules of the United States as either "cordage" under the textiles part of the TSUS, or as a plastics article in a different TSUS part. The difference depends on whether the strips from which the cordage is made exceed certain dimensions. Cordage classified as a plastics article is subject to a lower tariff rate than if it is classified as a textile article.
280. "Like agricultural products"	A petition for relief under the antidumping or countervailing duty laws must be filed by an "interested party" which, in general, means a representative of an industry producing a "like product" to the allegedly dumped or subsidized article. Section 771(10) of the 1979 Trade Agreements Act defines "like product" to mean a product which is "like or in the absence of like, most similar in characteristics and uses with, the article" subject to an investigation.
281. Fish nets	The MFN tariff rate on fish netting and nets made of textile materials other than cotton or vegetable fibers is being reduced in stages to 17 percent ad valorem by 1989. The rate currently is 18 cents per pound plus 28.6 percent ad valorem.
282. A telescope and its apparatus	Scientific instruments and apparatus, and repair components, entered for the use of nonprofit educational institutions may enter duty-free if the Commerce Department determines domestic equipment of equivalent scientific value is unavailable.

House Bill	Senate Amendment
No provision.	Reclassifies cordage (twine, rope, and cables) currently classified as plastic products in TSUS schedule 7 as articles to be classified under schedule 3 (textile products). *Effective date.*—Applicable to articles entered, or withdrawn from warehouse for consumption, on or after the fifteenth day after date of enactment. *Budget effect.*—Gain of $1.1 million year.
No provision.	Amends section 771(10) to encompass within the meaning of "like product" agricultural products at earlier stages of processing than imported articles. *Effective date.*—Same as item 279, above. *Budget effect.*—Not known.
No provision.	Permits the 17-percent MFN tariff rate to apply immediately to the first 1.75 million pounds of fish nets, or 28 percent of the prior year's domestic consumption, whichever is greater. *Effective date.*—Same as item 279, above. *Budget effect.*—Less than $1 million in 1984 and successively less each year to 1989.
No provision.	Directs the Secretary of the Treasury to admit duty-free any articles provided by the Max Planck Radio Astronomy Institute in Germany for a joint project with the University of Arizona. *Effective date.*—Date of enactment. *Budget effect.*—Not known.

PART FOUR: REVENUE EFFECTS OF TAX PROVISIONS OF H.R. 4170 AS PASSED BY THE HOUSE AND THE SENATE

Table 1.—Summary of Estimated Revenue Effect of Tax Provisions of H.R. 4170 As Passed by the House, Fiscal Years 1984-1989

(Millions of dollars)

Provision	1984	1985	1986	1987	1988	1989	1984-87
I. Tax Freeze; Tax Reforms Generally	2,495	10,073	17,478	22,451	22,618	23,648	52,497
II. Life Insurance Tax Provisions [1]	−252	−481	−553	−664	−756	−861	−1,950
III. General Charitable Deduction Rules; Private Foundation Excise Tax Provisions		−33	−46	−47	−50	−53	−126
IV. Enterprise Zones	No provision						
V. Fringe Benefits	−4	−16	−35	−42	−45	−48	−97
VI. Technical Corrections	(2)	(3)	(3)	(3)	(3)	(3)	(2)
VII. Foreign Sales Corporations	No provision						
VIII. Tax-Exempt Bond Provisions	−31	−106	−157	−215	−372	−477	−509
IX. Highway Revenue Provisions	−146	−50	21	−28	115	45	−203
X. Miscellaneous Revenue Provisions	62	111	60	−28	−207	−397	205
Total Revenue Effect	2,124	9,498	16,768	21,427	21,303	21,857	49,817

[1] The figures represent the estimated effects of the life insurance provisions assuming that certain temporary provisions enacted in the Tax Equity and Fiscal Responsibility Act of 1982 (TEFRA), which provide for the taxation of insurance companies, are terminated. If these provisions were not allowed to expire at the end of 1983, the estimates would show increases in fiscal year receipts of $763 million in 1984, $884 million in 1985, $923 million in 1986, $997 million in 1987, and $1,076 million in 1988.

[2] Loss of less than $10 million.

[3] Negligible.

Table 2.—Summary of Estimated Revenue Effect of Tax Provisions of Senate Amendment, Fiscal Years 1984–1989

(Millions of dollars)

Provision	1984	1985	1986	1987	1988	1989	1984–87
I. Tax Freeze; Tax Reforms Generally	2,647	11,791	18,850	24,437	26,379	27,030	57,725
II. Life Insurance Tax Provisions [1]	−122	−357	−401	−480	−533	−607	−1,360
III. General Charitable Deduction Rules; Private Foundation Excise Tax Provisions	−13	−30	−50	−55	−58	−61	−148
IV. Enterprise Zones [2]		([2])	([2])	([2])	([2])	([2])	([2])
V. Fringe Benefits	([4])	([4])	([4])	([5])	([5])	([5])	([3])
VI. Technical Corrections		No separate title in Senate Amendment					
VII. Foreign Sales Corporations		−51	−48	21	72	−115	−78
VIII. Tax-Exempt Bond Provisions	−14	−81	−191	−429	−859	−1,219	−715
IX. Highway Revenue Provisions	−132	30	−92	−172	−91	−63	−366
X. Miscellaneous Revenue Provisions	−188	−387	−1,790	−3,762	−4,944	−4,493	−6,127
Total Revenue Effect	2,178	10,817	15,858	18,785	18,949	19,421	47,638

[1] The figures represent the estimated effects of the life insurance provisions assuming that certain temporary provisions enacted in the Tax Equity and Fiscal Responsibility Act of 1982 (TEFRA), which provide for the taxation of insurance companies, are terminated. If these provisions were not allowed to expire at the end of 1983, the estimates would show increases in fiscal year receipts of $893 million in 1984, $1,008 million in 1985, $1,075 million in 1986, $1,181 million in 1987, and $1,299 million in 1988.

[2] The budget effects of this provision will depend on the number, size, and characteristics of the enterprise zones designated by the Secretary of Housing and Urban Development (see "Revenue Effect" statement in text). Grand totals in this table reflect Treasury Department estimates which show decreases of fiscal year budget receipts of $98 million in 1985, $420 million in 1986, $775 million in 1987, $1,017 million in 1988, and $1,051 million in 1989.

[3] For provisions where only footnotes appear, 1984–87 sums are not available. Also, estimates for these provisions are not reflected in subtotals or totals.

[4] Loss of less than $5 million.

[5] Negligible.

Table 3.—Estimated Revenue Effect of Tax Provisions of H.R. 4170 as Passed by the House, Fiscal Years 1984-1989

(Millions of dollars)

Provision	1984	1985	1986	1987	1988	1989	1984-87
I. Tax Freeze; Tax Reforms Generally							
A. Tax Freeze Provisions							
Finance lease provisions	63	351	875	1,404	1,445	739	2,693
Employee stock ownership credit		365	626	749	365	64	1,740
Net interest exclusion		1,024	2,858	3,100	3,366	3,637	6,982
Maximum estate and gift tax rates	([2])	129	399	503	578	439	1,031
Windfall profit tax rate on newly discovered oil	15	15					30
Excise taxes on cigarettes			838	974	251		1,812
Excise taxes on distilled spirits		109	732	941	226		1,782
Modification of time and manner of paying cigarette and alcohol excise taxes	No provision						
Amount of used property eligible for the investment tax credit		44	104	112	65		260
Election to expense certain depreciable business assets	230	399	433	386	−118	−427	1,448
Cost of living adjustments in pension plan limitations			17	64	106	115	81
Foreign earned income of individuals	4	31	80	106	107	79	221
Continuation of percentage depletion of oil and gas from secondary or tertiary processes							
Telephone excise tax			1,168	2,016	803		3,184
Subtotal, tax freeze provisions	312	2,467	8,130	10,355	7,194	4,646	21,264
B. Leasing Provisions							
Tax-exempt entity leasing	683	990	1,740	3,070	4,871	6,978	6,483
TRAC leasing	No provision						
Subtotal, leasing provisions	683	990	1,740	3,070	4,871	6,978	6,483
C. Treatment of Bonds and Other Evidences of Indebtedness							
Discount obligations	72	146	150	153	155	158	521
Original discount on tax-exempt bonds	3	5	7	8	10	13	23
Subtotal, debt obligations	75	151	157	161	165	171	544
D. Corporate Tax Provisions							
Dividends received deduction for debt-financed portfolio stock	([3])	([3])	([3])	([3])	([3])	([3])	([11])
Distributions from RICs			83	89	96	103	172

Table 3.—Estimated Revenue Effect of Tax Provisions of H.R. 4170 as Passed by the House, Fiscal Years 1984-1989—Continued

(Millions of dollars)

Provision	1984	1985	1986	1987	1988	1989	1984–87
Corporate shareholder's basis in stock reduced by non-taxed portion of extraordinary distributions		140	100	100	100	100	340
Non-liquidating distributions by corporations of appreciated property	3	18	64	114	169	227	199
Holding period for property distributed by one corporation to another	(1)	(1)	(1)	(1)	(1)	(1)	(11)
Certain expenses incurred in connection with short sales	22	32	38	43	48	54	135
Phase-out of graduated rates for large corporations	No provision						
Increase in reduction in certain corporate preference items from 15 percent to 20 percent	No provision						
"Golden parachute" contracts	No provision						
Earnings and profits	No provision						
Distributions of discount obligations by corporations	(3)	(3)	(3)	(3)	(3)	(3)	(11)
Delay in application of the net operating loss rules added by the Tax Reform Act of 1976	(5)	(5)	(5)	(5)	(5)	(5)	(11)
"C" Reorganizations	No provision						
"D" Reorganizations	No provision						
Collapsible corporations	5	57	196	305	351	382	563
Condominium conversions	−33	−72	−71	−53	−29	−18	−229
Repeal of stock for debt exception for purposes of determining income from discharge of indebtedness	(2)	(2)	(2)	(2)	(2)	(2)	(11)
Consolidated returns		52	94	119	99	70	265
Extension of holding period for losses attributable to capital gain dividends of regulated investment companies or real estate investment trusts		(2)	(2)	(2)	(2)	(2)	(11)
Nonrecognition of gain or loss by corporations on options with respect to its own stock	(2)	(2)	(2)	(2)	(2)	(2)	(11)
Amendments to accumulated earnings tax		62	78	33	35	36	173
Subtotal, corporate provisions	−3	289	582	750	869	954	1,618
E. Partnership Provisions							
Retroactive allocations		50	75	100	100	100	225

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Table 3.—Estimated Revenue Effect of Tax Provisions of H.R. 4170 as Passed by the House, Fiscal Years 1984–1989—Continued

(Millions of dollars)

Provision	1984	1985	1986	1987	1988	1989	1984-87
Payments for services or property		20	51	60	69	78	131
Transfers of partnership interests by corporations		(1)	50	50	50	50	100
Section 1031 not applicable to partnership interests; limitation on the period during which like kind exchanges may be made		226	630	667	788	842	1,523
Elimination of basis strips under section 734(b)	(1)	(1)	(1)	(1)	(1)	(1)	(11)
Allocation of certain liabilities to limited partners	[Included in other partnership provisions]						
Partnership allocations with respect to contributed property	4	61	147	178	240	298	390
Contributions to a partnership of unrealized receivables, inventory items, or capital loss property		24	63	66	67	69	153
Application of section 751 in the case of tiered partnerships	(1)	(1)	(1)	(1)	(1)	(1)	(11)
Subtotal, partnership provisions	4	381	1,016	1,121	1,314	1,437	2,522
F. Trust Provisions	50	237	390	436	464	488	1,113
G. Accounting Changes							
Premature accruals	303	643	646	603	576	563	2,195
Accrued vacation pay	(3)	(3)	(3)	(3)	(3)	(3)	(11)
Prepaid expenses	123	277	88	106	127	152	594
Deferred payments transactions	114	431	868	1,335	1,802	2,349	2,748
Deferred payments for use of property and services	No provision						
Capitalization of construction period interest and taxes	No provision						
Start-up expenses	No provision						
Subtotal, accounting changes	540	1,351	1,602	2,044	2,505	3,064	5,537
H. Tax Straddles	406	163	82	60	48	39	711
I. Pension and Welfare Benefit Plan Provisions							
Deduction limits for qualified pension plans	No provision						
Top-heavy pension plans	No provision						
Distribution rules for qualified pension plans	(1)	(1)	(1)	(1)	(1)	(1)	(11)
Pension plans with substantially all benefits derived							

Table 3.—Estimated Revenue Effect of Tax Provisions of H.R. 4170 as Passed by the House, Fiscal Years 1984–1989—Continued

(Millions of dollars)

Provision	1984	1985	1986	1987	1988	1989	1984-87
from employee contributions	(1)	1	2	5	9	16	8
Repeal of estate tax exclusions for qualified pension plan benefits	No provision						
Affiliated service groups and employee leasing arrangements							
Standards for cash-or-deferred arrangements	(1)	(1)	(1)	(1)	(1)	(1)	(11)
Welfare benefit plans	28	158	190	234	283	343	610
Determination of whether there is a collective bargaining agreement	(1)	(1)	(1)	(1)	(1)	(1)	(11)
Medical benefits provided by pension plans	(3)	(3)	(3)	(3)	(3)	(3)	(11)
Subtotal, pension and welfare benefit plans	28	159	192	239	292	359	618
J. Foreign Provisions							
Income from factoring trade receivables	(1)	313	547	590	637	689	1,450
Taxation of certain transfers of property outside the United States			12	127	324	540	139
Original issue discount in case of foreign investors	(1)	(1)	(1)	(1)	(1)	(1)	(11)
Use of territories to avoid U.S. tax on foreign investors	(3)	(3)	(3)	(3)	(3)	(3)	(11)
Foreign collapsible corporation rules	(3)	(3)	(3)	(3)	(3)	(3)	(11)
Foreign investment companies	(3)	(3)	(3)	(3)	(3)	(3)	(11)
Resourcing U.S.-source income—converting U.S.-source income into foreign income	24	81	93	102	113	124	300
Recharacterization of interest as divided income	50	63	89	113	137	157	315
Definition of resident alien and nonresident alien	10	10	10	10	10	10	40
Community property income of nonresident alien	(2)	(2)	(2)	(2)	(2)	(2)	(11)
Foreign personal holding companies	(1)	(1)	(1)	(1)	(1)	(1)	(11)
Ordinary income treatment of certain foreign corporations	(1)	(1)	(1)	(1)	(1)	(1)	(11)
Stapled stock; stapled entities	(2)	(2)	(2)	(2)	(2)	(2)	(11)
Excise tax on foreign insurers	No provision						
Insurance services performed in country of risk	No provision						
Foreign investment in U.S. real property—withholding	No provision						

Table 3.—Estimated Revenue Effect of Tax Provisions of H.R. 4170 as Passed by the House, Fiscal Years 1984-1989—Continued

(Millions of dollars)

Provision	1984	1985	1986	1987	1988	1989	1984-87
Phaseout of the 30-percent withholding tax on portfolio interest paid to foreign investors				No provision			
Treatment of certain transportation income	5	13	17	18	19	20	53
Section 1248 to apply to certain indirect transfers of stock in a foreign corporation	(1)	(1)	(1)	(1)	(1)	(1)	(11)
Subtotal, foreign provisions	89	480	768	960	1,240	1,540	2,297
K. Compliance Provisions [8]							
Promoter lists							
Registration of tax shelters				No provision			
Returns relating to cash and mortgage interest received in trade or business							
Returns relating to foreclosures and abandonments of security							
Increase in penalty for promoting abusive tax shelters							
Increased rate of interest for tax shelter cases				No provision			
Provisions relating to individual retirement accounts							
Returns relating to exchanges of partnership interests							
Statements required in case of certain substitute payments							
Modifications to charitable contribution rules and incorrect valuation penalties				No provision			
Disclosure of returns and return information to certain cities				No provision			
Failure to request change of method of accounting				No provision			
Interest on certain additions to tax				No provision			
Penalty for fraudulent withholding exemption certificate or failure to supply information				No provision			
Mailing of deposits of taxes				No provision			
Penalty for frivolous proceedings before the Tax Court				No provision			
Furnishing of TIN under backup withholding				No provision			

Table 3.—Estimated Revenue Effect of Tax Provisions of H.R. 4170 as Passed by the House, Fiscal Years 1984-1989—Continued

(Millions of dollars)

Provision	1984	1985	1986	1987	1988	1989	1984-87
Reporting of State and local tax refunds							
Study on tax shelters							
Clarification of change of venue for certain tax offenses							
Authorization to disregard appraisals of persons penalized for aiding in understatements of tax liability							
Tax Court provisions							
Subtotal, compliance provisions		20	92	175	232	255	287
L. Depreciation Provisions							
Depreciation of real property	No provision						
Rehabilitation tax credits	No provision						
Depreciation recapture in case of installment sale	No provision						
Movies	No provision						
Sound recordings	No provision						
Subtotal, depreciation provisions	No provisions						
M. Domestic Relations Tax Reform							
Treatment of transfers of property between spouses or incident to divorce	(4)	(4)	(4)	(4)	(4)	(4)	(11)
Alimony		−8	−49	−12	25	11	−69
Dependency exemption	(1)	(1)	(1)	(1)	(1)	(1)	(11)
Innocent spouse relieved of liability in certain cases	(1)	(1)	(1)	(1)	(1)	(1)	(11)
Gift and estate tax liability for transfers of property between spouses	(1)	(1)	(1)	(1)	(1)	(1)	(11)
Subtotal, domestic relations tax reform	(4)	−8	−49	−12	25	11	−69
N. Miscellaneous Reform Provisions							
Tax benefit rule		229	253	274	300	330	756
Interest-free loans and below-market interest rate loan	108	126	143	150	158	166	527
LIFO conformity		105	185	200	200	200	490
Limitations with respect to property which is partially used for personal purposes and luxury automobiles	20	79	130	160	180	194	389
Transfer of depreciable property between related parties	(2)	(2)	(2)	(2)	(2)	(2)	(11)

Table 3.—Estimated Revenue Effect of Tax Provisions of H.R. 4170 as Passed by the House, Fiscal Years 1984–1989—Continued

(Millions of dollars)

Provision	1984	1985	1986	1987	1988	1989	1984–87
Treatment of certain related party transactions	50	114	185	264	350	433	613
Losses on sales and exchanges of property used in the trade or business	No provision						
Disallowance of certain expenses where taxpayer uses property similar to property owned by the taxpayer	No provision						
Capital gains on coal royalties for related parties	No provision						
Public utility dividend reinvestment plans	No provision						
Taxation of the Federal Home Loan Mortgage Corporation	No provision						
Application of related party rule to section 265(2)	No provision						
Individual estimated tax	(4)	746	−6	−9	−15	−21	731
At-risk provisions	(1)	(1)	(1)	(1)	(1)	(1)	(11)
Eligibility for income averaging	133	1,994	1,886	2,053	2,226	2,404	6,066
Subtotal, misc. reform provisions	311	3,393	2,776	3,092	3,399	3,706	9,572
Total, tax freeze; tax reforms generally	2,495	10,073	17,478	22,451	22,618	23,648	52,497
II. Life Insurance Tax Provisions [6]	−252	−481	−553	−664	−756	−861	−1,950
III. General Charitable Deduction Rules; Private Foundation Excise Tax Provisions		−33	−46	−47	−50	−53	−126
IV. Enterprise Zones	No provision						
V. Fringe Benefits	−4	−16	−35	−42	−45	−48	−97
VI. Technical Corrections	(4)	(1)	(1)	(1)	(1)	(1)	(11)
VII. Foreign Sales Corporations	No provision						
VIII. Tax-Exempt Bond Provisions							
Mortgage subsidy bonds and mortgage credit certificates	−61	−248	−521	−815	−1,103	−1,301	−1,645
Private activity bonds	30	142	364	600	731	824	1,136
Miscellaneous tax-exempt bond provisions	(5)	(5)	(5)	(5)	(5)	(5)	(11)
Total, tax-exempt bond provisions	−31	−106	−157	−215	−372	−477	−509
IX. Highway Revenue Provisions							
Highway vehicle use tax	−230	−548	−616	−675	−581		−2,069
Highway diesel fuel tax	84	498	637	647	696	45	1,866

Table 3.—Estimated Revenue Effect of Tax Provisions of H.R. 4170 as Passed by the House, Fiscal Years 1984-1989—Continued

(Millions of dollars)

Provision	1984	1985	1986	1987	1988	1989	1984-87
One-year extension of refund of taxes on fuels used by taxicabs				No provision			
Partial exemption of certain alcohol fuels derived from natural gas				No provision			
Increase in excise tax exemption for alcohol fuels, etc				No provision			
Excise tax exemption for certain piggyback trailers				No provision			
Total, highway revenue provisions	**−146**	**−50**	**21**	**−28**	**115**	**45**	**−203**
X. Miscellaneous Revenue Provisions							
A. Estate and Gift Tax Provisions							
Installment payments of estate tax attributable to interest in closely held businesses		−5	−7	−10	−12	−15	−22
Repeal of generation-skipping transfer tax				No provision			
Treatment of certain disclaimers				No provision			
Eligibility of certain usufructs for estate tax marital deduction				No provision			
Special estate tax credits				No provision			
Permit perfection of estate tax current use valuation election				No provision			
No gain recognized from net gifts made before March 4, 1981	(4)	(4)	(4)	(4)	(4)	(4)	(11)
Reformation of charitable split-interest trusts	(4)	(4)	(4)	(4)	(4)	(4)	(11)
Alternate valuation date		10	10	10	10	10	30
Subtotal, estate and gift tax provisions		5	3	0	−2	−5	8
B. Charitable Deduction Provisions							
Expansion of definition of qualified conservation contributions				No provision			
Collection of amounts for U.S. Olympic Committee				No provision			
Charitable expense deduction for use of passenger automobile				No provision			
Subtotal, charitable provisions				No provision			

Table 3.—Estimated Revenue Effect of Tax Provisions of H.R. 4170 as Passed by the House, Fiscal Years 1984–1989—Continued

(Millions of dollars)

Provision	1984	1985	1986	1987	1988	1989	1984–87
C. Exempt Organization Provisions							
Acquisition indebtedness of certain educational institutions and certain corporations managing property for tax-exempt organizations				No provision			
Church audits				No provision			
Certain local organizations of police and firefighters made exempt from taxation				No provision			
UBI exemption for renting membership lists by federally chartered corporations				No provision			
Subtotal, exempt organizations				No provisions			
D. Excise Tax Provisions							
Excise tax on sport fishing equipment				No provision [12]			
Excise tax on bows and arrows				No provision [13]			
Exemption of certain helicopter operations from aviation excise taxes				No provision			
Superfund excise tax corrections				No provision			
Subtotal, excise tax provisions				No provisions (see footnotes 12 and 13)			
E. Employee Benefits							
Nonqualified stock options				No provision			
Incentive stock options				No provision			
Certain section 83(b) elections				No provision			
Employee achievement awards				No provision			
Exclusion for education assistance benefits; deferred educational assistance				No provision			
Application of cash and deferred arrangement rules to pre-ERISA money purchase plans	(1)	(1)	(1)	(1)	(1)	(1)	(11)
Dollar limits on benefits under qualified pension plans for airline pilots	(4)	(4)	(4)	(4)	(4)	(4)	(11)
Elimination of retroactive application of amendments made by the Multiemployer Pension Plan Amendments Act of 1980				No provision			
Treatment of certain distributions from a qualified terminated plan				No provision			

Table 3.—Estimated Revenue Effect of Tax Provisions of H.R. 4170 as Passed by the House, Fiscal Years 1984-1989—Continued

(Millions of dollars)

Provision	1984	1985	1986	1987	1988	1989	1984-87
Special rule for Trans-Alaskan pipeline employees	No provision						
Distribution requirements for plans, accounts, and annuities of an insurer in a rehabilitation proceeding	No provision						
Extension of time for repayment of qualified refunding loans	No provision						
Pension portability involving telecommunications divestiture	No provision						
Subtotal, employee benefits	(4)	(4)	(4)	(4)	(4)	(4)	(11)
F. Employee Stock Ownership Plans	No provisions (see Tax Freeze, I.A.)						
G. Individual Retirement Account Provisions							
Spousal IRAs	No provision						
Nondeductible IRA contributions	−15	−66	−141	−227	−321	−423	−449
Alimony treated as compensation	No provision						
IRA withdrawals by dislocated workers	No provision						
Subtotal, IRA provisions	−15	−66	−141	−227	−321	−423	−449
H. Administrative provisions							
Financial reporting of the investment tax credit	No provision						
Report of regulated futures contracts litigation	No provision						
Statute of limitations relating to contributions to the capital of a corporation	No provision						
Simplification of certain reporting requirements							
Removal of $1,000,000 limitation on working capital fund							
Increase in limitation on revolving fund for redemption of real property	(1)	(1)	(1)	(1)	(1)	(1)	(11)
Removal of $1,000,000 limitation on special authority to dispose of obligations	(1)	(1)	(1)	(1)	(1)	(1)	(11)
Secretary of the Treasury authorized to accept gifts and bequests	(1)	(1)	(1)	(1)	(1)	(1)	(11)

Table 3.—Estimated Revenue Effect of Tax Provisions of H.R. 4170 as Passed by the House, Fiscal Years 1984–1989—Continued

(Millions of dollars)

Provision	1984	1985	1986	1987	1988	1989	1984–87
Extension of period for court review of jeopardy assesment where prompt service not made on the United States	[1]	[1]	[1]	[1]	[1]	[1]	[11]
Extension of period during which additional time shown on amended return may be assessed	[2]	[2]	[2]	[2]	[2]	[2]	[11]
Treatment of certain guaranteed drafts issued by financial institutions	[1]	[1]	[1]	[1]	[1]	[1]	[11]
Disclosure of windfall profit tax information to State tax officials							
Increase in the jurisdictional limit in small tax cases							
Distilled spirits miscellaneous provisions:							
Repeal of occupational tax on manufacturers of stills and condensers; notices of manufacturer and set up of stills	[9]	[9]	[9]	[9]	[9]	[9]	[11]
Allowance of drawback claims even where certain requirements not met	[9]	[9]	[9]	[9]	[9]	[9]	[11]
Disclosure of alcohol fuel producers to administrators of State alcohol laws							
Repeal of stamp requirement for distilled spirits	[10]	[10]	[10]	[10]	[10]	[10]	[11]
Cooking wine may be fortified using distilled spirits	[1]	[1]	[1]	[1]	[1]	[1]	[11]
Subtotal, administrative provisions	[2]	[2]	[2]	[2]	[2]	[2]	[11]
I. Income Tax Credits							
Reordering of income tax credits	100	183	179	194	110	25	656
Residential energy credits				No provision			
Business energy credits				No provision			
Definition of new property for energy credit purposes				No provision			
Targeted jobs credit				No provision			
Earned income credit				No provision			
Investment tax credit for soil and water conservation expenses; increase in cost re-							

Table 3.—Estimated Revenue Effect of Tax Provisions of H.R. 4170 as Passed by the House, Fiscal Years 1984-1989—Continued

(Millions of dollars)

Provision	1984	1985	1986	1987	1988	1989	1984-87
covery period for single purpose agricultural structures				No provision			
Alternative test for definition of qualified rehabilitated building				No provision			
Subtotal, income tax credits	100	183	179	194	110	25	656
J. Incremental Research Tax Credit and Incentives for Research and Vocational Education							
Tax credit and incentives				No provision			
Extension of moratorium on application of research and experimental expense allocation regulations				No provision			
Subtotal, research and vocational education				No provisions			
K. Capital Gains and Losses							
Decrease in capital loss offset against ordinary income				No provision			
Decrease in holding period for long-term capital gain treatment				No provision			
Subtotal, capital gains and losses				No provisions			
L. Miscellaneous Housing Provisions							
Disaster loss deduction rules	−15	−12	−12	−13	−13	−14	−52
Cooperative housing corporations				No provision			
Sale-leasebacks of principal residences				No provision			
Deductibility of mortgage interest and taxes paid out of tax-free allowances for military personnel and ministers				No provision			
Rollover of gain on sale of residence for military personnel stationed overseas				No provision			
Subtotal, misc. housing provisions	−15	−12	−12	−12	−13	−14	−52
M. Extensions of Existing Provisions and Miscellaneous Transitional Rules							
Investment income from S corporations	(1)	(1)	(1)	(1)	(1)	(1)	(11)

Table 3.—Estimated Revenue Effect of Tax Provisions of H.R. 4170 as Passed by the House, Fiscal Years 1984-1989—Continued

(Millions of dollars)

Provision	1984	1985	1986	1987	1988	1989	1984-87
Extension of Payment-In-Kind Tax Treatment Act of 1983	−7	−8	15	(1)	(1)	(1)	0
Special leasing rules for certain coal gasification facilities	No provision						
Provisions of Indian Tribal Governmental Tax Status Act of 1982 made permanent	No provision						
Amortization of low-income housing rehabilitation expenditures	No provision						
Disallowance of deduction for costs of demolishing structures	No provision						
Eliminating architectural and transportation barriers to the handicapped	No provision						
Subtotal, extensions	−7	−8	15	(1)	(1)	(1)	0
N. Social Security Tax Provisions							
Tax-exempt interest in calculation of taxable social security benefits	No provision						
Social security treatment of church employees	No provision						
Coverage of employees under social security and Federal retirement systems	(1)	(1)	(1)	(1)	(1)	(1)	(11)
Subtotal, social security tax provisions	(1)	(1)	(1)	(1)	(1)	(1)	(11)
O. Miscellaneous Provisions							
Preferred stock eligible under section 1244	(4)	(4)	(4)	(4)	(4)	(4)	(11)
Medical expense deduction for certain lodging	−1	−7	−10	−10	−11	−12	−28
Deadwood							
Employee tips	No provision						
FUTA treatment of tips		16	26	28	30	32	70
FUTA treatment of certain fishing activities	No provision						
Tax refunds relating to traveling expenses at North Dakota AMB site	(9)						(11)
Capital construction funds	No provision						
Exclusion from gross income for cancellation of certain student loans	No provision						
Pickups under salary reduction arrangements							

Table 3.—Estimated Revenue Effect of Tax Provisions of H.R. 4170 as Passed by the House, Fiscal Years 1984–1989—Continued

(Millions of dollars)

Provision	1984	1985	1986	1987	1988	1989	1984–87
Taxation of unemployment compensation not to apply to compensation paid for weeks of unemployment ending before December 1, 1978	(9)	(9)					(11)
Treatment of home won in local radio contest and specially designed for handicapped foster child	(1)	(1)	(1)	(1)	(1)	(1)	(11)
Tax treatment of regulated investment companies	(1)	(1)	(1)	(1)	(1)	(1)	(11)
Certain organizations providing child care included within the definition of tax-exempt organizations	(4)	(4)	(4)	(4)	(4)	(4)	(11)
Duck Stamps			No provision				
Boundary Waters Canoe Area payments			No provision				
Physicians' and surgeons' mutual protection associations			No provision				
Increased payments for Presidential nominating conventions			No provision				
Subtotal, misc. provisions	−1	9	16	18	19	20	42
P. Studies							
Q. Exemption for Central Liquidity Facility of NCUA			No provision				
Total, miscellaneous revenue provisions	62	111	60	−28	−207	−397	205
Grand Total, Tax Provisions	**2,124**	**9,498**	**16,768**	**21,427**	**21,303**	**21,857**	**49,817**

[1] Negligible.
[2] Gain of less than $5 million.
[3] Gain of less than $10 million.
[4] Loss of less than $5 million.
[5] Loss of less than $10 million.
[6] The figures represent the estimated effects of the life insurance provisions assuming that certain temporary provisions enacted in the Tax Equity and Fiscal Responsibility Act of 1982 (TEFRA), which provide for the taxation of insurance companies, are terminated. If these provisions were not allowed to expire at the end of 1983, the estimates would show increases in fiscal year receipts of $763 million in 1984, $884 million in 1985, $923 million in 1986, $997 million in 1987, and $1,076 million in 1988.
[7] The budget effects of this provision will depend on the number, size, and characteristics of the enterprise zones designated by the Secretary of Housing and Urban Development (see "Revenue Effect" statement in text.)
[8] Revenue figures not shown separately are included in total for compliance provisions.
[9] Loss of less than $1 million.
[10] Reduces outlays by $2 million.
[11] For provisions where only footnotes appear, 1984–87 sums are not available. Also, estimates for these provisions are not reflected is subtotals or totals.
[12] This provision is contained in the bill H.R. 2163, as passed by the House. It is estimated that the provision will increase fiscal year budget receipts by $6 million in 1984, $9 million in 1985, $9 million in 1986, $10 million in 1987, $10 million in 1988, $10 million in 1989, and $34 million for 1984–87.
[13] This provision is contained in the bill H.R. 2163, as passed by the House. It will increase fiscal year budget receipts by a negligible amount each year.

Table 4.—Estimated Revenue Effect of Tax Provisions of Senate Amendment, Fiscal Years 1984–1989

(Millions of dollars)

Provision	1984	1985	1986	1987	1988	1989	1984–87
I. Tax Freeze; Tax Reforms Generally							
A. Tax Freeze Provisions							
Finance lease provisions	63	348	862	1,381	1,424	741	2,654
Employee stock ownership credit		(12)	(12)	(12)	(12)	(12)	(12)
Net interest exclusion		1,024	2,858	3,100	2,065		6,982
Maximum rate on estate and gift tax rates	No provision						
Windfall profit tax rate on newly discovered oil	No provision						
Excise taxes on cigarettes	No provision						
Excise tax on distilled spirits		371	479	510	520	535	1,360
Modification of time and manner of paying cigarette or alcohol excise taxes	687	9	−164	9	9	9	541
Amount of used property eligible for the investment tax credit		44	104	112	65		260
Election to expense certain depreciable business assets	230	399	433	386	−118	−427	1,448
Cost of living adjustments in pension plan limitations			17	64	106	115	81
Foreign earned income of individuals	4	31	80	106	107	79	221
Continuation of percentage depletion for oil and gas from secondary or tertiary processes							
Telephone excise tax			1,168	2,016	803		3,184
Subtotal, tax freeze provisions	984	2,226	5,837	7,684	4,981	1,052	16,731
B. Leasing Provisions							
Tax-exempt entity leasing	492	998	1,809	3,124	5,005	7,086	6,423
TRAC leasing	−38	−41	−9	−2	−3	−4	−90
Subtotal, leasing provisions	454	957	1,800	3,122	5,002	7,082	6,333
C. Treatment of Bonds and Other Evidences of Indebtedness							
Discount obligations	154	663	93	92	90	72	1,002
Original issue discount on tax-exempt bonds	3	5	7	8	10	13	23
Subtotal, debt instruments	157	668	100	100	100	85	1,025
D. Corporate Tax Provisions							
Dividends received deduction for debt-financed portfolio stock	(3)	(3)	(3)	(3)	(3)	(3)	(13)
Distributions from RICs			66	71	77	82	137

Table 4.—Estimated Revenue Effect of Tax Provisions of Senate Amendment, Fiscal Years 1984–1989—Continued

(Millions of dollars)

Provision	1984	1985	1986	1987	1988	1989	1984–87
Corporate shareholder's basis in stock reduced by non-taxed portion of extraordinary distributions		140	100	100	100	100	340
Non-liquidating distributions by corporations of appreciated property	3	18	64	114	169	227	199
Holding period for property distributed by one corporation to another	(1)	(1)	(1)	(1)	(1)	(1)	(13)
Certain expenses incurred in connection with short sales	22	32	38	43	48	54	135
Phase-out of graduated rates for large corporations	70	212	185	190	192	194	657
Increase in reduction in certain corporate preference items from 15 percent to 20 percent		236	357	400	449	512	993
"Golden parachute" contracts	(2)	(2)	(2)	(2)	(2)	(2)	(13)
Earnings and profits		108	308	343	389	430	759
Distributions of discount obligations by corporations	(3)	(3)	(3)	(3)	(3)	(3)	(13)
Delay in application of the net operating loss rules added by the Tax Reform Act of 1976	(5)	(5)	(5)	(5)	(5)	(5)	(13)
"C" Reorganizations	(3)	(3)	(3)	(3)	(3)	(3)	(13)
"D" Reorganizations	(3)	(3)	(3)	(3)	(3)	(3)	(13)
Collapsible corporations		8	81	256	351	382	345
Condominium conversions				No provision			
Repeal of stock for debt exception for purposes of determining income from discharge of indebtedness				No provision			
Consolidated returns		11	29	48	27	8	88
Extension of holding period for losses attributable to capital gain dividends of regulated investment companies or real estate investment trusts		(2)	(2)	(2)	(2)	(2)	(11)
Nonrecognition of gain or loss by corporations on options with respect to its own stock	(2)	(2)	(2)	(2)	(2)	(2)	(13)
Amendments to accumulated earnings tax		62	78	33	35	36	173
Subtotal, corporate provisions	95	827	1,389	1,687	1,933	2,128	3,998

Table 4.—Estimated Revenue Effect of Tax Provisions of Senate Amendment, Fiscal Years 1984–1989—Continued

(Millions of dollars)

Provision	1984	1985	1986	1987	1988	1989	1984–87
E. Partnership Provisions							
Retroactive allocations		50	75	100	100	100	225
Payments for services or property		20	51	60	69	78	131
Transfers of partnership interests by corporations		(1)	50	50	50	50	100
Section 1031 not applicable to partnership interests; limitation on the period during which like kind exchanges may be made		226	630	667	788	842	1,523
Elimination of basis strips under section 734(b)	No provision						
Allocation of certain liabilities to limited partners	No provision						
Partnership allocations with respect to contributed property	4	61	147	178	240	298	390
Contributions to a partnership of unrealized receivables, inventory items, or capital loss property		24	63	66	67	69	153
Applications of section 751 in the case of tiered partnerships	(1)	(1)	(1)	(1)	(1)	(1)	(13)
Subtotal, partnership provisions	4	381	1,016	1,121	1,314	1,437	2,522
F. Trust Provisions	50	237	390	436	464	488	1,113
G. Accounting Changes							
Premature accruals [14]	242	542	526	467	431	409	1,777
Accured Vacation Pay	No provision						
Prepaid expenses	10	22	7	8	10	12	47
Deferred payment transactions	(3)	228	721	1,253	1,789	2,349	2,202
Deferred payments for use of property and services	60	290	560	782	1,046	1,158	1,692
Capitalization of construction period interest and taxes		67	164	220	242	236	451
Start-up expenses		23	36	31	26	19	90
Subtotal, accounting changes	312	1,172	2,014	2,761	3,544	4,183	6,259
H. Tax Straddles	22	427	152	70	58	45	671
I. Pension and Welfare Benefit Plan Provisions							
Deduction limits for qualified pension plans		18	65	116	165	182	199
Top-heavy pension plans	−31	−89	−107	−120	−134	−150	−347
Distribution rules for qualified pension plans	(2)	(2)	(2)	(2)	(2)	(2)	(13)

Table 4.—Estimated Revenue Effect of Tax Provisions of Senate Amendment, Fiscal Years 1984-1989—Continued

(Millions of dollars)

Provision	1984	1985	1986	1987	1988	1989	1984-87
Pension plans with substantially all benefits derived from employee contributions	(1)	1	2	2	4	6	5
Repeal of estate tax exclusions for qualified pension plan benefits			50	50	50	50	100
Affiliated service groups and employee leasing arrangements	(1)	(1)	(1)	(1)	(1)	(1)	(13)
Standards for cash-or-deferred arrangements	No provision						
Welfare benefit plans		20	48	60	72	90	128
Determination of whether there is a collective bargaining agreement	(1)	(1)	(1)	(1)	(1)	(1)	(13)
Medical benefits provided by pension plans	(2)	(2)	(2)	(2)	(2)	(2)	(13)
Subtotal, pension and welfare benefit plans	−31	−50	58	108	157	178	85
J. Foreign Provisions							
Income from factoring trade receivables	(3)	306	534	576	622	672	1,416
Taxation of certain transfers of property outside the United States			12	127	324	540	139
Original issue discount in case of foreign investors	(1)	(1)	(1)	(1)	(1)	(1)	(13)
Use of territories to avoid U.S. tax on foreign investors	No provision						
Foreign collapsible corporation rules	(3)	(3)	(3)	(3)	(3)	(3)	(13)
Foreign investment companies	(3)	(3)	(3)	(3)	(3)	(3)	(13)
Resourcing U.S.-source income—converting U.S.-source income into foreign income	13	60	64	70	76	82	207
Recharacterization of interest as dividend income		67	118	129	142	157	314
Definition of resident alien and nonresident alien	No provision						
Community property income of nonresident aliens	No provision						
Foreign personal holding companies	(1)	(1)	(1)	(1)	(1)	(1)	(13)
Ordinary income treatment on disposition of certain foreign corporations	No provision						
Stapled stock; stapled entities	No provision						
Excise tax on foreign insurers	(3)	21	34	39	44	49	94

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Table 4.—Estimated Revenue Effect of Tax Provisions of Senate Amendment, Fiscal Years 1984–1989—Continued

(Millions of dollars)

Provision	1984	1985	1986	1987	1988	1989	1984–87
Insurance services performed in country of risk	(2)	5	10	11	12	13	26
Foreign investment in U.S. real property—withholding	44	40	10	10	11	14	104
Phaseout of the 30-percent withholding tax on portfolio interest paid to foreign investors		−38	−67	−100	−150	−188	−205
Treatment of certain transportation income	5	13	17	18	19	20	53
Section 1248 to apply to certain indirect transfers of stock in a foreign corporation							
Subtotal, foreign provisions	62	474	732	880	1,100	1,359	2,148
K. Compliance Provisions [8]							
Promoter lists							
Registration of tax shelters							
Returns relating to cash and mortgage interest received in trade or business							
Returns relating to foreclosures and abandonments of security							
Increase in penalty for promoting abusive tax shelters							
Increased rate of interest for tax shelter cases							
Provisions relating to individual retirement accounts							
Returns relating to exchanges of partnership interests	No provision						
Statements required in case of certain substitute payments							
Modifications to charitable contribution rules and incorrect valuation penalties		14	40	46	52	57	100
Disclosure of returns and return information to certain cities							
Failure to request change of method of accounting							
Interest on certain additions to tax							
Penalty for fraudulent withholding exemption certificate or failure to supply information							
Mailing of deposits of taxes							
Penalty for frivolous proceedings before the Tax Court							

Table 4.—Estimated Revenue Effect of Tax Provisions of Senate Amendment, Fiscal Years 1984–1989—Continued

(Millions of dollars)

Provision	1984	1985	1986	1987	1988	1989	1984–87
Furnishing of TIN under backup withholding							
Reporting of State and local tax refunds							
Study on tax shelters							
Clarification of change of venue for certain tax offenses							
Tax Court provisions							
Authorization to disregard appraisals of persons penalized for aiding in understatements of tax liability							
Subtotal, compliance provisions	−2	84	176	248	292	302	506
L. Depreciation							
Depreciation of real property	80	393	966	1,670	2,412	3,190	3,109
Rehabilitation tax credits	18	56	103	153	181	207	330
Depreciation recapture in case of installment sale	48	108	206	212	218	230	574
Movies	(3)	(3)	(3)	(3)	(3)	(3)	(13)
Sound recordings	5	10	10	10	10	10	35
Subtotal, depreciation	151	567	1,285	2,045	2,821	3,637	4,048
M. Domestic Relations Tax Reform							
Treatment of transfers of property between spouses or incident to divorce	No provision						
Alimony	No provision						
Dependency exemption	No provision						
Innocent spouse relieved of liability in certain cases	No provision						
Gift and estate tax liability for transfers of property to spouses	No provision						
Subtotal, domestic relations tax reform	No provisions						
N. Miscellaneous Reform Provisions							
Tax benefit rule		229	253	274	300	330	756
Interest-free loans and below-market interest rate loan	108	126	143	150	158	166	527
LIFO conformity		105	185	200	200	200	490
Limitations with respect to property which is partially used for personal purposes and luxury automobiles	102	386	731	918	948	979	2,137
Transfer of depreciable property between related parties	No provision						

Table 4.—Estimated Revenue Effect of Tax Provisions of Senate Amendment, Fiscal Years 1984-1989—Continued

(Millions of dollars)

Provision	1984	1985	1986	1987	1988	1989	1984-87
Treatment of certain related party transactions	46	109	176	253	346	416	584
Losses on sales and exchanges of property used in the trade or business		27	76	109	168	230	212
Disallowance of certain expenses where taxpayer uses property similar to property owned by the taxpayer	[1]	[1]	[1]	[1]	[1]	[1]	[13]
Capital gains on coal royalties for related parties			27	36	40	44	63
Public utility dividend reinvestment plans		167	278				445
Taxation of the Federal Home Loan Mortgage Corporation		67	109	142	185	240	318
Application of related party rule to section 265(2)	[2]	[2]	[2]	[2]	[2]	[2]	[13]
Individual estimated tax		611	37	40	42	45	688
At-risk provisions	No provision						
Eligibility for income averaging	133	1,994	1,886	2,053	2,226	2,404	6,066
Subtotal, misc. reform provisions	389	3,821	3,901	4,175	4,613	5,054	12,286
Total, tax freeze; tax reforms generally	**2,647**	**11,791**	**18,850**	**24,437**	**26,379**	**27,030**	**57,725**
II. Life Insurance Tax Provisions [6]	**−122**	**−357**	**−401**	**−480**	**−533**	**−607**	**−1,360**
III. General Charitable Deduction Rules; Private Foundations Excise Tax Provisions	**−13**	**−30**	**−50**	**−55**	**−58**	**−61**	**−148**
IV. Enterprise Zones [7]		[7]	[7]	[7]	[7]	[7]	[7]
V. Fringe Benefits	[4]	[4]	[4]	[1]	[1]	[1]	[13]
VI. Technical Corrections	No specific title in Senate Amendment						
VII. Foreign Sales Corporations		−51	−48	21	72	−115	−78
VIII. Tax-Exempt Bond Provisions							
Mortgage subsidy bonds and mortgage credit certificates	−53	−242	−557	−916	−1,185	−1,250	−1,768
Private activity bonds	41	183	447	625	479	178	1,296
Miscellaneous tax-exempt bond provisions	−2	−22	−81	−138	−153	−147	−243
Total, tax-exempt bonds	**−14**	**−81**	**−191**	**−429**	**−859**	**−1,219**	**−715**
IX. Highway Revenue Provisions							
Highway vehicle use tax	−244	−562	−635	−697	−601		−2,138
Highway diesel fuel tax	143	702	668	670	676	−52	2,183

Table 4.—Estimated Revenue Effect of Tax Provisions of Senate Amendment, Fiscal Years 1984-1989—Continued

(Millions of dollars)

Provision	1984	1985	1986	1987	1988	1989	1984-87
One-year extension of refund of taxes on fuels used by taxicabs		-2	(1)				-2
Partial exemption of certain alcohol fuels derived from natural gas	(9)	(9)	(9)	(9)	(9)	(9)	(13)
Increase in excise tax exemption for alcohol fuels, etc	-17	-98	-113	-132	-152	-11	-360
Excise tax exemption for certain piggyback trailers	-14	-10	-12	-13	-14		-49
Subtotal, highway revenue provisions	**-132**	**-30**	**-92**	**-172**	**-91**	**-63**	**-366**
X. Miscellaneous Revenue Provisions							
A. Estate and Gift Tax Provisions							
Installment payment of estate tax attributable to interest in closely held businesses	(4)	-13	-19	-24	-29	-36	-56
Repeal of generation-skipping transfer tax	-5	-10	-10	-10	-10	-10	-35
Treatment of certain disclaimers	-10	-30	(4)	(4)	(4)	(4)	-40
Eligibility of certain usufructs for estate tax marital deduction	(4)	(4)	(4)	(4)	(4)	(4)	(13)
Special estate tax credits	-22						
Permit perfection of estate tax current use valuation election	(1)	(1)	(1)	(1)	(1)	(1)	(13)
No gain recognized from net gifts made before march 4, 1981	No provision						
Reformation of charitable split-interest trusts	(4)	(4)	(4)	(4)	(4)	(4)	(13)
Alternate valuation date		10	10	10	10	10	30
Subtotal, estate & gift tax provisions	-37	-43	-19	-24	-29	-36	-123
B. Charitable Deduction Provisions							
Expansion of definition of qualified conservation contributions	-25	-25	-25	-25	-25	-25	-100
Collection of amounts for U.S. Olympic Committee							
Charitable expense deduction for use of passenger automobile		-5	-37	-43	-51	-60	-85
Subtotal, charitable provisions	-25	-30	-62	-68	-76	-85	-185

Table 4.—Estimated Revenue Effect of Tax Provisions of Senate Amendment, Fiscal Years 1984-1989—Continued

(Millions of dollars)

Provision	1984	1985	1986	1987	1988	1989	1984-87
C. Exempt Organization Provisions							
Acquisition indebtedness of certain educational institutions and certain corporations managing property for tax-exempt organizations	−24	−46	−58	−73	−91	−114	−201
Church audits	(1)	(1)	(1)	(1)	(1)	(1)	(13)
Certain local organizations of police and firefighters made exempt from taxation	(1)	(1)	(1)	(1)	(1)	(1)	(13)
UBI exemption for renting membership lists by federally chartered corporations	(4)	(4)	(4)	(4)	(4)	(4)	(13)
Subtotal, exempt organizations	−24	−46	−58	−73	−91	−114	−201
D. Excise Tax Provisions							
Excise tax on sport fishing equipment		12	13	14	14	15	39
Excise tax on bows and arrows		(1)	(1)	(1)	(1)	(1)	(13)
Exemption of certain helicopter operations from aviation excise tax	−3	−4	−4	−5	−2		−16
Superfund excise tax corrections							
Subtotal, excise tax provisions	−3	8	9	9	12	15	23
E. Employee Benefits							
Nonqualified stock options	(4)	(4)	(4)	(5)	(4)	(4)	(13)
Incentive stock options	(1)	(1)	(1)	(1)	(1)	(1)	(13)
Certain section 83(b) elections	(1)	(1)	(1)	(1)	(1)	(1)	(13)
Employee achievement awards	−23	−55	−89	−144	−205	−229	−311
Exclusion for education assistance benefits; deferred educational benefits	−7	−39	−1	22	24	26	−23
Application of cash and deferred arrangement rules to pre-ERISA money purchase plans	No provision						
Dollar limits on benefits under qualified pension plans for airline pilots	No provision						
Elimination of retroactive application of amendments made by the Multiemployer Pension Plan Amendments Act of 1980	(1)	(1)	(1)	(1)	(1)	(1)	(13)
Treatment of certain distributions from a qualified terminated plan	(1)	(1)	(1)	(1)	(1)	(1)	(13)

Table 4.—Estimated Revenue Effect of Tax Provisions of Senate Amendment, Fiscal Years 1984–1989—Continued

(Millions of dollars)

Provision	1984	1985	1986	1987	1988	1989	1984-87
Special rule for Trans-Alaskan pipeline employees	(1)	(1)	(1)	(1)	(1)	(1)	(13)
Distribution requirements for plans, accounts, and annuities of an insurer in a rehabilitation proceeding	(1)	(1)	(1)	(1)	(1)	(1)	(13)
Extension of time for repayment of qualified refunding loans	(1)	(1)	(1)	(1)	(1)	(1)	(13)
Pension portability involving telecommunications divestiture	(1)	(1)	(1)	(1)	(1)	(1)	(13)
Subtotal, employee benefits	−30	−94	−88	−122	−181	−203	−334
F. Employee Stock Ownership Plans [12]		301	160	−67	−158	−266	394
G. Individual Retirement Account Provisions							
Spousal IRA		−118	−331	−455	−652	−720	−904
Nondeductible IRA contributions	No provision						
Alimony treated as compensation	(4)	(4)	(4)	(4)	(4)	(4)	(13)
IRA withdrawals by dislocated workers		−12	−10	−6	−6	−6	−28
Subtotal	(4)	−130	−341	−461	−658	−726	−932
H. Administrative Provisions							
Financial reporting of the investment tax credit							
Report of regulated futures contracts litigation							
Statute of limitations relating to contributions to the capital of a corporation	(1)	(1)	(1)	(1)	(1)	(1)	(13)
Simplification of certain reporting requirements							
Removal of $1,000,000 limitation on working capital fund							
Increase in limitation on revolving fund for redemption of real property	(1)	(1)	(1)	(1)	(1)	(1)	(13)
Removal of $1,000,000 limitation on special authority to dispose of obligations	(1)	(1)	(1)	(1)	(1)	(1)	(13)
Secretary of the Treasury authorized to accept gifts and bequests	(1)	(1)	(1)	(1)	(1)	(1)	(13)

Table 4.—Estimated Revenue Effect of Tax Provisions of Senate Amendment, Fiscal Years 1984–1989—Continued

(Millions of dollars)

Provision	1984	1985	1986	1987	1988	1989	1984–87
Extension of period for court review of jeopardy assessment where prompt service not made on the United States	(1)	(1)	(1)	(1)	(1)	(1)	(13)
Extension of period during which additional time shown on amended return may be assessed	(2)	(2)	(2)	(2)	(2)	(2)	(13)
Treatment of certain guaranteed drafts issued by financial institutions	(1)	(1)	(1)	(1)	(1)	(1)	(13)
Disclosure of windfall profit tax information to State tax officials							
Increase in the jurisdictional limit in small tax cases							
Distilled spirits miscellaneous provisions:							
Repeal of occupational tax on manufacturers of stills and condensers; notices of manufacturer and set up of stills	(9)	(9)	(9)	(9)	(9)	(9)	(13)
Allowance of drawback claims even where certain requirements not met	(9)	(9)	(9)	(9)	(9)	(9)	(13)
Disclosure of alcohol fuel producers to administrators of State alcohol laws							
Repeal of stamp requirement for distilled spirits	(10)	(10)	(10)	(10)	(10)	(10)	(13)
Cooking wine may be fortified using distilled spirits	(1)	(1)	(1)	(1)	(1)	(1)	(13)
Subtotal, administrative provisions	(2)	(2)	(2)	(2)	(2)	(2)	(13)
I. Income Tax Credits							
Reordering of income tax credits	100	183	179	194	110	25	656
Residential energy credits	3	32	4	−494	−665	−134	−455
Business energy tax credits	−3	−29	−178	−282	−302	−233	−492
Definition of new property for energy credit purposes	(1)	(1)	(1)	(1)	(1)	(1)	(13)
Targeted jobs credit		−147	−590	−1,029	−1,126	−768	−1,766
Earned income credit [11]		−8	−222	−205	−187	−173	−435
Investment tax credit for soil and water conservation expenses; increase in cost recovery period for single purpose agricultural structures	2	−3	−7	13	39	66	5

Table 4.—Estimated Revenue Effect of Tax Provisions of Senate Amendment, Fiscal Years 1984-1989—Continued

(Millions of dollars)

Provision	1984	1985	1986	1987	1988	1989	1984–87
Alternative test for definition of qualified rehabilitated building	(4)	(4)	(4)	(4)	(4)	(4)	(13)
Subtotal, income tax credits	102	28	−814	−1,803	−2,131	−1,217	−2,487
J. Incremental Research Tax Credit and incentives for research and vocational education							
Tax credit and incentives		−75	−700	−1,307	−1,749	−1,965	−2,082
Extension of moratorium on application of research and experimental expense allocation regulations	−61	−127	−66				−254
Subtotal research and vocational education	−61	−202	−766	−1,307	−1,749	−1,965	−2,336
K. Capital Gains and Losses							
Decrease in capital loss offset against ordinary income		(3)	588	614	652	691	1,202
Decrease in holding period for long-term capital gain treatment	(5)	−60	−281	−299	−319	−341	−640
Subtotal, capital gains and losses	(5)	−60	307	315	333	350	562
L. Miscellaneous Housing Provisions							
Disaster loss deduction rules	No provision						
Cooperative housing corporations	(5)	(5)	(5)	(5)	(5)	(5)	(13)
Sale-leasebacks of principal residences		−6	−20	−35	−56	−84	−61
Deductibility of mortgage interest and taxes paid out of tax-free allowances for military personnel and ministers	(1)	(4)	(4)				(13)
Rollover of gain on sale of residence for military personnel stationed overseas	(1)	−5	−5	−5	−5	−5	−15
Subtotal, misc. housing provisions	(13)	−11	−25	−40	−61	−89	−76
M. Extensions of Existing Provisions and Miscellaneous Transitional Rules							
Investment income from S corporations	No provision						
Extension of Payment-In-Kind Tax Treatment Act of 1983	−7	−8	15	(1)	(1)	(1)	0

Table 4.—Estimated Revenue Effect of Tax Provisions of Senate Amendment, Fiscal Years 1984–1989—Continued

(Millions of dollars)

Provision	1984	1985	1986	1987	1988	1989	1984–87
Special leasing rules for certain coal gasification facilities	−3	−5	−4	−4	−6	−6	−16
Provisions of Indian Tribal Governmental Tax Status Act of 1982 made permanent	(4)	(4)	(4)	(4)	(4)	(4)	(13)
Amortization of low-income housing rehabilitation expenditures	−2	−7	−18	−32	−43	−34	−59
Disallowance of deduction for costs of demolishing structures	(2)	(2)	(2)	(2)	(2)	(2)	(2)
Eliminating architectural and transportation barriers to the handicapped	−8	−16	−7				−31
Subtotal, extensions	−20	−36	−14	−36	−49	−40	−106
N. Social Security Tax Provisions							
Tax-exempt interest in calculation of taxable social security benefits	−8	−31	−47	−63	−83	−99	−149
Social security treatment of church employees	−67	−16	−12	−6	−9	−3	−101
Coverage of employees under social security and Federal retirement systems	(1)	(1)	(1)	(1)	(1)	(1)	(13)
Subtotal, social security tax provisions	−75	−47	−59	−69	−92	−102	−250
O. Miscellaneous Provisions							
Preferred stock eligible under section 1244	No provision						
Medical expense deduction for certain lodging	No provision						
Deadwood	No provision						
Employee tips	(1)	(1)	(1)	(1)	(1)	(1)	(13)
FUTA treatment of tips	No provision						
FUTA treatment of certain fishing activities	−1	−1					−2
Tax refunds relating to traveling expenses at North Dakota ABM site	No provision						
Capital construction funds	−14	−24	−20	−16	−14	−15	−74
Exclusion from gross income for cancellation of certain student loans	(4)	(4)	(4)	(4)	(4)	(4)	(13)
Pickups under salary reduction arrangements							
Taxation of unemployment compensation not to apply to compensation paid for							

Table 4.—Estimated Revenue Effect of Tax Provisions of Senate Amendment, Fiscal Years 1984–1989—Continued

(Millions of dollars)

Provision	1984	1985	1986	1987	1988	1989	1984–87
weeks of unemployment ending before December 1, 1978	(9)	(9)					(13)
Treatment of home won in local radio contest and specially designed for handicapped foster child	(1)	(1)	(1)	(1)	(1)	(1)	(13)
Tax treatment of regulated investment companies	(1)	(1)	(1)	(1)	(1)	(1)	(13)
Certain organizations providing child care included within the definition of tax-exempt organizations	(4)	(4)	(4)	(4)	(4)	(4)	(13)
Duck Stamps	(1)	(1)	(1)	(1)	(1)	(1)	(13)
Boundary Waters Canoe Area payments	(1)	(1)					(13)
Physicians' and surgeons' mutual protection associations	(4)	(4)	(4)	(4)	(4)	(4)	(13)
Increased payments for Presidential nominating conventions							
Subtotal, miscellaneous provisions	−15	−25	−20	−16	−14	−15	−76
P. Studies							
Q. Exemption for Central Liquidity Facility of NCUA	(4)	(4)	(4)	(4)	(4)	(4)	(13)
Total, miscellaneous revenue provisions	**−188**	**−387**	**−1,790**	**−3,762**	**−4,944**	**−4,493**	**−6,127**
Grand Total, Tax Provisions	**2,178**	**10,817**	**15,858**	**18,785**	**18,949**	**19,421**	**47,638**

[1] Negligible.

[2] Gain of less than $5 million.

[3] Gain of less than $10 million.

[4] Loss of less than $5 million.

[5] Loss of less than $10 million.

[6] The figures represent the estimated effects of the life insurance provisions assuming that certain temporary provisions enacted in the Tax Equity and Fiscal Responsibility Act of 1982 (TEFRA), which provide for the taxation of insurance companies, are terminated. If these provisions were not allowed to expire at the end of 1983, the estimates would show increases in fiscal year receipts of $893 million in 1984, $1,008 million in 1985, $1,075 million in 1986, $1,181 million in 1987, and $1,299 million in 1988.

[7] The budget effects of this provision will depend on the number, size, and characteristics of the enterprise zones designated by the Secretary of Housing and Urban Development (see "Revenue Effect" statement in text). Grand totals in this table reflect Treasury Department estimates which show decreases of fiscal year budget receipts of $98 million in 1985, $420 million in 1986, $775 million in 1987, $1,017 million in 1988, and $1,051 million in 1989 (and $1,293 million in 1984–87).

[8] Revenue figures not shown separately are included in total for compliance provisions.

[9] Loss of less than $1 million.

[10] Reduces outlays by $2 million

[11] The changes to the earned income credit will reduce revenues by $3 million in 1985, $93 million in 1986, $85 million in 1987, $77 million in 1988, and $73 million in 1989, and increase outlays by $5 million in 1985, $129 million in 1986, $120 million in 1987, $110 million in 1988, and $100 million in 1989.

[12] The effects of the provision to freeze the employee stock ownership credit are included in the estimates of X.F. *Employee Stock Ownership Plans.*

[13] For provisions where only footnotes appear, 1984–87 sums are not available. Also, estimates for these provisions are not reflected in subtotals or total.

[14] These amounts include the revenue effect of nuclear decommissioning costs (item 47) and mine reclamation and similar costs (item 48).

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